



ABN 51 153 918 257

**ANNUAL REPORT
30 JUNE 2014**

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CORPORATE DIRECTORY

Directors

Mr. Derek Carter (Non-Executive Chairman)
 Mr. Anthony Hall (Managing Director)
 Mr. Pedro Rodriguez (Executive Director)
 Mr. Owen Hegarty (Non-Executive Director)
 Mr. Richard Crookes (Non-Executive Director)

Company Secretary

Mr. Donald Stephens

Registered Office

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 DULWICH, SA 5065

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Facsimile: +61 8 8431 3502

Website: www.highfieldresources.com.au

Share Registry

Advanced Share Registry Pty Ltd
 150 Stirling Highway
 NEDLANDS WA 6009

Telephone: +61 8 9389 8033

Facsimile: +61 8 9389 7871

Auditors

HLB Mann Judd
 Level 4, 130 Stirling Street
 PERTH WA 6000

Telephone: +61 8 9227 7500

Facsimile: +61 8 9227 7533

Stock Exchange

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

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 2014.

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 this 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 Petrathern Limited (resigned 31 March 2014). He is a board member of Mithril Resources Ltd and Blackthorn Resources Ltd and a former board member of Toro Energy Ltd (resigned 28 November 2012), all ASX listed companies.

Mr. Carter is a former President and Vice 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 Petroleum Experts Group, 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 Medalist. As Chairman of Highfield Resources Limited, he is responsible for the management of the board as well as the general strategic direction of the Company.

Mr. Anthony Hall, BBus, LLB (Hons), AGIA **Managing Director**

Mr. Hall has close to 20 years commercial experience. Prior to his appointment as Managing Director in 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.

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 **Executive Director, BSc, MSc**

Mr. Rodriguez has over 30 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, Heemskirk Consolidated Limited). His roles ranged from exploration supervision to high administrative posts.

Most recently 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 greater than 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.

Mr. Richard Crookes **Non-Executive Director, BSc (Geology), Grad Dip Applied Finance**

Mr. Crookes has over 25 years’ experience in the resources and investments industry. He is a geologist by training having worked as the Chief Geologist and Mining Manager of Ernest Henry Mining in Australia (now Xstrata). 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.

Mr. Crookes has extensive experience in deal origination, evaluation, structuring, post-acquisition management, client relationship management, marketing and execution of investment entry and exists for both private and public resources companies in Australia and overseas.

Mr. Owen Hegarty (appointed 14 August 2013) **Non-Executive Director, BSc (Hons), FAusIMM**

Mr. Hegarty has some 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 Ltd 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; Hong Kong listed G-Resources Group Ltd, Fortescue Metals Group Ltd, Tigers Realm Coal Limited and EMR Capital. He is also a Director of the AusIMM, and a member of a number of Government and industry advisory groups.

Mr. Jonathan Murray (resigned 14 August 2013)

Non-Executive Director, LLB (Hons)

Mr. Murray has more than 15 years' experience as a commercial lawyer. He is a partner of Perth based law firm, Steinepreis Paganin. Mr. Murray's principal practice areas include equity capital markets, takeovers, project acquisitions and divestments, corporate governance, commercial law and strategy.

Mr. Murray has a Bachelor of Laws from Murdoch University in Western Australia, and is a member of the Financial Services Institute of Australia. Mr. Murray is currently a non-executive Director of ASX listed Hannans Reward Limited and Peak Resources Limited.

Mr. Scott Funston (resigned 28 February 2014)

Executive Director, BBus, CA, AGIA

Mr. Funston is a qualified Chartered Accountant and Company Secretary with more than 10 years' experience in the mining industry and accounting profession. His expertise is financial management and general corporate advice. Mr. Funston possesses a strong knowledge of the ASX requirements and has assisted a number of resources companies operating throughout Australia, Africa, Asia, Europe, USA, South America and Canada with financial accounting, stock exchange compliance, general corporate advice and regulatory activities.

Mr. Donald Stephens (appointed 28 February 2014)

Company Secretary, BA(Acc), CA

Mr. Stephens is a Chartered Accountant and corporate adviser with over 25 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd (SA), a firm of Chartered Accountants. He is director of Mithril Resources Limited, Petrathern Limited, Papyrus Australia Limited, Lawson Gold Limited, Reproductive Health Science Limited a was formerly a Director of TW Holdings Limited (resigned 14 December 2012). He is additionally Company Secretary to Mithril Resources Limited, Minotaur Exploration Limited and Musgrave Minerals Limited and various other public companies.

Mr. Aaron Bertolatti (resigned 28 February 2014)

Company Secretary, BCom, CA, AGIA

Mr. Bertolatti is a qualified Chartered Accountant and Company Secretary with over 9 years' experience in the mining industry and accounting profession. Mr. Bertolatti has both local and international experience and provides assistance to a number of resource companies with financial accounting and stock exchange compliance. Mr. Bertolatti has significant experience in the administration of ASX listed companies, corporate governance and corporate finance.

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 A Performance Shares	Class B Performance Shares	Options – exercisable at \$0.20 each on or before 1-Nov-16	Options – exercisable at \$0.40 each on or before 31-May-17
Derek Carter	5,510,752	5,510,752	5,510,752	-	1,500,000
Anthony Hall	40,001	-	-	4,000,000	2,500,000
Pedro Rodriguez	5,510,752	5,510,752	5,510,752	-	1,500,000
Owen Hegarty	-	-	-	-	-
Richard Crookes	-	-	-	-	-

RESULTS OF OPERATIONS

The Company's net loss after taxation attributable to the members of Highfield Resources for the year to 30 June 2014 was \$5,526,038 (2013: \$3,488,808).

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.

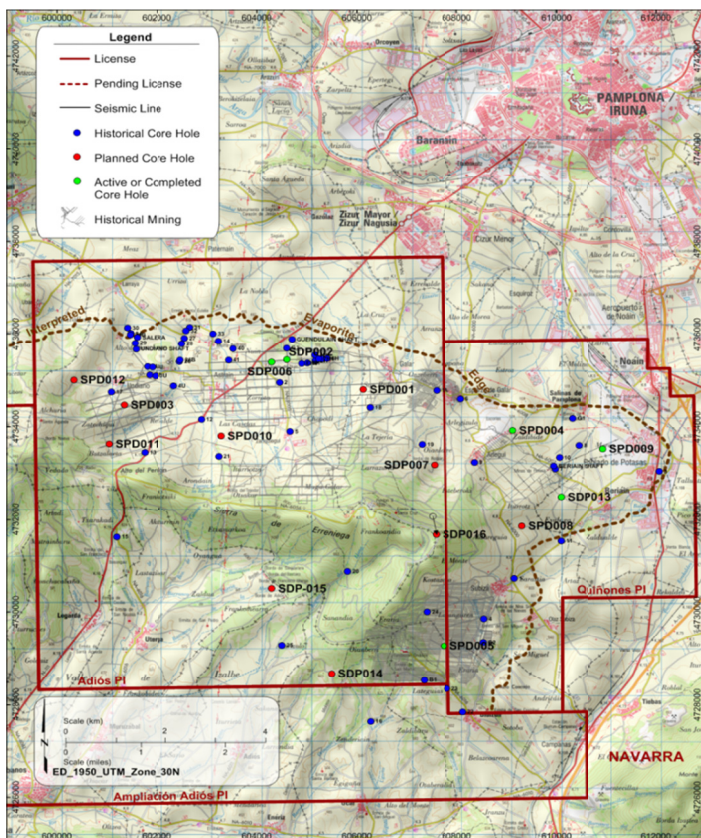
Highfield Resources is a potash development company listed on the Australian Securities Exchange with four 100% owned advanced potash projects located in Spain's potash producing Ebro Basin.

Highfield's 100% owned Sierra del Perdón Project covers an area of 149km² in Northern Spain. It is located within 40kms of the Company's Muga-Vipasca Project and hosts two former operating mines that produced over 10m tonnes of K60 potash product between 1963 and 1996 (Annual Ministerio de Industria lodgements by Minas de Potasas de Navarra and Subiza). Both mines were underground conventional mines where mineralisation was accessed via a decline with a conveyor belt system hoisting mineralisation to the surface via the decline.

During the year Highfield completed a six hole confirmatory drilling hole campaign at Sierra del Perdón. Independent geology and mining consultant, Agapito Associates Inc, is preparing a JORC Measured and Indicated Mineral Resource estimate on Sierra del Perdón. This estimate has been deferred, due to the priority placed on the Muga-Vipasca drilling campaign and ultimately upgrading the JORC Resource. The Company expects to be in a position to release the JORC estimate by the end of the current Calendar Year.

1. Sylvinite mine in previously unmined areas;
2. Sylvinite and carnallite mine in previously unmined areas; or
3. Carnallite only mine in previously unmined areas.

During the year the Company sourced production records for the two former operating mines dating back to 1963. According to production records lodged with the Ministerio de Industria by Minas de Potasas de Navarra and Subiza and the Auñamendi Eusko Entziklopedia a total of 54,393,158 tonnes of sylvinitic and carnallite ore were extracted between 1963 and 1996. 10,239,497 tonnes of K60 potash was produced during the period. This represents a net recovered grade of 18.8% K60 potash product and suggests an undiluted grade of 22.1% K60 potash product or 13.3% K₂O (based on a recovery rate assumption of 85%).



2014 Annual Report to Shareholders

MUGA-VIPASCA POTASH PROJECT

The Company's 100% owned combined Muga-Vipasca Project covers an area of 113 km². The Company is building on substantial historical information that included ten drill holes and seven seismic profiles for potash exploration purposes. The Company has completed an initial 14 hole drill program and is currently completing an additional ten drill hole program designed to enhance confidence in the Resource that will be the subject of the Company's first mine target.

Javier Divided into Two Projects

On 29 July 2014 the Company announced it had divided the Javier Potash Project into two operational potash projects titled Muga and Vipasca. The separation of Javier into two projects demonstrates the Company's operational focus on its initial mine target, the relatively shallow sylvinite mineralisation in the south eastern section of the broader Muga-Vipasca Project area.

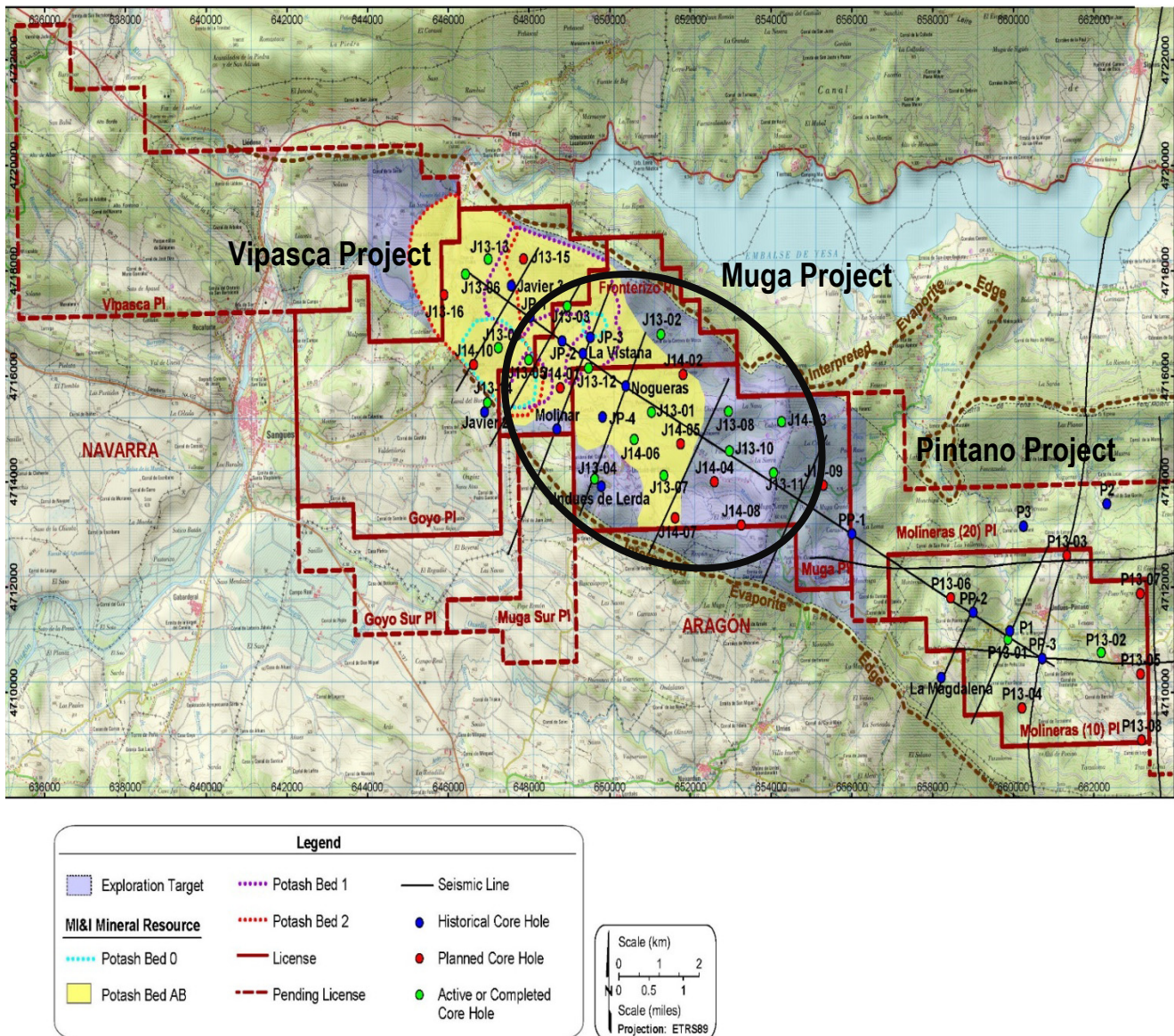


Figure 2: Map showing extent of historical and current drilling programs in both the Muga-Vipasca and Pintano project areas with JORC M&I Resource for Muga-Vipasca Project

Muga Potash Project

Muga is one of four permits which make up the Muga-Vipasca Project area. The name Muga is symbolic as it is a word from the regional dialect that refers to stones that were used to define borders between countries and provinces. Muga is an appropriate name as the operating Muga potash mine is likely to straddle the border of the Navarra and Aragón Provinces.

The Company has established a second Spanish office close to the Muga Project area in Sangüesa. The office will house the Muga mine delivery team, including internal appointments, contractors and the site based engineering team. It is an important step in the process to ensure the Company is ready to commence constructing the mine in 2015.

The Company had considerable drilling success during the year with recently announced positive results in J13-07, J13-08, and J13-10 likely to substantially increase the current JORC Mineral Resource estimate.

An infill drilling campaign to improve Resource confidence has also commenced at Muga. Four drill rigs are currently operating in the area to fast track the ten hole drill programme.

Vipasca Potash Project

The Vipasca Project area includes the entire Vipasca permit and the deeper areas within the Goyo permit area, including new extensions. The focus is on deeper higher-grade potash mineralisation that was evident in holes J13-06 and J13-09. Sylvinite intersects in J13-06 and J13-09 included:

Drill Hole	Depth		Thickness	K ₂ O%	KCl%
	From	To			
J13-06	773.9m	775.7m	1.8m	17.47	27.66
	778.4m	779.6m	1.2m	19.02	30.11
J13-09	922.1m	923.3m	1.2m	20.25	32.06
	926.9m	928.1m	1.2m	17.26	27.32
	986.0m	987.5m	1.5m	20.42	32.33

Refer: ASX Release 1 May 2014

A drilling campaign in the Vipasca and southern Goyo permit areas is expected to start later this year. The project area is expected to provide significant future upside to the Company's initial mine target at Muga.

Geophysical survey work designed to better define the evaporite in the southern section of the Goyo permit area was commenced in July 2014. Gravimetric and electromagnetic (TEM) surveys are being completed as part of this process. The information gathered will be used to identify exploration targets as part of the drill program scheduled for later this year.

Pre-Feasibility Study (PFS)

On 20 May 2014 the Company released the results of a PFS for the combined Muga-Vipasca project area. Highlights included:

- Post tax NPV (10% discount rate) of US\$1.06bn
- Post tax, unlevered IRR of 48.4% with EBITDA in first year of full production estimated at \$US235m
- A high grade resource of 154Mt at 12.9% K₂O (21.5% K₆₀ product) prepared by Agapito Associates derived from the 268m tonnes JORC Mineral Resource estimate
- Initial 20 year mine life commencing in 2016 with significant potential upside from recent drilling success
- An average production target of 860k tonnes of potash (K₆₀ product) per annum
- 2016 FOB Vancouver potash price reference of \$384 per tonne (nominal)
- Pre-production capital cost estimated at less than US\$250m (from total capital cost estimate of US\$307.9m) with 94.5% of physical capital cost estimates supported by Spanish contractor budget pricing

Agapito Associates Inc. estimated an initial high-grade resource of 154Mt at 12.9% K₂O (21.5% K₆₀ product) derived from the JORC Mineral Resource estimate of 268Mt at 11.2% K₂O released on 16 May 2014. This mining target focusses on the two major sylvinite seams in the Project area and importantly is continuous across these seams. The seams remain relatively thick ranging in height from 1.77m to over 3m. A higher grade resource option was considered of 106.9m tonnes at 13.9% K₂O (23.2% K₆₀ product).

Upgraded JORC Mineral Resource Estimate

The Company released a maiden JORC compliant Inferred Mineral Resource estimate for the Project in October 2013. On 16 May 2014 the Company released an upgraded JORC Mineral Resource estimate of 268m tonnes at 11.2% K₂O. This included 157.3m tonnes of Measured and Indicated Mineral Resources at 11.3% K₂O.

Agapito Associates Inc. is currently preparing an upgraded Mineral Resource estimate that will include areas into the south eastern section of the project area not previously covered by the Resource estimate, an outcome from the drilling success achieved in drill holes J13-07, J13-08 and J13-10. The Company expects to release this estimate later this Calendar Year.

Permits

Highfield has lodged applications to extend the Company's Goyo and Muga permits to the south. The Company's geological team believes potash mineralisation may extend into these areas. The southern extension of the Goyo permit is 9.6 km², whilst the southern extension of the Muga permit is 7.8 km².

Current Priorities

The Company is focussed on delivering a DFS for the project by the end of the Calendar Year and being construction-ready by March 2015. The current priorities for the Company are:

- Completion of ten drill hole infill program at Muga
- Commencement of detailed mine design with this drill program enabling the creation of the mining block model
- Development of the preferred logistics' solution
- Completion of the utilities' strategy that primarily considers the main PFS energy solution of grid electricity against other alternate options
- Continued work on exploring salt market options for the Company's by-product of production

PINTANO POTASH PROJECT

Highfield's 100% owned Pintano Project abuts the Muga-Vipasca Project and covers an area of 125km². Depths from surface to mineralisation commence at around 500m. The Company is building on substantial historical potash exploration information that includes seven drill holes and ten seismic profiles completed in the late 1980s.

JORC compliant Inferred Mineral Resource

During the year the Company released a JORC compliant Inferred Mineral Resource estimate calculated by Agapito Associates Inc. (ASX Release – 20 November 2013). The maiden Resource estimate of 187m tonnes of sylvinites at 11.2% K₂O estimate covers a small percentage of the entire project area (12km² of the 125km² Project area).

Potash Bed	Average Thickness (m)	Resource Area (ha)	In-Place Tonnes (millions) ¹	In-Place K ₂ O (wt %)	In-Place KCl (wt %)	Contained K ₂ O Tonnes (millions)	Contained KCl Tonnes (millions)	
Inferred								
A-B ⁴	Sylvinites	7.3	1,228	187	11.2	17.8	20.9	33.2

1 Average bulk density of sylvinites 2.1 tonnes/m³.

2 Resource cutoffs: composite grade 8.0% K₂O and bed thickness 2.0 m.

3 Inferred Resource located within 1,500-m radius from an historical exploration core hole with assays.

4 Main potash intercept comprised of sylvinites Bed A, sylvinites Bed B, and lower grade sylvinites A-B interburden.

Table 1: Pintano Property Mineral Resource (Effective date 12 November 2013).

It should be noted that there has been insufficient exploration over the remainder of the Project area to identify a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

Drilling Campaign

An initial drilling campaign of eight holes commenced during the year designed to test and build on this historical information. Drill hole P13-01 and P13-02 have been completed. P13-06 is currently being completed. The Company expects to be in a position to compile and release initial assay results during September 2014.

Puntarrón Investigation Permit Application

During the year the Company applied for the Puntarrón Investigation Permit. This is a critical step in the exploration activities of the Pintano Project area as it will enable the Company to commence drilling activities in previously unexplored areas.

STRATEGY

The Company continues to focus on progressing preliminary work on constructing mines at both its Muga and Sierra del Perdón Projects. The PFS for the combined Muga-Vipasca Project was a critical milestone for the Company which demonstrated the robustness of the Company's potash projects and clearly demonstrates the unique proposition of the projects in a global context.

The Company is now focussed on delivering a Definitive Feasibility Study for the combined Muga-Vipasca Project and a Scoping Study for the Sierra del Perdón Project.

MCLARTY POTASH PROJECT

On 3 September 2013 the Company announced its intention to focus exclusively on its four 100% owned Spanish potash projects. As a result, the Company withdrew from the farm-in agreement on the McLarty Potash Project located in North Western Australia and transferred back its 10% interest.

CORPORATE

The Company advised during the year that, effective 26 February 2014, the Company's Registered Office and Principal Place of Business had changed to 169 Fullarton Road, Dulwich, South Australia.

Investment

On 9 August 2013 Highfield received the second and final tranche of a \$10m investment from EMR Capital, an Australian based specialist resources private equity fund manager. A total of 40,000,000 ordinary shares were allotted.

On 13 June 2014 the Company announced that it had successfully completed an institutional equity placement of 65m new fully paid ordinary shares to raise \$32m. The Company's cornerstone investor, EMR Capital, led the placement with a commitment for 25m shares at \$0.51 per share to raise \$12.75m. An additional 40m shares are to be placed to Australian and offshore institutional investors in two tranches at \$0.48 per share.

On 23 and 25 June 2014 the Company issued 20.325m Tranche 1 shares under its placement capacity in accordance with ASX Listing Rules 7.1 at \$0.48 per share (\$9.76m). The remaining 45m shares (inclusive of EMR Capital's 25m) are subject to shareholder approval at an Extraordinary General Meeting (EGM).

Board Changes

On 13 August 2013 Jonathan Murray resigned as a director and was replaced by Owen Hegarty.

On 28 February 2014 Scott Funston resigned as a director.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group which occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

The Notice of Meeting (NOM) and Independent Experts Report (IER) to consider approving Tranche 2 of the placement announced to the market on 13 June 2014 were despatched to shareholders in August 2014 with the EGM to be held on Friday 12 September 2014.

On 15 July 2014 the Company issued 2,300,000 unlisted options to staff and consultants pursuant to the Company's Employee Share Option Scheme. The options are exercisable at \$0.75 each on or before 30 June 2018.

On 29 July 2014 the Company announced it had divided the Javier Potash Project into two operational potash projects titled Muga and Vipasca.

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 30 June 2014 there were 21,000,000 unissued ordinary shares under options. The details of the options are as follows:

Number	Exercise Price \$	Expiry Date
7,000,000	\$0.40	31-May-17
3,000,000	\$0.30	31-Jan-17
4,000,000	\$0.20	19-Oct-16
6,000,000	\$0.20	1-Nov-16
500,000	\$0.60	30-Jun-17
500,000	\$0.60	31-Jan-17
21,000,000		

No option holder has any right under the options to participate in any other share issue of the Company or any other entity. No options expired or were exercised during or since the year ended 30 June 2014.

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	7	7
Anthony Hall	7	7
Pedro Rodriguez	7	7
Richard Crookes	7	7
Owen Hegarty	6	5
Scott Funston	3	3
Jonathan Murray	1	1

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 have adhered 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 to the commercial operation of a junior listed resources 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's Corporate Governance Statement and disclosures are contained elsewhere in the annual report.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires the Company's auditors 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 39 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 2014. 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 Key Management Personnel

Mr. Derek Carter	Non-Executive Chairman
Mr. Anthony Hall	Managing Director
Mr. Pedro Rodriguez	Executive Director
Mr. Richard Crookes	Non-Executive Director
Mr. Owen Hegarty	Non-Executive Director (appointed 14 August 2013)
Mr. Donald Stephens	Company Secretary (appointed 28 February 2014)
Mr. Scott Funston	Executive Director (resigned 28 February 2014)
Mr. Jonathan Murray	Non-Executive Director (resigned 14 August 2013)
Mr. Aaron Bertolatti	Company Secretary (resigned 28 February 2014)

Remuneration Policy

The Board is responsible for determining and reviewing compensation arrangements for the Directors. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a yearly basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The expected outcome of this remuneration structure is to retain and motivate Directors.

As part of its Corporate Governance Policies and Procedures, the board has adopted a formal Remuneration Committee Charter and Remuneration Policy.

The rewards for Directors generally have no set or pre-determined performance conditions or key performance indicators as part of their remuneration due to the current nature of the business operations with the exception of options issued to Directors and executive management. Details are set out in note 15.

The Board determines appropriate levels of performance rewards as and when they consider rewards are warranted. The Company has no policy on executives and Directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

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

As at 30 June	2014	2013	2012
Loss per share (cents)	(4.12)	(4.22)	(1.11)
Share Price	\$0.575	\$0.36	\$0.19

Details of Remuneration

Details of the nature and amount of each element of the remuneration of each Director and Executive of the Company for the year ended 30 June 2014 are as follows:

2014	Short term			Options	Post employment		Total \$	Option related
	Base Salary \$	Directors Fees \$	Consulting Fees \$	Share Based Payments \$	Superannuation \$	Prescribed Benefits \$		
Directors								
Derek Carter	-	-	141,666	140,041	-	-	281,707	50%
Anthony Hall	-	-	285,834	243,319	-	-	529,153	46%
Pedro Rodriguez	-	-	266,094	140,041	-	-	406,135	34%
Richard Crookes	-	34,167	-	-	-	-	34,167	-
Owen Hegarty	-	34,167	-	-	-	-	34,167	-
Scott Funston	-	-	60,000	93,360	-	-	153,360	61%
Jonathan Murray	-	8,333	-	23,340	-	-	31,673	74%
Key Management								
Aaron Bertolatti	-	-	-	23,340	-	-	23,340	100%
Donald Stephens	-	-	24,014	-	-	-	24,014	-
	-	76,667	777,608	663,441	-	-	1,517,716	

There were no other executive officers of the Company during the financial year ended 30 June 2014.

2013	Short term			Options	Post employment		Total \$	Option related %
	Base Salary \$	Directors Fees \$	Consulting Fees \$	Share Based Payments \$	Superannuation \$	Prescribed Benefits \$		
Directors								
Derek Carter	-	-	43,333	140,810	-	-	184,143	76%
Anthony Hall	-	-	260,000	234,683	-	-	494,683	47%
Scott Funston	-	58,750	20,000	93,873	-	-	172,623	54%
Pedro Rodriguez	-	-	205,697	140,810	-	-	346,507	41%
Jonathan Murray	-	54,167	-	23,468	-	-	77,635	30%
Richard Crookes	-	-	-	-	-	-	-	-
Mark Arundell	-	-	29,500	-	-	-	29,500	-
Key Management								
Aaron Bertolatti	-	-	-	23,468	-	-	23,468	100%
	-	112,917	558,530	657,112	-	-	1,328,559	

There were no other executive officers of the Company during the financial year ended 30 June 2013.

Shareholdings of Key Management Personnel

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

2014	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
Derek Carter	5,510,752	-	-	-	5,510,752
Anthony Hall	40,001	-	-	-	40,001
Pedro Rodriguez	5,510,752	-	-	-	5,510,752
Owen Hegarty	-	-	-	-	-
Richard Crookes	-	-	-	-	-
Donald Stephens	-	-	-	2,150,538 ¹	2,150,538
Jonathan Murray	450,001	-	-	(450,001) ²	-
Scott Funston	1,395,000	-	-	(1,395,000) ¹	-
Aaron Bertolatti	375,000	-	-	(375,000) ¹	-

¹ Mr. Stephens was appointed as Company Secretary, Mr. Funston resigned as a Director and Mr. Bertolatti resigned as Company Secretary on 28 February 2014.

² Mr. Murray resigned as a Director on 13 August 2013.

All equity transactions with key management personnel other than 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 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 executives of the Group, including their personally related parties, are set out below:

2014	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
Derek Carter	1,500,000	-	-	-	1,500,000	1,500,000	-
Anthony Hall	6,500,000	-	-	-	6,500,000	6,500,000	-
Pedro Rodriguez	1,500,000	-	-	-	1,500,000	1,500,000	-
Owen Hegarty	-	-	-	-	-	-	-
Richard Crookes	-	-	-	-	-	-	-
Donald Stephens	-	-	-	- ¹	-	-	-
Jonathan Murray	250,000	-	-	(250,000) ²	-	-	-
Scott Funston	1,000,000	-	-	(1,000,000) ¹	-	-	-
Aaron Bertolatti	250,000	-	-	(250,000) ¹	-	-	-

¹ Mr. Stephens was appointed as Company Secretary, Mr. Funston resigned as a Director and Mr. Bertolatti resigned as Company Secretary on 28 February 2014.

² Mr. Murray resigned as a Director on 13 August 2013.

There were no forfeitures and no options lapsed during the year ended 30 June 2014.

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 19.

Performance Share holdings of 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 executive of the Group, including their personally related parties, are set out below:

2014	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
Derek Carter	11,021,504	-	-	11,021,504
Anthony Hall	-	-	-	-
Scott Funston	-	-	-	-
Pedro Rodriguez	11,021,504	-	-	11,021,504
Jonathan Murray	-	-	-	-
Richard Crookes	-	-	-	-
Owen Hegarty	-	-	-	-
Aaron Bertolatti	-	-	-	-
Donald Stephens	-	-	4,301,076 ¹	4,301,076

¹ Mr. Stephens was appointed Company Secretary on 28 February 2014. He holds 2,150,538 Class A Performance Shares and 2,150,538 Class B Performance Shares. Refer to Note 25 (b) for terms.

Other transactions with key management personnel

Mr. Anthony Hall charged the Company consulting fees of \$285,834 (2013: \$260,000) and reimbursements of expenses, at cost, paid on behalf of the Company of \$270,508 (2013: \$191,645) were paid during the year. The consulting fee is included in Note 15(a) "Compensation of key management personnel". \$29,167 (2013: \$25,667) was outstanding at year end. During the year Mr. Hall relocated from Sydney, Australia to Pamplona, Spain. Under the terms of Mr. Hall's agreement commencing in August 2013, he was paid an allowance of \$84,504 (2013: \$Nil) during the year.

DNC Minerals Pty Ltd, a company in which Mr. Derek Carter is a director, charged the Company consulting fees of \$141,666 (2013: \$43,333) and reimbursements of expenses, at cost, paid on behalf of the Company of \$10,455 (2012: \$Nil) were paid during the year. The consulting fee is included in Note 15(a) "Compensation of key management personnel". \$21,242 (2013: \$11,666) was outstanding at year end.

Geotrex Gestion Minera SL, a company in which Mr. Pedro Rodriguez is a director, charged the Company consulting fees of \$266,094 (2013: \$205,697) and reimbursements of expenses, at cost, paid on behalf of the Company of \$7,697 (2013: \$26,236) were paid during the year. The consulting fee is included in Note 15(a) "Compensation of key management personnel". \$Nil (2013: \$22,851) was outstanding at year end.

Resourceful International Consulting Pty Ltd, a company in which Mr. Scott Funston is a director, charged the Company consulting fees of \$60,000 for the year ended 30 June 2014 (2013: \$20,000). This amount is included in Note 15(a) "Compensation of key management personnel". \$Nil (2013: \$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 \$69,443 (2013: \$Nil) and reimbursements of expenses, at cost, paid on behalf of the Company of \$17,186 (2013: \$Nil) were paid during the year. The director's fees are included in Note 15(a) "Compensation of key management personnel". \$17,186 (2013: \$Nil) was outstanding at year end.

Garrison Capital Pty Ltd, a company in which Mr. Scott Funston was an officeholder and shareholder, provided the Company with a fully serviced office including administration, information technology support and corporate advisory services and charged \$120,000 for the year ended 30 June 2014 for these services (2013: \$180,000), plus reimbursement of payment for accounting services, courier and other minor expenses of \$54,291 (2013: \$47,911) were paid during the year. \$Nil (2013: \$42,571) 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 2014.

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 *	Number of options vested**	Vested	Max value yet to vest
Directors									
Anthony Hall	01/11/2011	4,000,000	01/11/2016	\$0.013	\$0.20	\$52,423	4,000,000	100%	-
	28/06/2013	2,500,000	31/05/2017	\$0.187	\$0.40	\$468,084	2,500,000	100%	-
Derek Carter	28/06/2013	1,500,000	31/05/2017	\$0.187	\$0.40	\$280,850	1,500,000	100%	-
Scott Funston	28/06/2013	1,000,000	31/05/2017	\$0.187	\$0.40	\$187,234	1,000,000	100%	-
Pedro Rodriguez	28/06/2013	1,500,000	31/05/2017	\$0.187	\$0.40	\$280,850	1,500,000	100%	-
Jonathan Murray	28/06/2013	250,000	31/05/2017	\$0.187	\$0.40	\$46,808	250,000	100%	-
Key Management									
Aaron Bertolatti	28/06/2013	250,000	31/05/2017	\$0.187	\$0.40	\$46,808	250,000	100%	-
		11,000,000				\$1,363,057	11,000,000		-

* the value at grant date has been calculated in accordance with AASB 2 *Share based payments*

** 50% of the director options vested on 31 May 2013 and the remaining 50% vested on 31 May 2014

Grant of Options to Pursuant to Employment Contract - Mr. Anthony Hall

On 1 November 2011 Mr. Hall was granted 4,000,000 options in the Company on the following specific terms:

- 1 million options vesting upon the date that the Company successfully lists on the ASX.
- 1 million options vesting when the share price of the Company, as quoted by the ASX, reaches a level of A\$0.30 or higher.
- 1 million options vesting when the share price of the Company, as quoted by the ASX, reaches a level of A\$0.40 or higher.
- 1 million options vesting when the share price of the Company, as quoted by the ASX, reaches a level of A\$0.50 or higher.

Service Agreements

Executive Directors

The Managing Director, Mr. Anthony Hall is employed under a consulting services agreement, which commenced in August 2013 for a period of 24 months unless extended by both parties. Under the agreement Mr. Hall was to be paid an annual fee of A\$280,000 for consultancy services and a monthly allowance of €10,000. At the board meeting held on 28 April 2014 it was unanimously resolved to increase Director and Executive Remuneration effective 1 June 2014. As a result, Mr. Hall is to be paid an annual consulting fee of A\$350,000.

Mr. Hall may terminate the agreement at any time by giving six months' notice in writing, or such shorter period of notice as may be agreed. The Company may terminate the agreement by giving six months' notice or by paying an amount equivalent to six months fees (based on agreed consulting fee) or without notice in the case of serious misconduct, at which time Mr. Hall would be entitled to that portion of consulting fees services arising up to the date of termination. No additional Director's fees will be paid to Mr. Hall in addition to the fees paid under the consulting agreement.

The Development Director, Mr. Pedro Rodriguez is employed under a consulting services agreement, which commenced on 1 October 2012 for a period of 24 months unless extended by both parties. Under the agreement Mr. Rodriguez was to be paid an annual fee of €180,000. At the board meeting held on 28 April 2014 it was unanimously resolved to increase Director and Executive Remuneration effective 1 June 2014. As a result, Mr. Rodriguez is to be paid an annual fee of €200,000.

Mr. Rodriguez may terminate the agreement at any time by giving three months' notice in writing, or such shorter period of notice as may be agreed. The Company may terminate the agreement by giving three months written notice or by paying an amount equivalent to three month's fees (based on agreed consulting fee) or without notice in the case of serious misconduct, at which time Mr. Rodriguez would be entitled to that portion of consulting fees services arising up to the date of termination. No additional Director's fees will be paid to Mr. Rodriguez in addition to the fees paid under the consulting agreement.

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.

Loans to Directors and Executives

There were no loans to Directors and executives during the financial year ended 30 June 2014.

Voting and comments made at the company's 2013 Annual General Meeting

Highfield Resources Limited received more than 99% of "yes" votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

END OF AUDITED REMUNERATION REPORT

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



Anthony Hall - Managing Director
Adelaide, South Australia
10 September 2014

Competent Persons' Statement

This document was prepared by Mr Leo Gilbride, P.Eng, Ms Vanessa Santos, P.Geo of Agapito Associates and Mr. Anthony Hall, Managing Director of Highfield Resources. The Competent Person under JORC Code standards and reviewer for this document pertaining to the resource information is Mr Leo Gilbride, P.Eng and Ms Vanessa Santos, P.Geo. of Agapito Associates of Colorado, USA. Mr Gilbride is a licensed professional engineer in the State of Colorado, USA and is a registered member of the Society of Mining, Metallurgy and Exploration Inc. Ms Santos is a licensed professional geologist in South Carolina and Georgia, USA, and is a registered member of the Society of Mining, Metallurgy and Exploration Inc. The Society of Mining, Metallurgy and Exploration Inc is a JORC Code 'Recognized Professional Organization' (RPO). An RPO is an accredited organisation of which the Competent Person under JORC Code Reporting Standards must belong in order to report Exploration Results, Mineral Resources, or Ore Reserves through the ASX. Mr Gilbride is the Vice President of Engineering and Field Services and Ms Santos is the Chief Geologist with Agapito Associates and both have sufficient experience to qualify as a Competent Person for the relevant style and type of mineralisation and deposit under consideration of this release. Mr Gilbride and Ms Santos consent to the inclusion in the report of the matters based on information in the form and context in which it appears.



Corporate Governance Statement

The Board of Directors of Highfield Resources Limited ("Highfield Resources", "Highfield" or "the Company") is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company has established a set of corporate governance policies and procedures and these can be found within the Company's Corporate Governance Plan located on the Company's website: www.highfieldresources.com.au. These are based on the Australian Securities Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations) with 2010 Amendments (2nd Edition).

In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the year. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1: Role of the Board and Management

The Board is accountable to the shareholders for the performance of the Group and has overall responsibility for its operations. Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives, are formally delegated by the board to the Managing Director and ultimately to senior executives.

For the purposes of the proper performance of their duties, the Directors are entitled to seek independent professional advice at the Group's expense, unless the board determines otherwise. The Board schedules meetings on a regular basis and other meetings as and when required. The Company has drafted, adopted and published, on its website, a Board Charter.

Recommendation 1.2: Performance evaluation of Senior Management

The Managing Director and senior management participate in annual performance reviews. The performance of staff is measured against the objectives and performance indicators established by the Board. A performance evaluation for senior management took place for the current reporting period in accordance with the procedures outlined in the Remuneration Report. The performance of senior management is reviewed by comparing performance against agreed measures, examining the effectiveness and results of their contribution and identifying area for potential improvement.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1: Independence

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report. Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

The Board has accepted the following definition of an independent director:

"An Independent Director is a Director who is not a member of management, is a non-executive director and who:

- is not a substantial shareholder (under the meaning of Corporations Law) of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Company member, or been a Director after ceasing to hold any such employment;
- is not a principal of a professional adviser to the Company or another Company member;
- is not a significant consultant, supplier or customer of the Company or another Company member, or an officer of or otherwise associated, directly or indirectly, with a significant consultant, supplier or customer;
- has no significant contractual relationship with the Company or another Company member other than as a Director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company."

In accordance with the definition of independence above, no Director of the Company is considered independent. The board does not consist of a majority of Independent Directors and therefore the Group has not complied with recommendation 2.1 of the Corporate Governance Council. Due to the experience and historical conduct of the Directors, the Company believes the current structure of the Board complies with the spirit and intent of recommendation 2.1.

Recommendations 2.2, 2.3: Role of the Chairman

The role of the Chairman is to provide leadership to the board and facilitate the efficient organisation and conduct of the board's functioning. Mr. Derek Carter, the Chairman of the Group does not also perform the role of the Managing Director, in accordance with recommendation 2.3 of the Corporate Governance Council, however the Chairman is not considered 'independent' as defined by ASX Corporate Governance Principles and recommendation 2.2.



Recommendation 2.4: Nomination, retirement and appointment of Directors

The Board has not established a nomination committee in accordance with recommendation 2.4 of the Corporate Governance Council. The Group's Remuneration Committee takes ultimate responsibility for these matters and continues to monitor the composition of the committee and the roles and responsibilities of the members. At such time when the Company is of sufficient size a separate nomination committee should be formed.

Recommendation 2.5, 2.6: Evaluation of Board performance

The Board continues to review performance against appropriate measures and identify ways to improve performance. A performance evaluation of the Board, its Committees and individual directors took place for the current reporting period in accordance with the Group's documented process. The Board has not formally disclosed the process in accordance with recommendations 2.5 and 2.6 of the ASX Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider the disclosure of the performance evaluation necessary at this stage.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1: Code of Conduct

The Board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. The Group intends to maintain a reputation for integrity and is highly committed to demonstrating appropriate corporate practices and decision making. The Group's officers and employees are required to act in accordance with the law and with the highest ethical standards. The Board has adopted and disclosed a formal code of conduct applying to the Board and all employees in accordance with recommendations 3.1 and 3.3 of the Corporate Governance Council.

Under the Company's Securities Trading Policy, an executive or Director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an executive must first obtain the approval of the Managing Director to do so and a Director must first obtain approval of the Chairman. Only in exceptional circumstances will approval be forthcoming inside of the year commencing on the tenth day of the month in which the Company is required to release its Quarterly Activities Report and Quarterly Cashflow Report and ending two days following the date of that release.

Recommendations 3.2, 3.3, 3.4: Diversity

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity. The Group is committed to supporting diversity, including consideration of gender, age, ethnicity and cultural background. The Board is ultimately responsible for reviewing the achievement of this policy. The Group recognises that through consideration of diversity and the best available talent, it will assist in promoting a working environment to maximise achievement of the corporate goals of the organisation.

The Group continues to strive towards achieving objectives established towards increasing gender diversity.

The Group is highly aware of the positive impacts that diversity may bring to an organisation. The Group continues to assess all staff and Board appointments on their merits with consideration to diversity a driver in decision making.

The Board has adopted a Diversity Policy which addresses equal opportunities in the hiring, training and career advancement of Directors, officers and employees.

In accordance with this policy, the Board provides the following information pertaining to the proportion of women across the organisation at the date of this report.

	Actual	
	Number	Percentage
Women in the whole organisation	7	29%
Women in senior executive positions	1	17%
Women on the board	-	-

The Group has not disclosed in its annual report its measurable objectives for achieving gender diversity and progress towards achieving them and therefore has not complied with recommendations 3.3 of the Corporate Governance Council. Due to the size of the Company and its small number of employees, the Board does not consider it appropriate at this time, to formally set measurable objectives for gender diversity.



PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Group has structured financial management to independently verify and safeguard the integrity of their financial reporting. The structure established by the Group includes:

- Review and consideration of the financial statements by the Audit, Business Risk and Compliance Committee; and
- A process to ensure the independence and competence of the Group's external auditors.

Recommendations 4.1, 4.2, 4.3: Audit Committee

The Audit, Business Risk and Compliance Committee comprises Mr. Richard Crookes (Audit, Business Risk and Compliance Committee Chairman) who is also a non-executive director, Mr Anthony Hall the Managing Director and Mr Derek Carter the Chairman of Highfield Resources. The Board will annually confirm the membership of the Committee.

The Committee's primary responsibilities are to:

- Oversee the Company's relationship with the external auditor (including forming a policy on the provision of non-audit services and the rotation of external auditor personnel on a regular basis) and the external audit function generally;
- oversee the adequacy of the control processes in place in relation to the preparation of financial statements and reports;
- oversee the adequacy of the Company's financial controls and systems; and
- oversee the process of identification and management of business, financial and commercial risks (other than credit and trading (financial market) risk).

The Group does not comply with recommendation 4.2 of the Corporate Governance Council because the majority of members are not independent directors. Given the skills and experience of the Audit, Business Risk and Compliance Committee, the Board believes the structure and process to be adequate. The Board continues to monitor the composition of the Committee and the roles and responsibilities of the members.

The Board has adopted and disclosed a formal Committee Charter in accordance with recommendations 4.3 and 4.4 of the Corporate Governance Council.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Group has a policy that all shareholders and investors have equal access to the Group's information. The Board ensures that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporation's Act and ASX Listing Rules. The Company Secretary has primary responsibility for all communications with the ASX and is accountable to the board through the Chair for all governance matters.

Recommendations 5.1: Disclosure policy

The Group has not publicly disclosed a formal disclosure policy in accordance with recommendations 5.1 and 5.2 of the Corporate Governance Council. The Board takes ultimate responsibility for these matters and does not consider disclosure of a disclosure policy to be appropriate at this stage.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Board strives to ensure that shareholders are provided with sufficient information to assess the performance of the Group and its Directors and to make well-informed investment decisions.

Recommendations 6.1: Communications policy

Information is communicated to shareholders through:

- annual, half-yearly and quarterly financial reports;
- annual and other general meetings convened for shareholder review and approval of Board proposals;
- continuous disclosure of material changes to ASX for open access to the public; and
- the Group maintains a website where all ASX announcements, notices and financial reports are published as soon as possible after release to ASX.

All information disclosed to the ASX is posted on the Group's web site www.highfieldresources.com.au.

The auditor is invited to attend the Annual General Meeting of shareholders. The Chairman will permit shareholders to ask questions about the conduct of the audit and the preparation and content of the audit report.

The Group has disclosed a Communications Policy in accordance with recommendations 6.1 and 6.2 of the Corporate Governance Council.



PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Board has identified the significant areas of potential business and legal risk of the Group. In addition the Board has developed the culture, processes and structures of the Company to encourage a framework of risk management which identifies, monitors and manages the material risks facing the organisation.

Recommendations 7.1, 7.2: Risk management policy

The identification, monitoring and, where appropriate, the reduction of significant risk to the Group is the responsibility of the Managing Director and the Board. The Board has also established the Audit, Business Risk and Compliance Committee which addresses the risks of the Group.

The Board reviews and monitors the parameters under which such risks will be managed. Management accounts are prepared and reviewed with the Managing Director. Budgets are prepared and compared against actual results.

Management and the Board monitor the Group's material business risks and reports are considered at regular meetings.

The Group has disclosed a policy for the oversight and management of material business risks in accordance with recommendations 7.1 and 7.4 of the Corporate Governance Council.

Recommendations 7.3: Declaration from Managing Director and Company Secretary

In accordance with section 295A of the *Corporations Act 2001*, the Managing Director and Company Secretary have provided a written statement to the Board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal control compliance and control which implements the financial policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Managing Director and Company Secretary can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating Directors fairly and appropriately with reference to relevant employment market conditions. The Company does not link the nature and amount of executive and Directors' emoluments to the Company's financial and operational performance.

Recommendation 8.1, 8.2, 8.3: Remuneration Committee

The Board has established a Remuneration Committee which comprises of Mr Derek Carter, Mr Richard Crookes and Mr Anthony Hall.

The Committee's primary responsibilities are determining and reviewing compensation arrangements for executives and non-executive Directors of the Company, as well as nomination and review of applicants to Board positions and Committee members.

The Group does not comply with recommendations of the Corporate Governance Council because the majority of its members are not independent and nor is the Chairman of the Committee. The Group has disclosed a Remuneration Committee Charter and a Remuneration Policy which clearly distinguishes the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.

Recommendation 8.4: Director and Executive Remuneration

For details of remuneration of Directors and executives please refer to the Directors' Report.

Consolidated Statement of Comprehensive Income for the year ended 30 June 2014

	Note	30 June 2014 \$	30 June 2013 \$
Continuing Operations			
Interest received		171,965	125,782
Other Income		-	25,470
Listing and share registry expenses		(54,755)	(44,636)
Impairment of exploration expenditure	9	(685,682)	-
Professional and consultants' fees	3	(2,634,279)	(811,119)
Service administration fees		(80,000)	(120,000)
Employee costs		(77,542)	(194,558)
Other expenses		(523,248)	(124,879)
Share based payments expense	19	(987,900)	(2,000,692)
Travel and accommodation		(628,789)	(332,835)
Occupancy expense		(103,455)	(6,320)
Depreciation		(20,868)	(6,167)
Gain on foreign exchange		98,515	1,146
Loss before income tax		(5,526,038)	(3,488,808)
Income tax expense	4	-	-
Net loss for the year		(5,526,038)	(3,488,808)
Other comprehensive income			
Items that may be reclassified to profit and loss			
Exchange differences on translation of foreign operations		(288,861)	66,470
Other comprehensive income for the year net of tax		(288,861)	66,470
Total comprehensive loss for the year		(5,814,899)	(3,422,338)
Loss per share			
Basic loss per share (cents)		(4.12)	(4.22)
Diluted loss per share (cents)		(4.12)	(4.22)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position as at 30 June 2014

	Note	2014 \$	2013 \$
Current Assets			
Cash and cash equivalents	5	11,565,261	6,188,720
Other receivables	6	1,449,777	177,864
Total Current Assets		13,015,038	6,366,584
Non-Current Assets			
Other receivables	7	30,230	30,230
Property, plant and equipment	8	74,333	24,435
Deferred exploration & evaluation expenditure	9	39,726,633	24,231,973
Total Non-Current Assets		39,831,196	24,286,638
Total Assets		52,846,234	30,653,222
Current Liabilities			
Trade and other payables	10	1,952,250	257,358
Total Current Liabilities		1,952,250	257,358
Total Liabilities		1,952,250	257,358
Net Assets		50,893,984	30,395,864
Equity			
Issued capital	11	34,797,688	20,972,569
Reserves	12	25,499,836	13,300,797
Accumulated losses	13	(9,403,540)	(3,877,502)
Total Equity		50,893,984	30,395,864

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 2014

	Issued capital \$	Accumulated losses \$	Share based payments reserve \$	Foreign exchange translation reserve \$	Performance share reserves \$	Total \$
Balance at 1 July 2012	4,028,009	(388,694)	78,635	-	-	3,717,950
Total comprehensive loss for the year						
Loss for the year	-	(3,488,808)	-	-	-	(3,488,808)
Foreign currency translation	-	-	-	66,470	-	66,470
Total comprehensive loss for the year	-	(3,488,808)	-	66,470	-	(3,422,338)
Transactions with owners in their capacity as owners						
Shares issued during the year	5,126,688	-	-	-	-	5,126,688
Cost of issue	(27,128)	-	-	-	-	(27,128)
Shares issued as consideration for acquisition	11,500,000	-	-	-	-	11,500,000
Performance shares issued as consideration for acquisition	-	-	-	-	11,500,000	11,500,000
Share based payment	345,000	-	1,655,692	-	-	2,000,692
Balance at 30 June 2013	20,972,569	(3,877,502)	1,734,327	66,470	11,500,000	30,395,864
Balance at 1 July 2013	20,972,569	(3,877,502)	1,734,327	66,470	11,500,000	30,395,864
Total comprehensive loss for the year						
Loss for the year	-	(5,526,038)	-	-	-	(5,526,038)
Foreign currency translation	-	-	-	(288,861)	-	(288,861)
Total comprehensive loss for the year	-	(5,526,038)	-	(288,861)	-	(5,814,899)
Transactions with owners in their capacity as owners						
Shares issued during the year	14,629,312	-	-	-	-	14,629,312
Performance shares issued as consideration for acquisition	-	-	-	-	11,500,000	11,500,000
Cost of issue	(804,193)	-	-	-	-	(804,193)
Share based payment	-	-	987,900	-	-	987,900
Balance at 30 June 2014	34,797,688	(9,403,540)	2,722,227	(222,391)	23,000,000	50,893,984

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 2014

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Payments to suppliers and employees		(4,396,998)	(1,647,107)
Interest received		169,157	158,345
Other receipts		-	25,470
Net used in operating activities	5	(4,227,841)	(1,463,292)
Cash flows from investing activities			
Purchase of plant and equipment		(74,639)	(30,602)
Payments for exploration expenditure and project acquisition		(4,186,073)	(974,706)
Net cash used in investing activities		(4,260,712)	(1,005,308)
Cash flows from financing activities			
Proceeds from issue of shares		14,629,312	5,126,688
Payments for share issue costs		(665,703)	(27,128)
Net cash provided by financing activities		13,963,609	5,099,560
Net increase in cash and cash equivalents		5,475,056	2,630,960
Cash and cash equivalents at the beginning of the year		6,188,720	3,557,760
Net foreign exchange differences		(98,515)	-
Cash and cash equivalents at the end of the year	5	11,565,261	6,188,720

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



1. Corporate Information

The financial report of Highfield Resources Limited ("Highfield Resources", "Highfield" or "the Company") for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 9 September 2014. 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 Condensed Consolidated Statement of Comprehensive Income and Condensed 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 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 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 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 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) New accounting standards and interpretations issued and effective

The following applicable accounting standards and interpretations have been issued or amended and are effective for the year ended 30 June 2014.

Reference	Title	Summary	Impact on Company's financial report	Application date for Company
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.</p> <p>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> ▪ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▪ The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	The Company has considered these standards and determined that there is no impact on the Company's financial statements.	1 July 2013
AASB 10	Consolidated Financial Statements	<p>Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in AASB 127 Consolidated and Separate Financial Statements and INT-112 Consolidation - Special Purpose Entities.</p> <p>The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.</p> <p>The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under AASB 10, control is based on whether an investor has:</p> <ul style="list-style-type: none"> - Power over the investee - Exposure, or rights, to variable returns from its involvement with the investee, and - The ability to use its power over the investee to affect the amount of the returns. 	The Company has considered these standards and determined that there is no impact on the Company's financial statements.	1 July 2013



Reference	Title	Summary	Impact on Company's financial report	Application date for Company
AASB 12	Disclosure of Interests in Other Entities	<p>Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows</p> <p>In high-level terms, the required disclosures are grouped into the following broad categories:</p> <ul style="list-style-type: none"> - Significant judgements and assumptions - such as how control, joint control, significant influence has been determined - Interests in subsidiaries - including details of the structure of the Group, risks associated with structured entities, changes in control, and so on Interests in joint arrangements and associates - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information) - Interests in unconsolidated structured entities - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. <p>AASB 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.</p>	The Company has considered these standards and determined that there is no impact on the Company's financial statements.	1 July 2013
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p>	The Company has considered these standards and determined that there is no impact on the Company's financial statements.	1 July 2013
AASB 119	Employee Benefits	<p>An amended version of AASB 119 Employee Benefits with revised requirements for pensions and other postretirement benefits, termination benefits and other changes.</p> <p>The key amendments include:</p> <ul style="list-style-type: none"> - Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the 'corridor approach' permitted by the existing AASB 119) - Introducing enhanced disclosures about defined benefit plans - Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits - Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features - Classification of employee benefits: the amendments define short term employee benefits as employee benefits that are "expected to be settled wholly before twelve months after the end of annual reporting period" in place of currently used "due to be settled" <p>Incorporating other matters submitted to the IFRS Interpretations Committee.</p>	The Company has considered these standards and determined that there is no impact on the Company's financial statements.	1 July 2013



Highfield Resources Limited

Notes to the Consolidated Financial Statements *for the year ended 30 June 2014*

Reference	Title	Summary	Impact on Company's financial report	Application date for Company
AASB 127	Separate Financial Statements	<p>Amended version of AASB 127 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in AASB 10 Consolidated Financial Statements.</p> <p>The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with AASB 9 Financial Instruments.</p> <p>The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.</p>	The Company has considered these standards and determined that there is no impact on the Company's financial statements.	1 July 2013
AASB 128	Investments in Associates and Joint Ventures	<p>This Standard supersedes AASB 128 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.</p> <p>The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.</p>	The Company has considered these standards and determined that there is no impact on the Company's financial statements.	1 July 2013

The Company has not elected to early adopt any new Standards or Interpretations.



(g) 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.

(h) Exploration 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.

(i) 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.

(j) 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 cash flow statement 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.

(k) 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.

(l) 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.



(m) 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.

(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 19. 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 17).

(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 19.

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 12 and 25.

3. Expenses

Professional and consultants fees

	2014 \$	2013 \$
Consulting fees	(2,269,754)	(538,239)
Corporate advisory fees	(64,129)	(60,000)
Directors' fees	(77,776)	(112,917)
Other	(222,620)	(99,963)
	(2,634,279)	(811,119)

4. Income Tax

(a) Income tax expense

Major component of tax expense for the year:

Current tax	-	-
Deferred tax	-	-
	-	-



	2014 \$	2013 \$
(b) Numerical reconciliation between aggregate tax expense recognised in the statement of 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	(5,526,038)	(3,488,808)
Tax at the Australian rate of 30%	(1,657,811)	(1,046,642)
Share based payments	296,370	600,208
Income tax benefit not brought to account	1,361,441	446,434
Income tax expense	-	-
(c) Deferred tax		
The following deferred tax balances have not been brought to account:		
<i>Liabilities</i>		
Total exploration and evaluation expenditure	-	184,349
Offset by deferred tax assets	-	(184,349)
Deferred tax liability recognised	-	-
<i>Assets</i>		
Losses available to offset against future taxable income	2,301,229	820,268
Share issue costs deductible over five years	342,306	102,338
Accrued expenses	208,273	3,127
Deferred tax assets offset against deferred tax liabilities	-	(184,349)
Net deferred tax asset not recognised	2,851,808	741,384
(d) Unused tax losses		
Unused tax losses	7,670,764	2,734,228
Potential tax benefit not recognised at 30%	2,301,229	820,268
The benefit for tax losses will only be obtained if:		
i. the Company derives future assessable income in Australia 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 in Australia; and		
iii. no changes in tax legislation in Australia adversely affect the Company in realising the benefit from the deductions for the losses.		
5. Cash And Cash Equivalents		
Reconciliation of cash		
Cash comprises of:		
Cash at bank	11,565,261	6,188,720
Reconciliation of operating loss after tax to net cash flow from operations		
Loss after tax	(5,526,038)	(3,488,808)
<i>Non cash items</i>		
Share based payments	987,900	2,000,692
Depreciation	20,868	6,167
Costs of Issue	-	-
<i>Change in assets and liabilities</i>		
Increase in trade and other receivables	(584,988)	(130,935)
Increase in trade and other payables	874,417	149,592
Net cash flow used in operating activities	(4,227,841)	(1,463,292)
6. Other Receivables – Current		
GST receivable	62,013	31,468
VAT receivable	1,042,126	62,313
Other	345,638	84,083
	1,449,777	177,864
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		
Other	30,230	30,230
	30,230	30,230



Highfield Resources Limited

Notes to the Consolidated Financial Statements for the year ended 30 June 2014

	2014 \$	2013 \$
8. Property, Plant and Equipment		
Cost	100,803	30,602
Accumulated depreciation and impairment	(26,470)	(6,167)
Net carrying amount	74,333	24,435
Movements in Plant & Equipment:		
Opening balance	24,435	-
Additions	74,639	30,602
Net exchange differences on translation	(3,873)	-
Depreciation charge for the year	(20,868)	(6,167)
	74,333	24,435

9. Deferred Exploration and Evaluation Expenditure

Opening balance	24,231,973	190,767
Acquisition of exploration tenements	11,500,000	23,000,000
Exploration and evaluation expenditure incurred during the year	4,825,070	1,041,206
Impairment of exploration expenditure	(685,682)	-
Net exchange differences on translation	(144,728)	-
Closing balance	39,726,633	24,231,973

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. The impairment loss incurred during the 2014 financial year is related to the Company withdrawing from the farm-in agreement on the McLarty Potash Project located in North Western Australia.

10. Trade and Other Payables

Trade payables	1,229,084	228,434
Other payables	8,541	6,257
Accruals	714,625	22,667
	1,952,250	257,358

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. Issued Capital

(a) Issued and paid up capital

Issued and fully paid	34,797,688	20,972,569
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(b) Movements in ordinary shares on issue

	2014		2013	
	Number of shares	\$	Number of shares	\$
Opening Balance	119,255,629	20,972,569	44,000,003	4,028,009
Shares issued as part consideration for acquisition ¹	-	-	50,000,000	11,500,000
Shares issued to corporate advisers ²	-	-	1,500,000	345,000
Shares issued by investment offering ³	16,244,374	4,873,312	23,755,626	5,126,688
Shares issued by Placement ⁴	20,325,000	9,756,000	-	-
Transaction costs on share issue	-	(804,193)	-	(27,128)
	155,825,003	34,797,688	119,255,629	20,972,569

¹ 50,000,000 fully paid ordinary shares were issued to KCL Shareholders for the acquisition of a 100% interest in three Spanish potash projects at \$0.23 per share.

² Pursuant to the Taylor Collison Limited Mandate, the Company engaged Taylor Collison Limited to provide corporate and financial services in connection with the Navarra project acquisition and agreed to pay a fee equal to:

- that number of shares equating to 3.0% of the total number of shares issued to the KCL's Shareholders as consideration payable for the acquisition; and
- 4,000,000 options, exercisable at 20 cents each, on or before 1 November 2016. Refer to note 19 in relation to the value of the 4,000,000 options issued.

³ On 17 May 2013, 23,755,626 shares were issued to EMR Capital Pty Ltd for Tranche 1 funds of \$5,126,688 at \$0.20 per share for 20,000,000 shares and \$0.30 per share for the remaining shares. On 9 August 2013, 16,244,374 shares were issued for Tranche 2 funds of \$4,873,312 at \$0.30 per share.

⁴ On 23 and 25 June 2014 the Company issued 20,325,000 Tranche 1 shares to Australian and Overseas investors at \$0.48 per share to raise \$9,756,000.



(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 \$50,893,984 at 30 June 2014. 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 18 for further information on the Company's financial risk management policies.

(e) Share Options

As at 30 June 2014 there were 21,000,000 unissued ordinary shares under options. The details of the options are as follows:

Number	Exercise Price \$	Expiry Date
7,000,000	\$0.40	31-May-17
3,000,000	\$0.30	31-Jan-17
4,000,000	\$0.20	19-Oct-16
6,000,000	\$0.20	1-Nov-16
500,000	\$0.60	30-Jun-17
500,000	\$0.60	31-Jan-17
21,000,000		

No option holder has any right under the options to participate in any other share issue of the Company or any other entity. No options expired or were exercised during or since the year ended 30 June 2014.

(f) Performance Shares

As at 30 June 2014 there were 100,000,000 performance shares on issue. For the full details relating to the Company's Performance Shares on issue refer to notes 12 and 25:

Number	Class
50,000,000	A
50,000,000	B
100,000,000	

12. Reserves

Share based payments reserve
Foreign exchange translation reserve
Performance share reserve

2014 \$	2013 \$
2,722,227	1,734,327
(222,391)	66,470
23,000,000	11,500,000
25,499,836	13,300,797

Movements in Reserves

Share based payments reserve
Opening balance
Share based payments expense
Closing balance

1,734,327	78,635
987,900	1,655,692
2,722,227	1,734,327

Foreign exchange translation reserve
Opening balance
Foreign exchange translation difference
Closing balance

66,470	-
(288,861)	66,470
(222,391)	66,470

Performance shares reserve
Opening balance
Issue of performance shares – Class A
Issue of performance shares – Class B
Closing balance

11,500,000	-
-	11,500,000
11,500,000	-
23,000,000	11,500,000

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 19 for further details of the options issued during the financial year ended 30 June 2014.

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



The performance share reserve is used to record the value of 100,000,000 performance shares issued to KCL Shareholders for the acquisition of a 100% interest in the three 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. Performance shares are to be converted to ordinary shares upon the successful completion of the following Project related milestones.

1. 50,000,000 Class A Performance Shares will automatically convert upon delineation of a JORC Code (or equivalent) compliant Indicated Mineral Resource of:
 - i. 150 million tonnes of potash at or above 13% K₂O by content; or
 - ii. 125 million tonnes of potash at or above 14% K₂O by content; or
 - iii. 100 million tonnes of potash at or above 15% K₂O by content; or
 - iv. 75 million tonnes of potash at or above 17% K₂O by content; or
 - v. 50 million tonnes of potash at or above 20% K₂O by content.
2. 50,000,000 Class B Performance Shares will automatically convert upon the receipt, to the reasonable satisfaction of Highfield of all relevant 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).

	2014 \$	2013 \$
13. Accumulated losses		
Movements in accumulated losses were as follows:		
Opening balance	(3,877,502)	(388,694)
Loss for the year	(5,526,038)	(3,488,808)
Closing balance	<u>(9,403,540)</u>	<u>(3,877,502)</u>

14. Auditor's Remuneration

The auditor of Highfield Resources Limited is HLB Mann Judd
Amounts received or due and receivable for:
- an audit or review of the financial report

<u>25,500</u>	<u>26,500</u>
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15. Key Management Personnel Disclosures

(a) Remuneration of Key Management Personnel

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

Short term employee benefits	854,275	671,447
Share based payments	663,441	657,112
Total remuneration	<u>1,517,716</u>	<u>1,328,559</u>

(b) Other transactions with key management personnel

Mr. Anthony Hall charged the Company consulting fees of \$285,834 (2013: \$260,000) and reimbursements of expenses, at cost, paid on behalf of the Company of \$270,508 (2013: \$191,645) were paid during the year. The consulting fee is included in Note 15(a) "Compensation of key management personnel". \$29,167 (2013: \$25,667) was outstanding at year end. During the year Mr. Hall relocated from Sydney, Australia to Pamplona, Spain. Under the terms of Mr. Hall's agreement commencing in August 2013, he was paid an allowance of \$84,504 (2013: \$Nil) during the year.

DNC Minerals Pty Ltd, a company in which Mr. Derek Carter is a director, charged the Company consulting fees of \$141,666 (2013: \$43,333) and reimbursements of expenses, at cost, paid on behalf of the Company of \$10,455 (2012: \$Nil) were paid during the year. The consulting fee is included in Note 15(a) "Compensation of key management personnel". \$21,242 (2013: \$11,666) was outstanding at year end.

Geotrex Gestion Minera SL, a company in which Mr. Pedro Rodriguez is a director, charged the Company consulting fees of \$266,094 (2013: \$205,697) and reimbursements of expenses, at cost, paid on behalf of the Company of \$7,697 (2013: \$26,236) were paid during the year. The consulting fee is included in Note 15(a) "Compensation of key management personnel". \$Nil (2013: \$22,851) was outstanding at year end.

Resourceful International Consulting Pty Ltd, a company in which Mr. Scott Funston is a director, charged the Company consulting fees of \$60,000 for the year ended 30 June 2014 (2013: \$20,000). This amount is included in Note 15(a) "Compensation of key management personnel". \$Nil (2013: \$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 \$69,443 (2013: \$Nil) and reimbursements of expenses, at cost, paid on behalf of the Company of \$17,186 (2013: \$Nil) were paid during the year. The director's fees are included in Note 15(a) "Compensation of key management personnel". \$17,186 (2013: \$Nil) was outstanding at year end.



Highfield Resources Limited

Notes to the Consolidated Financial Statements for the year ended 30 June 2014

Garrison Capital Pty Ltd, a company in which Mr. Scott Funston was an officeholder and shareholder, provided the Company with a fully serviced office including administration, information technology support and corporate advisory services and charged \$120,000 for the year ended 30 June 2014 for these services (2013: \$180,000), plus reimbursement of payment for accounting services, courier and other minor expenses of \$54,291 (2013: \$47,911) were paid during the year. \$Nil (2013: \$42,571) 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 2014.

16. Related party disclosures

(a) Key management personnel

For Director related party transactions please refer to Note 15 "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	
		2014	2013
KCL Resources Limited	Australia	100%	Nil%
Geocali SL	Spain	100%	Nil%

17. Loss per Share

Loss used in calculating basic and dilutive EPS

2014
\$

2013
\$

(5,526,038) (3,488,808)

Weighted average number of ordinary shares used in calculating basic loss per share:

Number of Shares

134,087,857 82,702,051

Effect of dilution:

Share options

- -

Adjusted weighted average number of ordinary shares used in calculating diluted loss per share:

134,087,857 82,702,051

There is no impact from 21,000,000 options outstanding at 30 June 2014 (2013: 20,000,000) 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.

18. Financial Risk Management

Exposure to interest rate, liquidity and credit risk arises in the normal course of the Company's business. The Company does not hold or issue derivative financial instruments.

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. As at 30 June 2014 all financial liabilities are contractually matured within 30 days.

(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.



Highfield Resources Limited

Notes to the Consolidated Financial Statements for the year ended 30 June 2014

	2014 \$	2013 \$
Cash and cash equivalents	11,565,261	6,188,720

Interest rate sensitivity

The following table demonstrates the sensitivity of the Company's statement of 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)	
	2014	2013	2014	2013
Increase 100 basis points	115,653	61,887	115,653	61,887
Decrease 100 basis points	(115,653)	(61,887)	(115,653)	(61,887)

A sensitivity of 100 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 2014, the Company held cash at bank. 97% 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 2014.

(d) Fair Value

There were no financial assets or liabilities at 30 June 2014 requiring fair value estimation and disclosure (2013: Nil).

19. Share Based Payments

(a) Recognised share based payment transactions

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

	2014 \$	2013 \$
Employee share based payments	987,900	1,032,828
Share based payments to suppliers (Notes 11(b) and 19(c))	-	967,864
	987,900	2,000,692

(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 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 and employees of Highfield Resources Limited.

The fair value at grant date of options granted during the reporting year was determined 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.

The table below summarises options granted during the year ended 30 June 2014:

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
24/09/2013	30/06/2017	\$0.60	-	500,000	-	-	500,000	500,000
13/02/2014	31/01/2017	\$0.60	-	500,000	-	-	500,000	300,000
				1,000,000			1,000,000	800,000

The expense recognised in respect of the above options granted during the year was \$207,501.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2014 included:

- options are granted for no consideration;
- expected life of options ranged from three to four years;
- share price at grant date ranged from \$0.34 to \$0.40;
- expected volatility ranged from 78% to 80%;
- expected dividend yield of Nil; and
- a risk free interest rate ranging from 3.11% to 3.25%



The table below summarises options granted during the year ended 30 June 2013:

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
29/01/2013	31/01/2017	\$0.30	-	3,000,000	-	-	3,000,000	850,000
28/06/2013	31/05/2017	\$0.40	-	7,000,000	-	-	7,000,000	3,500,000
				10,000,000			10,000,000	4,350,000

The expense recognised during the year in respect of the above options was \$780,399.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2013 included:

- g) options are granted for no consideration;
- h) expected life of options is four years;
- i) share price at grant date ranged from \$0.285 to \$0.34;
- j) expected volatility ranged from 78% to 100%;
- k) expected dividend yield of Nil; and
- l) a risk free interest rate ranging from 3.11% to 3.75%

Performance Hurdles

Employee Options

Employees were granted 3,000,000 options exercisable at \$0.30 each on or before 31 January 2017 in three tranches:

1. 850,000 options vest and are exercisable on 31 January 2014;
2. 850,000 options vest and are exercisable on 31 January 2015; and
3. 1,300,000 options vest and are exercisable on receipt by the Company of all necessary approvals to construct and operate a potash mine capable of producing 500,000 tonnes of potash per annum.

(c) Share-based payment to suppliers

There were no options granted to suppliers during the year ended 30 June 2014.

During the financial year ended 30 June 2013 the Company issued 4,000,000 options to Taylor Collison Ltd for corporate and financial services in connection with the Spanish project acquisitions. The issue of options was approved by the shareholders at the Annual General Meeting held on 5 October 2012. These options have been valued using the Black-Scholes option pricing model.

Grant Date	Expiry date	Exercise price	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
05/10/2012	19/10/2016	\$0.20	-	4,000,000	-	-	4,000,000	4,000,000

The expense recognised in respect of the above options granted during the year was \$622,864.

The model inputs, not included in the table above, for options granted during the year ended 30 June 2013 included:

- a) options are granted for no consideration;
- b) expected life of options is four years;
- c) share price at grant date of \$0.23
- d) expected volatility of 90%;
- e) expected dividend yield of Nil; and
- f) a risk free interest rate from 3.85%.

20. Commitments

Services and corporate advisory agreement

The Company entered a service agreement with Garrison Capital Pty Ltd for certain administrative services and office space and a corporate advisory agreement for a term of 2 years commencing November 2011. Both these agreements expired during the year and were not renewed.

	2014 \$	2013 \$
Payable:		
Within one year	-	45,000
After one year but not longer than 5 years	-	-
	-	45,000

21. Contingent Assets and Liabilities

There are no known contingent assets or liabilities as at 30 June 2014 (2013: Nil).

22. Subsequent Events

The Notice of Meeting (NOM) and Independent Experts Report (IER) to consider approving Tranche 2 of the placement announced to the market on 13 June 2014 were despatched to shareholders in August 2014 with the EGM to be held on Friday 12 September 2014.



Highfield Resources Limited

Notes to the Consolidated Financial Statements for the year ended 30 June 2014

On 15 July 2014 the Company issued 2,300,000 unlisted options to staff and consultants pursuant to the Company's Employee Share Option Scheme. The options are exercisable at \$0.75 each on or before 30 June 2018.

On 29 July 2014 the Company announced it had divided the Javier Potash Project into two operational potash projects titled Muga and Vipasca.

23. Parent Entity Information

The following details information related to the parent entity, Highfield Resources Limited, at 30 June 2014. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	2014 \$	2013 \$
Current assets	11,233,626	6,066,332
Total assets	51,922,500	30,563,428
Current liabilities	(1,046,592)	(167,564)
Total liabilities	(1,046,592)	(167,564)
Net Assets	50,875,908	30,395,864
Issued capital	34,797,688	20,972,569
Reserves	25,722,227	13,234,327
Accumulated losses	(9,644,007)	(3,811,032)
	50,875,908	30,395,864
Loss of the parent entity	(5,832,975)	(3,422,338)
Other comprehensive income for the year	-	-
Total comprehensive loss of the parent entity	(5,832,975)	(3,422,338)

24. Dividends

No dividend was paid or declared by the Company in the year ended 30 June 2014 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 2014.

25. Acquisition of Subsidiary

In October 2012 the Company acquired a 100% shareholding in KCL Resources Limited (an unlisted Australian company) which, via its wholly owned subsidiary, Geoacali SL, holds a 100% interest in the Sierra del Perdon, Muga-Vipasca and Pintano Potash Projects.

The acquisition does not constitute a business combination and the cost of acquisition has been allocated to exploration and evaluation assets as disclosed in note 9. The consideration payable for the acquisition is as follows:

- a) 50,000,000 ordinary shares; and
- b) 100,000,000 performance shares to be converted to ordinary shares upon the successful completion of the following Project related milestones (50,000,000 ordinary shares per milestone).
 1. 50,000,000 Class A Performance Shares will automatically convert upon delineation of a JORC Code (or equivalent) compliant Indicated Mineral Resource of:
 - i. 150 million tonnes of potash at or above 13% K₂O by content; or
 - ii. 125 million tonnes of potash at or above 14% K₂O by content; or
 - iii. 100 million tonnes of potash at or above 15% K₂O by content; or
 - iv. 75 million tonnes of potash at or above 17% K₂O by content; or
 - v. 50 million tonnes of potash at or above 20% K₂O by content.
 2. 50,000,000 Class B Performance Shares will automatically convert upon the receipt, to the reasonable satisfaction of Highfield of all relevant 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).



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 2014 are in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's consolidated financial position as at 30 June 2014 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 2014.

On behalf of the Board

Anthony Hall
Managing Director

Adelaide, South Australia
10 September 2014



Mann Judd

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 2014, 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.

Perth, Western Australia
10 September 2014

W M Clark
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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HLB Mann Judd (WA Partnership) is a member of  HLB International, a worldwide organisation of accounting firms and business advisers.



Mann Judd

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 2014, the consolidated statement of 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 for the consolidated entity. The consolidated entity comprises 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 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*, that the financial report complies 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 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 company's preparation and fair presentation of the financial report 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 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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HLB Mann Judd (WA Partnership) is a member of  International, a worldwide organisation of accounting firms and business advisers.



Mann Judd

Accountants | Business and Financial 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 consolidated entity's financial position as at 30 June 2014 and of 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 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd
Chartered Accountants

W M Clark
Partner

Perth, Western Australia
10 September 2014



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 22 August 2014.

Distribution of Share Holders

	Ordinary Shares	
	Number of Holders	Number of Shares
1 - 1,000	19	11,311
1,001 - 5,000	115	402,872
5,001 - 10,000	132	1,152,868
10,001 - 100,000	445	18,083,000
100,001 - and over	137	136,174,952
TOTAL	848	155,825,003

There were 7 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	40,539,151	26.02
HSBC Custody Nominees (Australia) Limited	8,220,874	5.28
Pedro Antonio Rodriguez Fernandez	5,510,752	3.54
Derek Carter + Carlsa Carter <The Salamanca Super Fund>	5,510,752	3.54
Raul Hidalgo Fernandez	5,510,752	3.54
Jose Manuel Prada Fernandez	5,510,752	3.54
Celtic Capital Pte Ltd <Investment 1 A/C>	3,600,000	2.31
Taycol Nominees Pty Ltd	3,500,000	2.25
Citicorp Nominees Pty Limited	2,896,686	1.86
Mr Daniel Eddington + Mrs Julie Eddington <DJ Holdings A/C>	2,294,330	1.47
National Nominees Limited	2,242,225	1.44
Mr Timothy James Flavel <The Flavel Investment A/C>	2,225,000	1.43
Donald Stephens <D Stephens Family A/C No 2>	2,150,538	1.38
Mr Craig Peter Ball + Mrs Suzanne Katherine Ball <CPB Super Fund A/C>	1,858,692	1.19
Mr Graham Leslie Ascough + Mrs Patricia Lynn Ascough <Ascough Family A/C>	1,750,001	1.12
Mr Michael Andrew Whiting + Mrs Tracey Anne Whiting <Whiting Family S/F A/C>	1,633,692	1.05
Dorica Nominees Pty Ltd <Super Fund A/C>	1,500,000	0.96
Taycol Nominees Pty Ltd <211 A/C>	1,500,000	0.96
Yoix Pty Ltd	1,150,538	0.74
Richard Hillis <The BM Hillis Family A/C>	1,150,538	0.74
	100,255,273	64.34

Unquoted Equity Securities

Options

Class	Number	Holders with more than 20%
Options over ordinary shares exercisable at \$0.20 on or before 1 November 2016	6,000,000	- NEFCO Nominees Pty Ltd 2,000,000 options - Anthony Hall 4,000,000 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	3,000,000	- John Claverley 2,500,000 options
Options over ordinary shares exercisable at \$0.60 on or before 30 June 2017	500,000	-
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	2,300,000	- Gonzalo Mayoral 500,000 options



ASX Additional Information

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 2014.

TENEMENT TABLE

SPAIN - Muga-Vipasca, Pintano 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	Area (km ²)	Holder	Structure
Sierra del Perdón	Navarra	Quiñones	Investigation	19/07/2011	07/08/2012	32.48	Geoalcali SL	100%
Sierra del Perdón	Navarra	Adiós	Investigation	19/07/2011	07/08/2012	75.60	Geoalcali SL	100%
Sierra del Perdón	Navarra	Ampliación Adiós	Investigation	26/10/2012	14/02/2014	40.90	Geoalcali SL	100%
Muga-Vipasca	Navarra	Goyo	Investigation	19/07/2011	24/12/2012	27.72	Geoalcali SL	100%
Muga-Vipasca	Navarra	Vipasca	Investigation	06/11/2013	Pending	38.92	Geoalcali SL	100%
Muga-Vipasca	Navarra	Goyo Sur	Investigation	25/07/2014	Pending	8.96	Geoalcali SL	100%
Muga-Vipasca	Aragón	Fronterizo	Investigation	21/06/2012	05/02/2014	9.80	Geoalcali SL	100%
Muga-Vipasca	Aragón	Muga	Investigation	28/05/2013	09/04/2014	20.40	Geoalcali SL	100%
Muga-Vipasca	Aragón	Muga Sur	Investigation	25/07/2014	Pending	7.28	Geoalcali SL	100%
Pintano	Aragón	Molineras 10	Investigation	20/11/2012	06/03/2014	18.20	Geoalcali SL	100%
Pintano	Aragón	Molineras 20	Investigation	19/02/2013	Pending	16.80	Geoalcali SL	100%
Pintano	Aragón	Puntarrón	Exploration	13/12/2012	27/05/2013	90.70	Geoalcali SL	100%
Pintano	Aragón	Puntarrón	Investigation	07/05/2014	Pending	30.24	Geoalcali SL	100%

Location of Highfield's Muga-Vipasca, Pintano and Sierra del Perdón Projects in Northern Spain.

