
HIGHFIELD RESOURCES LIMITED

ACN 153 918 257

NOTICE OF GENERAL MEETING

TIME: 9.30 am (WST)

DATE: 28 June 2013

PLACE: Level 1, 33 Richardson Street
West Perth, WA 6005

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

The Independent Expert has concluded that the transaction the subject of Resolution 3 outlined in this Notice of General Meeting is FAIR AND REASONABLE to Shareholders. The Independent Expert's Report is enclosed with this Notice of Meeting.

It is recommended that all Shareholders read the Independent Expert's Report in full.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9200 4426.

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IMPORTANT INFORMATION

TIME AND PLACE OF MEETING

Notice is given that the general meeting of the Shareholders to which this Notice of Meeting relates will be held at 9.30 am on 28 June 2013 at:

Level 1, 33 Richardson Street
West Perth, Western Australia

YOUR VOTE IS IMPORTANT

The business of the General Meeting affects your shareholding and your vote is important.

VOTING ELIGIBILITY

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders at 9.30 am (WST) on 26 June 2013.

VOTING IN PERSON

To vote in person, attend the General Meeting at the time, date and place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

- each member has a right to appoint a proxy;
- the proxy need not be a member of the Company; and
- a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. [If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.]

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this General Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes is set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does:**

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting;
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

BUSINESS OF THE MEETING

AGENDA

ORDINARY BUSINESS

1. RESOLUTION 1 – RATIFICATION OF PRIOR ISSUE

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purpose of ASX Listing Rule 7.1 and 7.4 and for all other purposes, Shareholders ratify the issue of 14,325,000 Shares of the total of 23,755,626 Shares (**Tranche 1 Shares**) issued to EMR Capital GP Limited (or its nominee) on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: The Company will disregard any votes cast on this Resolution by EMR Capital GP Limited (or its nominee) and any of its associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

2. RESOLUTION 2 – RATIFICATION OF PRIOR ISSUE

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purpose of ASX Listing Rule 7.1A and 7.4 and for all other purposes, Shareholders ratify the issue of 9,430,626 Shares of the total of 23,755,626 Shares (**Tranche 1 Shares**) issued to EMR Capital GP Limited (or its nominee) raising \$2,261,688 on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: The Company will disregard any votes cast on this Resolution by EMR Capital GP Limited (or its nominee) and any of its associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

3. RESOLUTION 3 – APPROVAL PURSUANT TO ITEM 7 SECTION 611 OF THE CORPORATIONS ACT AND ASX LISTING RULE 7.1

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

*"That, for the purposes of Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for the Directors to issue 16,244,374 Shares (**Tranche 2 Shares**) to EMR Capital GP Limited (or its nominee) on the terms and conditions set out in the Explanatory Statement, which in addition to the 23,755,626 Shares already held, will result in EMR Capital GP Limited's voting power increasing from 19.9% to 29.5% in the capital of the Company."*

Expert's Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under Section 611 Item 7 of the Corporations Act. The Independent Expert's Report comments on the

fairness and reasonableness of the transactions the subject of this resolution to the non-associated Shareholders in the Company.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by EMR Capital GP Limited (or its nominee) and any of its associates or any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed. However the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

4. RESOLUTION 4 – ISSUE OF OPTIONS TO ANTHONY HALL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of section 195(4) of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 2,500,000 Options to Anthony Hall (and his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Anthony Hall (and his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

5. RESOLUTION 5 – ISSUE OF OPTIONS TO PEDRO RODRIGUEZ

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of section 195(4) of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,500,000 Options to Pedro Rodriguez (and his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Pedro Rodriguez (and his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to

vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (iii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

6. RESOLUTION 6 – ISSUE OF OPTIONS TO DEREK CARTER

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of section 195(4) of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,500,000 Options to Derek Carter (and his nominee) on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Derek Carter (and his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

7. RESOLUTION 7 – ISSUE OF OPTIONS TO JONATHAN MURRAY

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of section 195(4) of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 250,000 Options to Jonathan Murray (and his nominee) on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Jonathan Murray (and his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

8. RESOLUTION 8 – ISSUE OF OPTIONS TO SCOTT FUNSTON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of section 195(4) of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue 1,000,000 Options to Scott Funston (and his nominee) on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Scott Funston (and his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement:

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or

- (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

9. RESOLUTION 9 – ISSUE OF OPTIONS TO AARON BERTOLATTI

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 250,000 Options to Aaron Bertolatti (and his nominee) on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Aaron Bertolatti (and his nominee) and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

DATED: 22 MAY 2013

BY ORDER OF THE BOARD

AARON BERTOLATTI
COMPANY SECRETARY

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

1. OVERVIEW

1.1 General

As announced on 17 April 2013, the Company and EMR Capital GP Limited as general partner of EMR Capital Resources Fund, LP (**EMR**) have entered into a subscription agreement (**Subscription Agreement**) whereby EMR has agreed to subscribe for, and the Company has agreed to issue, up to 40,000,000 Shares for a total consideration of \$10,000,000 (**EMR Subscription**).

The funds raised by the Company from the EMR Subscription will be used to progress feasibility studies on two of the Company's Spanish potash projects, Sierra del Perdon and Javier.

The Board views the EMR Subscription as a strong vote of confidence in the robustness of the Company's Spanish potash projects. EMR is a strong institutional shareholder partner that the Board believes will add considerable value to the Company's strategic goals.

1.2 Subscription Agreement

The material terms of the Subscription Agreement are as follows:

- (a) The EMR Subscription consists of:
 - (i) an initial tranche of 23,755,626 Shares which was issued at an average of \$0.216 per Share (**Tranche 1 Shares**) to raise \$5,126,688; and
 - (ii) a second tranche of 16,244,374 Shares to be issued at \$0.30 per Share (**Tranche 2 Shares**) to raise \$4,873,312.
- (b) The issue of the Tranche 1 Shares to EMR was completed on 17 May 2013 using the Company's existing placement capacity pursuant to ASX Listing Rules 7.1 and 7.1A.
- (c) EMR is entitled to appoint one non-executive Director (**Nominee Director**) to the Board of the Company. The Company has undertaken to support the nomination and re-election of the Nominee Director for as long as EMR and its bodies corporate hold in aggregate at least 10% of the total Shares in the Company.
- (d) Subject to the ASX Listing Rules, EMR has been granted a pre-emptive right to participate in any additional capital raisings undertaken by the Company through the issue of Shares (**Additional Raising**). The Company must provide EMR with an opportunity to participate in any Additional Raising by offering EMR the chance to subscribe for that number of Shares such that EMR's proportionate holding of Shares after the Additional Raising is completed is not reduced (**Pre-emptive Right**). However, the Pre-emptive Right does not apply to the issue of Shares by the Company through:
 - (i) a pro-rata issue to Shareholders;

- (ii) an employee share option scheme; or
 - (iii) a dividend re-investment plan.
- (e) EMR's subscription for the Tranche 2 Shares is conditional upon the Shareholders approving the issue of the Tranche 2 Shares to EMR for the purposes of Section 611, Item 7 of the Corporations Act and ASX Listing Rule 7.1.

2. RESOLUTIONS 1 AND 2 – RATIFICATION OF PRIOR ISSUE

2.1 General

As announced on 17 May 2013 the Company issued 23,755,626 Shares to EMR at an average issue price of \$0.216 per Share in accordance with the terms of the Subscription Agreement (**Tranche 1 Shares**).

The issue of the Tranche 1 Shares was conducted under the Company's existing placement capacity pursuant to ASX Listing Rules 7.1 and 7.1A.

Resolution 1 seeks Shareholder ratification pursuant to ASX Listing Rules 7.1 and 7.4 for the issue of 14,325,000 of the Tranche 1 Shares.

Resolution 2 seeks Shareholder ratification pursuant to ASX Listing Rules 7.1A and 7.4 for the issue of 9,430,626 of the Tranche 1 Shares.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

ASX Listing Rule 7.1A gives a company the ability to issue equity securities under a 10% placement facility provided the company has obtained shareholder approval by way of a special resolution at an annual general meeting. Shareholder approval of the 10% placement facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the date that is 12 months after the date of the annual general meeting at which approval is obtained.

The Shareholders previously approved a 10% placement facility under ASX Listing Rule 7.1A at the last annual general meeting of the Company which was held on 5 October 2012.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rules 7.1 and 7.1A. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rules 7.1 or 7.1A (and provided that the previous issues did not breach ASX Listing Rule 7.1 or 7.1A) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rules 7.1 or 7.1A as relevant.

By ratifying the issue of Shares to EMR in Resolutions 1 and 2, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 and the additional 10% annual capacity set out in Listing Rule 7.1A.

2.2 Technical information required by ASX Listing Rule 7.4 in relation to Resolution 1

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) 14,325,000 Shares were issued on 17 May 2013;
- (b) the issue price was \$0.20 per Share;
- (c) the Shares issued are fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were issued to EMR, which is not a related party of the Company;
- (e) \$2,865,000 was raised from this issue of the Shares; and
- (f) the funds raised will be used to progress feasibility studies on two of the Company's Spanish potash projects, Sierra del Perdon and Javier.

2.3 Technical information required by ASX Listing Rule 7.4 in relation to Resolution 2

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratification:

- (a) 9,430,626 Shares were issued on 17 May 2013;
- (b) the issue price was \$0.2398 per Share being made up of:
 - (i) 5,675,000 at \$0.20 per Share; and
 - (ii) 3,755,626 at \$0.30 per Share;
- (c) the Shares issued are fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were issued to EMR, which is not a related party of the Company;
- (e) \$2,261,688 was raised from this issue of Shares; and
- (f) the funds raised will be used to progress feasibility studies on two of the Company's Spanish potash projects, Sierra del Perdon and Javier.

3. RESOLUTION 3 – APPROVAL PURSUANT TO ITEM 7 SECTION 611 OF THE CORPORATIONS ACT AND ASX LISTING RULE 7.1

3.1 General

Resolution 3 seeks Shareholder approval, for the purpose of Item 7 of Section 611 of the Corporations Act to allow the Directors to issue Tranche 2 Shares to EMR, which in addition to the 23,755,626 Shares held by EMR (assuming the issue of the Tranche 1 Shares), will result in EMR's voting power increasing up to 29.5% in the Company.

3.2 Item 7 of Section 611 of the Corporations Act

Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (f) from 20% or below to more than 20%; or
- (g) from a starting point that is above 20% and below 90%, **(Prohibition)**.

Voting Power

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

Associates

For the purposes of determining voting power under the Corporations Act, a person **(second person)** is an "associate" of the other person **(first person)** if:

- (a) (pursuant to Section 11 of the Corporations Act) the primary person is a body corporate and the second person is:
 - (i) a director or secretary of the body;
 - (ii) a related body corporate; or
 - (iii) a director or secretary of a related body corporate,
- (b) (pursuant to Section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the person;
- (c) the second person has entered or proposed to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (d) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

Relevant Interests

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, Section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (d) a body corporate in which the person's voting power is above 20%;
- (e) a body corporate that the person controls.

No associates of EMR currently have or will have a relevant interest in the Company.

Reason Section 611 Approval is Required

Item 7 of Section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

Shareholder approval under Item 7 of Section 611 of the Corporations Act is required for Resolution 3.

Increase in Relevant Interest

Assuming the Tranche 1 Shares are issued prior to the date of the Meeting, EMR will have a relevant interest in 23,755,626 Shares in the Company, representing a 19.9% voting power in the Company's Shares.

Following the issue of the Tranche 2 Shares, EMR will hold a total of 40,000,000 Shares, increasing its voting power to 29.5%.

This assumes that no other Shares are issued or Options are exercised.

Prescribed Information – ASIC Regulatory Guide

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by Stanton International Securities annexed to this Explanatory Statement.

(a) Identity of the Acquirer and its Associates

It is proposed that EMR will be issued the Tranche 2 Shares in accordance with the terms of the Subscription Agreement and for the reasons set out in Section 1.1 of this Explanatory Memorandum.

(b) Relevant Interest and Voting Power

The effect of the relevant interests and voting power of EMR pursuant to the proposed issue of Tranche 2 Shares is set out in detail in the following table:

	Current Position		Proposed Position		Relevant Interest & Voting Power		
					Current	Proposed	Increase/ Decrease
	Shares	%	Shares	%	%	%	%
EMR	23,755,626	19.9	40,000,000	29.5	19.9	29.5 ¹	9.6
Non associated	95,500,003	80.1	95,500,003	70.5	80.1	70.5	(9.6)
Total	119,255,629²	100%	135,500,003²	100%	100%	100%	100%

¹ Comprises the proposed shareholding interest of EMR (x%) and completion of the Subscription Agreement and the issue of the Tranche 2 Shares.

²Total of all the Shares in the Company as at the date of the Meeting.

Further details on the voting power of EMR are set out in the Independent Expert's Report prepared by Stanton International Securities.

(c) **EMR's Intentions**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that EMR (or any of its associates):

- (i) has no present intention of making any significant changes to the business of the Company;
- (ii) has no present intention to inject further capital into the Company;
- (iii) has no present intention of making changes regarding the future employment of the present employees of the Company;
- (iv) does not intend to redeploy any fixed assets of the Company;
- (v) does not intend to transfer any property between the Company and EMR or any of its associates; and
- (vi) has no intention to change the Company's existing policies in relation to financial matters or dividends.

These intentions are based on information concerning the Company, its business and the business environment which is known to EMR and its associates at the date of this document.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(d) **Identity, associations and qualifications of Nominee Director**

The Subscription Agreement gives EMR the right to appoint a non-executive Director to the Board of the Company.

EMR is yet to nominate a director to the Board of the Company. Details of the Nominee Director' qualifications will be announced on the ASX in due course.

(e) **Particulars of Proposed Issue**

Particulars relating to the proposed issue of the Tranche 2 Shares are set out in Section 1 of this Explanatory Statement.

(f) **Date of Proposed Issue**

The Tranche 2 Shares the subject of Resolution 3 will be issued on a date after the Meeting to be determined by the Company and EMR in accordance with the Subscription Agreement.

(g) **Reason for the Proposed Issue**

The Tranche 2 Shares will be issued under the Subscription Agreement for the reasons set out in Section 1 of this Explanatory Statement.

(h) **Interests and Recommendations of Directors**

Refer to Section 3.7 for the interests and recommendations of Directors in relation to Resolution 3.

(i) **Capital Structure**

The effect of the issue of the Tranche 2 Shares on the capital structure of the Company, assuming no Options are exercised prior to the Record Date, is set out below.

Shares

	Number
Shares currently on issue	119,255,629
Proposed issue of Tranche 2 Shares	16,244,374
Total Shares on issue following issue of Tranche 2 Shares	135,500,003

Class A Performance Shares

	Number
Class A Performance Shares currently on issue	50,000,000
Total Class A Performance Shares on issue following issue of Tranche 2 Shares	50,000,000

Class B Performance Shares

	Number
Class B Performance Shares currently on issue	50,000,000
Total Class B Performance Shares on issue following issue of Tranche 2 Shares	50,000,000

Options

Terms	Number
Unlisted Options exercisable at \$0.20 on or before 1/11/16	6,000,000
Unlisted Options exercisable at \$0.20 on or before 19/10/16	4,000,000
Unlisted Options exercisable at \$0.30 on or before 30/01/17	3,000,000
Total Options on issue following issue of Tranche 2 Shares	13,000,000

The number of Options reflected in the above table does not include any of the Options proposed to be issued which is the subject of Resolutions 4 to 9.

3.3 Advantages of the Acquisition – Resolution 3

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 3:

- (a) the issue of Tranche 2 Shares will complete the Company's obligations under the Subscription Agreement and will not require renegotiation of its terms;
- (b) EMR is a strong institutional shareholder partner who will add value to the Company's strategic goals;
- (c) the issue of the Tranche 2 Shares to EMR, would provide the Company with additional funds of \$4,873,312;
- (d) with these additional funds the Company's cash position will increase to approximately \$11.7m;
- (e) the funds raised will enable the Company to progress feasibility studies on two of its Spanish potash projects, Sierra del Perdon and Javier; and
- (f) Stantons International Securities has concluded that the issue of the Tranche 2 Shares is fair and reasonable to the non-associated shareholders.

3.4 Disadvantages of the Acquisition – Resolution 3

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 3:

- (a) the issue of the Tranche 2 Shares to EMR will increase the voting power of EMR from 19.9% to 29.5%, reducing the voting power of non-associated Shareholders in aggregate from 80.1% to 70.5%; and
- (b) there is no guarantee that the Company's Shares will not fall in value as a result of the issue.

3.5 Independent Expert's Report - Resolution 3

The Independent Expert's Report assesses whether the issue of the Tranche 2 Shares outlined in Resolution 3 is fair and reasonable to the Shareholders who are not associated with EMR.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the proposed issue of the Tranche 2 Shares the subject of Resolution 3. This assessment is designed to assist all Shareholders in reaching their voting decision.

The Independent Expert has provided the Independent Expert's Report and has provided an opinion that it believes the proposal as outlined in Resolution 3 and, on balance, **IS FAIR AND REASONABLE** to the Shareholders of the Company not associated with EMR. It is recommended that all Shareholders read the Independent Expert's Report in full.

The Independent Expert's Report is enclosed with this Notice of Meeting.

3.6 Technical information required by ASX Listing Rule 7.1

A summary of ASX Listing Rule 7.1 is set out in Section 2 above.

The effect of Resolution 3 will be to allow the Directors to issue the Tranche 2 Shares pursuant to the Share Subscription during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the proposed issue of the Tranche 2 Shares:

- (a) the number of Shares to be issued is 16,244,374. As at the date of the Meeting (assuming the Tranche 1 Shares are issued), the number of Shares on issue will be 119,255,629 Shares. Assuming no other Shares are issued or Options exercised, the number of Shares on issue would increase from 119,255,629 to 135,500,003 Shares and the shareholding of existing Shareholders would be diluted by 9.6%.
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that the issue will occur on the same date;
- (c) the issue price will be \$0.30 per Share;
- (d) the Tranche 2 Shares will be issued to EMR;

- (e) valuation of the Tranche 2 Shares is set out in the Independent Expert's Report accompanying this Notice;
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (g) \$4,873,312 will be raised from this issue which will enable the Company to progress feasibility studies on two of its Spanish potash projects, Sierra del Perdon and Javier.

3.7 Directors Recommendations - Resolution 3

- (a) On the basis that the Nominee Director is not appointed prior to the date of this Meeting, none of the current Board members have a material personal interest in the outcome of Resolution 3.
- (b) The Directors unanimously recommend that Shareholders vote in favour of Resolution 3 for the reasons set out in Section 3.3 above.
- (c) The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 3.

4. RESOLUTIONS 4 TO 8 – ISSUE OF OPTIONS TO DIRECTORS

4.1 General

The Company has agreed, subject to obtaining Shareholder approval, to issue its Board of Directors a total of 6,750,000 Options (**Related Party Options**) as an incentive based remuneration package. Resolutions 4 to 8 seek Shareholder approval for the grant of the Related Party Options to the following Directors (and their nominees):

- (a) Anthony Hall (Managing Director): 2,500,000 Options;
- (b) Pedro Rodriguez (Executive Director): 1,500,000 Options;
- (c) Derek Carter (Chairman): 1,500,000 Options;
- (d) Jonathan Murray (Non-Executive Director): 250,000 Options; and
- (e) Scott Funston (Executive Director): 1,000,000 Options.

The terms and conditions of the Options are set out in Schedule 1.

4.2 Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The grant of Related Party Options constitutes giving a financial benefit and Messrs Hall, Carter, Rodriguez, Funston and Murray are related parties of the Company by virtue of being Directors.

The Directors consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required because the grant of the Related Party Options is considered reasonable remuneration in the circumstances and was negotiated on an arm's length basis.

4.3 ASX Listing Rule 10.11

ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

As the grant of the Related Party Options involves the issue of securities to related parties of the Company, Shareholder approval pursuant to ASX Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances.

4.4 Technical Information required by ASX Listing Rule 10.13

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to Resolutions 4 to 8:

- (a) the Related Party Options will be granted to Messrs Hall, Carter, Rodriguez, Funston and Murray (and their nominees);
- (b) the number of Related Party Options to be issued is as follows:
 - (i) Anthony Hall (Managing Director): 2,500,000 Options;
 - (ii) Pedro Rodriguez (Executive Director): 1,500,000 Options;
 - (iii) Derek Carter (Chairman): 1,500,000 Options;
 - (iv) Jonathan Murray (Non-Executive Director): 250,000 Options; and
 - (v) Scott Funston (Executive Director): 1,000,000 Options.
- (c) the Related Party Options will be granted no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that the issue will occur on the same date;
- (d) the Related Party Options will be issued for nil cash consideration, accordingly no funds will be raised; and
- (e) the terms and conditions of the Related Party Options are set out in Schedule 1.

Approval pursuant to ASX Listing Rule 7.1 is not required for the grant of the Related Party Options as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the grant of Related Party Options to Messrs Hall, Carter, Rodriguez, Funston and Murray (and their nominees) will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

5. RESOLUTION 9 – ISSUE OF OPTIONS TO AARON BERTOLATTI

5.1 General

In addition to those Options to be issued pursuant to Resolutions 4 to 8, the Company also proposes to issue Mr Aaron Bertolatti, Company Secretary, with 250,000 Options as an incentive based remuneration package.

A summary of Listing Rule 7.1 is set out in Section 2.1 above.

The effect of Resolution 9 will be to allow the Company to issue the Options to Mr Bertolatti during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

5.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of Options:

- (a) the maximum number of Options to be issued is 250,000;
- (b) the Options will be issued to Aaron Bertolatti, Company Secretary, who is not a related party of the Company;
- (c) the Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that the issue will occur on the same date;
- (d) the Options will be issued for nil cash consideration, accordingly no funds will be raised; and
- (e) the terms and conditions of the Options are set out in Schedule 1.

6. ENQUIRIES

Shareholders may contact Aaron Bertolatti on (+61 8) 9200 4426 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

\$ means Australian dollars.

General Meeting means the meeting convened by the Notice of Meeting.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the Australian Securities Exchange, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Closely Related Party of a member of the Key Management Personnel means:

- (i) a spouse or child of the member;
- (ii) a child of the member's spouse;
- (iii) a dependent of the member or the member's spouse;
- (iv) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (v) a company the member controls; or
- (vi) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

Company means Highfield Resources Limited (ACN 153 918 257).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

EMR or EMR Capital GP Limited means EMR Capital GP Limited as general partner of EMR Capital Resources Fund, LP.

Explanatory Statement means the explanatory statement accompanying the Notice of Meeting.

Independent Expert means Stantons International Securities Investment. Advisers Licence (No 418019).

Independent Expert's Report means the report by the Independent Expert annexed to this Notice of Meeting as Annexure A.

Key Management Personnel has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or

indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

Notice of Meeting or **Notice of General Meeting** means this notice of General Meeting including the Explanatory Statement.

Option means an option to acquire a Share.

Resolutions means the resolutions set out in the Notice of Meeting, and **Resolution** means any one of them, as the context requires.

Shares means fully paid ordinary shares in the capital of the Company.

Shareholder means a holder of a Share.

Subscription Agreement means the share subscription agreement dated 16 April 2013 between the Company and EMR.

Tranche 1 Shares means 23,755,626 Shares.

Tranche 2 Shares means 16,244,374 Shares.

WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 – TERMS AND CONDITIONS OF OPTIONS

(a) **Entitlement**

Each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) **Exercise Price**

Subject to paragraph (j), the amount payable upon exercise of each Option will be \$0.40 (**Exercise Price**).

(c) **Expiry Date**

Each Option will expire at 5.00pm (WST) on 31 May 2017 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) **Vesting Conditions**

The Options are subject to the following vesting conditions:

- (i) 50% of the Options will vest on 31 May 2013; and
- (ii) 50% of the Options will vest on 31 May 2014,

provided the Optionholder remains in its capacity as an officer of the Company as at the date these vesting periods are satisfied.

The Board may in its absolute discretion, waive satisfaction of vesting conditions either unconditionally or subject to compliance with any other exercise restriction that is less onerous than that previously fixed.

(e) **Notice of Exercise**

The Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

(f) **Exercise Date**

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment of the Exercise Price for each Option being exercised in cleared funds (**Exercise Date**).

(g) **Timing of issue of Shares on exercise**

Within 15 Business Days after the later of the following:

- (i) the Exercise Date; and
- (ii) when excluded information in respect to the Company (as defined in section 708A(7) of the Corporations Act) (if any) ceases to be excluded information,

but in any case no later than 20 Business Days after the Exercise Date, the Company will:

- (iii) issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (iv) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (v) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(iv) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must, no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

(h) **Shares issued on exercise**

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(i) **Quotation of Shares issued on exercise**

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

(j) **Reconstruction of capital**

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(k) **Participation in new issues**

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

(l) **Change in exercise price**

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(m) **Unquoted**

The Company will not apply for quotation of the Options on ASX.

(n) **Transferability**

The Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

(o) **Takeover and Winding up**

- (i) If a takeover bid causes or is likely to cause a change in control of the Company, the Board has the discretion to give Optionholders an immediate right to exercise their Options. This discretion may only be exercised to ensure where possible, that Optionholders are able to exercise the Outstanding Options within the time available to accept the takeover offer.
- (ii) If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every Outstanding Option will be exercisable (but so that any exercise under this Rule will only be valid if, at the time of such resolution being passed, that Option would not have lapsed under any of the other Rules) at any time between the date of the notice and the date the resolution is duly passed or defeated or the meeting concluded or adjourned indefinitely, whichever occurs first. If such resolution is duly passed all Options will, to the extent that they have not been exercised, immediately lapse.

22 May 2013

The Directors
Highfield Resources Limited
Level 1, 33 Richardson Street
WEST PERTH WA 6005

Dear Sirs

RE: HIGHFIELD RESOURCES LIMITED ("HIGHFIELD" OR "THE COMPANY") (ACN 153 918 257) ON THE PROPOSAL TO ISSUE 16,244,374 SHARES AT 30 CENTS EACH TO EMR CAPITAL GP LIMITED AS GENERAL PARTNER OF THE EMR CAPITAL RESOURCES FUND LP ("EMR") AS NOTED BELOW TO RAISE \$4,873,312. MEETING PURSUANT TO SECTION 611 (ITEM 7) OF THE CORPORATIONS ACT 2001

1. Introduction

1.1 We have been requested by the Directors of Highfield to prepare an Independent Expert's Report to determine the fairness and reasonableness of Resolution 3 in the Notice of Meeting ("Notice") relating to the proposal to issue a total of 16,244,374 ordinary shares ("Subscription Shares" or "Tranche 2 Shares") in Highfield at an issue price of 30 cents each to raise a gross \$4,873,312, to EMR Capital Resources Fund, LP ("The Subscription Shares"). EMR is a specialist resources fund equity manager. EMR is domiciled in the Cayman Islands.

On 17 April 2013, the Company announced a capital raising of \$10,000,000 by issuing shares to EMR in two tranches. Tranche 1 related to the issue of 23,755,626 ordinary shares at an average 21.6 cents each to EMR to raise a gross \$5,126,688. These Tranche 1 Shares have been issued in two separate instances, both before 17 May 2013 so that EMR's shareholding in Highfield increased to approximately 19.92% from Nil% ("Tranche 1 shares"). Resolutions 1 and 2 of the Notice propose to ratify the issue of the Tranche 1 placement. Whilst part of the overall placement of shares to EMR, such ratification is not covered by this report, as the issue of the Tranche 1 placement to EMR does not exceed 20% of the total number of shares on issue in Highfield, thus not triggering the need to provide a report on this resolution under section 611 of TCA.

It is proposed as part of Resolution 3 to the Notice to be issued to Highfield shareholders in May 2013, that Highfield will, subject to shareholder's approval, issue a further 16,244,374 Tranche 2 Shares at 30 cents each to EMR to raise a gross \$4,873,312 so that EMR shareholding will move over the 20% mark to approximately 29.52%. Resolution 3 in the Notice and the Explanatory Statement ("ES") attached to the Notice provides further details. The proposed issue of 16,244,374 Tranche 2 Shares to EMR is referred to in this report as the "Subscription".

Resolutions 1, 2 and 3 are independent capital raisings at different share prices, and Resolution 3 is not dependent on the passing of Resolution 1 or Resolution 2. In the event that Resolution 1 or Resolution 2 is not passed, the cash raised from the Tranche 1 placement is not refundable.

- 1.2 The Subscription is conditional, inter-alia, on non associated shareholders passing an ordinary Resolution approving the issue of, and the acquisition of a relevant interest in, the Subscription Shares by EMR for the purposes of and in accordance with Section 611 (Item 7) of The Corporations Act 2001. This report relates to Resolution 3 of the Notice. There are seven other resolutions put to the shareholders. We are not reporting on the fairness and/or reasonableness of the proposals outlined in the other resolutions being put to the shareholders of Highfield.
- 1.3 Following completion of the Subscription, EMR who currently holds 23,755,626 shares (after the completion of the issue of the Tranche 1 Shares which had occurred by 17 May 2013 but before the issue of the Subscription Shares), and would own a total of 40,000,000 shares in Highfield (after the issue of Tranche 1 and Subscription Shares) representing approximately 29.52% of the then shares on issue (assuming no other share issues). There would be 135,500,003 Highfield shares on issue.
- 1.4 Under Paragraph 606 of the Corporations Act 2001 ('TCA'), a person must not acquire a relevant interest in issued voting shares in a company if because of the transaction, that persons' or someone else's voting power in the company increases:
- (a) from 20% or below to more than 20%; or
 - (b) from a starting point that is above 20% and below 90%.

Under Section 611 (Item 7) of TCA, Section 606 does not apply in relation to any acquisition of shares in a company by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer or the disposer or their respective associates. An independent expert is required to report on the fairness and reasonableness of the transactions noted pursuant to a Section 611 (Item 7) meeting.

- 1.5 A notice prepared in relation to a meeting of shareholders convened for the purposes of section 611 (Item 7) of TCA should be accompanied by an independent expert's report stating whether it is fair and reasonable to approve the issue of 16,244,374 Subscription Shares to EMR at 30 cents each to raise a gross \$4,873,312. To assist shareholders in making a decision on the proposal outlined in Resolution 3 of the Notice, the directors have requested that Stantons International Securities prepare an Independent Expert's Report, which must state whether, in the opinion of the Independent Expert, the proposal under Resolutions 2 is fair and reasonable to the non-associated shareholders of Highfield (not associated with EMR).
- 1.6 Apart from this introduction, this report considers the following:
- Summary of opinion
 - Implications of the proposals
 - Corporate history and nature of business
 - Future direction of Highfield
 - Basis of valuation of Highfield shares
 - Premium for control
 - Consideration as to fairness and reasonableness
 - Conclusion as to fairness and reasonableness
 - Sources of information
 - Appendix A and Financial Services Guide
- 1.7 In determining the fairness and reasonableness of the transaction pursuant to Resolution 3 we have had regard to the definitions set out by the Australian Securities and Investments Commission ("ASIC") in its Regulatory Guide 111, "Content of Expert Reports". The Regulatory Guide 111 states that an opinion as to whether an offer is fair and/or reasonable shall entail a comparison between the offer price and the value that may be attributed to the securities under offer (fairness) and an examination to determine whether there is justification for the offer price on objective grounds after reference to that value (reasonableness). The concept of "fairness" is taken to be the value of the offer price, or the consideration, being equal to or greater than the value of the securities in the above mentioned offer. Furthermore, this comparison should be made assuming 100% ownership

of the “target” and irrespective of whether the consideration is scrip or cash. An offer is “reasonable” if it is fair. An offer may also be reasonable, if despite not being “fair”, there are sufficient grounds for security holders to accept the offer in the absence of any higher bid before the close of the offer. It also states that, where an acquisition of shares by way of an allotment is to be approved by shareholders pursuant to section 611 (Item 7) of TCA, it is desirable to commission a report by an independent expert stating whether or not the proposal is fair and reasonable, having regards to the proposed allottees and whether a premium for potential control is being paid by the allottees. Regulatory Guide 111 also provides that such an allotment should involve a comparison of the advantages and disadvantages likely to accrue to non associated shareholders if the transactions proceed compared with if they do not.

Accordingly, our report in relation to Resolution 3 comprising the approval to issue 16,244,374 Subscription Shares to EMR is concerned with the fairness and reasonableness of the proposals with respect to the existing non-associated shareholders of Highfield and whether EMR is paying a premium for control.

Summary of Opinion

- 1.8 **For the purposes of section 611 (item 7) of TCA, in relation to the approval to issue 16,244,374 Subscription Shares to EMR in our opinion taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 7 of this report, the proposal as outlined in paragraph 1.1 and Resolution 3 may on balance collectively be considered to be fair and reasonable at the date of this report.**

The opinions expressed above must be read in conjunction with the more detailed analysis and comments made in this report. Each shareholder will need to form its own opinion on whether to vote in favour of the resolutions. Each shareholder needs to examine the share price of Highfield, and market conditions at the time of exercise of vote to ascertain the impact, if any, on Resolution 3.

2. Implications of the Proposals

- 2.1 As at 21 May 2013, there were 119,255,629 ordinary fully paid shares on issue in Highfield. The significant registered fully paid shareholders as at 21 May 2013, based on the top 20 shareholders list were believed to be:

	No. of fully paid shares	% of issued fully paid shares
EMR Capital Resources Fund LLP	23,755,626	19.92
Pedro Fernandez		
Derek & Carlsa Carter ATF The Salamanca Super Fund	5,510,752	4.62
Raul Fernandez	5,510,752	4.62
Jose Fernandez	5,510,752	4.62
Celtic Capital Pte Ltd	5,510,752	4.62
	45,798,634	38.40

The 23,755,626 Tranche 1 Shares, which have been issued by 17 May 2013 to EMR, have increased the total number of shares in Highfield from 95,500,003 to 119,255,629 ordinary shares on issue. At the date of this report, the EMR Group had 23,755,626 shares in Highfield. The EMR Group have paid Highfield \$5,126,688 for the Tranche 1 Shares.

The top 20 shareholders, at 21 May 2013 owned approximately 67.30% of Highfield, after the issue of the Tranche 1 Shares to EMR.

2.2 As at 21 May 2013, the following unlisted share options are outstanding:

- 6,000,000 options exercisable at 20 cents each by 1 November 2016;
- 4,000,000 options exercisable at 20 cents each by 19 October 2016; and
- 3,000,000 options exercisable at 30 cents each by 31 January 2017.

In addition to the above, the Company has issued 50,000,000 Class A Performance Shares and 50,000,000 Class B Performance Shares. The Performance Shares will rank equally in all respects once the various milestones are achieved when they will become Fully Paid Ordinary Shares. The Performance Shares do not participate in any dividend, distribution or interest payment. The Performance Shares milestones are as follows:

- Class A Performance Shares: 50,000,000 Performance Shares upon delineation of a JORC Code (or equivalent) compliant Indicated Mineral Resource of:
 - i) 150 million tonnes at a minimum grade of 13% K₂O by content; or
 - ii) 125 million tonnes at a minimum grade of 14% K₂O by content; or
 - iii) 100 million tonnes at a minimum grade of 15% K₂O by content; or
 - iv) 75 million tonnes at a minimum grade of 17% K₂O by content; or
 - v) 50 million tonnes at a minimum grade of 20% K₂O by content on the Project (A Class Performance Shares); and
- Class B Performance Shares: 50,000,000 Performance Shares upon announcement by the Company to ASX of receipt of all required approvals for the construction of an operating mine with capacity for 500,000 tonnes of potash per annum on the Project (B Class Performance Shares).

2.3 Following completion of the Subscription (of the 16,244,374 Subscription Shares), EMR would own 40,000,000 shares in Highfield representing approximately 29.52% of the then shares on issue (assuming no other share issues). The Company will raise \$4,873,312 from the Subscription. There would be 135,500,003 fully paid ordinary shares on issue.

2.4 We understand that the Subscription monies raised will be used to continue its exploration program and progress its development program on its Potash projects in Spain and Australia.

2.5 The Subscription Agreement, upon the Completion of Tranche 1 Shares, refers to the right for EMR to appoint a non-executive director to the Board of Highfield, and thus Richard Crookes has been appointed to the board of Highfield. Further new directors may be appointed in the future depending on the progress of the Spanish and Australian potash projects. At the date of this report, one EMR nominee, Richard Crookes, has been appointed a director of Highfield. The other existing directors of Highfield are Derek Carter, Anthony Hall, Scott Funston, Pedro Rodriguez and Jonathan Murray. Refer paragraph 4.1 for possible changes in the Board of Highfield in the short term.

3. Corporate History and Nature of Business

3.1 Highfield was listed on the ASX in 2012. It is a resource company primarily focused on the exploration and development of potash projects in Spain and in Australia as well as the pursuit of new opportunities. The Company's projects are as follows:

- The Spanish Potash projects refer to three distinct 100% owned potash projects, namely Javier, Pintano and Sierra del Perdon ("Spanish Projects"), which are located in the Ebro potash producing basin in Northern Spain. The Sierra del Perdon project includes two former operating mines, and the company's main aim is to recommence operations at these two mines; and
- The Australian based Project ("Australian Project") relates to prospective potash projects, located in the Canning Basin in the north of Western Australia. The Company has the ability to obtain an interest of up to 80% of the project.

3.2 A summarised balance sheet of Highfield as at 31 March 2013 is outlined in paragraph 5.4.1 of this report.

4. Future Directions of Highfield

4.1 We have been advised by the directors and management of Highfield that:

- The immediate short-term plan is to complete the Subscription to raise \$4,873,312 and such funds will be used on progressing feasibility study works on the Company's Sierra del Perdon and Javier potash projects;
- Jonathan Murray has signalled an intention to retire as a director of the Company shortly after the General Meeting. Other than this likely change and the potential nomination of one EMR non-executive director, pending successful completion of the Tranche 1 Shares, the composition of the Board of directors of Highfield is not proposing to change in the near future as outlined in paragraph 2.5;
- No dividend policy has been set and it is not proposed to be set until such time as the Company is profitable and has a positive cash flow; and
- The Company will need to raise further capital if required to develop the Spanish and Australian Projects and any other resource or mineral projects that it may acquire an interest in.

5. Basis of Valuation of Highfield

5.1 Shares

5.1.1 In considering the proposals as outlined in Resolution 3, we have sought to determine whether the issue price of the Subscription Shares to EMR is in excess of the current fair value of the shares in Highfield on issue and whether the proposed Subscription is at a price that Highfield could make to unrelated third parties and then conclude whether the proposal is fair and reasonable to the existing non associated shareholders of Highfield.

5.1.2 The valuation methodologies we have considered in determining a theoretical value of an Highfield share are:

- capitalised maintainable earnings/discounted cash flow;
- takeover bid - the price at which an alternative acquirer might be willing to offer;
- adjusted net asset backing and windup value; and
- the recent market prices of Highfield shares.

5.2 Capitalised maintainable earnings and discounted cash flows.

5.2.1.1 Highfield currently does not have a reliable cash flow or profit history from a business undertaking and therefore this methodology is not considered to be appropriate. The Company is currently developing and exploring the Spanish and Australian Projects respectively. It is too early to use a discounted cash flow model given no JORC compliant resources have been declared on either the Spanish or Australian Projects. The Spanish and Australian Projects cannot proceed without further expenditure and ultimately further funds for capital and working capital expenditure. Currently, Highfield does not have sufficient funds to complete full exploration and potential development of the Spanish and Australian Projects.

5.3 Takeover Bid

5.3.1 It is possible that a potential bidder for Highfield could purchase all or part of the existing shares, however no certainty can be attached to this occurrence. To our knowledge, there are no current bids in the market place however that is not to say a bid may not be made in the future. However, if all of the 16,244,374 Subscription Shares are issued, EMR would control approximately 29.52% of the expanded ordinary issued capital of Highfield before the exercise of any outstanding share options and other share issues.

5.4 Adjusted Net Asset Backing

5.4.1 As there is no intention to wind up the Company, we have not considered wind up values for the purposes of this report. A summary of the un-audited consolidated statement of financial position as at 31 March 2013 of Highfield ("A") is summarised below after allowing for the following:

- the issue of 23,755,626 Tranche 1 shares at an average 21.6 cents each to EMR, (issued by 17 May 2013 to raise a gross \$5,126,668);

and a pro-forma statement of financial position "B" after allowing for:

- the issue of the 23,755,626 Tranche 1 shares at an average 21.6 cents each to EMR, (issued by 17 May 2013 to raise a gross \$5,126,668);
- the issue of 16,244,374 Subscription Shares at 30 cents each to EMR; and
- the allowance of \$50,000 for costs relating to the Notice which have been expensed.

	Un-audited Adjusted 31 March 2013 \$000's	Tranche 1 Shares Pro- forma A un- audited 31 March 2013 \$000's	Subscription Shares Pro- forma B un- audited 31 March 2013 \$000's
Current assets			
Cash and cash equivalents	1,896	7,023	11,846
Receivables	53	53	53
	<u>1,949</u>	<u>7,076</u>	<u>11,899</u>
Non-current assets			
Trade and Other Receivables	26	26	26
Plant and equipment	2	2	2
Deferred Exploration expenditure	23,929	23,929	23,929
	<u>23,957</u>	<u>23,957</u>	<u>23,957</u>
Total assets	25,906	31,033	35,856
Current liabilities			
Trade and other payables	121	121	121
	<u>121</u>	<u>121</u>	<u>121</u>
Total liabilities	121	121	121
Net Assets	25,785	30,911	35,735
Equity			
Issued capital	15,873	21,000	25,873
Reserves	12,537	12,537	12,537
Accumulated losses	(2,625)	(2,625)	(2,675)
Net Equity	25,785	30,912	35,735

5.4.2 The unaudited book net tangible asset backing as at 31 March 2013 (unadjusted) equates to approximately 26.99 cents per share based on 95,500,003 ordinary shares on issue as at that date. Post issue of the 23,755,626 Tranche 1 Shares, which have raised a gross \$5,126,688, the unaudited adjusted net tangible asset backing, equates to 25.92 cents per share based upon 119,255,629 ordinary shares issued. After the proposed issue of the 16,244,374 Subscription Shares to raise a gross \$4,873,312, the net book asset backing per share may approximate 26.37 cents (135,500,003 shares on issue). No allowances have been made for losses incurred post 31 March 2013.

- 5.4.3 We have accepted the book amounts of Highfield for all current assets and non-current assets. We have been assured by the management of Highfield that they believe the carrying value of all current assets and liabilities at 31 March 2013 are fair and not materially misstated. We note that included in the net assets of Highfield are capitalised acquisition costs of \$23,000,000 relating to the acquisition of the Spanish Projects and exploration expenditure. An external technical valuation of the mineral assets of Highfield has not been undertaken in the past year. The Company needs to raise significant sums to continue with its exploration and development programmes on the Spanish and Australian Projects, respectively.

5.5 Market Price of Highfield Fully Paid Ordinary Shares

- 5.5.1 We set out below a summary of average share prices of Highfield since 1 October 2012 to 17 April 2013.

2012	High Cents	Low Cents	Last Sale Cents	Volumes Trade (000's)
October	28.0	23.0	25.0	609
November	30.0	26.0	26.5	557
December	26.5	25.0	25.0	153
2013				
January	30.0	24.0	27.0	858
February	27.0	25.0	25.5	846
March	26.0	21.5	23.0	1,050
April (to 16th)	23.0	23.0	23.0	15

The price of a Highfield share is dependent on a number of factors including, inter alia, the announcements on the Australian and Spanish Projects, the cash position, the demand for the Company's shares and the price of potash (as the Spanish and Australian Projects are primarily potash plays) and exchange rates. On the last trading day immediately prior to the announcement of the proposed placement of shares (Tranche 1 Shares and the Subscription Shares) to the EMR group of companies (17 April 2013) to raise a total of \$10,000,000, the shares were trading at 23.0 cents. Since the announcement on 17 April 2013 of the proposed Subscription and the Tranche 1 Shares (which were issued by 17 May 2013) to EMR, the shares have traded between 23.0 cents and 33.0 cents (last sale on 21 May 2013 was 30.0 cents).

- 5.5.2 No independent valuations have been prepared on the Australian and Spanish potash projects of Highfield and we do not consider it necessary to obtain an independent valuation of the potash prospects for the purposes of this report. We note that the market has been informed of all of the current projects and joint ventures entered into between Highfield and other parties. We also note it is not the present intention of the Directors of Highfield to liquidate the Company and therefore any theoretical value based upon wind up value or even net book value (as adjusted), is just that, theoretical. The shareholders, existing and future, must acquire shares in Highfield based on the market perceptions of what the market considers a Highfield share to be worth. It is noted that before the Company announced the funding arrangement with EMR on 17 April 2013, the Company's share price in the period 1 March 2013 to 16 April 2013 was trading at a volume weighted average price ("VWAP") of 22.79 cents per share, with the share price decreasing to a minimum of 21.5 cents and a maximum of 26.0 cents in the period up to the announcement of the fundraising with EMR on 17 April 2013. The VWAP price of a Highfield share in the period of 1 January 2013 to 28 February 2013 amounted to 26.44 cents per share. Based on the following ranges, the price of a Highfield share lies in the range of 22 cents per share to approximately 26 cents per share. Despite no ASX announcements being made to the market, other than the announcement of the Potash Pintano Project Exploration target on 27 February 2013, the potash price remaining relatively steady, the closing share price of a Highfield share decreased from 25.5 cents (28 February 2013) to 23 cents per share up to the date (17 April 2013) of the ASX announcement of the Tranche 1 Shares and Subscription Share funding secured through the EMR Group.

The market capitalisation of Highfield as at 21 May 2013 was approximately \$35.777 million that is more than the capitalisation as per the un-audited net equity position as noted above of around \$25.785 million as at 31 March 2013 (before adjusting for the Tranche 1 Shares). In the case of Highfield, the monthly volume of trades over the last six months on the ASX, although low, is enough to argue that an orderly market exists for the Company's shares. The "market" arguably is fully informed of the Company's activities, notwithstanding that approximately 67.30% of the shares are under the control of twenty shareholders (and five shareholders control 38.40% as at 6 May 2013), of which EMR holds 19.92% after the issue of the Tranche 1 Shares.

We are of the opinion that it is fair to use a range of market values over the past three months as one of the indicators of what a Highfield share is worth but this is not exclusive as we have also considered the net asset backing of the Company and the probability that the share price may continue to fall in the near future without a rise in potash prices, continued positive announcements on the prospectivity of the Spanish and Australian Projects and the ability of the Company to raise funds. It is noted that the Company is planning a drilling programme on all its assets, and the results of these programmes will be used to determine whether to proceed to development.

As at 31 March 2013, the net cash position of the Company approximates \$1,896,000 and this would have been reduced by administration costs and on-going exploration costs post 31 March 2013, which has been further bolstered by the funds received from the Tranche 1 shares totalling \$5,126,688. The Company's financial position is insufficient to continue exploration and evaluation of its Spanish and Australian Projects as well as to pay new administration and corporate costs without the inflow of funds from the Tranche 1 and Tranche 2 issues, although the Tranche 2 issue of shares (Subscription) to raise \$4,873,312 may be sufficient to continue progressing the Spanish and Australian Projects in the interim.

- 5.5.3 Generally, the market is a fair indicator of what a share is worth, however the theoretical technical value based on the underlying value of assets and liabilities may be lower or higher. Based on the adjusted un-audited 31 March 2013 book values of Highfield assets, Highfield has a value per share (approximately 26.37 cents) significantly less than the proposed issue price of the 30 cents proposed under the Subscription for the issue of Tranche 2 shares and the theoretical technical value may be higher. The true or recoverable values of the capitalised potash assets may be higher than book values depending on whether they could be successfully exploited through their sale or through further exploration and development.

5.6 Preferred value of Highfield fully paid shares (range) to arrive at fairness conclusion

- 5.6.1 Notwithstanding the excellent prospectivity of the Spanish and Australian Projects, without cash the Company cannot continue to progress the Projects and conduct further exploration and evaluation on both the Australian and Spanish Projects and the share price may fall below current levels. As noted above, the market is kept fully informed of the operations of the Company and thus the pre announcement share price is a fair indicator of what the market considers the Company's shares to be worth. Even though the net asset backing is higher than the above range, the Company cannot exploit its main assets (held in the books at approximately \$23.9 million as at 31 March 2013) without further cash and thus we have not put a great weighting on to the asset backing approach. In conclusion, we consider that the pre-announcement fair value of a Highfield fully paid share falls in the range of 22 cents to 26 cents (based on VWAP prices of a Highfield share) that is the range of share prices since 1 January 2013 through to 16 April 2013, with a preferred value of 24 cents per share. As stated, the share prices do not necessarily reflect fair values in the current economic circumstances of the Company. If funds can be raised and further development of the Spanish and Australian Projects proceed, then arguably the fair value of a Highfield share may be in excess of the current share price (21 May 2013) of around 30 cents and the proposed issue price of the Subscription Shares of 30 cents as envisaged in Resolution 3. The share price in the future is unknown but it may be fair to say that if the Spanish and/or Australian Projects did proceed to production then it is likely that the share price would be higher than the price achieved briefly in late January 2013, and at the date of this report of

around 30 cents and thus higher than the 30 cent Subscription price payable by EMR for the Subscription Shares. We do acknowledge that the price of Highfield share had briefly traded at up to 33.0 cents per share for two days (14 and 15 May 2013), yet the share price decreased to 30.0 cents per share as at the date of this report.

5.6.2 The future value of a Highfield share will depend upon, inter alia:

- The commercialisation of the existing potash interests and in particular the Spanish and Australian Projects;
- The state of the potash and other commodities and markets (and prices) and foreign exchange rates;
- Cash position of Highfield;
- The state of Australian and overseas stock markets;
- Membership and control of the Board and the composition and quality of management;
- General economic conditions; and
- Liquidity of shares in Highfield.

6. PREMIUM FOR CONTROL

6.1 Premium for control for the purposes of this report, has been defined as the difference between the price per share, which a buyer would be prepared to pay to obtain or improve a controlling interest in the Company and the price per share which the same person would be required to pay per share, which does not carry with it control or the ability to improve (increase) control of the Company. It is generally accepted that the premium for control should be 20% or above (recognising that some acquirers will attempt to acquire companies as cheaply as possible with premiums below 20%) but normally premiums for control in the junior mineral companies are 20% to 40%. Not paying a premium for control (deemed to be over 20% of the shares in a company) of at least 20% does not necessarily make a proposal to take control not fair.

6.2 Under TCA, control may be deemed to occur when a shareholder or group of associated shareholders control more than 20% of the issued capital. In this case, if EMR subscribed for 16,244,374 Subscription Shares at 30 cents each, EMR's shareholding in Highfield could increase from 19.92% (after the issue of the Tranche 1 Shares by 17 May 2013) to approximately 29.52% of the expanded issued capital of Highfield. Accordingly, we have addressed whether a premium for control will be paid due to the proposed issue of the Subscription Shares to EMR.

6.3 The market value of a Highfield share pre announcement of the proposal lies in the range of approximately 22 cents to 26 cents, with a preferred value of 24 cents per share, with the net book asset backing disclosing a significantly higher value. The value of the 16,244,374 Subscription Shares that would be issued to EMR at 30 cents per share would lie in the range of \$3,573,762 to \$4,223,537 compared with the Subscription value of 30 cents per share (\$4,873,312). The issue price of the Subscription Shares is 30 cents each is equal to the last traded price of 30 cents on 21 May 2013 but is at a premium to the last sale price of a Highfield share (last sale price prior to the announcement of the Subscription proposal with EMR). However, we do note that the share price of a Highfield share had briefly traded above the 30.0 cents per share mark on the 14 May and 15 May 2013. Therefore, EMR is considered to be paying a premium for potential control based on pre-announcement share prices and also share prices to late April 2013. In May 2013, the shares in Highfield have traded in the 25.5 cents to 33.0 cents range and thus EMR based on the 30 cent price is not paying a premium for control.

It is noted that on an un-audited net asset backing basis, the value per share is over 26.37 cents compared with the Subscription price by EMR of 30 cents per ordinary Highfield share. On such a basis (net asset backing) EMR again would be paying a premium for control (albeit a lower premium for control).

6.4 We note that currently EMR does not have Board control of Highfield and following the passing and consummation of Resolution 3, there is no immediate change to the Board, other than the one EMR nominee. Richard Crookes, being appointed to the board of

Highfield (refer to paragraph 2.5), and the intention of Jonathan Murray to stand down as a director. Changes may be made (including having further EMR Board representatives) in the future.

7. Fairness and Reasonableness of the Proposed Subscription

- 7.1 We set out below some of the advantages and disadvantages and other factors pertaining to the proposed issue of 16,244,374 Subscription Shares to EMR pursuant to Resolution 3 of the Notice.

Advantages

- 7.2 By entering into the proposal with EMR, Highfield increases its cash reserves (it will raise a further \$4,873,312). Obtaining access to a significant amount of cash funds in the current environment is difficult and thus the Company and its shareholders should benefit. This should alleviate cash flow concerns in the immediate future, and position the Company to fund its operations.
- 7.3 In the event that the Subscription via the proposal with EMR is not completed or the Company cannot raise adequate working capital from other sources, there is the likelihood that the participation of Highfield in the Spanish and Australian Projects may be curtailed until such time as new funds are raised. In the current market it is still difficult for exploration companies such as Highfield to raise equity. It is our understanding that discussions were held with other interested parties with a view to raising capital. We have been advised that management has considered that the best proposal put to them was the proposal with EMR.
- 7.4 There is an incentive for EMR to ensure Highfield becomes a viable potash exploration and development company as EMR will continue to have a significant shareholding interest in Highfield thus incentivising EMR to promote the performance of the Company. EMR is taking a risk in investing further funds into Highfield as to a large extent, Highfield's future share price may be determined by the exploitation and/or commercial success (or otherwise) of its projects (including the Spanish and Australian Projects respectively). There is a huge incentive for EMR to make Highfield a successful company and have the share price rise considerably. All shareholders would benefit from a rise in the share price.
- 7.5 The proposal with EMR is also likely to provide Highfield with greater access to EMR's experienced management team with the potential to access further funds.
- 7.6 It is normal for brokerage fees to be approximately up to 6% of the cash raised. In the case of the proposed Subscription, no commissions are payable and the only costs are estimated not to exceed \$50,000 (relating to our costs, legal costs and costs of holding the shareholders meeting to approve the Subscription).
- 7.7 The issue price of the Subscription Shares is 30 cents that is at a premium to the last sale price of a Highfield share traded on ASX on 16 April 2013 (last sale price prior to the announcement of the Subscription proposal with EMR was in fact on 8 April 2013) and is also at a premium to the last trade price to the end of April 2013 but not at a premium based on share prices at the date of this report (21 May 2013).

Disadvantages

- 7.8 The number of fully paid ordinary shares on issue initially rises from 119,255,629 (after the issue of the Tranche 1 Shares by 17 May 2013) to 135,500,003 on completion of the Subscription. This represents a potential approximate 13.62% increase in the ordinary shares of the Company from the shares on issue as at 21 May 2013 (on 119,255,629 shares after the issue of the Tranche 1 Shares).
- 7.9 An influential shareholding of the Company is being given to EMR. EMR may have voting control of approximately 29.52% of the expanded issued capital in Highfield pending the

successful ratification of Resolution 3 being the issuance of the Subscription Shares (assuming no other share issues or exercise of options in Highfield). Should Resolution 3 be passed, EMR's shareholding would increase by 9.60% from 19.92% to 29.52% of the expanded issue capital of Highfield. The existing non associated shareholders would be diluted from their current 80.08% to 70.48% (in the absence of any further capital raisings).

- 7.10 There is always the possibility that the value of the shares may be in excess of the Subscription price of 30 cents per share particularly if further medium term finance can be arranged. The Highfield closing share price as at 21 May 2013, being 30 cents per share, is equal to the Subscription share price of 30 cents per share, however the Highfield share price has briefly traded at up to 33.0 cents per share. The un-audited asset backing per share prior to the Subscription is approximately 26.99 cents per share, compared to the adjusted net asset backing post issuance of the Tranche 1 and Tranche 2 Shares (assuming 26.37 cents per share), but this is again less than the Subscription price per share.

Other Factors

- 7.11 Having a cornerstone investor such as EMR has advantages but it may also limit the opportunity for other parties to bid for all or part of the shares in Highfield in the future. However, a takeover bid for the Company cannot be completely ruled out.
- 7.12 From discussions with management, we confirm that there was no other firm capital raising proposal but discussions were held with several stockbroking firms on raising new equity capital. We have been informed by the Directors that all fundraising options presented to Highfield involved a very significant discount to the prevailing Highfield share price, and therefore a significantly greater dilution of the interests of existing shareholders. The Directors have confirmed that, from a Highfield shareholder perspective, the EMR proposal was clearly the most attractive alternative, and the only fundraising alternative that took the form of a committed offer. Therefore, based on the information presented to us, we believe that the EMR proposal is the best option available to the Company.

8. Conclusion as to Fairness and Reasonableness

- 8.1 **After taking into account the factors referred to in section 7 above and elsewhere in this report, we are of the opinion that the proposed approval of the issue of 16,244,374 Subscription Shares at 30 cents per share to EMR, as noted in paragraph 1.1 and Resolution 3 in the Notice may be considered, on balance, collectively to be fair and reasonable to the non associated shareholders of Highfield.**

9. Sources of Information

- 9.1 In making our assessment as to whether the proposal to issue 16,244,374 Subscription Shares to EMR at 30 cents each as outlined in paragraph 1.1 is fair and reasonable, we have reviewed relevant published available information and other unpublished information of the Company and its oil and gas assets that is relevant to the current circumstances. In addition, we have held discussions with the management of Highfield about the present and future operations of the Company. Statements and opinions contained in this report are given in good faith but in the preparation of this report, we have relied in part on information provided by the directors and management of Highfield.
- 9.2 Information we have received includes, but is not limited to:
- draft Notices and Explanatory Statement to Shareholders of Highfield prepared to 21 May 2013;
 - the Subscription Agreement between Highfield and EMR Capital Resources Fund LP of 16 April 2013;
 - discussions with management and a director of Highfield;
 - details of historical market trading of Highfield ordinary fully paid shares recorded by ASX for the period 1 October 2012 to 21 May 2013;
 - shareholding details of Highfield as at 21 May 2013;

- announcements made by Highfield to the ASX from 1 July 2012 to 21 May 2013;
- preliminary cash flow forecasts of Highfield to December 2013;
- audited accounts of Highfield for the year ended 30 June 2012 and un-audited accounts of Highfield for the six months ended 31 December 2012;
- discussions with management of Highfield up to 21 May 2013 and
- details as disclosed on the Company's web site to 21 May 2013.

9.3 Our report includes Appendix A and our Financial Services Guide attached to this report.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International Securities)



Martin Michalik
Director

APPENDIX A

AUTHOR INDEPENDENCE

This annexure forms part of and should be read in conjunction with the report of Stantons International Audit and Consulting Pty Ltd trading as Stantons International Securities dated 22 May 2013, relating to the proposals pursuant to Resolution 3 outlined in the Notice to be forwarded to the shareholders of Highfield in late May 2013.

At the date of this report, Stantons International Securities does not have any interest in the outcome of the proposals. There are no relationships with Highfield other than acting as an independent expert for the purposes of this report. There are no existing relationships between Stantons International Securities and the parties participating in the transactions detailed in this report which would affect our ability to provide an independent opinion. The fee to be received for the preparation of this report is based on the time spent at normal professional rates plus out of pocket expenses is estimated not to exceed \$20,000 (excluding GST). The fee is payable regardless of the outcome. With the exception of that fee, neither Stantons International Securities nor Martin Michalik and John Van Dieren have received nor will or may they receive any pecuniary or other benefits, whether directly or indirectly for or in connection with the making of this report. Stantons International Securities and Stantons International Audit and Consulting Pty Ltd or any directors of Stantons International Audit and Consulting Pty Ltd do not hold any securities in Highfield (or in the EMR Group of Companies). There are no pecuniary or other interests of Stantons International Securities that could be reasonably argued as affecting its ability to give an unbiased and independent opinion in relation to the proposal. Stantons International Securities, Mr Martin Michalik and Mr John P Van Dieren have consented to the inclusion of this report in the form and context in which it is included as an annexure to the Notice.

QUALIFICATIONS

We advise Stantons International Securities is the holder of an Investment Advisers Licence (No 418019) under the Corporations Act relating to advice and reporting on mergers, takeovers and acquisitions involving securities. A number of the directors of Stantons International Audit and Consulting Pty Ltd are the directors and authorised representatives of Stantons International Securities. Stantons International Securities and Stantons International Audit and Consulting Pty Ltd (also trading as Stantons International) have extensive experience in providing advice pertaining to mergers, acquisitions and strategic and financial planning for both listed and unlisted companies and businesses.

Mr Martin Michalik, CA, and Mr John P Van Dieren, FCA the persons responsible for the preparation and/or review of this report, have extensive experience in the preparation of valuations for companies and in advising corporations on takeovers generally and in particular on the valuations and financial aspects thereof, including the fairness and reasonableness of the consideration offered. The professionals employed in the research, analysis and evaluation leading to the formulation of opinions contained in this report, have qualifications and experience appropriate to the tasks they have performed.

DECLARATION

This report has been prepared at the request of the Directors of Highfield in order to assist the shareholders of Highfield to assess the merits of the proposal (Resolution 3) to which this report relates. This report has been prepared for the benefit of the Highfield shareholders and those persons only who are entitled to receive a copy for the purposes of Section 411 of the Corporations Act 2011 and Section 611 (Item 7) of the Corporations Act 2001 and does not provide a general expression of Stantons International Securities opinion as to the longer term value of Highfield. Stantons International Securities does not imply, and it should not be construed, that it has carried out any form of audit on the accounting or other records of Highfield or any of their subsidiaries. Neither the whole, nor any part of this report, nor any reference thereto may be included in or with

or attached to any document, circular, resolution, letter or statement, without the prior written consent of Stantons International Securities to the form and context in which it appears.

DUE CARE AND DILEGENCE

This report has been prepared by Stantons International Securities with due care and diligence. The report is to assist shareholders in determining the fairness and reasonableness of the proposal set out in Resolution 3 to the Notice and each individual shareholder may make up their own opinion as to whether to vote for or against Resolution 3.

DECLARATION AND INDEMNITY

Recognising that Stantons International Securities may rely on information provided by Highfield, its officers and other parties (save whether it would not be reasonable to rely on the information having regard to Stantons International Securities experience and qualifications), Highfield has agreed:

- (a) to make no claim by it or its officers against Stantons International Securities (and Stantons International Audit and Consulting Pty Ltd) to recover any loss or damage which Highfield may suffer as a result of reasonable reliance by Stantons International Securities on the information provided by Highfield and the other parties; and
- (b) to indemnify Stantons International Securities (and Stantons International Audit and Consulting Pty Ltd) against any claim arising (wholly or in part) from Highfield or any of its officers providing Stantons International Securities any false or misleading information or in the failure of Highfield and its officers in providing material information, except where the claim has arisen as a result of wilful misconduct or negligence by Stantons International Securities.

A draft of this report was presented to the Directors of Highfield for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.

APPENDIX B

**FINANCIAL SERVICES GUIDE
FOR STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(Trading as Stantons International Securities)
Dated 22 May 2013**

1. Stantons International Securities (ABN 84 144 581 519 and AFSL Licence No 418019) ("SIS" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

2. **Financial Services Guide**

In the above circumstances we are required to issue to you, as a retail client a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No: 418019;
- remuneration that we and/or our staff and any associated entities receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

3. **Financial services we are licensed to provide**

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- Securities (such as shares, options and notes)

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

4. **General Financial Product Advice**

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial

product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

5. Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither SIS, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

6. Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

7. Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

8. Associations and relationships

SIS is ultimately a wholly owned division of Stantons International Audit and Consulting Pty Ltd a professional advisory and accounting practice. From time to time, SIS and Stantons International Audit and Consulting Pty Ltd (also trading as Stantons International) and/or their related entities may provide professional services, including audit, accounting and financial advisory services, to financial product issuers in the ordinary course of its business.

9. Complaints Resolution

9.1 Internal complaints Resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to:

The Complaints Officer
Stantons International Securities
Level 2
1 Walker Avenue
WEST PERTH WA 6005

Telephone: 08 9481 3188
Facsimile: 09 9321 1204

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaints within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

9.2 Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited ("FOSL"). FOSL is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOSL are available at the FOSL website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited
PO Box 3
MELBOURNE VIC 8007

Toll Free: 1300 78 08 08
Facsimile: (03) 9613 6399

PROXY FORM

**APPOINTMENT OF PROXY
HIGHFIELD RESOURCES LIMITED
ACN 153 918 257**

GENERAL MEETING

being a member of Highfield Resources Limited entitled to attend and vote at the General Meeting, hereby

Appoint

Name(s) of proxy and if two proxies are appointed, the proportion of voting rights the proxies represent

OR

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the Chair of the General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the General Meeting to be held 9.30 am (WST) on 28 June 2013 at Level 1, 33 Richardson Street, West Perth, Western Australia, and at any adjournment thereof.

Important for Resolutions 4 to 9:

If you have not directed your proxy how to vote as your proxy in respect of Resolutions 4 to 9 and the Chair is, or may by default be, appointed your proxy, you must mark the box below.

☐

I/we direct the Chair to vote in accordance with his/her voting intentions (as set out above) on Resolutions 4 to 9 (except where I/we have indicated a different voting intention above) and expressly authorise that the Chair may exercise my/our proxy even though Resolutions 4 to 9 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel and acknowledge that the Chair may exercise my/our proxy even if the Chair has an interest in the outcome of Resolutions 4 to 9 and that votes cast by the Chair for Resolutions 4 to 9, other than as proxy holder, will be disregarded because of that interest.

If the Chair is, or may by default be, appointed your proxy and you do not mark this box and you have not directed the Chair how to vote, the Chair will not cast your votes on Resolutions 4 to 9 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 4 to 9.

OR

Voting on business of the Meeting

Resolution 1 – Ratification of Prior Issue
Resolution 2 – Ratification of Prior Issue
Resolution 3 – Approval Pursuant to Item 7 Section 611
Resolution 4 – Issue of Options to Anthony Hall
Resolution 5 – Issue of Options to Pedro Rodriguez
Resolution 6 – Issue of Options to Derek Carter
Resolution 7 – Issue of Options to Jonathan Murray
Resolution 8 – Issue of Options to Scott Funston
Resolution 9 – Issue of Options to Aaron Bertolatti

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AGAINST

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ABSTAIN

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Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

Signature of Member(s):

Date: _____

Individual or Member 1

Member 2

Member 3

Sole Director/Company Secretary

Director

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____

**HIGHFIELD RESOURCES LIMITED
ACN 153 918 257**

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at a General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
5. **(Return of Proxy Form):** to vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) post to PO Box 826, West Perth, WA 6872; or
 - (b) facsimile to the Company on facsimile number (+61 8) 9200 4469,so that it is received not later than 48 hours before the meeting.

Proxy Forms received later than this time will be invalid