

HIGHLAND GOLD MINING LIMITED (THE "COMPANY")

(Incorporated and Registered in Jersey
under the Companies (Jersey) Law 1991, as amended,
with registered number 83208)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Highland Gold Mining Limited (the Company) will be held on Tuesday 11 June 2013 at 26 New Street, St Helier, Jersey JE2 3RA, at 11.00 a.m. to consider and if thought fit, pass the following ordinary resolutions:

ORDINARY BUSINESS

1. To receive and adopt the Report of the Directors, the Audited Financial Statements and Auditors' report for the year ended 31 December 2012
2. That a final dividend of £0.03 for each Ordinary Share of £0.001 in the Company be declared
3. That Valery Oyf who retires by rotation as a Director of the Company be elected
4. That Alla Baranovskaya who retires by rotation as a Director of the Company be elected
5. That Sergey Mineev who retires by rotation as a Director of the Company be elected
6. That Andrey Solovyov who retires by rotation as a Director of the Company be elected
7. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting
8. That the Directors be authorised to fix the Auditors' remuneration.

*By Order of the Board
10 May 2013*

NOTES

1. Any member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not also be a member of the Company. A form of proxy is enclosed with this notice to members.
2. A form of proxy is enclosed which, to be effective, must be completed and deposited at Capita Registrars, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 48 hours before the time fixed for the meeting (or any adjournment of such meeting).
3. Completion and return of a form of proxy does not preclude a member from attending and voting in person.
4. Only those shareholders registered in the register of members of the Company as at 48 hours prior to the time fixed for the meeting (or, in the case of an adjournment, as at 48 hours before the time of the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Pursuant to Article 40(2) of the Companies (Uncertificated Securities Jersey) Order 1999, changes to entries on the register of members after such time shall be disregarded in determining the rights of any person to attend and vote.
5. Directors' Service contracts and register of Directors' interests in the Share Capital of the Company are available at the registered office of the Company for inspection during usual business hours on weekdays from the date of this notice until the date of the meeting and at the meeting until the conclusion of the meeting.



HIGHLAND GOLD MINING Ltd.

26 NEW STREET
ST. HELIER, JERSEY JE2 3RA
REGISTERED NO 83208



HIGHLAND
GOLD
MINING
LIMITED
Annual Report & Accounts
2012

THE CREATION OF SHAREHOLDER VALUE



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THE YEAR IN REVIEW

FINANCIAL HIGHLIGHTS

IFRS, US\$000 (unless stated)	2012	2011
Production (gold and gold eq. oz)	216,885	184,102
Total Group cash costs (US\$/oz)	749	594
Revenue	351,828	300,181
Gross profit	146,258	154,495
EBITDA	161,808	157,118
Earnings per share (US\$)	0.378	0.319
Net cash inflow from operations	131,199	116,930
Capital expenditure	125,028	65,611
Net cash position	52,596	126,746

Eugene Shvidler, Chairman of Highland Gold Mining, commented: «Solid progress was achieved across the Group's operations during 2012 as rigorous efficiencies led to a 17.8% increase in total production. Cost containment measures brought second half benefits, the construction of the Belaya Gora processing plant proceeded to the final stages and our exploration

projects yielded a series of encouraging results. This was accompanied by further M&A activity which, earlier this month, culminated in the US\$223.0 million acquisition of the Kekura licence, a transaction which significantly strengthens our prospective production profile. We remain confident that such developments leave the Company well positioned to advance its growth strategy.»



2012 KEY EVENTS

- Group wide production rose 17.8% to a record 216,885 oz of gold and gold equivalents (2011: 184,102 oz) thereby exceeding guidance estimates. This represents the combined contribution from the Group's three operating mines: Mnogovershinnoye, Novosirokinskoye and Belaya Gora
- 3.0% increase in EBITDA to US\$161.8 million (2011: US\$157.1 million) reflecting higher sales volumes
- Total cash costs of US\$749 per ounce remained competitive versus peer group (2011: US\$594 per ounce)
- Increase of 2.2 Moz in total JORC compliant resource base to more than 13.0 Moz (compared with stated level as of 31 December 2011) reflecting contributions from the Unkurtash, Klen and Lyubov projects
- Acquisition of Klen and adjacent Verkhne-Krichalskaya (VK) licence adds near-production resources and significant exploration targets
- Acquisition of Western Flank licence adds near-mine exploration property with strong potential for the delivery of additional resources at MNV, thereby extending the life of the mine beyond 2016
- Exploration results from three targets within the MNV licence corroborate potential for the supply of further resources to the mine
- Positive exploration results at Blagodatnoye confirm potential for additional contributions to the Company's resource base
- Interim special dividend of 4.8 pence per share paid in October 2012
- Net cash and cash equivalents (including shares and bonds) totalled US\$52.6 million as of 31 December 2012 (2011: US\$126.7 million)

POST YEAR EVENTS

- Final dividend of 3.0 pence per share recommended, making a total distribution of 7.8 pence for the year (2011: 5.0 pence)
- US\$223.0 million acquisition of the Kekura licence extends Company's interest in the investment friendly region of Chukotka and adds approximately 2.89 million JORC compliant resource ounces to the mid-term pipeline
- Construction of several key components of the Belaya Gora stand-alone processing facility completed in April 2013
- ISO 14001 (2004) certification of the environmental management systems at the Mnogovershinnoye mine and Russdragmet (RDM) LLC, the Moscow-based management company, awarded

2013 TARGETS

- Total production in 2013 is forecast to be in the range of 225,000 – 240,000 oz of gold and gold equivalents (derived from MNV, Novo and Belaya Gora)
- First gold at Belaya Gora to be poured in May 2013
- Kekura project development to be fast tracked in parallel with a targeted 40,000 metre exploration drilling programme scheduled for 2013/14
- Klen project development planned during 2013-2015 accompanied by the commencement of a major exploration programme within the VK licence
- Unkurtash – continue exploration programme in order to unlock full potential
- MNV – maintain steady production levels while containing costs. Exploration will focus on near-surface drilling at the recently purchased Western Flank licence
- Novo – improve efficiencies and increase plant throughput following a scheduled mid-year mill upgrade
- Continued focus on health, safety and environmental best practice standards, including preparations at Novo and Belaya Gora for ISO 14001 (2004) certification

WELL POSITIONED TO PURSUE OUR GROWTH STRATEGY

It gives me great pleasure to report to you on a year that witnessed a continuation of our growth strategy and leaves your Company well positioned to capitalise in the short- to medium-term on opportunities to enhance shareholder value.

Throughout 2012 considerable application was brought to bear on achieving improvements in the efficiency of our business at all levels. In particular, management sought to:

- Optimise current production operations
- Progress our project development and exploration programmes
- Refine financial and procurement practices, including internal audit procedures
- Analyse and, where value adding, action potential M&A transactions
- Attract and retain skilled personnel through the utilisation of competitive terms and incentives and
- Ensure continuous improvement through the education of employees in relation to Health, Safety and Environmental issues

Accomplishments in respect of the above benefited from the Directors' decision to introduce a more active 'hands on' management approach at Board level, a course of action that was duly implemented through the appointment of four senior managers as Executive Directors in the summer of 2012, details of which are referred to below.

We saw a return to stable production at our flagship Mnogovershinnoye (MNV) mine (Khabarovsk region, Russia) in the wake of the challenging experiences of 2011 and registered records in both mined and processed volumes at the Novoshirokinskoye (Novo) mine (Zabaikalsky region, Russia).

In line with this I am pleased to report a 17.8% increase in annual attributable production to a record 216,885 oz of gold and gold equivalents, thereby exceeding our full year guidance estimates. This was achieved through a combination of rigorous management controls and efficiency improvements. We are budgeting for further growth in the current financial year and reiterate our forecast, issued in January, of an increase in output to between 225,000 – 240,000 oz of gold and gold equivalents in respect of 2013.

Management of the final construction phase of the stand-alone processing facility at the Belaya Gora complex (Khabarovsk region) represented an operating priority throughout 2012. Significant progress to date will see the plant coming on stream soon and providing resultant benefits towards the end of H1 2013.

Further expansion of the Company's resources was reflected in a year-on-year increase of 2.2 Moz to more than 13.0 Moz in our Joint Ore Reserves Committee (JORC) compliant resource base. This encompassed both organic and acquisitive contributions, with the Unkurtash (Kyrgyzstan) and Lyubov (Zabaikalsky region) projects representing the former and the Klen deposit (Chukotka region, Russia) the latter.

In July we finalised the purchase of the Klen gold deposit and the adjacent Verkhne-Krichalskaya (VK) property located in the investment friendly gold mining region of Chukotka in north eastern Russia. The total consideration of US\$69 million was funded through the Company's cash resources. Project development investment in the new properties commenced immediately with equipment and materials delivered to the seaport of Pevek, situated on the coast of the East Siberian Sea, towards the end of 2012. Initial production at the Klen gold project is scheduled for H2 2015 and operations could benefit significantly from the potential of the VK property where exploration is ongoing.

The subsequent purchase of the Western Flank licence, immediately adjacent to MNV, represents an effective 'bolt on' acquisition with the potential, particularly through the property's promising Chaynoye zone, to deliver additional near-surface resources, thereby prolonging the life of our primary producer.

In April 2013 the Company significantly extended its presence in the Chukotka region through the acquisition of the mining and exploration rights to the Kekura gold deposit and surrounding licence area for a total consideration of US\$223.0 million, funded via a new debt facility of US\$250 million with Gazprombank. A JORC compliant resource audit carried out by Micon International in 2012 estimated the Kekura deposit resources at approximately 2.89 Moz (Indicated & Inferred) at an average ore grade of 8.69 g/t. The mine is expected to be fully operational by 2017 with an

anticipated production range of 180,000 – 220,000 oz of gold per annum over a minimum ten year life span.

We are delighted to have secured the Kekura deposit which represents a major addition to our resource base and, as such, is expected to feature prominently in Highland Gold's mid to long-term production profile. In order to realise this potential, Kekura will represent a central aspect of our project development strategy during H2 2013 and beyond. We are also pleased to have created an effective operational hub in Chukotka and we expect the proximity of Kekura to the Klen and VK projects to yield various synergies in terms of logistics and administration.

The completion of the Klen and Western Flank acquisitions in 2012 and the subsequent addition of Kekura to our portfolio has served to substantially strengthen our asset base and fully illustrates our declared strategy of pursuing both organic and acquisitive growth.

The Group has maintained a positive net cash position during recent years but, in order to fully develop our newly acquired and ongoing current projects, additional financing will be required. The policy of the Board is not to exceed a net debt to EBITDA ratio of 2.0, although we expect this ratio to begin declining in 2014.

All of the Company's exploration programmes, the drivers of organic growth, performed according to plan during 2012. Positive results from three prospects within the MNV licence area were particularly notable. Similarly, exploratory activity at Blagodatnoye (Khabarovsk region) indicates significant resource potential.

Management's focus on across-the-board efficiencies was rewarded with a reduction in the Group's total cash costs for the second half of 2012 compared with the preceding six months. Total cash costs of US\$749 per ounce for the full year were higher than in 2011 but remained competitive against our gold mining peer group. For the first time the Company also reveals a new cost measure – all-in sustaining cash costs per ounce sold. In 2012 they were US\$973 per ounce (2011: US\$837), better reflecting the Company's total costs of producing gold.

The Board's policy continues to be to pay dividends as regularly as possible, with the level of such dividends dependent upon the gold price, cash flows and capital requirements. In light of such considerations the Board is recommending the payment of a final dividend of

3.0 pence per share which, taking into account the interim special dividend of 4.8 pence per share, results in a total distribution of 7.8 pence per share in respect of 2012 compared with 5.0 pence per share in 2011.

Diligent implementation of our Health, Safety and Environmental policies was in evidence throughout the year, the principal focus being on Group-wide training and educational courses. It is with the deepest regret that I must note the occurrence of two previously announced fatalities, in April and May 2012, in spite of the continued improvements seen in health and safety practices Group-wide. Efforts to date resulted in a major improvement in the Lost Time Injury Frequency Rate (defined as the number of lost time injuries in relation to every 200,000 man hours worked) which reduced from 0.57 in 2011 to 0.31 in 2012. Audits confirmed the compliance of our Environmental Management Systems with ISO 14001 and relevant certification was approved at MNV and Rusdragmet (RDM), our Moscow-based management company, on 1 March 2013.

With regard to the Boardroom changes referred to earlier Valery Oyf, Chief Executive Officer, Alla Baranovskaya, Chief Financial Officer, Sergey Mineev, Head of Exploration & Capital Projects Development and Andrey Solovyov, Head of Human Resources & Administration, were appointed Executive Directors of the Company with effect from 11 July 2012.

The Board welcomes these appointments and also the appointment of Peat & Co as joint broker, in addition to our Nominated Adviser and broker Numis Securities, with effect from 22 November 2012.

By way of conclusion I would like to reiterate that the consolidation of operations during 2012, hand in hand with management's focus on productivity and the progression of our organic and acquisitive expansion, leaves us strongly placed to accelerate our primary objective of growing our business into a highly profitable mid-tier producer within the Russian gold mining industry.

I also welcome this opportunity to thank all our employees for the hard work and dedication that was integral to our achievements during 2012.

Eugene Shvidler
Non-Executive Chairman





Klen & Verkhne-Krichalskaya

Kekura

MNV

Belaya Gora & Flanks BG

Blagodatnoye

Novoshirokinskoye

Chita

Taseevskoye

Lyubov

Khabarovsk

Ulan Bator

MONGOLIA

Vladivostok

EXPANSION GAINS MOMENTUM AS PRODUCTION RAMPS UP

During 2012 the Company succeeded in achieving stable operational and delivery performances at its mines, while continuing to focus on the construction of the stand-alone processing plant at Belaya Gora, the third such unit within the Group. The realisation of production targets at our flagship Mnogovershinnoye (MNV) mine resulted in the delivery of 148,493 oz Au, while Novosirokinskoye (Novo), our second mine, provided 64,438 oz Au equivalent. In addition, Belaya Gora contributed 3,954 oz Au via the systematic processing of stockpiled ore at the MNV plant. Total production of 216,885 oz Au and Au equivalents was 17.8% higher than the comparative figure in 2011 and exceeded our 2012 guidance estimate.

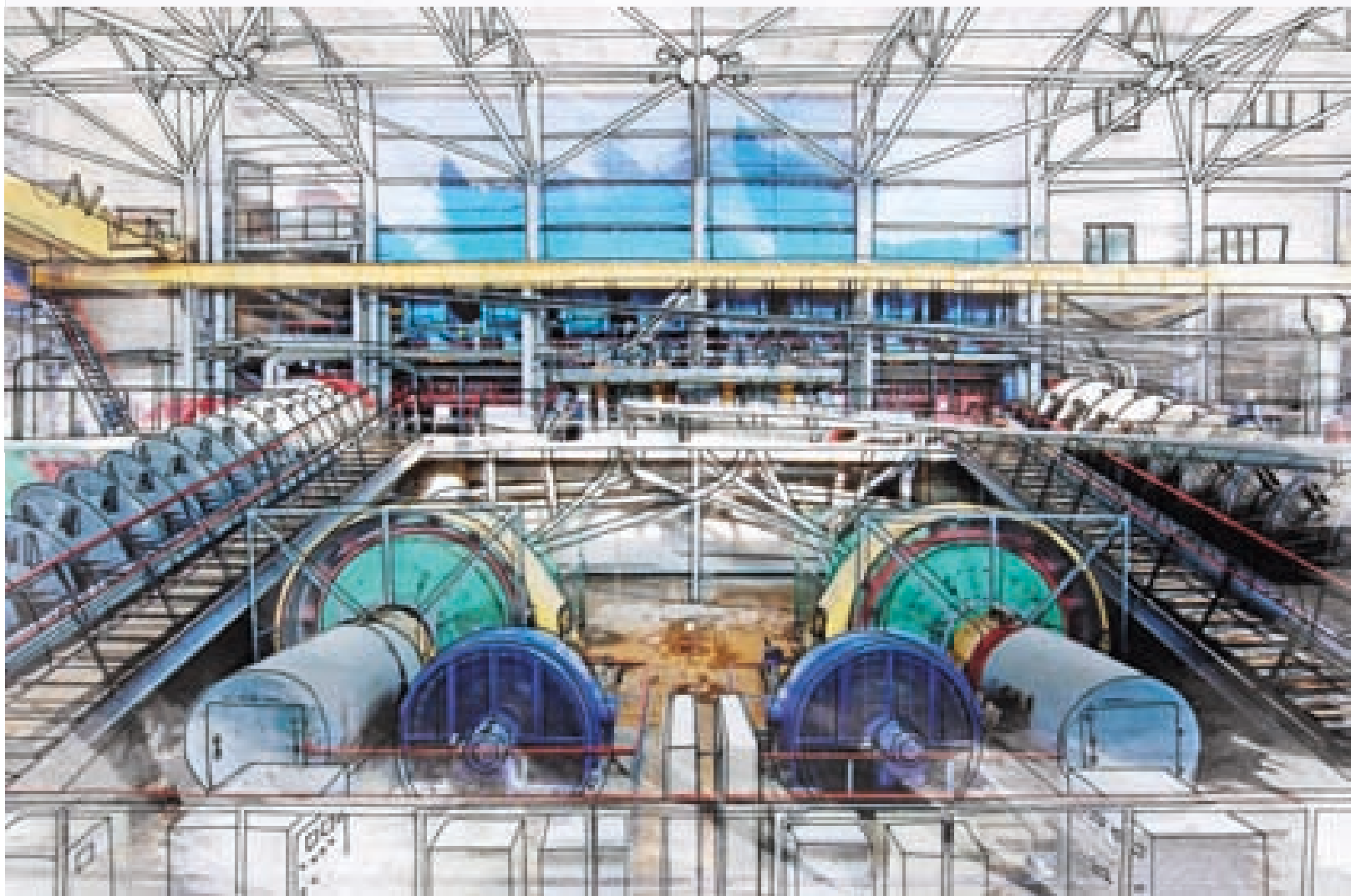
The mid-year purchase of the Klen and surrounding Verkhne-Krichalskaya (VK) property licences in Chukotka and the end of year purchase of Western Flank, adjacent to MNV, represented the culmination of another asset acquisitive year. Encouraging results from our exploration operations were reflected in an updated JORC compliant resource audit which served to raise the scale of resources at our Unkurtash project in Kyrgyzstan while also incorporating the maiden resource at our Lyubov property in the Zabaikalsky region. Significant exploration work was also undertaken at MNV where the focus remained on near-surface targets designed to extend the life of the open-pit operations.

Revenue benefited from a 3.7% increase in the average spot gold price received during 2012. We are budgeting for increased production from our three mines in 2013 which will include initial gold contributions from the new processing facility at Belaya Gora.

CORPORATE & SOCIAL RESPONSIBILITY

In order to further our objectives with regard to social responsibility we continued to develop constructive working relationships with local communities and the relevant authorities in the regions in which we operate. Our effort is primarily focused on initiating and/or assisting in the advancement of social development programmes in cooperation with local and regional authorities. Working in partnership we identify which projects require the most urgent action. Our participation in socioeconomic programmes encompasses education, health, culture and sport.

Through the pursuit of this aspect of our corporate culture we have helped to maintain and upgrade the infrastructure in communities that are home to many of our employees. We also act responsibly through the due settlement of all appropriate taxes and charges, thereby contributing to local and state budgets.



In addition to Social Partnership Agreements with the Nikolaevsk district, the year 2012 saw us renew our Agreements with the respective Governments of the Khabarovsk and Zabaikalsky regions. Pursuant to this we provided assistance with local road repairs, fuel purchase, construction and renovation work in respect of educational and medical facilities, and the general improvement of public amenities. The Company has provided similar assistance, albeit on a smaller scale, to the local communities in the surrounding areas of our exploration projects, in particular the Chukotka and Zabaikalsky regions of Russia and the Unkurtash deposit in Kyrgyzstan.

Our customary participation in various national charity programmes continued during 2012 and our support of the charity foundation "Illustrated books for visually impaired children" provided numerous children with specialised reading material.

HEALTH, SAFETY & ENVIRONMENT

The number of employees at Highland Gold at year end 2012 amounted to 3,009 compared with 2,848 in respect of 2011. This largely reflected workforce requirements in relation to the increased construction and mining activity at Belaya Gora in addition to the purchase of the Klen development project.

The need for constant improvement was a key safety driver as we focused on the provision of a safe working environment, mitigation of production risks and employee training, while emphasising the importance of an individual sense of responsibility with regard to site safety. As a result we are pleased to note that the Lost Time Injury Frequency Rate (designed to calculate the number of lost time injuries in respect of every 200,000 man hours worked) showed a substantial reduction to 0.31 in 2012 compared with 0.57 in 2011.

A total of 1,320 employees attended introductory (1 day) safety training classes, 592 employees attended a work performance/production safety course (3–5 days) and 468 employees completed industrial safety certification training programmes (7–30 days). In addition, training was provided to 14 MNV employees in the use of heavy mobile equipment, while 70 MNV and Belaya Gora employees completed light vehicle driving proficiency tests.

Despite the Company's ongoing efforts and proactive approach to health and safety issues, certain aspects of risk are inherent to the mining industry and, as previously reported, we deeply regret the occurrence of two employee fatalities during the year.

The Company's environmental compliance remained in good standing with the regulatory authorities and all sites within the portfolio attained an environmental audit during the year. Environmental safety training was provided to 59 employees encompassing MNV, Belaya Gora and Taseevskoye.

The Company continued its progression towards accreditation of its environmental management system (ISO 14001 compliant) and compliance audits were recently concluded at MNV and Russdragmet (RDM) with both entities certified as compliant with effect from 1 March 2013. Prior to this, 45 employees received internal audit training at MNV and RDM, while an additional 27 MNV employees received specialised training, developed by an external consultant, with regard to environmental risk assessment. During the year under review a group of 16 managers and specialists from MNV, Novo and Belaya Gora attended a five-day course on environmental safety provisions at local universities in Khabarovsk and Chita.

OPERATIONS

MNOGOVERSHINNOYE (MNV), Khabarovsk region, Russia

Mining operations during 2012 continued to exploit the Upper and Flank open-pits where ore production at 649,164 tonnes and waste stripping at 3,558,423 m³ both exceeded internal targets. Improved open-pit grades were achieved during the second half of the year. The Intermediate, Northern, and Deer underground zones contributed a combined 580,479 tonnes of ore production, while underground development increased substantially to 7,343 metres. Off-balance ore from old surface stockpiles continued to be tested for their economic potential as prospective low grade plant feed.

Process plant recoveries showed a substantial improvement during the second half of the year, a development that was attributable to process grinding and gravity circuit upgrades. This improvement in recovery together with increased process tonnage reflects the impact of ongoing efficiency initiatives and recoveries are expected to remain at 90% or more going forward. New mobile equipment introduced during the year provided the opportunity to rationalise the underground fleet, thereby retiring some older, less productive units. This, in turn, helped to maintain target productivity levels and maintenance costs. The processing of 1,280,231 tonnes of ore from MNV in 2012 represented a record level of throughput.

MNV 100%	Units	H2 2011	H2 2012	H1 2012	FY 2011	FY 2012
Waste stripping	m ³	1,562,903	1,732,726	1,825,697	2,353,800	3,558,423
U/G development	metres	2,816	3,864	3,479	5,731	7,343
Open-pit ore mined	tonnes	372,485	376,813	272,351	744,643	649,164
Open-pit ore grade	g/t	3.9	4.5	4.2	4.0	4.4
U/G ore mined	tonnes	293,378	306,157	274,322	527,660	580,479
U/G ore grade	g/t	4.2	3.5	4.0	4.7	3.7
Total ore mined	tonnes	665,863	682,970	546,673	1,272,303	1,229,643
Average ore grade mined	g/t	4.0	4.1	4.1	4.3	4.1
Ore processed	tonnes	629,586	669,195	611,036	1,128,668	1,280,231
Processed grade	g/t	3.9	4.0	4.0	4.5	4.0
Recovery rate	%	88.2	91.9	88.9	88.0	90.4
Gold produced	oz	71,938	79,742	68,751	143,864	148,493

PRODUCTION COSTS

Cash operating costs in 2012 totalled US\$644 per ounce, total cash costs amounted to US\$755 per ounce (2011: US\$574 per ounce) and total production costs were US\$869 per ounce. This was largely due to the substantial increase in open-pit waste stripping volumes and higher levels of processed ore tonnage delivered at lower grades.

CAPITAL COSTS

During 2012 a total of US\$19.7 million was invested at MNV. This included: capitalised expenditures and construction (US\$6.3 million), purchase of equipment (US\$7.5 million) and exploration (US\$5.9 million).

OUTLOOK

Capital expenditure in respect of the replacement of several underground mobile units helped to improve productivity and assisted in containing maintenance costs. The surface drilling programme identified additional resources to facilitate the extension of open-pit mining beyond the projected 2014 time frame, while underground mining is expected to continue until, at the least, the end of 2016.

NOVOSHIROKINSKOYE (NOVO), Zabaikalsky region, Russia

Operations at Novo's underground mine and processing plant met our budget forecasts in 2012. Processed production totalled 485,412 tonnes to yield 64,438 ounces of gold and gold equivalents.

Ore mined at 484,189 tonnes and waste development at 7,450 metres remained much on target as additional ore blocks were accessed and prepared for production.

Novo 100%	Units	H2 2011	H2 2012	H1 2012	FY 2011	FY 2012
Underground development	metres	3,501	3,726	3,724	7,115	7,450
Ore mined	tonnes	220,390	252,922	231,267	439,368	484,189
Average grade mined*	g/t	5.1	4.8	5.1	5.9	4.9
Ore processed	tonnes	220,390	254,145	231,267	438,343	485,412
Processed grade*	g/t	5.1	4.8	5.1	5.9	4.9
Recovery rate*	%	82.4	82.7	84.7	83.5	83.7
Gold produced*	oz	29,716	32,408	32,030	68,930	64,438
48.3% (applies to 2011 only)	oz	14,353	-	-	33,293	-

* Calculated approximate Au equivalent.

PRODUCTION COSTS

Cash operating costs in 2012 totalled US\$591 per ounce, total cash costs amounted to US\$671 per ounce (2011: US\$639 per ounce) and total production costs were US\$923 per ounce. This increase primarily reflected a 6.6% reduction in the volume of equivalents sold, reflecting the negative impact of lower silver and base metal prices versus the gold price ratio.

CAPITAL COSTS

During 2012 a total of US\$7.1 million was invested at Novo. This included: capitalised expenditures and construction (US\$2.4 million), purchase of equipment (US\$3.4 million) and exploration (US\$1.3 million).

OUTLOOK

The mine is expected to produce ca. 500,000 tonnes of ore in 2013 and planned milling upgrades are expected to improve throughput to ca. 550,000 tonnes per annum in 2014 and beyond. Technical studies will be undertaken to assess the scope for productivity improvements at both the mining and processing operations.

BELAYA GORA, Khabarovsk region, Russia

Management's focus throughout the year remained firmly fixed on plant construction with good progress made in relation to major infrastructure and ancillary installations. Waste mined during pre-stripping was utilised for roadway construction, while ore continued to be stockpiled in preparation for commissioning of the stand-alone process plant. Residual oxide ore stockpiles, which had previously been delivered to MNV, were systematically processed with 49,812 tonnes of ore yielding 3,954 oz of gold.

Belaya Gora 100%	Units	H2 2011	H2 2012	H1 2012	FY 2011	FY 2012
Waste stripping	m ³	87,390	648,978	480,660	289,660	1,129,638
Ore mined	tonnes	162,661	159,620	117,486	417,984	277,106
Average grade mined	g/t	2.1	1.8	1.4	2.1	1.6
Ore processed at MNV	tonnes	30,926	28,132	21,680	61,386	49,812
Processed grade	g/t	5.5	2.6	3.2	4.0	2.8
Recovery rate	%	87.3	87.3	87.3	87.3	87.3
Gold produced	oz	4,754	2,035	1,919	6,945	3,954



PRODUCTION COSTS

Cash operating costs in 2012 totalled US\$1,530 per ounce, total cash costs amounted to US\$1,701 per ounce (2011: US\$834 per ounce) and total production costs were US\$2,355 per ounce. This increase reflects the allocation of higher fixed costs against lower gold sales.

CAPITAL COSTS

During 2012 a total of US\$70.6 million was invested at Belaya Gora. This included: capitalised expenditures and construction (US\$61.0 million) and purchase of equipment (US\$9.6 million).

OUTLOOK

The immediate objective is to complete and commission the stand-alone processing plant with first gold expected in May 2013. Mining operations will continue with ore blending scheduled to commence once the plant is operational.

DEVELOPMENT PROJECTS

KEKURA – Chukotka region, Russia

The post year end acquisition of the 2.89 Moz Kekura deposit, via the purchase of CJSC Bazovye Metally, the licence holding entity, adds an important advanced-stage development project to the Company's mid to long-term pipeline and firmly establishes Highland Gold's presence in the Chukotka region. The average resource grade at Kekura is 8.69 g/t (MICON, 2012) and preliminary studies at Kekura have indicated favourable ore metallurgy and confirm that extraction can be achieved through open-pit mining. Conventional gravity and CIL processing technology will be utilised in production.

Camp facilities for employees and contractors, together with an independent diesel power unit and ancillary systems, are in place at Kekura. A pilot plant, with a capacity of 150,000 tonnes per annum, is expected to be commissioned during H2 2013 and is scheduled to operate through to the completion of the construction and commissioning of the envisaged primary processing facility. It is anticipated that the latter will be fully operational by 2017 with production estimated at between 180,000 – 220,000 oz of gold per annum via 800,000 – 1,000,000 tonnes of annually processed ore over a minimum ten year production period.

Kekura is expected to be a substantial contributor to Highland Gold's production volumes and will develop into a strategically important, low cost, long life mining operation. It is anticipated that cost savings will be achieved through synergies with the neighbouring Klen project.

CAPITAL COSTS

The consideration for the purchase of CJSC Bazovye Metally, which holds the mining and exploration rights to the Kekura gold deposit and the surrounding licence area, amounted to US\$223.0 million.

KLEN – Chukotka region, Russia

The acquisition of the Klen and VK licences was completed in July 2012, a transaction that furnished the Company with a defined near-surface gold resource of approximately 0.63 Moz for accelerated project development, together with a prospective exploration

area of almost 1000 km². Prior to the year end, deliveries of heavy equipment and materials, including a construction camp designed to accommodate more than 100 employees, arrived at the Arctic port of Pevek. Onward delivery to site commenced during Q1 2013 utilising a winter roadway in advance of preliminary construction activity. The envisaged project utilises an open-pit operation allied to a conventional gravity and CIL process plant with initial gold production targeted for 2015. After achieving nameplate throughput, production is expected to attain a rate of 50,000 – 60,000 oz of gold per annum, derived from 300,000 – 400,000 tonnes of processed ore with a head grade of 5.1 g/t.

CAPITAL COSTS

During 2012 a total of US\$10.1 million was invested at Klen. This included; capitalised expenditures and construction (US\$5.7 million) and purchase of equipment (US\$4.4 million).

TASEEVSKOYE – Zabaikalsky region, Russia

Project design work, utilising new data from a drilling programme concluded during the early part of 2012, continued throughout the year. The aforementioned programme was designed to verify existing resources and ore block characteristics and provide representative sample material for metallurgical test work on different mineralised zones within the potential pit limits. This work is expected to continue during 2013.

CAPITAL COSTS

During 2012 a total of US\$6.4 million was invested at Taseevskoye in relation to capitalised expenditures and construction.

EXPLORATION

Positive results from Unkurtash and Lyubov, our advanced exploration projects, led to a substantial addition of approximately 1.6 Moz of gold resource to the Company's portfolio with Unkurtash now representing a world-class deposit of more than 3.0 Moz. The acquisitions of the VK licence surrounding Klen and the Western Flank licence adjacent to MNV adds further quality exploration properties to the Company's project portfolio and demonstrates our commitment to organic resource growth and the extension of the working life of MNV.

During the year a total of almost 27,000 metres of drilling was completed across three exploration sites, namely Unkurtash, Blagodatnoye and MNV. The Company's overall expenditure on exploration projects, including Unkurtash and near-mine works at MNV, amounted to US\$20.5 million in 2012 compared with a US\$24.8 million spend in 2011.

MNOGOVERSHINNOYE – Khabarovsk region, Russia

Exploration at MNV remained an operational priority for the Company in 2012 and included diamond core drilling and surface trenching programmes designed to delineate additional resources in order to enhance existing open-pit operations.

In H2 2012 the Company reported positive results from three exploration targets at MNV (Quiet, Pebble and Watershed) thereby highlighting the ongoing exploration potential, which management continues to focus on, within the MNV licence area.

Some 2,500 metres of drilling was completed at the Quiet target, part of the two kilometre long Quiet–Pebble mineralised zone. This programme confirmed historic exploration results at each prospect and also intersected new areas of prospective mineralisation which are expected to increase the zone's resource potential. Resource modelling for the Quiet prospect is close to completion, while initial mining has commenced at Pebble.

The Watershed prospect is adjacent to MNV's Upper open-pit and hosts high-grade gold mineralisation. More than 2,900 metres of diamond core drilling and 1,600 metres of surface trenching were completed in H2 2012. The results corroborate historic exploration data and indicate the potential to substantially increase the resource base attributed to this prospect.

Diamond core drilling activity in respect of underground resource conversion totalled 16,255 metres for the full year and was in line with budget.

The Company intends to continue its near-mine exploration efforts at MNV with a view to verifying and further increasing the mineralised prospects, thereby adding value to the operation. Accordingly, all exploration prospects within the MNV licence area are currently undergoing an independent JORC compliant audit with results anticipated during Q2 2013.

WESTERN FLANK MNOGOVERSHINNOYE – Khabarovsk region, Russia

In December 2012 the Company acquired a licence for the exploration and mining rights at Western Flank, a prospective property immediately adjacent to MNV's mining operations. The licence area includes the Chaynoye zone which is believed to hold good potential for the delivery of new resources at MNV. Chaynoye has been partially explored in the past, the legacy of which is a reported prognostic resource of 3.5 tonnes (112,500 oz) of gold. The Company plans to undertake a trenching and drilling programme at Chaynoye during 2013 with a view to upgrading the resource potential for future exploitation via MNV's operations.

UNKURTASH – Kyrgyzstan

The Unkurtash project hosts four distinct prospects, three of which, Unkurtash, Sarytube and Karatube have been the focus of the Company's extensive exploration activities during the past three years.

In 2012 the drilling programme concentrated on the deeper levels of the Unkurtash prospect down to a depth of 450 metres with the objective of increasing the currently defined JORC compliant mineral resource base of ca. 3.0 Moz Au at an average grade of 1.8 g/t (94% Measured and Indicated) which encompasses the overall project. More than 11,315 metres of reverse circulation drilling was carried out, extending down to the extensive underground exploration drives, some 850 metres of which were completed in 2012.

An independent JORC compliant resource update in respect of the entire project is planned for H1 2013 and data required for the prospective registration of additional C1+C2 category reserves is expected to be submitted to the State Committee on Reserves (GKZ) of the Kyrgyzstan Republic during the second half of 2013.



Mining permits for the Unkurtash and Karatube prospects, which provide the rights for exploitation of subsoil gold reserves and outline project development timelines, were granted in early H2 2012. The Company intends to proceed with engineering studies in respect of a planned large-scale open-pit operation.

LYUBOV – Zabaikalsky Region, Russia

The Lyubov project is targeting a near-surface bulk-mineable gold resource with a view to a potential open-pit mining operation. The property licence includes the Evgraf prospect, a feature of the Company's previous exploration activities, involving more than 20,000 metres of diamond core drilling.

An independent resource audit of the Evgraf prospect, which defines a total mineral resource of 0.48 Moz at an average grade of 1.34 g/t (98% measured and indicated), was completed in H2 2012.

In Q4 2012 the State Committee on Reserves of the Russian Federation (GKZ) approved a C1+C2 category in-pit reserve of 0.42 Moz Au contained in 6.99 million tonnes of ore at an average grade of 1.88 g/t.

The Lyubov project is entering the development stage and engineering studies focused on conventional processing options, including heap leaching, have been initiated.

BLAGODATNOYE – Khabarovsk region, Russia

An exploration programme at Blagodatnoye, which entailed 9,840 metres of diamond core drilling and more than 1,100 metres of trenching, was completed during 2012. Assay results received to date outline two distinct gold mineralised zones of sizeable footprint and vertical continuity, thereby underpinning the project's potential to host a substantial near-surface resource grading from 1.5 to 2.0 g/t. Preliminary results from initial metallurgical test work indicate favourable metallurgy and gold recovery levels via conventional milling and cyanidation processing methods.

Further exploration of the property is planned in order to verify and further increase the known mineralised prospects, while the completion of all technical requirements for reserve registration with the Russian state authorities will precede the initiation of an independent JORC compliant resource audit.

VERKHNE-KRICHALSKAYA – Chukotka region, Russia

The sizeable Verkhne-Krichalskaya (VK) exploration and mining licence (996 km²) incorporates the Klen licence and hosts a number of small placer gold deposits. Several exploration targets at VK have been identified which the Company believes have the potential to substantially contribute to Klen's current resource base. In 2012 a soil geochemical survey covering the western half of the VK licence was completed in order to delineate drilling and trenching targets for the 2013 field season and beyond.

In the course of the development of the Klen deposit the Company plans to systematically explore the prospects within the VK licence and has allocated an initial 10,000 metres of diamond drilling in 2013.

Qualified Persons Statement: Mr. Werner Klemens, Head of Exploration at Highland Gold, has reviewed and verified the information contained in this release with respect to reserve and resource matters. Mr. Klemens holds a Ph.D. in Geology from the University of Toronto. He has more than 15 years' experience in mineral exploration and is a fellow of the Geological Association of Canada. A rigorous quality assurance programme complying with international standards is in effect at all exploration projects and includes duplicate sampling, insertion of standards and check assaying at external laboratories.

CONCLUSION

Management's strategy during 2013 will be to build upon the Company's key achievements of the preceding year, namely enhanced metal delivery and the organic and acquisitive growth of our production base, progress that was accompanied by JORC compliant confirmation that our exploration and development properties possess sufficient resource to underwrite future pipeline growth.

Post the commissioning of the Belaya Gora processing facility, first gold is expected to be poured in May followed by a ramp up to nameplate capacity by the year end.

Project development is already underway at Klen and initial construction activity during 2013 represents the first step towards a projected processing plant commissioning date of 2015. Plans have been initiated to mobilise contractors at the newly acquired Kekura site, also located in the Chukotka area and commence a ca. 40,000 metre diamond core drilling programme to facilitate resource conversion and reserve development.

The success of our exploration programme in 2012 and the consequent impact on the Company's resource base serves to underpin further extensive exploratory activity in 2013 when particular focus will be brought to bear on the new acquisitions, Kekura and Klen/VK in Chukotka, and Western Flank adjacent to MNV. We are confident that these objectives will appreciably enhance the Company's prospective growth potential.

*Valery Oyf
Chief Executive Officer*

POSITIVE CASH MANAGEMENT SUPPORTS US\$125M CAPEX INVESTMENT

Highland Gold Mining's revenues rose 17.2% to a record US\$351.8 million in 2012 compared with US\$300.2 million in 2011. This reflected Group sales of 215,917 ounces of gold and gold equivalents during the year compared with 190,655 ounces in 2011. The Group benefited from its increased interest in Novo where sales of gold and gold equivalents totalled 64,497 eq. oz (100%) reflecting a 1.9% increase in the volume of metals. MNV's share of sales at 146,983 oz decreased by 2.7% compared with 2011. The "no hedge" policy permitted the Group to fully participate in firmer gold prices.

The average price (net of commission) of gold realised by MNV and Belaya Gora rose to US\$1,660 per oz in 2012 compared with US\$1,563 per oz in 2011. The average price of gold equivalents realised by Novo registered a 2.6% increase from US\$1,374 per oz in 2011 to US\$1,410 per oz in 2012 due to higher spot market prices. The average price at Novo is based on the spot price for metals contained in the concentrates, net of processing and refining costs at the Kazzinc plant. The average price of gold and gold equivalents realised by the Group in 2012 was US\$1,586 per oz compared with US\$1,530 per oz in 2011.

The Group's cost of sales rose by 41.1%, or \$59.9 million, to US\$205.6 million in 2012 (2011: US\$145.7 million). This largely reflected the higher share of operating expenses at Novo which accounted for US\$30.9 million of the Group's increase in cost of sales. Operating expenses at MNV rose by 24.3% due to the additional volume of open-pit waste stripping and an increase in processed ore tonnage. Other factors included the indexation of salaries and wages, an increase in third party services in relation to equipment repairs and higher overhead expenses at Belaya Gora.

Total Group cash costs* rose to US\$749 per oz in 2012 (2011: US\$594 per oz). Total cash costs at MNV increased to US\$755 per oz (2011: US\$574 per oz) primarily due to a substantial rise in waste stripping volumes and an increase in processed ore tonnage delivered at lower grades. Total cash costs at Novo increased to US\$671 per eq. oz (2011: US\$639 per eq. oz). This primarily reflected a 6.6% reduction in the volume of gold equivalents sold which, in turn, was principally due to the negative impact of lower silver and base metal prices versus the gold price ratio. Novo's total cash costs were also affected by

lower ore grades delivered to the plant. Total cash costs at Belaya Gora advanced from US\$834 per oz in 2011 to US\$1,701 per oz in 2012 reflecting the allocation of increased fixed costs against lower gold sales. The Group also incurred higher royalty costs linked to the increase in the spot gold price.

In line with best practice, the Company has adopted a new cost measure – all-in sustaining cash costs per ounce sold** – which better reflects the total costs of producing gold. All-in sustaining cash costs per ounce sold increased from US\$837 per ounce in 2011 to US\$973 per ounce in 2012.

This measure also reflects how we manage our business and is consistent with our objectives of generating higher returns and increased free cash flow. The Group's EBITDA (defined as operating profit excluding depreciation, amortisation and ore stockpile obsolescence provision) recorded a 3.0% increase to US\$161.8 million in 2012 (2011: US\$157.1 million) due to higher revenues from sales of gold and concentrates. The EBITDA margin (defined as EBITDA divided by total revenue) decreased from 52.3% to 46.0%.

In 2012 the Group recorded net finance income of US\$24.2 million compared with net finance costs of US\$5.6 million in 2011, primarily reflecting the positive reassessment of fair value on coupon bonds and shares.

A foreign exchange gain of US\$4.4 million (2011: US\$5.5 million – loss) resulted from the settlement of foreign currency transactions and the translation of monetary assets and liabilities denominated in currencies such as Russian Roubles and Pounds Sterling into US Dollars. The foreign exchange gain was principally affected by a 5.7% strengthening of the Russian Rouble during 2012 (2011: 5.6% devaluation).

The income tax charge amounted to US\$30.7 million in 2012 compared with US\$28.3 million in 2011. The tax charge comprises US\$23.4 million in respect of current tax expenses (MNV: US\$23.3 million and Stanmix Investments: US\$0.1 million) and US\$7.3 million in respect of deferred tax. The effective tax rate decreased from 21.4% in 2011 to 20.0% in 2012 which corresponds to the Russian income tax rate of 20.0%.

Net profit after tax increased by 18.5% to US\$123.0 million compared with US\$103.8 million in 2011 and resulted in earnings per share of US\$0.378 (2011: US\$0.319).

Cash inflow from the Group's operating activities during 2012 was US\$14.3 million higher at US\$131.2 million compared with the US\$116.9 million generated in 2011. The increase in cash inflow reflected the higher revenues from sales of gold and concentrates.

On 9 July 2012, the Group acquired a 100% interest in Klen from Aristus Holdings Limited for a total consideration of US\$69 million less any assigned loans.

During 2012 the Group invested US\$125.0 million in capital expenditure (2011: US\$65.6 million). This comprised US\$19.7 million at MNV, US\$70.6 million at Belaya Gora, US\$7.1 million at Novo, US\$27.5 million in respect of development and exploration projects and US\$0.1 million in relation to other entities within the Group. Capital expenditure was funded through operating cash inflow, the Company's existing cash balances and a new US\$8.8 million financing facility.

The net cash position of the Group as at 31 December 2012 amounted to US\$52.6 million versus US\$126.7 million as at 31 December 2011. The net cash of the Group is defined as cash at bank, deposits and bonds, decreased by any bank borrowings.

PAYMENT OF DIVIDENDS

In September the Board declared an interim special dividend of 4.8 pence per share in view of the favourable impact of the gold price on revenues (2011: 5.0 pence per share). The interim special dividend, which represented an aggregate distribution of US\$25.1 million, was paid on 15 October 2012.

The Board has recommended a final dividend of 3.0 pence per share which, taking into account the interim dividend paid in October 2012, gives a dividend total of 7.8 pence per share for the year. The final dividend will be paid on Friday 14 June 2013 to shareholders on the register at the close of business on Friday 3 May 2013 (the record date). The ex-dividend date will be Wednesday 1 May 2013.

POST YEAR EVENTS

On 2 April 2013, the Group announced the acquisition of 100% of CJSC Bazovye Metally, which holds the mining and exploration rights to the Kekura gold deposit and surrounding licence area, for a total consideration of US\$223.0 million. US\$5.0 million is the amount of contingent consideration payable in the second half of 2013 subject to the absence of any third-party claims. In addition, up to US\$11.0 million will be paid in the second half of 2013 upon the successful launch of the pilot plant which is currently being completed. The consideration of US\$207.0 million was satisfied in cash and was funded via a new debt facility.

In March 2013, the Group signed a new financing agreement with Gazprombank in respect of a US\$207 million facility at a 5.17% interest rate with the draw period extending to 21 June 2013.

The Group also agreed a new financing agreement with Gazprombank in respect of a US\$43 million facility at a 5.17% interest rate.

*Alla Baranovskaya
Chief Financial Officer*

* Total cash costs per ounces sold are calculated in accordance with a standard developed by The Gold Institute. Total cash costs include mine site operating costs such as mining, processing, administration, royalties and production taxes, but are exclusive of depreciation, reclamation, capital and exploration costs. Total cash costs are then divided by ounces sold to arrive at the total cash costs of sales. The measure, along with sales, is considered to be a key indicator of a company's ability to generate operating earnings and cash flow from its mining operations. This data is furnished to provide additional information and is a non-GAAP measure.

** Our current definition of all-in sustaining cash costs commences with total cash costs per ounce sold and then adds sustaining capital expenditures, corporate general and administrative costs, mine site exploration and evaluation costs and environmental rehabilitation costs. This measure seeks to represent the total costs of producing gold from current operations, and therefore it does not include capital expenditures attributable to projects or mine expansions, exploration and evaluation costs attributable to growth projects, income tax payments, interest costs or dividend payments.

PRINCIPAL RISKS AND UNCERTAINTIES

Our business and operations are exposed by a number of various business risks which mostly are typical to the companies' in gold mining industry.

The Board of Directors has overall responsibility for the maintaining the Group's risk management system. The Audit Committee supports the Board of Directors in monitoring our risk exposures and is responsible for reviewing the effectiveness of risk management system. The Audit Committee ensures that there is a system for identifying key risks and that there is a responsible body or individual charged with monitoring, managing and, if appropriate, mitigating these risks. In reviewing the effectiveness of our risk management system, the Audit Committee considers the results of our risks monitoring and reporting process, as well as the views of management. Internal Audit supports the Audit Committee through regular reviews of internal controls based on the approved annual audit programs.

Operational responsibility for managing risk and maintaining the Group's system of risk management and establishing internal control is assumed by management, and carried out at the corporate and operations level by the risk owners. At the management level there is a system to assess and mitigate principal risks at operating mines, development and exploration projects, analyse and monitor project delivery risks. Risks management and internal control procedures are embedded within our business practice across functional areas including finance, HR, procurement, IT, legal, security and project management.

The Group's principal risks are set below. Because of the limitations inherent in any system of internal control, the Group's internal controls and risk management systems are designed to meet the Group's particular needs and the risks to which the Group is exposed. Consequently the risks below should not be considered as the complete risk and uncertainties register for the Group which may lead to negative and significant outcome.



OPERATING RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
The Group is a subject to extensive environmental, health and safety laws and regulations	<p>The Group companies are controlled and guided by various safety and health regulatory bodies and regulations. If such regulations are made stricter the Group may incur higher costs while trying to meet the new regulations.</p> <p>The Group companies use contaminants, including cyanide-containing reagents, and operate under a strict control of environmental authorities. The company monitors compliance with environmental requirements and incurs costs to ensure the required compliance but if environmental regulations change the Group companies may face heavy fines and waste removal claims, which may become a huge burden on the Company costs and result in the demands to cease operational activity. This leads to a decrease in profitability as no final product is made.</p>	<p>The Group has a separate HSE Committee where all main HSE risks are considered.</p> <p>The Group policies in the area of environment and health and safety are based on the applicable legislation. Changes in legislation are monitored.</p> <p>The Group purchase necessary equipment to prevent fires, flooding or other accidents and for the prevention of pollution.</p> <p>The Group has training and assessment programs for all staff and regularly checks their compliance in HSE area. An external provider of rescue services is contracted in accordance with legislation.</p> <p>The Group implemented best practices and is certified under ISO 14001</p>
The Group faces uncertainty and risks in reserves and resources estimation, recovery methods and other project evaluation activities	<p>The Group's deposit resources and reserves are estimations based on certain assumptions. A decrease in the amount, quality and mining capability of reserves and resources, could result in a lower than expected revenue, higher costs, and hence a lower operating profit.</p>	<p>The Group conducts detailed exploration and considers various production methods during exploration and proceeds with the best commercial and economic options.</p> <p>The Group undertakes a JORC-compliant audits of the resources and reserves at the deposit by internationally recognized consultants</p>
The Group's exploration activities may be not successful	<p>Exploration is undertaken to determine the commercial viability of the Group reserves and acquisitions. The exploration expenditure may deliver negative economic results.</p>	<p>The Group invests in projects that are promising according to internal investigation and indicative resource.</p> <p>The Group has in-house mine developer resource. This facility is experienced in developing and exploring gold deposits and, there appropriate, an external consulting services are engaged for specific deposits and mine modeling.</p> <p>The Board reviews the exploration projects on regular basis and the Board approve all exploration activities and costs based on indicative economic probabilities.</p>
The Group's deposits are subject to exploration and mining licenses	<p>The Group companies must comply with mineral exploration and mining license requirements. Non-compliance with the license requirements or major license changes may result in a loss of license and mineral rights, or significant costs to ensure compliance with the changed requirements.</p>	<p>Compliance with license requirements is monitored monthly at the management company level, and a license compliance report is drafted. The report serves as a basis to develop measures to meet the terms and conditions of agreements. The Group's management and the Board are regularly informed about the compliance with license agreements.</p>

RISK NAME	RISK DESCRIPTION	MITIGATION
<p>Group's operational entities are subjects to mining risks</p>	<p>Our operations are exposed to mining risks that may lead to a complete or partial stoppage at some sites, decrease in profitability, employee hazards, and loss of property.</p> <p>Open-pit risks and threats include without limitation: 1) open-pit flooding; 2) pit wall collapse and slides; 3) blasting incidents; 4) ore haulage incidents; 5) extreme weather conditions and/or natural disasters (blizzard, seismic activity, flood, extremely low temperatures, etc.).</p> <p>Underground risks and threats include without limitation: 1) fire; 2) collapse; 3) extreme weather conditions and/or natural disasters (seismic activity, flood, etc.); 4) voids and failures; 5) other incidents related to drilling, blasting, excavation of ore and stripping of waste including man-related issues.</p> <p>Both in open-pit and underground operations the Group companies may encounter unusual geological formations, including too thin ore bodies, incidental drops in ore quality (lower grade), and dilution. These factors result in additional stripping, cost increase due to processing ores with lower grades, inadequate machinery operating mode due to using lower grade ores, waste pile-up due to going beyond the standards of metal content.</p> <p>End-product unit costs may turn out to be considerably higher than had been budgeted and hinder implementation of the production plan, and cause major losses in the form of impairment of various assets and goodwill.</p>	<p>The Group operates following exploration, mine engineering and design prepared by the Group's in-house planning experts responsible for developing optimal safe working and commercial economic mine planning. In turn, the in-house mine plans are reviewed by external consultants and natural authorities.</p> <p>The mine plans include consideration of safe open-pit and underground mining operations, including smoke warning systems, personal protection kits: gas masks, self-rescue systems, etc., mine dewatering.</p> <p>The mine plan includes rescue and emergency plans for each mine, including accident response procedure.</p> <p>The Group undertakes development exploration during production stage to define the ongoing amount of reserves and geological conditions.</p> <p>The Group has specialists at sites to analyze and monitor the hydrogeology and geological conditions of open-pit and underground mining.</p>
<p>New construction projects</p>	<p>The cost of new construction projects is usually significant. The cost of projects may be different from initial investment plans. The economy of the project is dependent from the macroeconomic situation, geological and technological conditions of a particular deposit, due to an increase in construction cost.</p> <p>Also, it is not always possible to make sure that the amount of capital investment is sufficient. Changing cost of capital projects may have an adverse effect on the use of capital resources for other projects, the Group liquidity and decrease the profitability of particular project and the Group as a whole.</p> <p>Construction is normally contracted to external contractors. The Group cannot completely ensure that the contractors will be able to fulfill their obligations promptly and to the full extent, which may lead to changes in cost of development projects and deadlines for their completion.</p>	<p>The Group initiated new projects, mine extensions based on the detailed investment plans and a review of management resource. Major projects are subject to external consultant's reports and JORC evaluation.</p> <p>The management and the Board closely monitor contractor's performance and costs. Corrective actions are undertaken if needed.</p>

RISK NAME	RISK DESCRIPTION	MITIGATION
<p>Reliability in delivery and processing of extracted mineral resources</p>	<p>Effective operation of enterprises depends on reliable work of equipment and machinery. Failure or breakdown of equipment and machinery, or a part of it can lead to complete or partial stoppage of production until repairs are completed or spare parts and components are delivered.</p> <p>Apart from mining an important factor contributing to uninterrupted operations is effective maintenance of processing facilities.</p> <p>As in mining, smooth operation of an enterprise is under the influence of the following factors: 1) fires 2) extreme weather conditions and/or natural disasters (i.e. seismic activity, floods, etc.).</p>	<p>The Group performs planned maintenance and repairs of equipment and machinery on regular basis. Repairs are performed by on-site engineers or by contractors. The enterprises have a stock of essential long-lived and critical spare parts, accessories and components in case an incident occurs or major equipment or machinery fails. Back-up equipment is maintained for certain operations.</p>
<p>Dependency from one core asset</p>	<p>The Group's flagship mine – CJSC MNV – produced about 70% of finished products in 2012. If MNV is shutdown or the volume of production experiences a large drop for any reason, it will may have an adverse effect on performance and financial results of the Group as a whole.</p>	<p>Sustainable operation at MNV is ensured by mitigating procedures for other principal operating risks and historically there were no significant prolonged interruption in MNV operations.</p> <p>The Group also apply the insurance policy for MNV against any serious accidents and downtime of machinery and equipment.</p>

MARKET AND FINANCIAL RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Commodity market price fluctuations could adversely affect the Group's profitability of operations	There could be an adverse impact on our sales and profits and potentially the economic viability of projects, from significant and continuous commodity price drops for the metals produced by the Group (mainly Au and lesser extent Pb, Zn and Ag) as there is a policy not to hedge.	<p>We monitor current levels and forecasts for our products prices and regularly update economic models for each mine and for the Group based on the best available estimates. If prices drop significantly, we consider the economic appropriateness of keeping assets in operation, maintaining exploration activity, and, if necessary, cease operations on the selected sites.</p> <p>We regularly check hedging possibilities against commodity price changes.</p>
Financial risks	<p>Due to the possible adverse economic conditions or uncertainties affecting the global markets there is a number of risks which may adversely affect the Group's results and operations, specifically:</p> <ul style="list-style-type: none"> ■ adverse fluctuations in Russian Ruble/ USD and GBP/USD exchange rates as the Group's revenues, costs and assets and liabilities mix is such that it may be affected by exchange rate fluctuations and especially by Russian Ruble and GBP vs. USD fluctuations. The Ruble appreciation may lead to increase of the Group costs compared to its revenues ■ credit risks which are mostly attributable to the Group's financial assets and the risk that due to the changes in global economy some financial assets (including assets with high liquidity) may be impaired ■ increase in interest rate may adversely affect the Group's financial results ■ inflation rate which may result in higher prices for materials used in production and increase cost of labor 	<p>The Group uses the natural hedging and match revenue and debt nominated in US Dollars.</p> <p>The Group considers other possibilities to hedge exchange rate fluctuation if appropriate.</p> <p>The Group places cash in reputable and highly rated financial institution and monitor the financial situation.</p> <p>The Group sold commodities to creditworthy and reliable customers.</p> <p>Investment decisions are reviewed and approved by the Board.</p> <p>The Group uses a planning system and cash flow forecast are prepared. For the budgeting and planning process the Group uses market consensus estimates of commodity prices, inflation, interest rates and exchange rates.</p>

HUMAN RESOURCES RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Shortage of skilled workforce	<p>The Group competes with other companies for the retention and engagement of main mining and production staff, including geologists, mining engineers, processing and other specialists, and workers.</p> <p>Skilled workforce shortage in mining is a universal issue, which also is evident in Russia and impacts the Group activities.</p> <p>Workforce shortage and the Group's ability to recruit and fill vacancies on the timely basis may have a negative impact on its operations and prospects.</p>	<p>The Group has various HR policies to win and retain skilled specialists (provide housing, and loans to own it), employee training and development and promotion programs.</p> <p>The Group's monitor the labor and salary market to provide an acceptable and competitive package regarding to the employment conditions and to the location of operations.</p> <p>There is the Group's remuneration committee to consider and approve remunerations for top management.</p>
There is a need to keep good labor relations	<p>There is a need to maintain good and mutually beneficial relations with the staff. Some employees are members of unions, with which we need to keep good relations as well with labor unions that represent workers' interests.</p> <p>If the relations between the Group and its employees deteriorate there is a risk of strikes and labor or payment conditions change claims that may lead to a complete or partial stoppages, missing production targets, higher costs, lower profits, and decrease of bottom line.</p>	<p>The Group supports social infrastructure, takes part in social and charity projects in the locations where the Group operates. The Group tries to act as a responsible employer among the employees.</p> <p>The Group established communication channels with employees to promote better conditions for them. We enter into collective agreements with extended (beyond the legal minimum) social benefits for the employees and their families.</p>

STRATEGIC RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Risks associated with merger and acquisitions	<p>The Group is active in the M&A market and bears the usual M&A costs.</p> <p>Acquisitions require significant resources to integrate the new assets into the Group, lead to a more complex management system and partial the financial leverage of the Group's balance sheet. The Group cannot be sure that as a result of M&A it will be able to successfully integrate the acquisition, and the to deliver the expected profitability of new operations may deliver unexpected results.</p> <p>Acquisitions are subject to the risks of pre-acquisition due diligence and enforcement of contractual representation and warranties.</p>	<p>Third party consultants are engage to review target resources and operations. In-house legal and external legal review are made on representations and warranties negotiated in the contract.</p> <p>The Group integrates purchased enterprises by using the standard Group's policies and procedures, including the systems of corporate reporting and budgeting.</p>
There is a need to maintain a sufficient resource base for future operations and replacement of depleted mines	<p>Since the life of a mine is limited, the Group has to strategically seek to restore its resource base. Mine development from the exploration to production can take a prolonged period. There can be no guarantee that current and further exploration will lead to a sustainable production in the future.</p>	<p>The Group has development plans and new acquisitions are subject to Board approval. The Group has exploration projects to sustain and increase the resource base. Project feasibility studies are made regularly.</p>
Potential actions by governments	<p>The Group's main operations are located in Russian Federation and there are an exploration projects in Kyrgyzstan. There is a risk that government and government agencies could adopt new laws, regulations or other requirements which could have a negative impact on the Group's operations and business.</p> <p>There is also a risk that changes in laws and government policy may cause nationalization of the Group assets in whole or in part, or introduce taxes that considerably increase the tax burden on the Group and make the Group's exploration and production in Kyrgyzstan deposits inefficient.</p>	<p>The Group established the lines of communications with the various governmental authorities in Kyrgyzstan to be able to contribute to the thinking of such bodies and, when appropriate, participate in relevant discussions with political and regulatory authorities.</p>

DIRECTORS' REPORT

The Directors of Highland Gold Mining Limited are pleased to submit their Directors' Report together with the audited financial statements for the year ended 31 December 2012.

REVIEW OF ACTIVITIES

Highland Gold Mining Limited ("Highland Gold" or the "Company" or the "Group") was incorporated in Jersey on 23 May 2002 for the principal purpose of establishing a portfolio of gold mining operations within the Russian Federation. The Group's activities, structure and operating companies are described more fully on pages 93 and 94 of the Report. The Chairman's Statement and the Chief Executive Officer's Report highlight the Company's business developments during 2012 and future prospects. The Company's shares are quoted on the AIM market of the London Stock Exchange.

RESULTS AND DIVIDENDS

An overview of the Group's results for the financial year to 31 December 2012 appears in the Financial Review on pages 22 and 23 of the Report. The Group achieved a profit for the year of US\$123.0 million (2011: profit of US\$103.8 million).

The Directors recommend the payment of a final dividend on the ordinary shares of 3 pence (Nil 2011) per share payable in June 2013. This along with the special interim payment of 4.8p makes a full year payment of 7.8p (5.0p 2011). This increase reflects the board's confidence in Highland Gold's growth projections.

ACCOUNTING POLICIES

Highland Gold's consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union with the US dollar as its reporting currency.

DIRECTORS AND THEIR INTERESTS

The interests of the Directors in office, and of persons connected with them, in the Company's £0.001 ordinary shares, not previously reported and any subsequent changes up to the date of this report, are shown below:

Director	Ordinary shares At 31/12/2012	Ordinary shares At 31/12/2011	Available Options At 31/12/2012
Andrey Solovyov	-	-	50,000
Duncan Baxter	20,000	20,000	100,000
Eugene Schvidler	28,057,794	26,020,000	-

Primerod International Limited is the holding vehicle through which certain individual persons, managers and connected parties of OOO Millhouse, including Valery Oyf the Chief Executive Officer of Highland Gold, who has an indirect interest of 4.43%, hold a combined 32.57% interest in the Company.

No other Directors have an interest in the share capital of the Company. Certain available options expired on 22 September 2012.

The Company has adopted a share dealing code for Directors and relevant employees, which prescribes a strict permissions procedure prior to any trading of the Company's shares.

CORPORATE GOVERNANCE

The Directors have implemented many of the main principles of good governance under the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012 having regard to the size and nature of the Company's activities. The Board is assisted by a number of Committees with delegated authority to review key business risks, in addition to the financial risks applicable to the Group in operating its business.

THE BOARD

The Board is currently comprised of nine Directors, five of whom are non-executives. Two non-executive Directors, comprising Duncan Baxter and Terry Robinson, bring an element of independence to the Board and provide a balance to those Directors who cannot be regarded as independent. Eugene Shvidler, Eugene Tenenbaum and Olga Pokrovskaya work for Millhouse LLC which, together with persons connected with it, owns 32% of the issued share capital of the Company in addition to Mr Shvidler's interest of 8.62%.

The Board meets on a regular basis to review the business and performance of the Group, to ensure that financing needs are appropriate and to consider development and acquisition opportunities. A total of eleven Board and Board Committee meetings were held during the year.

Where appropriate the Directors have full access to the Company Secretary and independent professional advice at the Company's expense. The Company has in place appropriate Directors and Officers Liability insurance.

The changes to the Board during the year included the Barrick appointee Jim Mavor's resignation on 27 January 2012, the appointment from 11 July 2012, of four executive directors; Valery Oyf, Highland's Chief Executive Officer, Alla Baranovskaya, Highland's Chief Financial Officer, Sergey Mineev, Highland's Head of Exploration & Capital Projects Development and Andrey Solovyov, Highland's Head of Human Resources & Administration and the change of the Board Chairman from Mr Baxter to Mr Shvidler on 2 May 2012.

The Board undertook a self assessment review in early 2011 from which no material issues arose. The Board will continue to undertake such a review on a biennial basis provided there are no major changes to the Board that would render such a review ineffective. We anticipate the next review will take place during 2013.

Terry Robinson is the Senior Independent Non-Executive Director who is available to meet with major shareholders.

It is a requirement that all Directors retire by rotation at least every three years and new appointments be confirmed at the following Annual General Meeting. Valery Oyf, Alla Baranovskaya, Sergey Mineev and Andrey Solovyov, retire and all will offer themselves for re-election at the Annual General Meeting to be held on 11 June 2013. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

The profiles of the Directors are to be found on pages 36 and 37 of this report.

AUDIT COMMITTEE

The Audit Committee in 2012 consisted of four Directors, of which three are non-executive and is chaired by Terry Robinson. The Audit Committee met three times during 2012 to consider the annual and interim financial statements and the audit programme. Management is invited to attend meetings as appropriate. There are defined Terms of Reference for the Audit Committee which are reviewed by the Board on an annual basis and will be available for inspection at the Annual General Meeting. The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies, meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit Committee also considers budgets and has agreed an authorisation and expenditure policy. The Audit Committee is responsible for monitoring key risks and has implemented, through the internal audit department, a process for reporting on and monitoring those risks. The other members of the Committee were Olga Pokrovskaya, Eugene Tenenbaum and Alla Baranovskaya. Jim Mavor resigned in January 2012. Audit Committee members meet with management and the auditors on a regular basis.

REMUNERATION AND NOMINATION COMMITTEE

The Committee consisted of four Directors, of which three are non-executive, comprising Duncan Baxter, as Chairman, Eugene Tenenbaum, Valery Oyf and Terry Robinson. Jim Mavor, resigned in January 2012. The Committee is responsible for reviewing the performance of executive management and, where appropriate, other senior executives, and for determining their appropriate levels of remuneration. Recommendations are made with regard to appointments in respect of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies as and when appropriate; the composition of the Board is monitored on an ongoing basis. The Committee makes recommendations to the Board, within defined terms of reference, which the Board reviews at least annually. The Committee also examines fees in relation to non-executive remuneration and committee Chairmen. The Committee held two meetings during the year at which all members were present. Details of the Directors' remuneration are given on page 35. The Committee has considered and recommended to the Board the election of, Valery Oyf, Alla Baranovskaya, Sergey Mineev and Andrey Solovyov as Directors of the Company at the forthcoming AGM.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Board has established a Health, Safety and Environmental Committee which is chaired by Olga Pokrovskaya. The other members of the Committee are Terry Robinson, Andrey Solovyov and Sergey Mineev. The Committee considers, in conjunction with management, development and training requirements and regulatory compliance matters related to health, safety and environmental issues. The Committee makes recommendations to the Board, within agreed terms of reference, which the Board reviews at least annually. The Committee met twice during the year. Details of the progress and performance of the Company in respect of health, safety and the environment are given in the Chief Executive Officer's report on pages 10 to 21.

OTHER COMMITTEES

In addition, the Group management company in Russia, OOO Russdragmet ("RDM"), has established a risk and control platform through regular meetings. The members of the Executive Committee, which meets weekly, include management from RDM's functional departments and the General Directors of the mine sites. The Committee is chaired by Valery Oyf, the Chief Executive Officer of RDM. The key role of the Committee is to ensure the implementation of decisions taken by the Board and committees, to manage the day to day operational activities and to make recommendations to the Board. The Committee delegates part of its duties to three internal RDM committees; the Risk Committee; the Budget Committee and the Investment Committee.

INTERNAL CONTROLS

The Directors have overall responsibility for the Group's internal control and effectiveness in safeguarding the assets of the Group. Internal controls can provide reasonable, but not absolute, assurance against material misstatements or loss. The processes used by the Board to review the effectiveness of the internal controls are carried out by the Audit Committee. An Internal Audit Charter has been adopted.

RELATIONS WITH SHAREHOLDERS

The Group's website provides comprehensive information on the Company's business, results and personnel and is used to update shareholders and the market in respect of key developments and announcements (www.highlandgold.com). Shareholders are encouraged to use the Annual General Meeting as a forum at which to communicate with Directors. Due notice of the Annual General Meeting is provided to all shareholders. The Company also utilises investor and public relations functions which are supported by independent service providers.

Shareholders passed a special resolution at the Annual General Meeting on 16 June 2011 whereby the Directors were authorised to allot and grant rights to subscribe for, or convert securities into, shares in the Company up to a maximum nominal amount equivalent to 33% of the nominal amount of the authorised but unissued share capital of the Company, to such persons at such times and on such terms as they think proper without first making an offer to each person who holds shares in the Company. Such authority will expire at the conclusion of the Company's Annual General Meeting in 2014.

SUBSTANTIAL SHAREHOLDINGS

As of close of business on 16 April 2013, the Company had been notified of the following interests, other than Directors' interests, which amounted to three per cent or more of the issued share capital of the Company:

Name of Holder	Number	Percentage
Primerod International Limited*	104,080,000	32.00%
Prosperity Capital management	52,867,179	16.26%
J.P. Morgan Asset Management	14,872,962	4.57%
Ivan Koulakov	13,500,000	4.15%
East Capital Management Ltd	10,968,840	3.37%
Van Eck associates	10,953,032	3.37%
Credit Suisse	10,022,077	3.08%

* Primerod International Limited is the holding vehicle through which certain individual persons, managers and connected parties of OOO Millhouse, including Valery Oyf, the Chief Executive Officer of Highland Gold, and with others hold a combined 32.57% interest in the Company.

GOING CONCERN

Having made relevant enquiries, the Directors believe that it is appropriate to adopt the going concern basis in the preparation of the financial statements in view of the fact that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

AUDITORS

Ernst & Young LLP have expressed their willingness to continue as auditors of the Company and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING NOTICE

The Annual General Meeting will be held at 11.00 am on Tuesday 11 June 2013 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is set out on page 97 of the Report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Jersey Company law requires directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements of the company are required by law to give a true and fair view of the state of affairs of the company at the period end and of the profit or loss of the Company for the period then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements prepared by the company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the group and, accordingly, for taking reasonable steps to further the prevention and detection of fraud and other irregularities.

REPORT ON DIRECTORS' REMUNERATION

The remuneration of executive management currently comprises basic salary and discretionary bonus. Incentives available in relation to executive management and other key personnel include the Unapproved share option scheme, managed by the Remuneration and Nominations Committee, and other market related remuneration benefits.

No grants of options under the Unapproved share option scheme were made during 2012 and management and employees were incentivised through a bonus scheme, currently of a discretionary nature. All remaining options under the Unapproved share option scheme have vested and are exercisable up to the seventh anniversary from the date when the options were granted. The number of options outstanding as of 31 December 2012, were 525,000 (2011: 1,025,000). During the year 500,000 options lapsed as the exercise period lapsed on 22 September 2012 or were forfeited.

The Company does not operate a pension scheme for executive management or directors. The executive directors are entitled to certain benefits and participate in the long term incentive programme.

The remuneration paid to the Directors in the financial period to 31 December 2012 was as follows:

	US\$ 2011	US\$ 2012	US\$ 2011	US\$ 2012
	Fees and Remuneration		Bonus	
Duncan Baxter	500,000	273,328	-	-
Eugene Shvidler	100,000	366,660	-	-
Eugene Tenenbaum	100,000	100,000	-	-
Olga Pokrovskaya	125,000	125,000	-	-
Terry Robinson	160,000	160,000	-	-
Valery Oyf	-	490,927	-	-
Alla Baranovskaya	-	304,423	-	102,002
Sergey Mineev	-	103,795	-	20,865
Andrey Solovyov	-	117,134	-	30,879

The remuneration paid to the Directors who retired during the financial year to 31 December 2012 was as follows:

	US\$ 2011	US\$ 2012
Jim Mavor	100,000	8,333

The Group has entered into letters of appointment with both the executive and non-executive Directors, all the non-executive directors of which are reviewed on an annual basis and none of which have an expiry date or notice period of more than one year. The Executive directors are governed by their Russian Contracts of Employment. The Remuneration and Nomination Committee and the Board had agreed not to increase remuneration or pay any ex-gratia payments for additional work undertaken during the year by the non-executive directors.

Duncan Baxter
Non-Executive Director
22 April 2013

BOARD OF DIRECTORS

EUGENE SHVIDLER (Aged 49)

Non-Executive Chairman

Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a masters degree in applied mathematics, while also holding an MBA in finance and a MS in international tax from Fordham University. He worked as senior vice president of Sibneft beginning in 1995 and served as president of the company from 1998 through 2005. Mr. Shvidler is currently head of Millhouse LLC. He joined the Highland Gold Board of Directors in January 2008.

ALLA BARANOVSKAYA (Aged 43)

Executive Director

Chief Financial Officer

Alla Baranovskaya has held the post of Chief Financial Officer of Highland Gold, based in Moscow, since 1 June 2011. Ms Baranovskaya is a graduate from Moscow State University where she majored in Economics. From 2006 to 2007 she was CFO and a Director of Slavneft, a Russian oil and gas company, and from 2008 to 2010 was CFO of Rusneft, also an oil and gas enterprise.

DUNCAN BAXTER (Aged 61)

Independent Non-Executive Director

Duncan Baxter began his career in banking with Barclays in Zimbabwe before joining RAL in 1978. In 1985 he became a director of Commercial Bank (Jersey) Ltd, which was subsequently acquired by Swiss Bank Corporation. Since leaving Swiss Bank in 1998 he has carried out consultancy projects for international banks and investment management companies. He is a Fellow of the Institute of Chartered Secretaries, the Securities Institute and the Institute of Bankers. He joined the Company in November 2002.

SERGEY MINEEV (Aged 52)

Executive Director

Head of Exploration and Capital Projects Development

Sergey Mineev has been Head of Exploration and Capital Projects Development at Highland Gold, based in Moscow, since 1 April 2011. He is a graduate from Moscow State University where he majored in Geochemistry. From 2004 to 2011 he was CEO and deputy director of various subsidiaries of Renova, the Russian investment company, including Ural Minerals, UralPlatinum Holding, Interminerals and Zoloto Kamchatki where he was a director.

VALERY OYF (Aged 49)

Executive Director

Chief Executive Officer

Valery Oyf is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas and worked as Vice President of Sibneft from 1997 through to 2004. From 2004 until June 2008 Mr. Oyf served as a senator representing the Omsk region, a Siberian constituency, in Russia's Federation Council. Prior to his appointment as Chief Executive Officer of Highland Gold, he held the post of General Director of LLC Millhouse.

OLGA POKROVSKAYA (Aged 43)

Non-Executive Director

Olga Pokrovskaya graduated with honors from the State Financial Academy. Ms. Pokrovskaya served as Senior Audit Manager at accountancy firm Arthur Andersen from 1991 until 1997. She subsequently joined Russian oil major Sibneft, where she held several key finance positions including Head of Corporate Finance from 2004. In July 2006, Ms. Pokrovskaya took up her current role as Head of Corporate Finance at Millhouse LLC. She joined the Highland Gold Board of Directors in January 2008.

TERRY ROBINSON (Aged 68)

Non-Executive Director

Chairman of the Audit Committee

Terry Robinson has 40 years international business experience. He spent 20 years at Lonrho PLC, the international mining and trading group. Since 1998 he has been variously occupied with international business including natural resources in the UK, Russia, the CIS and Brazil. Mr. Robinson is a non-executive director of the LSE quoted Evraz plc, a large Russian steel producer. He is a non-executive director of the Toronto listed Katanga Mining Limited with copper and cobalt mining operations in the DRC. He is a member of the Institute of Chartered Accountants of England and Wales. He joined the Highland Gold Board of Directors in April 2008.

ANDREY SOLOVYOV (Aged 48)

Executive Director

Head of Human Resources & Administration

Andrey Solovyov has been Head of Human Resources & Administration at Highland Gold, based in Moscow, since 1 September 2003. He is a graduate from Moscow State Institute of International Affairs (MGIMO) where he majored in International Affairs. From 2001 to 2003 he was Head of Human Resources at Equant Russia. Between 1997 and 2001 he was Head of Human Resources at Searle Pharma LLC, the Russian offshoot of Monsanto Group's pharmaceutical division.

EUGENE TENENBAUM (Aged 48)

Non-Executive Director

Eugene Tenenbaum is a chartered accountant and holds a bachelors degree in commerce and finance from the University of Toronto. He worked as an accountant in the Business Advisory Group at Price Waterhouse in Toronto from 1987 until 1989, after which he spent five years in corporate finance with KPMG in Toronto, Moscow and London, including three years (1990-1993) as national director at KPMG International in Moscow. In 1994, he joined Salomon Brothers as a director of corporate finance. He later served as head of corporate finance for Sibneft in Moscow from 1998 through 2001. Mr. Tenenbaum is currently managing director of Millhouse Capital UK Ltd and a director of Chelsea FC Plc. He joined the Highland Gold Board of Directors in January 2008.

ACCOUNTS 2012



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HIGHLAND GOLD MINING LIMITED

We have audited the financial statements of Highland Gold Mining Limited for the year ended 31 December 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether

the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

*Ken Williamson
for and on behalf
of Ernst & Young LLP
London
22 April 2013*

Notes:

1. The maintenance and integrity of the Highland Gold Mining Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2012

	Notes	2012 US\$000	2011 US\$000
Revenue	9	351,828	300,181
Cost of sales	10	(205,570)	(145,686)
Gross profit		146,258	154,495
Administrative expenses	11	(17,801)	(18,989)
Other operating income	12.1	1,524	796
Other operating expenses	12.2	(4,983)	(6,586)
Operating profit		124,998	129,716
Gain on acquisition of subsidiary	5	-	13,479
Foreign exchange gain/(loss)	13	4,432	(5,527)
Finance income	14.1	25,540	11,479
Finance costs	14.2	(1,315)	(17,054)
Profit before income tax		153,655	132,093
Income tax expense	15	(30,673)	(28,270)
Profit for the year		122,982	103,823
Total comprehensive income for the year		122,982	103,823
Attributable to:			
Equity holders of the parent		122,902	103,823
Non-controlling interests		80	-
Earnings per share (US\$ per share)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	16	0.378	0.319
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	16	0.378	0.318

The Group does not have any items of other comprehensive income or any discontinued operations.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Notes	As at 31 December 2012 US\$000	As at 31 December 2011 US\$000
ASSETS			
Non-current assets			
Exploration and evaluation assets	17	72,903	52,197
Mine properties	18	355,972	282,461
Property, plant and equipment	19	158,746	118,259
Intangible assets	5,20	80,570	70,365
Inventories	24	10,738	5,362
Other non-current assets	22	48,100	13,623
Deferred income tax asset	15	616	-
Total non-current assets		727,645	542,267
Current assets			
Inventories	24	64,837	61,793
Trade and other receivables	25	50,376	28,605
Income tax prepaid		4,607	4,858
Prepayments		2,593	4,071
Financial assets	34	54,095	36,111
Cash and cash equivalents	26	7,251	90,635
Total current assets		183,759	226,073
TOTAL ASSETS		911,404	768,340
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	27	585	585
Share premium		718,419	718,419
Assets revaluation reserve	27	832	832
Retained earnings/(Accumulated losses)		69,677	(28,139)
Total equity attributable to equity holders of the parent		789,513	691,697
Non-controlling interests	5	2,237	3,391
TOTAL EQUITY		791,750	695,088
Non-current liabilities			
Interest-bearing loans and borrowings	28	6,875	-
Long-term accounts payable	29	417	8,855
Provisions	30	37,272	23,196
Deferred income tax liability	15	41,083	23,090
Total non-current liabilities		85,647	55,141
Current liabilities			
Trade and other payables	29	32,007	18,083
Interest-bearing loans and borrowings	28	1,875	-
Income tax payable		2	7
Provisions	30	123	21
Total current liabilities		34,007	18,111
TOTAL LIABILITIES		119,654	73,252
TOTAL EQUITY AND LIABILITIES		911,404	768,340

The financial statements were approved by the Board of Directors on 22 April 2013 and signed on its behalf by:
Alla Baranovskaya and Olga Pokrovskaya

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2012

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Notes	Issued capital US\$000	Share premium US\$000	Asset revaluation reserve US\$000	Retained earnings/ (accumulated losses) US\$000	Total US\$000	Non-controlling interest US\$000	Total equity US\$000
At 1 January 2011		585	718,370	832	(106,231)	613,556	-	613,556
Total comprehensive income for the year		-	-	-	103,823	103,823	-	103,823
Dividends paid to equity holders of the parent	35	-	-	-	(25,719)	(25,719)	-	(25,719)
Issue of share capital		-	49	-	-	49	-	49
Exercise of share options		-	-	-	(12)	(12)	-	(12)
Acquisition of subsidiary	5	-	-	-	-	-	3,391	3,391
At 31 December 2011		585	718,419	832	(28,139)	691,697	3,391	695,088
Total comprehensive income for the year		-	-	-	122,902	122,902	80	122,982
Dividends paid to equity holders of the parent	35	-	-	-	(25,086)	(25,086)	-	(25,086)
Novo compulsory share purchase*		-	-	-	-	-	(1,234)	(1,234)
At 31 December 2012		585	718,419	832	69,677	789,513	2,237	791,750

* The compulsory share purchase from non-controlling shareholders in accordance with the Russian legislation resulted in the Company's stake in Novo increasing from 96.6% at 31 December 2011 to 97.9% at 31 December 2012.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2012

	Notes	2012 US\$000	2011 US\$000
Operating activities			
Profit before tax		153,655	132,093
		153,655	132,093
Adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation of property, plant and equipment	10	36,810	26,820
Movement in ore stockpile obsolescence provision	12.2.1	-	582
Movement in raw materials obsolescence provision	12.2.1	(279)	655
Write-off of property, plant and equipment	12.2.2,18,19	710	1,725
Deferred stripping costs write-off	18	9,710	4,818
Loss on disposal of property, plant and equipment	12.2	346	-
Bank interest	14.1	(3,237)	(4,215)
Interest from joint venture	14.1	-	(2,552)
Bonds and shares fair value movement	14.34	(22,303)	9,661
Finance expense	14.2	846	2,914
Unwinding of contingent consideration liability	14.2	469	-
Net foreign exchange (gain)/loss	13	(4,432)	5,527
Movement in provisions		223	-
Fair value gain related to loans given to jointly controlled entity	14.1,14.2	-	(4,712)
Fair value expense related to receipts from Kazzinc to finance joint venture	14.1,14.2	-	4,479
Gain on acquisition of subsidiary	5	-	(13,479)
Working capital adjustments:			
Increase in trade and other receivables and prepayments		(21,125)	(11,821)
Increase in inventories		(7,415)	(17,849)
Increase in trade and other payables		7,921	3,433
Income tax paid		(20,700)	(21,149)
Net cash flows from operating activities		131,199	116,930
Investing activities			
Proceeds from sale of property, plant and equipment		359	84
Purchase of property, plant and equipment	7	(125,028)	(65,611)
Increase in deferred stripping costs	18	(9,705)	(5,469)
Repayment of loans given to jointly controlled entity	32	-	5,775
Acquisition of subsidiaries	5	(53,705)	(38,524)
Interest received from deposits		3,640	5,200
Interest received from bonds	34	4,319	5,468
Interest received from jointly controlled entity	32	-	6,383
Sale of investments - bonds	34	-	23,427
Purchase of investments - bonds	34	-	(19,765)
Net cash flows used in investing activities		(180,120)	(83,032)
Financing activities			
Novo compulsory share purchase		(1,218)	-
Proceeds from borrowings	28	8,750	-
Issue of ordinary share capital		-	37
Dividends paid to equity holders of the parent	35	(25,086)	(25,719)
Repayment of borrowings		-	(4,710)
Interest paid		(82)	(19)
Interest paid to Kazzinc	32	-	(6,184)
Repayment to Kazzinc	32	-	(5,350)
Repayment under assignment agreements	5	(15,377)	(62,476)
Net cash flows used in financing activities		(33,013)	(104,421)
Net decrease in cash and cash equivalents		(81,934)	(70,523)
Effects of exchange rate changes		(1,450)	(6,410)
Cash and cash equivalents at 1 January	26	90,635	167,568
Cash and cash equivalents at 31 December	26	7,251	90,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 22 April 2013.

Highland Gold Mining Limited is a public company incorporated and domiciled in Jersey. Its ordinary shares are traded on the Alternative Investment Market ("AIM").

The principal activity is building a portfolio of gold mining operations within the Russian Federation and Kyrgyzstan.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments carried at fair value through profit or loss and assets and liabilities acquired in business combination that have been measured at fair value. The consolidated financial statements are presented in US dollars, which is the parent company's functional and the Group's presentation currency. All values are rounded to the nearest thousand (US\$000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of Highland Gold Mining Limited and all its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Companies (Jersey) Law 1991.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Highland Gold Mining Limited and all its subsidiaries as at 31 December each year.

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent). Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The accounting policies in Note 3 have been applied when preparing the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interest and the acquisition date fair value of any previously held equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

FOREIGN CURRENCY TRANSLATION

The Group's consolidated financial statements are presented in US dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates are recognised in the statement of comprehensive income.

The principal exchange rates against US dollars that were applied are:

	31 December 2012	31 December 2011
Average		
RUR	31.074	29.395
GBP	0.631	0.624
Closing		
RUR	30.373	32.196
GBP	0.619	0.647

INTEREST IN A JOINT VENTURE

The Group had a contractual agreement with Kazzinc which represented a joint venture entity. On 26 December 2011, the Group acquired an additional 48.3% share in Novo-Shirokinsky Rudnik (Novo) (OAO) from its joint venture partner Kazzinc. This acquisition resulted in the Company's stake in Novo increasing to 96.6% and the Group obtaining control of Novo.

The Group recognises its interest in joint ventures using the proportionate method of consolidation whereby the Group's share of each of the assets, liabilities, income and expenses of the joint venture are combined with similar items, line by line, in its consolidated financial statements.

Joint ventures are accounted for in the manner outlined above until the date on which the Group ceases to have joint control over the joint venture (26 December 2011).

PROPERTY, PLANT AND EQUIPMENT

With the exception of those acquired through business combination, on initial acquisition land and buildings, plant and equipment are valued at cost, being the purchase price and the directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management.

In subsequent periods, buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, whilst land is stated at cost less any impairment in value and is not depreciated. Property, plant and equipment acquired through business combinations are stated at their acquisition date fair values on initial recognition.

The net carrying amounts of land, buildings, plant and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against in the financial year in which this is determined.

Expenditure on major maintenance or repairs includes the cost of replacement of parts of assets and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will be available to the Group, the expenditure is capitalised and the carrying amount of the item replaced is derecognised. Similarly, overhaul costs associated with major maintenance are capitalised and depreciated over their useful lives where it is probable that future economic benefits will be available and any remaining carrying amounts of the cost of previous overhauls are derecognised. All other costs, including repair and maintenance expenditure, are expensed as incurred.

Where an item of property, plant and equipment is disposed of, it is derecognised and the difference between its carrying value and net sales proceeds is disclosed as a profit or loss on disposal in the statement of comprehensive income.

Any items of property, plant or equipment that cease to have future economic benefits expected to arise from their continued use or disposal are derecognised with any gain or loss included in the statement of comprehensive income in the financial year in which the item is derecognised.

DEPRECIATION

Depreciation is provided so as to write off the cost, less estimated residual values of buildings, plant and equipment (based on prices prevailing at the balance date) on the following bases:

- Mineral properties are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves.
- Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

Where parts of an asset have different useful lives, depreciation is calculated on each separate part. Each item or part's estimated useful life has due regard to both its own physical life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located, and to possible future variations in those assessments. Estimates of remaining useful lives and residual values

are reviewed annually. Changes in estimates which affect unit of production calculations are accounted for prospectively.

Depreciation of mineral properties at Mnogovershinnoye (MNV) in 2012 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2016 (2011: up to 2016). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2016).

Depreciation of mineral properties at Novo in 2012 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2025 (2011: up to 2025). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2025).

Depreciation of mineral properties at Belaya Gora (BG) in 2012 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2019 (2011: up to 2019). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2019).

The expected useful lives are as follows:

Buildings	5 – 14 years
Plant and Equipment	1 – 14 years

EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation expenditure relates to costs incurred on the exploration and evaluation of potential mineral reserves and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration and evaluation expenditure for each area of interest, other than that acquired from the purchase of another mining company, is carried forward as an asset provided that one of the following conditions is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial period in which this is determined. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.

Expenditure is transferred to mine properties once the work completed to date supports the future development of the property and such development receives appropriate approvals.

MINE DEVELOPMENT EXPENDITURE

Capitalised mine development costs include expenditure incurred to develop new ore bodies, to define future mineralisation in existing ore bodies, to expand the capacity of a mine and to maintain production, and also interest and financing costs relating to the construction of mineral property.

Mine development costs are, upon commencement of production, depreciated using a unit of production method based on the estimated proven and probable mineral reserves to which they relate, or are written off if the property is abandoned. The net carrying amounts of mine development costs at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against the statement of comprehensive income in the financial year in which this is determined.

MINE PROPERTIES

The development costs are transferred to the mine properties category when the asset is available for use; this is when commercial levels of production are achieved. The restoration provision cost is capitalised within mine assets. The cost of acquiring mine assets after the start of production is capitalised on the statement of financial position as incurred and included in the mine properties category. The cost of acquiring rights on mineral reserves and mineral resources including directly attributable expenses is capitalised on the statement of financial position as incurred and included in the mine properties category. Mine assets and mineral rights are amortised using the units-of-production method based on estimated proven and probable mineral reserves. The net carrying amounts of mine assets and mineral rights are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against the statement of comprehensive income in the financial year in which this is determined.

STRIPPING COSTS

Stripping costs incurred in open-pit operations during the production phase to remove waste ore are charged to operating costs on the basis of the average life of mine stripping ratio. The average stripping ratio is calculated as the number of cubic metres of waste material expected to be removed during the life of mine per ounce of gold mined. The average life of mine cost per cubic metre is calculated as the total expected costs to be incurred to mine the ore body, divided by the number of cubic metres expected to be mined. The average life of mine stripping ratio and the average life of mine cost per cubic metre are recalculated annually in the light of additional knowledge and changes in estimates.

The cost of the "excess stripping" is capitalised on the statement of financial position when the actual mining costs exceed the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonnes multiplied by the average life of mine stripping ratio, multiplied by the life of mine cost per cubic metres. When the actual mining costs are below the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonne multiplied by the average life of mine stripping ratio, multiplied by the life of mine cost per cubic metres, previously capitalised costs are expensed to increase the cost up to the average.

The cost of stripping in any period will be reflective of the average stripping rates for the ore body as a whole. Changes in the life of mine stripping ratio are accounted for prospectively as a change in estimate.

IMPAIRMENT

At each reporting date, management assesses whether there is any indication of impairment within the categories of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and an impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the statement of comprehensive income.

CONSTRUCTION WORK IN PROGRESS

Assets in the course of construction are capitalised in the construction work in progress account. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment.

No depreciation is charged on assets in the construction work in progress account. These assets are depreciated upon their transfer to the appropriate category of property, plant and equipment.

LEASES

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards of ownership from the lessor to the Group, the total lease payments are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Finance lease

Where the Group is a lessee in a lease which transfers substantially all the risks and rewards of ownership to the Group, the assets leased are capitalised in property, plant and equipment at the lower of the fair value of the leased asset and the present value of the minimum lease payments, on commencement of the lease. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are stated separately as finance lease liabilities. The interest cost is charged to the statement of comprehensive income over the lease period. The assets acquired under finance leases are depreciated over the shorter of their useful life and the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

GOODWILL

Business combinations on or after 1 January 2006 are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the statement of financial position as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the statement of comprehensive income.

Goodwill recognised as an asset is recorded at its carrying amount and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss on goodwill cannot be reversed under any circumstances.

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the statement of comprehensive income.

Further information is contained in Note 20.

FINANCIAL ASSETS AND LIABILITIES

Financial instruments classification and recognition

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them. The Group determines the classification of its financial assets and liabilities at initial recognition (which in the case of financial assets existing at the transition date, includes designation at that date) and, where allowed and appropriate, re-evaluates this designation at each financial year end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Where as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, the investment is reclassified into the available-for-sale category.

Currently the Group does not have held-to-maturity investments or available-for-sale financial assets.

Financial assets at fair value through profit or loss

Financial assets at initial recognition are designated at fair value through profit and loss. When a group of financial assets is managed on its performance this is evaluated on a fair value basis in accordance with a documented risk management strategy.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, it continues to recognise the financial asset to the extent of its continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or is cancelled or expires. Gains on derecognition are recognised within finance revenue and losses within finance costs.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

INVENTORIES

Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

The inventories are segregated by the following:

- Gold in process which is valued at the average total production cost at the relevant stage of production;
- Gold on hand which is valued on an average total production cost method;
- Ore stockpiles which are valued at the average cost of mining and stockpiling the ore;
- Raw materials and consumables (including fuel and spare parts): materials, goods or supplies to be either directly or indirectly consumed in the production process which are valued at weighted average costs.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

SHARE CAPITAL

Ordinary shares are classified as equity because there is no obligation to deliver cash that the entity cannot avoid. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is taken to the share premium account.

VALUE ADDED TAX

Gold production and subsequent sales are not subject to output value added tax. Input VAT is recoverable against income tax. Where input VAT is not recoverable the VAT provision is created on the statement of financial position corresponding with the statement of comprehensive income in a relevant period.

BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequently, borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

TRADE AND OTHER PAYABLES

Trade payables are accrued when the counterparty has performed its obligations under the contract; they are carried at amortised cost using the effective interest method.

PROVISIONS FOR LIABILITIES AND CHARGES

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

ENVIRONMENTAL PROTECTION, REHABILITATION AND CLOSURE COSTS

Provision is made for close down, restoration and environmental clean up costs (including the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas), where there is a legal or constructive obligation to do so, in the accounting period in which the environmental disturbance occurs, based on the estimated future costs. Where material, the provision is discounted and the unwinding of the discount is shown as a finance cost in the statement of comprehensive income. At the time of establishing the provision, a corresponding asset, is capitalised and depreciated on a unit of production basis.

The provision is reviewed on an annual basis for changes in cost estimates or lives of operations.

REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured and when all significant risks and rewards of ownership of the asset sold are transferred to the customer, Gold sales revenue is recognised when the product has been dispatched to the purchaser and is no longer under the physical control of the producer. At this point the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the product.

Novo as a concentrate producer and seller has contracts where price risk is retained for a specified period after the sale has occurred. The price payable under the concentrate contract is determined by reference to prices quoted in an organised market (LME). The title to the commodity passes to the buyer on delivery. At this time a provisional invoice is generated based on the average price over the previous month. 85% of the provisional invoice is settled within a few days. The remaining 15% (plus or minus any adjustment on 100% of the value of the sale for movements in price from the price in the provisional invoice and the final price, plus any minor volume adjustments resulting from the final assay) is settled in 4 months after the date of the delivery.

Pricing adjustment features that are based on quoted market prices for a date subsequent to the date of shipment or delivery of the commodity represent a derivative financial instrument once the commodity has been delivered. The derivative has a fair value, based on the pricing formula set out in the contract, which is based on quoted market prices.

Adjustments for prices are calculated using the best estimate. Adjustments for volumes (metal grades in concentrates) are based on the available actual test results. No corrections are made in respect of periods where no final test results are available.

Both prices and volume adjustments are booked to the accounts receivable corresponding to the Revenue from concentrate sales.

EMPLOYEE BENEFITS

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services) are accrued in the year in which the associated services are rendered by the employees of the Group.

PENSION PLAN

The Group pays contributions to personal pension schemes of employees, which are administered independently of the Group. The Group has an obligation to make one time payments to the employees when they retire. This obligation is calculated by multiplying the monthly salary by the whole amount of years worked at the entity.

SHARE BASED PAYMENTS

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with a corresponding entry in equity.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the statement of comprehensive income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the statement of comprehensive income.

Cash-settled transactions

The cost of cash-settled transactions is measured at fair value using an appropriate option pricing model. Fair value is established initially at the grant date and at each reporting date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the reporting date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the reporting date. Changes in the carrying amount of the liability are recognised in profit or loss for the period.

EARNINGS PER SHARE

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

INCOME TAXES

Current tax for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Deferred income tax is recognised using the statement of financial position liability method in respect of tax losses carried forward and temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

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

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. To the extent that an asset not previously recognised fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the reporting date.

NEW STANDARDS

The accounting policies adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2012 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

Standards and amendments issued but not yet effective or early adopted up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. The Group currently does not have items in OCI that will never be recycled through earnings and therefore, the adoption of this revised standard would not impact the current presentation of the statement of comprehensive income.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. The amendments become effective for annual periods beginning on or after 1 January 2013 and are applicable retrospectively from the beginning of the earliest period presented. The amendments are not expected to impact the financial position or performance of the Group.

IFRS 9 Financial Instruments – Classification and Measurement

The standard reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group is in the process of identifying the potential impacts of the current changes to IFRS 9 and will quantify the effects on its consolidated financial position and results of operations in conjunction with the other phases, when issued, to present a comprehensive picture of such impacts on its consolidated financial statements.

IFRS 10 Consolidated Financial Statements

The standard replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods on or after 1 January 2014. The Group is currently assessing the impact this interpretation will have on financial position and performance.

IFRS 11 Joint arrangements

The new standard replaces IAS 31 Interests in joint ventures and SIC 13 Jointly-controlled entities – non-monetary contributions by venturers. The IASB implementation date is for periods beginning on or after 1 January 2013 whereas the standard becomes mandatory in the EU only for annual periods beginning on or after 1 January 2014. The standard defines contractually agreed sharing of control of an arrangement and the accounting for joint operations and joint ventures. Adoption of the standard is not expected to impact the financial position or performance of the Group as it no longer has any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures will also be required. This standard will become effective for annual periods beginning on or after 1 January 2014 with the adoption of IFRS 10, IFRS 11, IAS 27 (2012) and IAS 28 (2012). The Group will include the relevant disclosures required by IFRS 12 upon adoption.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013. Given the Group does not currently have non-monetary assets measured at fair value, the potential impacts of this new standard would be in relation to its financial instruments measured at fair value.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (New Interpretation)

This interpretation provides guidance for the recognition of production stripping costs as a non-current asset. It establishes that stripping costs are recognised as a non-current asset, to the extent the benefit is improved access to ore and only if it is probable that the future economic benefit associated with the stripping activity will flow to the entity, the component of the ore body for which access has been improved can be clearly identified and the costs relating to the stripping activity associated with that component can be measured reliably. This standard becomes effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact this interpretation will have on financial position and performance.

The IASB has issued other amendments resulting from Improvements to IFRSs that management does not consider to have any impact on the accounting policies, financial position or performance of the Group.

Improvements to IFRSs (issued May 2012)

The IASB has issued amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendment will result in changes to accounting policies, but will not have any impact on the financial position or performance of the Group

IAS 16 Property, plant and equipment

The improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. As a result of this improvement, major spare parts and servicing equipment will have to be reclassified from inventory to property, plant and equipment in the first half of the financial year 2013. The impact of implementing the amendment on the Group's inventory is being assessed.

The amendment affects presentation only and will have no impact on the Group's financial position or performance.

Other amendments resulting from improvements to the following standards and interpretations will not have an impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 First-time adoption of IFRS
- IAS 1 Presentation of financial statements
- IAS 32 Financial instruments: presentation
- IAS 34 Interim financial reporting

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

BUSINESS COMBINATIONS

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. The determination of the fair value is based on discounted cash flows. The key assumptions taken into consideration are the probability of meeting each performance target and the discount factor (Note 5).

Financial instruments and assets and liabilities acquired in business combination are measured at fair value. An independent valuer (BDO) was engaged to assess the fair value of the identifiable assets and liabilities of Novo. As a result, the value of Novo's property, plant and equipment increased by US\$39.8 million. The carrying values of other assets and liabilities were considered to equal their fair value (Note 5).

The fair value of assets and liabilities at Klen acquired in July 2012 was assessed based on the results of the independent audit of Klen and Verkhne-Krichalskaya deposits undertaken by Micon International Co Ltd. and approved by the Company's nominated adviser.

IMPAIRMENT OF NON-CURRENT ASSETS

The Group tests goodwill for impairment at least annually. Note 21 outlines the significant judgements and estimations made when preparing impairment tests of non-current assets.

TAX LEGISLATION

Russian tax, currency and customs legislation is subject to varying interpretations. Please refer to Note 31 for details.

The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities in the countries in which it operates. The amounts of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible authority.

DEFERRED INCOME TAX ASSET RECOGNITION

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future tax profits together with an assessment of the effect of future tax planning strategies. Further details are contained in Note 15.

SITE RESTORATION PROVISION

A provision is recognised for expected close down, restoration and environmental clean up costs based on the estimated future costs of such activities. It is expected that most of these costs will be incurred at the end of life of the operating mine. Assumptions used to calculate the provision for site restoration were based on the government requirements applicable to sites closure, and assumptions regarding the life of mine (which is assumed to close in 2016 at MNV, in 2019 at BG and in 2025 at Novo), expected site restoration activities (removal of waste, restoration of mine sites), and current prices for similar activities.

DISCOUNT RATES AFFECTING IMPAIRMENT CALCULATIONS

Discount rates are based on the weighted average cost of capital and adjusted for project specific risk (country risk, production risk, cost estimation risk, reserve/resource risk etc). Please refer to Note 21 for pre-tax discount rates.

INVENTORY OBSOLESCENCE

The Group entities perform a detailed analysis of old items of stock and create a specific provision for them once determined recovery of value unlikely. Then the Group performs a turnover analysis for the remaining items of inventory by aging. If the Group identifies impairment indicators, the obsolescence provision is then recognised at the statement of financial position. The movement in the obsolescence provision is recognised in the statement of comprehensive income.

GOING CONCERN

The Directors consider that the Group will continue as a going concern. In making this judgement management considered current intentions and financial position of the Group.

The acquisition made after the reporting date and agreed financing agreements were taken into consideration for the purposes of the going concern analysis.

DEFERRED STRIPPING COSTS

The Group defers stripping costs incurred during the production stage of its open-pit operations, on the basis of the average life of mine stripping ratio. The factors that could affect capitalisation and expensing of stripping costs include the following:

- change of estimates of proven and probable ore reserves;
- changes in mining plans in the light of additional knowledge and change in mine's pit design, technical or economic parameters; and
- changes in estimated ratio of the number of cubic meters of waste material removed per ton of ore mined.

DETERMINATION OF ORE RESERVES AND RESOURCES

The Group estimates its ore reserves and mineral resources in accordance with the rules and requirements of the Russian State Committee for Reserves (GKZ) as well as in accordance with JORC.

Proven and probable reserves in accordance with JORC have been used in the units of production calculation for depreciation, as management views the JORC reserves as a more accurate approximation of the reserves that will ultimately be recovered.

There are numerous uncertainties inherent in estimating ore reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

EXPLORATION AND EVALUATION EXPENDITURE

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that the asset will bring economic benefits in the future, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of comprehensive income in the period when the new information becomes available.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classifies financial assets as "financial assets at fair value through profit or loss" when those assets are managed on a fair value basis. The Group's financial assets held at fair value through profit or loss comprise coupon bonds and shares, which have a carrying value at 31 December 2012 of US\$54.1 million (2011: US\$36.1 million). The Group uses quoted market prices to determine fair value for financial assets. The fair value adjustment on financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

5. BUSINESS COMBINATIONS

ACQUISITION OF LLC KLEN

On 9 July 2012, the Group acquired a 100% share in LLC Klen from Aristus Holdings Limited in order to improve the proven and probable reserves base and to increase the gold and gold equivalents production.

This transaction is classified as a related party transaction. The Directors of the Company, having received approval from the Company's nominated adviser, Numis Securities Limited, consider that the terms of the said transaction are fair and reasonable insofar as the shareholders of the Company are concerned.

The Group determined that this transaction represents a business combination.

Purchase consideration	US\$000
Cash paid	53,705
Fair value of loan assigned	15,377
Total consideration transferred	69,082

From total consideration the amount allocated to loan was US\$15.4 million based on the fair value of the loan. The payment was made on 16 July 2012.

ASSETS ACQUIRED AND LIABILITIES ASSUMED

The estimated fair value of the identifiable assets and liabilities of Klen as at the date of acquisition was as follows:

	Fair value recognised on acquisition US\$000
Assets	
Exploration and evaluation assets (Verkhne-Krichalskaya licence)	7,000
Mine properties (Klen gold deposit)	59,141
Property, plant and equipment	1,362
Other non-current assets	1,246
Accounts receivable and other debtors	638
Cash and cash equivalents	18
Total assets acquired	69,405
Liabilities	
Borrowings	(15,377)
Deferred tax liabilities	(10,142)
Trade accounts and notes payable	(322)
Other accounts payable and accrued liabilities	(60)
Current taxes payable	(4)
Total liabilities assumed	(25,905)
Total identifiable net assets at fair value	43,500
Goodwill arising on acquisition	10,205
Purchase price	53,705
Plus: fair value of loan	15,377
Total consideration transferred	69,082

The goodwill balance is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases. From the date of acquisition, Klen has contributed US\$0.0 million to revenue and loss of US\$0.3 million to the net profit before tax of the Group in 2012. If the combination had taken place at the beginning of the year 2012, revenue of the Group would have been US\$351.8 million and profit before tax of the Group would have been US\$153.6 million.

PRIOR YEAR ACQUISITION OF SHARE IN THE OPEN JOINT STOCK COMPANY NOVO-SHIROKINSKIY RUDNIK

The Group had a 48.3% interest in Novo according to a contractual agreement with Kazzinc which represented a joint venture entity. On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc in order to improve the proven and probable reserves base and to increase the gold and gold equivalents production. This acquisition resulted in the Company's stake in Novo increasing to 96.6%.

Purchase consideration	US\$000
Cash paid	38,524
Contingent consideration liability	8,531
Cash paid for loan	62,476
Total consideration transferred	109,531

From total consideration the amount allocated to loan was \$58.8 million based on the fair value of the loan. \$42.2 million plus contingent consideration of \$8.5 million were allocated to the acquisition of the 48.3% of shares of Novo amounting to a total consideration for the shares of \$50.7 million. The additional cash payment to Kazzinc of US\$9.0 million, payable in January 2013 was recognised at the fair value of US\$8.5 million as a contingent consideration. A 5.5% discount factor was applied.

The existing holding of 48.3% was revalued at fair value which was determined to be US\$50.7 million. The revaluation resulted in a gain of US\$13.5 million which is recorded in a separate line in the statement of comprehensive income.

IFRS 3 Purchase price consists of	US\$000
Fair value of existing 48.3%	50,741
Fair value of acquired 48.3%	50,741
Total	101,482

ASSETS ACQUIRED AND LIABILITIES ASSUMED

The fair value of the identifiable assets and liabilities of Novo as at the date of acquisition were as follows:

	Fair value recognised on acquisition US\$000
Assets	
Property, plant and equipment	222,135
Other non-current assets	1,280
Inventories	5,600
Accounts receivable and other debtors	10,988
Cash and cash equivalents	417
Other current assets	161
Total assets acquired	240,581
Liabilities	
Borrowings	(116,556)
Provisions for liabilities and charges	(6,068)
Deferred tax liabilities	(13,798)
Trade accounts and notes payable	(1,561)
Other accounts payable and accrued liabilities	(1,489)
Current taxes payable	(1,370)
Total liabilities assumed	(140,842)
Total identifiable net assets at fair value	99,739
Non-controlling interest measured at fair value	(3,391)
Goodwill arising on acquisition	5,134
IFRS 3 Purchase price	101,482
Less: non-cash adjustment – previous shareholding measured at fair value	(50,741)
Plus: fair value of previously recognised loan payable to Kazzinc	58,790
Total consideration transferred	109,531

The Group has elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets amounting to US\$3.4 million which is 3.4% of US\$99.7 million. Goodwill of US\$5.1 million comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the polymetallic concentrate production segment. None of the goodwill recognised is expected to be deductible for income tax purposes.

The existing intercompany loan given to Novo by Stanmix Investment was treated as a pre-existing relationship and therefore considered as settled at fair value. No gain or loss was recorded at settlement.

In 2011 Novo has contributed US\$46.2 million of revenue and US\$9.3 million of the profit before tax of the Group. If the combination had taken place at the beginning of the year 2011, revenue of the Group would have been US\$349.6 million and profit before tax of the Group would have been US\$132.8 million. From the date of acquisition, Novo has contributed US\$0.0 million of revenue and US\$0.0 million to the net profit before tax of the Group in 2011.

BUSINESS COMBINATION SUBSEQUENT TO THE YEAR ENDED 31 DECEMBER 2012

On 29 March 2013, the Group acquired from Union Mining Holdings Limited a 100% share in CJSC Bazovye Metally which holds the mining and exploration rights to the Kekura gold deposit and surrounding licence area. Kekura's resource base will contribute to the long-term production profile of the Group and represents a solid foundation for the Group's further growth.

The Group determined that this transaction represents a business combination.

From total consideration of US\$223.0 million, US\$207.0 million was paid in cash. US\$5.0 million is the amount of contingent consideration payable in the second half of 2013 as long as there are no third-parties' claims. In addition, up to US\$11.0 million of contingent consideration will be paid in the second half of 2013 upon the successful launch of the pilot plant which is currently being completed. US\$207.0 million was funded via a new debt facility with Gazprombank.

In addition to the information disclosed in respect of this acquisition, IFRS 3 Business Combinations requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable to disclose this information and calculate the resultant goodwill arising from the acquisition because the Group has not completed the valuation exercise in accordance with IFRS 3.

6. INTEREST IN A JOINT VENTURE

The Group had a 48.3% interest in Novo. On 1 December 2006 the Group signed a joint venture agreement with Kazzinc with the purpose of further developing the Novo polymetallic deposit. The interest in this joint venture was accounted using the proportionate method of consolidation.

On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc, which resulted in the Company's stake in Novo increasing to 96.6%. The Group ceased to have joint control over the joint venture as a result of acquiring the additional shares and, from 26 December 2011 Novo has been accounted for as a subsidiary undertaking (Note 5).

The share of the income and expenses of the jointly controlled entity for the year ended 31 December 2011, which are included in the consolidated financial statements, are as follows:

	2011 US\$000
Revenue	46,162
Cost of sales	(29,116)
Administrative expenses	(24)
Obsolescence provision charge	(57)
Foreign exchange (loss)/gain	(224)
Finance costs	(2,427)
(Loss)/gain on modification of terms of loan*	(4,479)
Other income	121
Other operating expenses	(661)
Profit before tax	9,295
Income tax charge	(2,720)
Profit after tax	6,575

* Loss on modification of terms of loan in 2011 (US\$4.5 million) relates to receipts from Kazzinc to finance the joint venture. Interest income related to loans given to the jointly controlled entity in 2011 (US\$2.6 million) and fair value gain related to loans given to jointly controlled entity in 2011 (US\$4.7 million) are shown as part of finance income (Note 14.1).

7. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the nature of their activities, and has four reportable segments as follows:

- Gold production;
- Polymetallic concentrate production;
- Development and exploration; and
- Other.

The gold production reportable segment comprises two operating segments, namely Mnogovershinnoye (MNV) and Belaya Gora (BG) at which level management monitors its results for the purpose of making decisions about resource allocation and evaluating the effectiveness of its activity.

The polymetallic concentrate production segment, namely Novosibirskoye (Novo), is analysed by management separately due to the fact that the nature of its activities differs from the gold production process. Novo profit and loss was accounted using the proportionate (48.3%) method during 2011 when it was classified as a joint venture. Following the stepped acquisition in December 2011, the results and balances of Novo have been fully consolidated.

The development and exploration segment contains the entities which hold the licenses being in the development and exploration stage. Following the acquisition in July 2012, the development and exploration segment also includes the results and balances of Klen.

The “other” segment includes head office, management company, trade house and other companies which have been aggregated to form the reportable segment.

Segment performance is evaluated based on EBITDA (defined as operating profit/(loss) excluding depreciation and amortisation, impairment gain/(loss) and movement in WIP provision). The development and exploration segment is evaluated based on the life of mine models in connection with the capital expenditure spent during the reporting period.

The following tables present revenue, EBITDA and asset information for the Group's reportable segments. The segment information is reconciled to the Group's profit for the year.

The Highland Gold financing (including finance costs and finance income), income taxes, foreign exchange gains/(losses), other non-current assets and current assets are managed on a group basis and are not allocated to operating segments.

Revenue from several customers was greater than 10% of total revenues. In 2012 the gold and silver revenue was received from sales to Gazprombank (US\$107.9 million), VTB Bank (US\$91.7 million), Sberbank (US\$51.9 million) and MDM Bank (US\$2.4 million). In 2011 the gold and silver revenue was received from sales to Gazprombank (US\$104.6 million), VTB Bank (US\$49.3 million) and MDM Bank (US\$93.8 million). In 2012 the concentrate revenue in the amount of US\$90.9 million was received from sales to Kazzinc (2011: US\$45.8 million).

Year ended 31 December 2012	Gold production segment	Polymetallic concentrate production segment	Development & exploration	Other	Adjustments and eliminations	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Revenue						
Gold revenue	251,431	-	-	-	-	251,431
Silver revenue	2,432	-	-	-	-	2,432
Concentrate revenue	-	90,940	-	-	-	90,940
Other third-party	130	338	9	6,548	-	7,025
Inter-segment	372	-	6	14,552	(14,930)	-
Total revenue	254,365	91,278	15	21,100	(14,930)	351,828
Cost of sales	140,589	60,229	48	4,704	-	205,570
EBITDA	120,779	44,637	(847)	(2,761)	-	161,808
Other segment information						
Depreciation	(20,134)	(16,296)	-	(380)	-	(36,810)
Net finance income including foreign exchange						28,657
Profit before income tax						153,655
Income tax						(30,673)
Profit for the year						122,982
Segment assets at 31 December 2012						
Non-current assets						
Capital expenditure*	151,536	216,104	218,839	1,142	-	587,621
Goodwill	22,253	5,134	53,183	-	-	80,570
Other non-current assets						59,454
Current assets**						183,759
Total assets						911,404
Capital expenditure – addition in 2012, including:	100,025	7,098	27,550	142		134,815
Deferred stripping costs	9,705					9,705
Capitalised bank interest	82					82
Cash capital expenditure***	90,238	7,098	27,550	142		125,028
<p>* Capital expenditure is the sum of exploration and evaluation assets, mine properties and property, plant and equipment.</p> <p>** Current assets include corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash and cash equivalents of US\$7.3 million, investments of US\$54.1 million, inventories of US\$64.8 million, trade and other receivables of US\$50.4 million and other assets of US\$7.2 million.</p> <p>*** Cash capital expenditure include additions to property, plant and equipment of US\$90.3 million and prepayments given for property, plant and equipment of US\$34.7 million, including US\$32.3 million relating to the construction of a stand-alone process plant at BG.</p>						

Year ended 31 December 2011	Gold production segment US\$000	Polymetallic concentrate production segment US\$000	Develop- ment & exploration US\$000	Other US\$000	Adjustments and eliminations US\$000	Total US\$000
Revenue						
Gold revenue	245,827	-	-	-	-	245,827
Silver revenue	1,900	-	-	-	-	1,900
Concentrate revenue	-	45,824	-	-	-	45,824
Other third-party	27	338	23	6,242	-	6,630
Inter-segment	370	-	66	15,015	(15,451)	-
Total revenue	248,124	46,162	89	21,257	(15,451)	300,181
Cost of sales	111,629	29,116	24	4,917	-	145,686
EBITDA	138,196	24,002	(1,549)	(3,531)	-	157,118
Other segment information						
Depreciation	(18,988)	(7,464)	-	(368)	-	(26,820)
Movement in WIP provision	(582)	-	-	-	-	(582)
Gain on acquisition of subsidiary	-	13,479	-	-	-	13,479
Net finance expenses including foreign exchange						(11,102)
Profit before income tax						132,093
Income tax						(28,270)
Profit for the year						103,823
Segment assets at 31 December 2011						
Non-current assets						
Capital expenditure*	105,029	222,134	124,352	1,402	-	452,917
Goodwill	22,253	5,134	42,978	-	-	70,365
Other non-current assets						18,985
Current assets**						226,073
Total assets						768,340
Capital expenditure – addition in 2011, including:	44,420	4,784	21,686	206		71,096
Deferred stripping costs	5,469					5,469
Capitalised expenses			16			16
Cash capital expenditure***	38,951	4,784	21,670	206		65,611

* Capital expenditure is the sum of exploration and evaluation assets, mine properties and property, plant and equipment.

** Current assets include corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash and cash equivalents of US\$90.6 million, investments of US\$36.1 million, inventories of US\$61.8 million, trade and other receivables of US\$28.6 million and other assets of US\$9.0 million.

*** Cash capital expenditure include additions to property, plant and equipment of US\$64.0 million and prepayments given for property, plant and equipment of US\$1.6 million.

All revenue and assets for both 2012 and 2011 are located in the Commonwealth of Independent States.

8. AUDITORS' REMUNERATION

The Group accrued the following amounts in respect of the audit of the financial statements and other services provided to the Group.

	Ernst & Young		Others	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Audit of the Group financial statements	648	1,007	-	-
Other fees to auditors:				
- Local statutory audits for subsidiaries	18	32	109	54
- Fees in relation to previous year Group audit	-	15	-	-
	666	1,054	109	54

9. REVENUE

The Group operates in one principal area of activity, that of production of gold and concentrates.

	2012 US\$000	2011 US\$000
Gold sales	251,431	245,827
Concentrate sales	90,940	45,824
Silver sales	2,432	1,900
Other sales	7,025	6,630
	351,828	300,181

10. COST OF SALES

	2012 US\$000	2011 US\$000
Operating costs	44,926	25,699
Employee benefits expense	50,954	36,519
Depreciation, depletion and amortisation	36,810	26,820
Raw materials and consumables used	50,620	38,677
Taxes other than income tax	22,260	17,971
	205,570	145,686

11. ADMINISTRATIVE EXPENSES

	2012 US\$000	2011 US\$000
Selling and distribution expenses	2,700	3,262
Minimum lease payments recognised as an operating lease expense	1,123	979
Auditors' fee (Note 8)	775	1,108
Salaries and wages of parent company	1,036	1,188
Management company administrative expenses	10,269	9,207
Legal and professional fees	935	1,994
Travel expenses	254	424
Bank charges	462	234
Other administrative expenses	247	593
Total administrative expenses	17,801	18,989

12. OTHER OPERATING INCOME AND EXPENSES

12.1 Other operating income

	2012 US\$000	2011 US\$000
Other income	1,220	796
Accounts payable write-off	304	-
Total other operating income	1,524	796

12.2 Other operating expenses

	Notes	2012 US\$000	2011 US\$000
Movement in WIP provision	12.2.1	-	582
Property, plant and equipment write-off	12.2.2	710	1,725
Donations		1,793	1,971
Movements in inventory obsolescence provision		(279)	655
Loss on disposal of property, plant and equipment		346	-
Loss on disposal of inventory		616	135
Other		1,797	1,518
Total other operating expenses		4,983	6,586

12.2.1 Movement in WIP provision

Stock-piled low grade ore at BG is tested for impairment annually. There was no movement in WIP provision in 2012 (2011: movement in WIP provision recognised in the amount of US\$0.6 million).

12.2.2 Property, plant and equipment write-off

In 2012 US\$0.7 million (2011: US\$1.7 million) write-off relates to retirement of old inefficient equipment.

13. FOREIGN EXCHANGE GAINS AND LOSSES

The total amount of foreign exchange gain for the year ended 31 December 2012 was US\$4.4 million (2011: loss of US\$5.5 million) resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies such as Russian Roubles and British pounds into the functional currency.

14. FINANCE INCOME AND COSTS

14.1 Finance income

	2012 US\$000	2011 US\$000
Bonds and shares fair value movement (Note 34)	22,303	-
Interest from joint venture (Note 32)	-	2,552
Gain on modification of terms of loans to jointly controlled entity (Note 32)	-	4,712
Bank interest	3,237	4,215
Total finance income	25,540	11,479

14.2 Finance costs

	2012 US\$000	2011 US\$000
Interest expense - related party (Note 32)	-	2,427
Loss on modification of terms of loan from Kazzinc (Note 32)	-	4,479
Bonds and shares fair value movement (Note 34)	-	9,661
Accretion expense on site restoration provision (Note 30)	846	487
Unwinding of contingent consideration liability	469	-
Total finance costs	1,315	17,054

From the beginning of 2010 the terms of original loan agreements of Kazzinc and HGML for financing joint venture Novo have changed. The change of terms included revision of interest rates and re-schedule of repayment. In 2010 the discounted present value of the cash flows under the new terms using the original effective interest rate was more than 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability, and the new terms are considered as substantially different. Such changes in existing debt instrument were accounted for as an extinguishment of the original financial assets and liabilities and recognition of new ones. Costs connected with the modifications were recognised as part of the extinguishment in the statement of comprehensive income. In 2011 the discounted present value of the cash flows under the new terms using the original effective interest rate was less than 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability, therefore there was no change in the market rate applied in comparison with 2010.

The carrying amount of financial assets and liabilities was adjusted to the present values of all future cash receipts and repayments under new terms using market rate of 8.5%. In 2011 this resulted in an increase of Kazzinc loans received by US\$4.5 million (48.3%) and an increase of loans issued by the Group to Novo by US\$4.7 million (51.7%). These differences were recognised as fair value gain and fair value expense within finance income and finance costs in the statement of comprehensive income.

15. INCOME TAX

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	2012 US\$000	2011 US\$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	23,438	25,906
Adjustments in respect of prior year current tax	-	(71)
	23,438	25,835
Deferred income tax:		
Relating to origination of temporary differences	7,235	2,435
Income tax expense reported in the statement of comprehensive income	30,673	28,270

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by Russian statutory tax rate of 20% for the year ended 31 December 2012 and 2011 is as follows:

	2012 US\$000	2011 US\$000
Accounting profit before income tax	153,655	132,093
At Russian statutory income tax rate of 20%	30,731	26,419
Non-deductible expenses	572	3,385
Adjustments in respect of prior year deferred tax	658	-
Fair value adjustment at Novo	-	(2,678)
Lower tax rates on overseas earnings or losses	(1,829)	1,635
Recognised losses	(76)	(929)
Movements in other unrecognised temporary differences	617	509
Adjustments in respect of prior year current tax	-	(71)
Income tax expense	30,673	28,270
Income tax expense reported in the consolidated statement of comprehensive income	30,673	28,270

DEFERRED INCOME TAX

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		Acquisitions	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Deferred income tax liability						
Property, plant and equipment	(58,042)	(35,992)	9,370	891	(12,680)	(13,490)
Inventory	(2,846)	(4,761)	(1,915)	1,587	-	-
Accounts receivable and other debtors	(20)	(132)	(112)	(468)	-	-
	(60,908)	(40,885)	7,343	2,010	(12,680)	(13,490)
Deferred income tax assets						
Accounts receivable and other debtors	701	446	(255)	(216)	-	230
Inventory	107	231	124	(83)	-	35
Provisions for liabilities and charges	20	-	(20)	-	-	-
Trade accounts and notes payable	356	942	586	(29)	-	127
Tax losses	19,257	16,176	(543)	753	2,538	3,236
	20,441	17,795	(108)	425	2,538	3,628
Net deferred income tax liabilities	(40,467)	(23,090)	7,235	2,435	(10,142)	(9,862)

	2012 US\$000	2011 US\$000
Deferred income tax assets	616	-
Deferred income tax liabilities	(41,083)	(23,090)
Deferred tax liabilities net	(40,467)	(23,090)

No deferred tax benefits are recognised in relation to site restoration provisions and obsolescence provisions. Restoration expenses are tax deductible when incurred. However, it is not certain that there will be sufficient income towards the end of the mine's life against which the restoration expenditure can be offset and therefore future tax relief has not been assumed.

The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the site restoration provision at 31 December 2012 is US\$13.4 million (31 December 2011: US\$10.1 million).

No deferred tax benefit is recognised in relation to the provision for obsolete inventory. These materials are unlikely to be used for production purposes in the future and therefore future tax relief is not assumed. The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the obsolescence provision at 31 December 2012 is US\$11.7 million (31 December 2011: US\$12.0 million).

The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the tax losses at 31 December 2012 is US\$4.8 million (31 December 2011: US\$17.8 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

According to Russian tax legislation, tax losses expire if not utilised within 10 years of accruing. In 2012 the income tax in Kyrgyzstan was decreased to zero for entities engaged in gold mining and gold selling.

The temporary differences associated with investments in subsidiaries, for which deferred tax liability in respect of withholding tax on dividends has not been recognised aggregate to US\$389.1 million (2011: US\$306.4 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences should be between US\$0 and US\$19.5 million (2011: US\$0 and US\$30.6 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2012 and 2011 years of assessment will be subject to tax at the standard rate of 0%.

16. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the exercise of share options into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2012	2011
	US\$000	US\$000
Net profit attributable to ordinary equity holders of the parent from continuing operations	122,982	103,823
Net profit attributable to ordinary equity holders of the parent	122,982	103,823
	Thousands	Thousands
Weighted average number of ordinary shares for basic earnings per share	325,222	325,216
Effect of dilution:		
Share options	130	1,031
Weighted average number of ordinary shares adjusted for the effect of dilution	325,352	326,247

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

17. EXPLORATION AND EVALUATION ASSETS

	US\$000
Cost as at 1 January 2011	27,317
Additions	24,849
Other adjustments	21
Capitalised depreciation	10
Cost as at 31 December 2011	52,197
Additions	18,014
Transfer from other non-current assets	2,504
Klen acquisition	7,000
Capitalised depreciation	15
Transfer to development	(6,827)
Cost as at 31 December 2012	72,903
Net book value as at 31 December 2011	52,197
Net book value as at 31 December 2012	72,903

Transfer from non-current assets relates to amounts of VAT that the company doesn't have the right to reclaim.

The following amounts in relation to exploration and evaluation activities have been recognised in the consolidated statement of comprehensive income or the consolidated cash flow statement as applicable:

	2012	2011
	US\$000	US\$000
Operating expenses	(121)	(24)
Net cash from operating activities	-	-
Net cash used in investing activities	18,258	24,849

18. MINE PROPERTIES

	Mining assets	Deferred stripping costs	Total
	US\$000	US\$000	US\$000
Cost as at 1 January 2011	232,874	118	232,992
Additions	14,966	5,469	20,435
Transfers	(172)	-	(172)
Write-off	(3)	-	(3)
Deferred stripping write-off	-	(4,818)	(4,818)
Capitalised depreciation	186	-	186
Change in estimation - site restoration asset	9,962	-	9,962
Other adjustments	(564)	-	(564)
Novo acquisition	95,779	-	95,779
Cost as at 31 December 2011	353,028	769	353,797
Reclassification	(908)	-	(908)
Additions	15,584	9,705	25,289
Transfers	6,956	-	6,956
Write-off	(193)	-	(193)
Deferred stripping write-off	-	(9,710)	(9,710)
Capitalised depreciation	200	-	200
Change in estimation - site restoration asset*	13,269	-	13,269
Klen acquisition	59,141	-	59,141
Cost as at 31 December 2012	447,077	764	447,841
Depreciation and impairment as at 1 January 2011	54,612	-	54,612
Provided during the year	16,259	-	16,259
Write-off	(2)	-	(2)
Other adjustments	565	-	565
Novo acquisition	(98)	-	(98)
Depreciation and impairment as at 31 December 2011	71,336	-	71,336
Reclassification	(908)	-	(908)
Provided during the year	21,581	-	21,581
Write-off	(168)	-	(168)
Transfers	28	-	28
Depreciation and impairment as at 31 December 2012	91,869	-	91,869
Net book value as at 31 December 2011	281,692	769	282,461
Net book value as at 31 December 2012	355,208	764	355,972

* During 2012 there was a change in the rehabilitation estimate mainly due to a change in the volume of waste removal at Novo and BG. The net present value of the increase in the cost estimate is US\$13.3 million (US\$2.8 million at MNV, US\$6.6 million at BG, US\$3.9 million at Novo) which was booked as an increase to mining assets and non-current provisions.

19. PROPERTY, PLANT AND EQUIPMENT

	Freehold building	Plant and equipment	Construction in progress	Total
	US\$000	US\$000	US\$000	US\$000
Cost				
At 1 January 2011	26,206	74,526	6,820	107,552
Additions	-	252	23,990	24,242
Transfers	1,535	12,248	(13,611)	172
Reclass to inventory	-	-	(84)	(84)
Other adjustments	288	(139)	217	366
Write-off	(29)	(3,604)	(916)	(4,549)
Disposals	-	(73)	-	(73)
Novo acquisition	17,806	8,473	687	26,966
At 31 December 2011	45,806	91,683	17,103	154,592
Reclassification	(1,529)	(210)	54	(1,685)
Additions	307	130	56,346	56,783
Transfers	4,510	25,060	(29,689)	(119)
Reclass to inventory	-	-	(723)	(723)
Write-off	(3)	(2,284)	(221)	(2,508)
Disposals	(16)	(741)	-	(757)
Capitalised depreciation	-	-	1,604	1,604
Klen acquisition	-	252	1,110	1,362
At 31 December 2012	49,075	113,890	45,584	208,549
Depreciation				
At 1 January 2011	6,219	26,540	703	33,462
Provided during the year	2,116	9,255	-	11,371
Write-off	-	(2,263)	(562)	(2,825)
Disposals	-	(11)	-	(11)
Other adjustments	-	(218)	-	(218)
Capitalised depreciation	46	150	-	196
Novo acquisition	(2,282)	(3,219)	(141)	(5,642)
At 31 December 2011	6,099	30,234	-	36,333
Reclassification	(1,529)	(156)	-	(1,685)
Provided during the year	3,993	11,236	-	15,229
Write-off	(2)	(1,821)	-	(1,823)
Disposals	(4)	(48)	-	(52)
Transfers	(17)	(1)	-	(18)
Capitalised depreciation	65	1,754	-	1,819
At 31 December 2012	8,605	41,198	-	49,803
Net book value:				
At 31 December 2011	39,707	61,449	17,103	118,259
At 31 December 2012	40,470	72,692	45,584	158,746

No plant and equipment has been pledged as security for bank loans (2011: Nil).

20. INTANGIBLE ASSETS

	Goodwill US\$000
Cost	
At 1 January 2011	65,231
Business combination - acquisition of subsidiary (Note 5)	5,134
At 31 December 2011	70,365
Business combination - acquisition of subsidiary (Note 5)	10,205
At 31 December 2012	80,570
Impairment	
At 1 January 2011	-
Provided during the year	-
At 31 December 2011	-
Provided during the year	-
At 31 December 2012	-
Net book value:	
At 31 December 2011	70,365
At 31 December 2012	80,570

Intangible assets represent goodwill arising from the Barrick transaction (US\$65.2 million), from acquisition of Novo (US\$5.1 million) and from acquisition of Klen (US\$10.2 million).

Goodwill is allocated to a single or group of cash-generating units as appropriate, representing the lowest level at which it is monitored for management purposes. Goodwill is allocated to the following groups of cash-generating units:

	2012 US\$000	2011 US\$000
Goodwill allocated to the operating gold mining company (MNV)	9,690	9,690
Goodwill allocated to the operating gold mining company (BG)	12,563	12,563
Goodwill allocated to the polymetallic mining company (Novo)	5,134	5,134
Goodwill allocated to the group of development and exploration assets (excluding Klen)	42,978	42,978
Goodwill allocated to development and exploration company (Klen)	10,205	-
Balance at 31 December	80,570	70,365

21. IMPAIRMENT TESTING OF NON-CURRENT ASSETS

The carrying amount of non-current assets including goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. Management has determined the recoverable amounts in 2012 and 2011 using fair value less costs to sell calculations. The fair value is determined at the cash-generating unit level, in this case being the separate gold production and development and exploration assets, by discounting the expected cash flows estimated by management over the life of the mine:

- MNV till 2016;
- BG – 2019;
- Novo – 2025;
- Klen – 2026;
- Taseevskoye – 2024;
- Unkurtash – 2034;
- Lubov – 2028.

No impairment loss has been identified and recognised in both periods.

The key assumptions used for its calculation are as follows:

- Recoverable reserves and resources;
- Production volumes;
- Discount rates;
- Metal prices; and
- Operating costs.

Recoverable reserves and resources are based on the proven and probable reserves and resources in existence at the end of the year.

Metal prices are based on management judgement with reference to world known analysts forecasts. Cash costs are based on management's best estimate over the life of the mine.

Discount rates are calculated considering the pre-tax weighted average cost of capital updated to reflect management's estimate of the risk attached to the country in which the asset is based. The underlying cash flows of each mine/project are adjusted for the project specific risks (production risk, cost estimation risk, reserve/resource risk etc).

Estimated production volumes are based on detailed life of mine plans and take into account development plans for the mines approved by management as part of the long-term planning process.

The calculation of fair values is most sensitive to the following assumptions:

- Recoverable reserves and resources;
- Future prices of gold;
- Discount rates.

The table below shows the key assumptions used in the fair value calculation at 31 December 2012 and 2011.

	2012	2011
Pre-tax discount rate for cash flows in the operating gold mining company (MNV), %	28.73	26.20
Pre-tax discount rate for cash flows in the operating gold mining company (BG), %	16.43	14.70
Pre-tax discount rate for cash flows in the polymetallic mining company (Novo), %	12.57	13.00
Pre-tax discount rate for cash flows in the gold mining company being at development stage (Klen), %	12.82	-
Pre-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye), %	11.33	11.10
Pre-tax discount rate for cash flows in the gold mining company being at exploration stage (Unkurtash), %	9.58*	9.53
Pre-tax discount rate for cash flows in the gold mining company being at exploration stage (Lubov), %	11.28	11.19
Gold price, US\$ per ounce in the next year	1,600	1,600
Gold price, US\$ per ounce after the next year**	1,400	1,600
Silver price, US\$ per ounce in the next year	30	30
Lead price, US\$ per tonne in the next year	1,950	2,100
Zinc price, US\$ per tonne in the next year	1,850	2,100

* No income tax in Kyrgyzstan since 2012.

** Gold price for 2014-2016 used in the 2012 impairment testing is US\$1,400 per oz, for 2017 and beyond is US\$1,300 per oz.

In management's view, no reasonable change in the key assumptions would trigger an impairment charge at 31 December 2012.

22. OTHER NON-CURRENT ASSETS

	2012 US\$000	2011 US\$000
Non-current VAT	-	6,372
Non-current prepayments*	47,524	6,798
Other non-current assets	576	453
Total other non-current assets	48,100	13,623

* Non-current prepayments amounting to US\$42.2 million at 31 December 2012 relate to the construction of a stand-alone process plant at BG.

23. SHARE-BASED PAYMENT PLANS

Employee share option plan

On July 7, 2005 the Group approved an employee share option scheme in line with the statement made at the time of Admission to the Alternative Investment Market in December 2002. The scheme is managed by the Remuneration and Nominations Committee.

During the 12 months ended 31 December 2012 the Group did not issue any new share options as the Board considered and agreed that at the present time there would be no further grant of options under the unapproved share option scheme. Previously each grant of options was divided into four equal parts which could be exercised starting from the first anniversary of the date of grant for the first part, the second anniversary for the second part etc. until the fourth anniversary. In 2008 it was agreed that for those still in the scheme their options would vest and that 50% would be exercisable up and until 30 September 2009 at which point thereafter all options could be exercised up to the seventh anniversary from when the options were granted.

Options for 50,000 shares were forfeited in 2012 due to the retirement of certain participants. Options for 450,000 shares expired as in September 2012 was the seventh anniversary of options granted in 2005.

Currently there are 15 participants of the scheme representing board members, directors and executive management of the Group.

The following table illustrates the number and weighted average exercise price (WAEP) of, and movements in, share options during the year.

	2012 No.	2012 WAEP	2011 No.	2011 WAEP
Outstanding as at 1 January	1,025,000	£1.46	1,050,000	£1.45
Exercised during the year	-	-	(25,000)	£0.96
Expired during the year	(450,000)	£2.11	-	-
Forfeited during the year	(50,000)	£0.96	-	-
Outstanding as at 31 December	525,000	£0.96	1,025,000	£1.46
Exercisable at 31 December	525,000	£0.96	1,025,000	£1.46

For the share options outstanding as at 31 December 2012, the weighted average remaining contractual life is 1.73 years (2011: 1.87 years).

The exercise prices for options outstanding at the end of the year was £0.96 (2011: £0.96 - £2.11).

The fair value of the share based payments was estimated using the Black-Scholes-Merton option pricing model taking into account the terms and conditions upon which the instruments were granted.

24. INVENTORIES

Non-current*

	2012 US\$000	2011 US\$000
Ore stockpiles	12,298	6,922
	12,298	6,922
Ore stockpile obsolescence provision	(1,560)	(1,560)
Total inventories	10,738	5,362

* The portion of the ore stockpiles that is to be processed in more than 12 months from the reporting date is classified as non-current inventory.

Current

	2012 US\$000	2011* US\$000
Raw materials and consumables	59,608	54,836
Ore stockpiles	7,166	8,583
Gold in progress	8,071	8,459
Finished goods	150	352
	74,995	72,230
Raw materials and consumables obsolescence provision	(10,158)	(10,437)
Total inventories	64,837	61,793

No inventory has been pledged as security.

* As a result of reclassification of the comparative figures, ore stockpiles were decreased by US\$8.5 million and gold in progress was increased by US\$8.5 million from the amounts previously reported.

25. TRADE AND OTHER RECEIVABLES

	2012 US\$000	2011 US\$000
VAT receivable	36,746	20,799
Other taxes receivable	113	115
Related party receivables (Note 32)*	-	17
Trade receivables*	10,737	5,477
Other receivables	2,780	2,197
	50,376	28,605

* As at 31 December 2012, a positive prices and volume adjustment was booked to trade receivables in the amount of US\$0.2 million (2011: a negative adjustment in the amount of US\$1.8 million).

The Group's trade customers have no history of default.

Other receivables are non-interest bearing and are generally on 30-90 days-term.

As at 31 December, VAT receivable was provided for as follows:

	2012 US\$000	2011 US\$000
At 1 January	213	397
Utilisation	(168)	(184)
At 31 December	45	213

The VAT provision is recognised to reflect the risk of non-receipt of input VAT refund which is subject to approval by local tax authorities and other amounts expected to expire after the three-year statutory period. The movement in the VAT provision is recognised within other administrative expenses.

26. CASH AND CASH EQUIVALENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The deposits are placed with the banks with credit rating BBB/A-2 (Standard & Poor's) or higher. The fair value of cash and cash equivalents is equal to the carrying value.

	2012 US\$000	2011 US\$000
Cash in hand and at bank	1,206	3,546
Short-term deposits	6,045	87,089
	7,251	90,635

27. ISSUED CAPITAL AND RESERVES

a) Issued share capital

AUTHORISED	2012 Shares	2011 Shares
Ordinary shares of £0.001 each	750,000,000	750,000,000

ORDINARY SHARES ISSUED AND FULLY PAID

	Shares	Amount US\$000
At 1 January 2011	325,197,098	585
Ordinary shares issued	25,000	-
At 31 December 2011	325,222,098	585
Ordinary shares issued	-	-
At 31 December 2012	325,222,098	585

b) Nature and purpose of other reserves

ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

28. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate %	Maturity	2012	2011
Current				
Gazprombank loan	5.6	October 2015	1,875	-
			1,875	-
Non-current				
Gazprombank loan	5.6	October 2015	6,875	-
			6,875	-

In 2012 BG raised new financing with Gazprombank at 5.6% per annum with the draw period set till 23 January 2013. The loan is subject to redemption on 23 October 2015. There is outstanding bank debt as at 31 December 2012 in the amount of US\$8.75 million.

29. TRADE AND OTHER PAYABLES

NON-CURRENT

	2012 US\$000	2011 US\$000
Contingent consideration liability (Note 5)	-	8,531
Other non-current payables	417	324
	417	8,855

CURRENT

	2012 US\$000	2011 US\$000
Contingent consideration liability (Note 5)	9,000	-
Trade payables	9,021	5,906
Other current payables	808	1,245
Salaries payable	8,421	6,338
Other taxes payable	4,757	4,408
Other related parties (Note 32)	-	186
	32,007	18,083

Terms and conditions of current financial liabilities included above:

- Salaries payable are non-interest bearing and are normally settled on 30-day terms. Outstanding vacations are also included in this line.
- Trade and other payables are non-interest bearing and are normally settled on 30-60 day terms.
- Other taxes payable include mineral extraction tax, property tax, social taxes and VAT. These are non-interest bearing and are normally settled within 30-60 days.
- For terms and conditions in regards of related parties, refer to Note 32

30. PROVISIONS

	Site restoration provision US\$000	Legal provision US\$000	Total US\$000
At 1 January 2011	9,595	59	9,654
Accretion	487	-	487
Disposal	-	(57)	(57)
Novo acquisition	3,137	-	3,137
Change in estimation	9,977	19	9,996
At 31 December 2011	23,196	21	23,217
Accretion	846	-	846
Disposal	-	(21)	(21)
Utilisation of provision	(41)	-	(41)
Change in estimation	13,271	123	13,394
At 31 December 2012	37,272	123	37,395
Current 2011	-	21	21
Non-current 2011	23,196	-	23,196
	23,196	21	23,217
Current 2012	-	123	123
Non-current 2012	37,272	-	37,272
	37,272	123	37,395

SITE RESTORATION PROVISION

In 2012 the Group performed a re-assessment of the site restoration provision at MNV. The assessments were based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life of mine (which is assumed to close in 2016), expected site restoration activities (removal of waste, restoration of mine sites), current prices for similar activities and a risk-free discount rate of 1.1% (2011: 3.3%).

A risk-free discount rate of 2.7% (2011: 5.9%) has been used to calculate the site restoration liability at Novo assuming its closure in 2025. The changes in the liability associated with the change in discount rate have been added to the cost of the related asset.

In 2012 the Group re-assessed the volume of site restoration activities at BG due to the construction of processing plant. A risk-free discount rate of 1.8% (2011: 4.2%) has been used to calculate the site restoration liability assuming its closure in 2019.

LEGAL PROVISION

The legal provision represents management's best estimate of the amounts required to settle various claims against the Group.

31. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS – GROUP AS LESSEE

The Group has entered into a new commercial lease on its office premises at the end of 2009. This lease has a life of 5 years. There are no restrictions placed upon the Group by entering into this lease.

The operating lease charge for the year ended 31 December 2012 was US\$1.1 million (2011: US\$1.0 million).

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2012 US\$000	2011 US\$000
Within one year	1,041	1,009
After one year but not more than five years	1,252	2,293
	2,293	3,302

CAPITAL COMMITMENTS

At 31 December 2012, the Group had commitments of US\$59.9 million (2011: US\$35.0 million) principally relating to development assets and US\$10.2 million (2011: US\$11.1 million) for the acquisition of new machinery.

FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

As at 31 December 2012 the Group has no current finance leases and hire purchase contracts.

CONTINGENT LIABILITIES

Management has identified possible tax claims within the various jurisdictions in which it operates totalling US\$1.0 million as at 31 December 2012 (at 31 December 2011: US\$4.2 million). In management's view these possible tax claims will likely not result in a future outflow of resources, consequently no provision is required in respect of these matters. These tax claims can possibly decrease the amount of the prepaid income tax by US\$0.7 million.

In addition, because a number of fiscal periods remain open to review by the tax authorities, there is a risk that transactions and interpretations that have not been identified by management or challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome.

Notwithstanding the above risks, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable. Where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

32. RELATED PARTY DISCLOSURES

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

Name	Country of incorporation	Shareholding %
Subsidiary undertakings		
Held by the ultimate parent		
Stanmix Investments Limited (STIL)	Cyprus	100
Stanmix Holding Limited (Stanmix)	Cyprus	100
Highland Exploration Kyrgyzstan LLC	Kyrgyzstan	100
Held indirectly via subsidiaries		
ZAO Mnogovershinnoye (MNV)	Russia	100
ОАО Ново-Широкинский Рудник (Novo) – since 26 December 2011	Russia	97.9
ООО Бelaya Gora (BG)	Russia	100
ООО Lyubavinskoye	Russia	100
ООО Taseevskoye	Russia	100
ООО Rusdragmet (RDM)	Russia	100
ZAO TH Mnogovershinnoye	Russia	100
ООО Zabaykalzolotoproyekt (ZZP)	Russia	100
ООО RDM-Resources	Russia	100
ООО Klen	Russia	100
Jointly controlled entity		
ОАО Ново-Широкинский Рудник (Novo) – till 26 December 2011	Russia	48.3

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year:

		Services/sales provided to related parties	Services/sales provided by related parties	Amounts owed by related parties	Amounts owed to related parties
		US\$000	US\$000	US\$000	US\$000
Entity with significant influence over the Group:					
Barrick International	2012	-	-	-	-
	2011	-	-	17	-
Barrick Gold Services					
	2012	-	-	-	-
	2011	-	-	-	186
Joint venture in which the parent is the venturer:					
Novo	2012	-	-	-	-
	2011	26	-	-	-
Partner in the joint venture:					
Kazzinc	2012	-	-	-	-
	2011	45,824	346	-	-

		Amounts owed by related parties at the beginning of the year	Interest on the loan given to the related party	Loan and interest paid by related parties	Fair value adjustment due to modification of terms	Reclassification to intercompany loan
		US\$000	US\$000	US\$000	US\$000	US\$000
Joint venture in which the parent is the venturer:						
Novo	2012	-	-	-	-	-
	2011	34,760	2,552	(12,158)	4,712	(29,866)
Partner in the joint venture:						
Kazzinc	2012	-	-	-	-	-
	2011	33,024	2,427	(11,534)	4,479	(28,396)

JOINT VENTURE IN WHICH THE PARENT IS A VENTURER

OA0 Novo-Shirokinsky Rudnik (Novo)

The Group had a 48.3% interest in Novo. On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc.

PARTNERS IN THE JOINT VENTURE

Kazzinc

Kazzinc and Highland Gold Mining Limited were the parties with joint control over Novo up to 26 December 2011.

ENTITY WITH SIGNIFICANT INFLUENCE OVER THE GROUP

Barrick Gold Corporation

Barrick Gold Services and Barrick International are companies controlled by Barrick Gold Corporation of Canada. Barrick Gold Corporation of Canada owned 20.37% of the ordinary shares in Highland Gold Mining Limited till 26 April 2012 when Barrick Gold Corporation sold its ordinary shares, representing the entire holding in the Company.

Primerod LLC

Following the Second Subscription on new ordinary shares in Highland Gold Mining Limited on 15 January 2008 by Primerod International Limited, Primerod held 32.6% of Highland Gold at 31 December 2012.

Persons connected with Eugene Shvidler, Non-executive Director of the Company, have acquired 26,020,000 ordinary shares of £0.001 per share in the capital of the Company on 7 May 2008 at a price of US\$3.048 per share. Eugene Shvidler, together with the persons connected with him, own 26,020,000 ordinary shares of £0.001 per share in the capital of the Company representing 8.0% of the total issued share capital of the Company.

On 9 July 2012, the Group acquired a 100% share in LLC Klen from Aristus Holdings Limited (Note 5).

TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

The sales to and purchases from related parties are made at normal market prices and arm's length terms. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

	2012 US\$000	2011 US\$000
Short-term employee benefits	5,138	4,259
Total compensation paid to key management personnel	5,138	4,259

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. For detailed directors' compensation refer to report on directors' remuneration.

DIRECTORS' INTERESTS IN AN EMPLOYEE SHARE INCENTIVE PLAN

Share options held by members of the Board of Directors to purchase ordinary shares have the following expiry dates and exercise prices.

Date of issue	Expiry date	Exercise price	Number 2012	Number 2011
2007	2014	£0.96	150,000	100,000
2005	2012	£2.11	-	200,000

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise bank loans and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

GOLD PRICE RISK

In year 2012 as well as in prior years, the Group continued its no hedge policy in relation to the gold price.

EMBEDDED DERIVATIVE

Novo as the main concentrate producer and seller of the Group has long-term sale contracts with Kazzinc where price risk is retained for a specific period after the sale has occurred. The price payable under the concentrate contract is determined by reference to prices quoted in an organised market (LME). The title to the commodity passes to the buyer on delivery. At this time a provisional invoice is generated based on the average price over the previous months. 85% of the provisional invoice is settled within a few days. The remaining 15% (plus or minus any adjustment on 100% of the value of the sale for movements in price from the price in the provisional invoice and the final price, plus any minor volume adjustments resulting from the final assay) is settled in 4 months after the date of delivery.

Pricing adjustment features that are based on quoted market prices for a date subsequent to the date of shipment or delivery of the commodity represent a derivative financial instrument once the commodity has been delivered. The derivative has a fair value, based on the pricing formula set out in the contract, which is based on quoted market prices.

FOREIGN CURRENCY RISK

Taking into account that gold prices are formed in the international markets and denominated in US dollars, the Group seeks to mitigate the foreign currency risk by raising its debt facilities and most part of its trade liabilities denominated in US dollars. However as a result of investing and operating activities in Russia the Group's statement of financial position can still be affected by movements in the RUR/USD exchange rates. Besides, the Group also has transactional currency exposures connected with operations denominated in GBP.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR, RUR and GBP exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ decrease in EUR rate	Effect on profit before tax	Increase/ decrease in RUR rate	Effect on profit before tax	Increase/ decrease in GBP rate	Effect on profit before tax
		US\$000		US\$000		US\$000
2011	6%	154	6%	4,690	6%	2,112
	-6%	(154)	-6%	(4,690)	-6%	(2,112)
2012	6%	112	6%	1,597	6%	3,165
	-6%	(112)	-6%	(1,597)	-6%	(3,165)

There is no other foreign currency impact on equity.

CREDIT RISK

Maximum exposure to credit risk is represented by carrying amount of financial assets. Credit risk arises from debtor's inability to make payment of their obligations to the Group as they become due (without taking into account the fair value of any guarantee or pledged assets); and by non-compliance by the counterparties in transactions in cash, which is limited to balances deposited in banks and accounts receivable at the reporting dates. To manage this risk, the Group deposits its surplus funds in highly rated financial institutions, establishes

conservative credit policies and constantly evaluates the conditions of the market in which it conducts its activities. The Group sells the produced gold to recognised, creditworthy banks. The sold gold is being paid for in advance, or immediately after the sale. Therefore, there are no trade receivables associated with the gold trade. The Group's "no hedge" policy allows the Group to fully participate in current stronger gold prices.

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and hire purchase contracts.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted payments.

Year ended 31 December 2011	On demand US\$000	< 1 year US\$000	1-2 years US\$000	2-5 years US\$000	> 5 years US\$000	Total US\$000
Trade and other payables	-	13,675	-	-	-	13,675
Other liabilities	-	-	9,000	-	-	9,000
	-	13,675	9,000	-	-	22,675

Year ended 31 December 2012	On demand US\$000	< 1 year US\$000	1-2 years US\$000	2-5 years US\$000	> 5 years US\$000	Total US\$000
Interest bearing loans and borrowings	-	2,022	4,334	3,191	-	9,547
Trade and other payables	-	18,249	-	-	-	18,249
Other liabilities	-	9,000	-	-	-	9,000
	-	29,271	4,334	3,191	-	36,796

CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Capital comprises equity and debt financing. For information related to equity refer to Consolidated Statement of Changes in Equity. For information on debt financing refer to Note 28. In order to ensure an appropriate return for shareholders' capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board where applicable.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

As at 31 December 2012 the Group has outstanding bank debt in the amount of US\$8.75 million.

MARKET PRICE RISK

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market price risk include the Group's investments to bonds and shares. The following table demonstrates the sensitivity to a reasonably possible change in market rates:

	Increase/decrease in rates, %	Effect on profit before tax	
		2012 US\$000	2011 US\$000
Bonds	5%	2,495	1,641
Shares	5%	144	103
Bonds	-5%	(2,495)	(1,641)
Shares	-5%	(144)	(103)

34. FINANCIAL ASSETS AND LIABILITIES

The Group's financial instruments comprise borrowings, investments, cash, deposits and various items, such as trade debtors, embedded derivatives, trade creditors and contractual provisions arising in the ordinary course of its operations.

FAIR VALUES

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments.

	Carrying amount		Fair value	
	2012 US\$000	2011 US\$000	2012 US\$000	2011 US\$000
Financial assets				
Cash and cash equivalents	7,251	90,635	7,251	90,635
Financial instruments at fair value through profit or loss (coupon bonds and shares)	54,095	36,111	54,095	36,111
Trade and other receivables	2,780	2,466	2,780	2,466
Trade receivables (embedded derivative)	10,737	5,225	10,737	5,225
Financial liabilities				
Interest-bearing loans and borrowings	8,750	-	8,750	-
Trade and other payables	18,250	13,675	18,250	13,675
Contingent consideration	9,000	8,531	9,000	8,531

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of the instruments.
- Fixed-rate interest-bearing loans and borrowings are evaluated based on current market interest rates.
- The fair value of the derivative is based on quoted market prices.

COUPON BONDS AND SHARES

In November 2009 the Group invested US\$49.8 million in acquisition of pound denominated bank coupon bonds. During 2010 the Group invested US\$40.1 million and received US\$17.4 million as a result of selling some bonds purchased in 2009. During 2011 the Group additionally invested US\$19.8 million and received US\$23.4 million as a result of selling bonds purchased in 2009-2011. In August 2011 coupon bonds of Bank of Ireland were converted into euro denominated ordinary shares. During 2012 there were no movements in Group's security portfolio. The bonds and shares are treated as financial assets at fair value through profit or loss. Fair value of those bonds and shares was determined based on quoted bid prices (source: Bloomberg). The table below contains fair value movement from acquisition till reporting date.

	2012 US\$000	2011 US\$000
At 1 January	36,111	54,902
Fair value gain/(loss)	16,082	(15,027)
Foreign exchange gain	1,915	162
Coupon interest income accrued	4,306	5,204
Bonds and shares fair value movement	22,303	(9,661)
Coupon interest income received	(4,319)	(5,468)
Bonds sold	-	(23,427)
Bonds acquired	-	19,765
Bonds converted into shares	-	(3,190)
Shares	-	3,190
At 31 December	54,095	36,111

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

ASSETS MEASURED AT FAIR VALUE

	31 Dec 2011 US\$000	Level 1 US\$000
Financial assets at fair value through profit or loss		
Coupon bonds and shares	36,111	36,111
	31 Dec 2012 US\$000	Level 1 US\$000
Financial assets at fair value through profit or loss		
Coupon bonds and shares	54,095	54,095

There have been no transfers between fair value levels during the reporting period.

35. DIVIDENDS

The Group paid an interim special dividend of GBP0.048 per share (2011: an interim dividend of GBP0.025 per share and a special dividend of GBP0.025 per share, making a total of GBP0.05 per share) which resulted in an aggregate dividend payment of US\$25.1 million (2011: US\$25.7 million). The interim dividend was paid on 15 October 2012.

The Board has recommended a final dividend of 3.0 pence per share which, taking into account the interim dividend paid in October 2012, gives a dividend total of 7.8 pence per share for the year. The final dividend will be paid on Friday 14 June 2013 to shareholders on the register at the close of business on Friday 3 May 2013 (the record date). The ex-dividend date will be Wednesday 1 May 2013.

36. EVENTS AFTER THE REPORTING PERIOD

On 29 March 2013, the Group acquired from Union Mining Holdings Limited a 100% share in CJSC Bazovye Metally which holds the mining and exploration rights to the Kekura gold deposit and surrounding licence area (Note 5). Kekura's resource base will contribute to the long-term production profile of the Group and represents a solid foundation for the Group's further growth.

On 21 March 2013, the Group signed a new financing agreement with Gazprombank for a US\$207 million facility at a 5.17% interest rate with the draw period set till 21 June 2013. This facility will be used to finance development needs and operating activity of the Group. The loan is repayable in monthly installments between December 2013 and March 2016.

In March 2013 the Group also agreed a new financing agreement with Gazprombank for a US\$43 million facility at a 5.17% interest rate.

MINERAL RESOURCES AS AT 31 DECEMBER, 2012 REPORTED IN ACCORDANCE WITH JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Measured	3,136,061	4.2	421,953	100%	421,953
	Indicated	872,256	4.1	116,063	100%	116,063
	Measured +Indicated	4,008,317	4.2	538,016	100%	538,016
	Inferred	3,294,000	4.4	465,575	100%	465,575
	Total	7,302,317	4.3	1,003,591	100%	1,003,591
TASEEVSKOYE	Indicated	25,785,000	4.9	4,057,587	100%	4,057,587
	Inferred	5,278,000	6.1	1,030,766	100%	1,030,766
	Total	31,063,000	5.1	5,088,353	100%	5,088,353
UNKURTASH	Measured	15,945,670	1.8	944,956	100%	944,956
	Indicated	33,366,420	1.8	1,886,268	100%	1,886,268
	Measured +Indicated	49,312,090	1.8	2,831,224	100%	2,831,224
	Inferred	4,050,120	1.4	181,100	100%	181,100
	Total	53,362,210	1.8	3,012,324	100%	3,012,324
NOVOSHIROKINSKOYE	Measured	2,172,238	8.4	586,112	97.9%	573,804
	Indicated	4,153,338	8.1	1,076,311	97.9%	1,053,708
	Measured +Indicated	6,325,576	8.2	1,662,423	97.9%	1,627,512
	Inferred	1,510,303	5.1	246,981	97.9%	241,794
	Total	7,835,879	7.6	1,909,404	97.9%	1,869,306
BELAYA GORA	Measured	5,962,537	2.2	428,010	100%	428,010
	Indicated	4,780,773	2.3	355,891	100%	355,891
	Measured +Indicated	10,743,310	2.3	783,901	100%	783,901
	Inferred	4,028,000	2.3	291,707	100%	291,707
	Total	14,771,310	2.3	1,075,608	100%	1,075,608
KLEN	Indicated	2,850,000	5.8	530,809	100%	530,809
	Inferred	1,020,000	2.9	96,452	100%	96,452
	Total	3,870,000	5.0	627,261	100%	627,261
LYUBAVINSKOYE	Measured	1,304,990	1.5	62,758	100%	62,758
	Indicated	9,802,700	1.3	413,330	100%	413,330
	Measured +Indicated	11,107,690	1.3	476,088	100%	476,088
	Inferred	139,540	1.8	8,198	100%	8,198
	Total	11,247,230	1.3	484,287	100%	484,287
TOTAL	Measured	28,521,496	2.7	2,443,789		2,431,481
	Indicated	81,610,487	3.2	8,436,259		8,413,656
	Measured +Indicated	110,131,983	3.1	10,880,048		10,845,137
	Inferred	19,319,963	3.7	2,320,779		2,315,592
	Total	129,451,946	3.2	13,200,828		13,160,730

Notes:

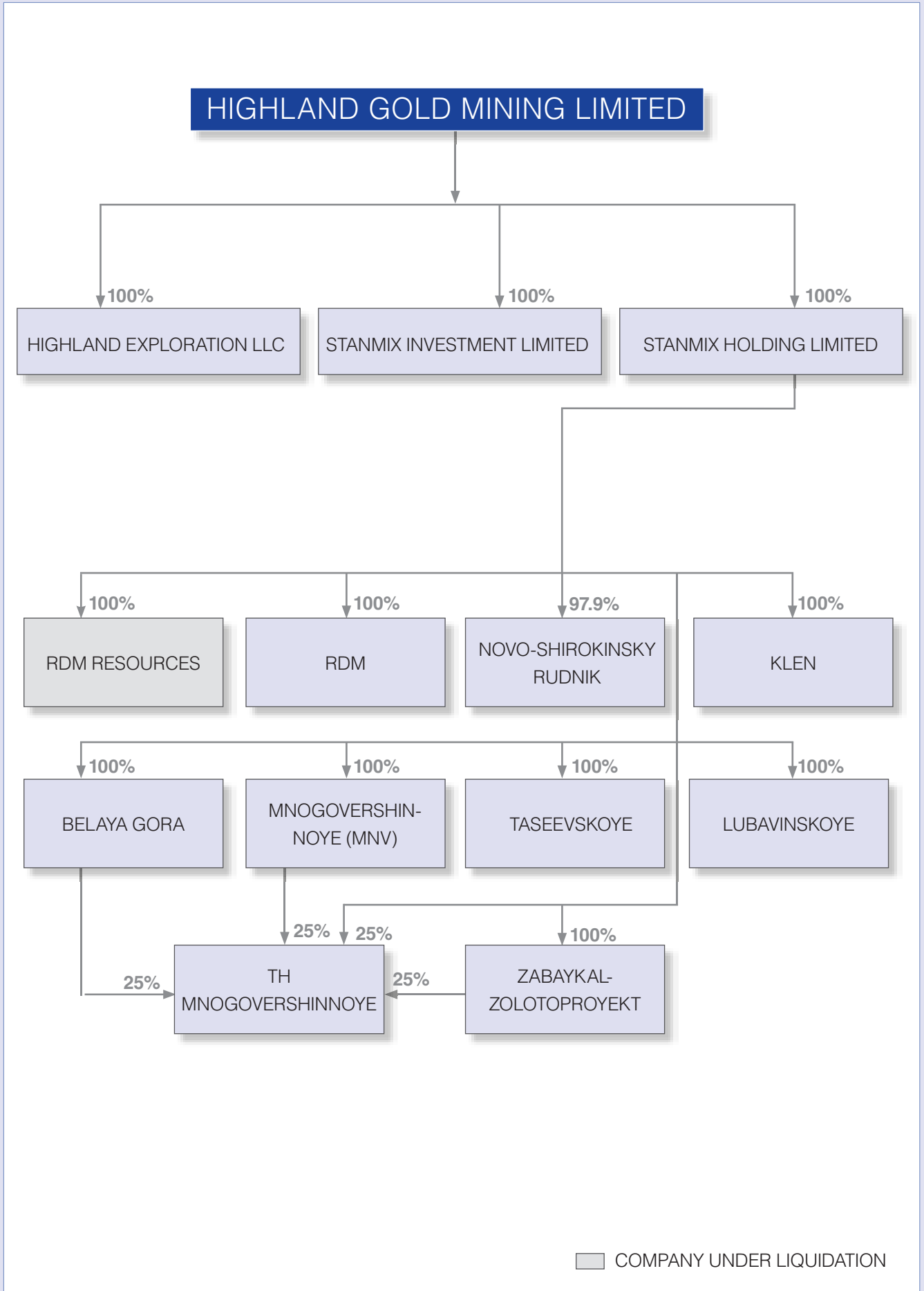
1. MNV, Taseevskoye, Belaya Gora, Unkurtash, Klen and Lyubavinskoye resource estimations do not include a silver assessment.
2. MNV, Novosirokinskoye and Belaya Gora Mineral Resources are inclusive of Mineral Reserves.
3. MNV Mineral Resources are undiluted and based upon a gold price of US\$1100 per ounce.
Resources were evaluated with specific cutoff grade > 1.5 g/t.
Taseevskoe Mineral Resources are undiluted and based upon a gold price of US\$ 1000 per ounce.
Resources were evaluated with specific cutoff grade > 1.8 g/t.
Unkurtash Mineral Resources are undiluted and based upon a gold price of US\$1600 per ounce.
Resources were evaluated with specific cutoff grade > 0.8 g/t.
Belaya Gora Mineral Resources are undiluted and based upon a gold price of US\$850 per ounce.
Resources were evaluated with specific cutoff grade > 0.7 g/t.
Klen Mineral Resources were evaluated with specific cutoff grade > 1.0 g/t.
Lyubavinskoye Mineral Resources were evaluated with specific cutoff grade > 0.5 g/t.
4. Resource estimates for the MNV, Taseevskoye, and Belaya Gora deposits were confirmed by Micromine Consulting, 2010 – 2011.
Resource estimate for Novosirokinskoye was confirmed by Wardell Armstrong International (WAI), 2011.
Resource estimate for Unkurtash and Lyubavinskoye was confirmed by IMC Montan, 2012.
Resource estimate for Klen was confirmed by Micon International, 2012.
5. The Novosirokinskoye resource estimate is performed for gold equivalent calculated as follows:
 $Pb*0.510496+Zn*0.430005+Ag*0.01723$ (WAI coefficients).

RESERVES AS AT 31 DECEMBER, 2012 REPORTED IN ACCORDANCE WITH JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Proven	1,332,905	5.30	227,093	100%	227,093
	Probable	326,149	5.60	58,745	100%	58,745
	Proven + Probable	1,659,054	5.36	285,838	100%	285,838
NOVOSHIROKINSKOYE	Proven	2,110,013	8.2	558,175	97.9%	546,453
	Probable	3,831,430	8.1	1,000,176	97.9%	979,172
	Proven + Probable	5,941,443	8.2	1,558,351	97.9%	1,525,625
BELAYA GORA	Proven	3,428,505	2.8	309,179	100%	309,179
	Probable	2,650,405	2.9	246,898	100%	246,898
	Proven + Probable	6,078,910	2.8	556,077	100%	556,077
TOTAL	Proven	6,871,423	5.0	1,094,447		1,082,725
	Probable	6,807,984	6.0	1,305,819		1,284,815
	Proven + Probable	13,679,407	5.2	2,400,266		2,367,540

Notes:

1. MNV and BG reserve estimate does not include a silver assessment.
2. The MNV values shown are based upon a gold price of \$ 1100/oz.
3. The Belaya Gora values shown are based upon a gold price of \$ 850/oz.
4. Mineral reserves at MNV, Novo and Belaya Gora have been estimated in accordance with JORC 2004 guidelines and include adjustments that have been made to reconcile the reserves with annual production.



PRINCIPAL GROUP COMPANIES

HIGHLAND GOLD MINING LIMITED HOLDS AN INTEREST IN THE EQUITY SHARE CAPITAL OF THE FOLLOWING COMPANIES:

Name	%	Country of incorporation	Principal activity and place of business
Stanmix Holding Limited	100	Cyprus	Holding Company, Cyprus
Stanmix Investments Limited	100	Cyprus	Finance Company, Cyprus
Highland Exploration LLC	100	Kyrgyzstan	Holder of Unkurtash and Kassan licences

STANMIX HOLDING LIMITED HOLDS AN INTEREST IN THE EQUITY SHARE CAPITAL OF THE FOLLOWING COMPANIES:

Name	%	Country of incorporation	Principal activity and place of business
Russdragmet (RDM) (OOO)	100	Russia	Management company
Mnogovershinnoye (MNV) (ZAO)	100	Russia	Holder of MNV and Blagodatnoye licences
Taseevskoye (OOO)	100	Russia	Holder of Taseevskoye, ZIF-1 and Sredne-Golgotayskoye licences
Zabaykalzolotoprojekt (OOO)	100	Russia	Project engineering, Russia
Novo-Shirokinsky Rudnik (Novo) (OAO)	97.9	Russia	Holder of Novo licence
RDM Resources (OOO)	100	Russia	In liquidation
TH Mnogovershinnoye (ZAO)	25	Russia	Consumer durables for MNV employees
Belaya Gora (OOO)	100	Russia	Holder of Belaya Gora licence
Lubavinskoye (OOO)	100	Russia	Holder of Lubavinskoye licence
Klen (OOO)	100	Russia	Holder of Klen licence

MNV HOLDS AN INTEREST IN THE EQUITY SHARE CAPITAL OF:

Name	%	Country of incorporation	Principal activity and place of business
TH Mnogovershinnoye (ZAO)	25	Russia	Consumer durables for MNV employees

ZABAYKALZOLOTOPROYEKT HOLDS AN INTEREST IN THE EQUITY SHARE CAPITAL OF:

Name	%	Country of incorporation	Principal activity and place of business
TH Mnogovershinnoye (ZAO)	25	Russia	Consumer durables for MNV employees

BELAYA GORA HOLDS AN INTEREST IN THE EQUITY SHARE CAPITAL OF:

Name	%	Country of incorporation	Principal activity and place of business
TH Mnogovershinnoye (ZAO)	25	Russia	Consumer durables for MNV employees

DIRECTORS, COMPANY SECRETARY AND ADVISERS

CURRENT DIRECTORS

Eugene Shvidler
Non-Executive Chairman

Duncan Baxter
Non-Executive Director*

Terry Robinson
Non-Executive Director***

Olga Pokrovskaya
Non-Executive Director**

Eugene Tenenbaum
Non-Executive Director

Valery Oyf†
Chief Executive Officer

Alla Baranovskaya†
Chief Financial Officer

Sergey Mineev†
Head of Exploration & Capital Projects
Development

Andrey Solovyov†
Head of Human Resources &
Administration

PAST DIRECTORS

James (Jim) Mavor
Non-Executive Director
resigned 27 January 2012

All of:
26 New Street
St Helier
Jersey JE2 3RA

* Chairman of the Nomination and Remuneration Committee; ** Chairman of the Health, Safety and Environmental Committee; *** Chairman of the Audit Committee; † Joined the Board as Executive Directors with effect from 11 July 2012.

HEAD OFFICE AND REGISTERED OFFICE

26 New Street
St Helier
Jersey JE2 3RA

COMPANY SECRETARY

Bedell Secretaries Limited
26 New Street
St Helier
Jersey JE2 3RA

NOMINATED ADVISER AND BROKER

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EC4M 7LT

JOINT BROKER (appointed 22 November 2012)

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AUDITORS TO THE COMPANY AND GROUP

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REGISTRARS

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as to Jersey Law

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St Helier
Jersey JE4 8PP

BANKERS

Royal Bank of Canada
(Channel Islands) Limited
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Jersey JE4 8RR

TRANSFER AGENT

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

FINANCIAL CALENDAR

Ex Dividend Date: 1 May 2013

Record Date: 3 May 2013

Post 2012 Annual report:
10 May 2013

Annual General Meeting:
11 June 2013

Dividend payment Date:
14 June 2013

2013 Interim Announcement and
Interim Report: September 2013

Share price metrics as at 16 April 2013

Listing sector/ticker Reuters: HGM.L

Number of Shares in issue:
325,222,098

Share Price: 124.00p per share

Market cap range
(1 May 2012 – 16 April 2013):
£268.31m – US\$410.29m

Price High: 134.52p –
21 September 2012
Price Low: 81.50p – 15 April 2013

Average daily volume (1 May 2012 –
16 April 2013): 834,394