HIGHLAND GOLD MINING LIMITED

Annual Report and Accounts 2019

HIGHLAND GOLD
MINING LIMITED

A world-class asset base of production, development and exploration projects.

What we do

We unite achievers to carefully and responsibly mine the riches of the land to develop regions, to improve the wellbeing of families and to deliver returns for shareholders.

How we do it

Balancing a steady rate of gold production with the advancement of our major development and exploration projects.

A message from our Chairman

I am pleased to report that the ongoing pursuit of our stated strategy of balancing a steady rate of gold production with the advancement of our major development projects was reflected in a highly satisfactory year's trading during 2019. The Company achieved record production, meeting its production guidance once again, and remains among the lowest-cost gold producers. These factors, together with favourable gold prices, helped to deliver a strong financial performance and to fund continued returns to our shareholders in the form of dividends.

The Company faces a busy year ahead in 2020 as we move to complete major improvement projects at Novo and Belaya Gora and to maintain the pace of construction at our premier development project, Kekura. While capital expenditure will rise substantially, we are confident of our ability to sustain both growth and dividends based on our strong cash generation, stable balance sheet with long-term and low-cost debt, and solid liquidity position with roughly $340 million of untapped open credit lines.

As we move forward in 2020, the COVID-19 pandemic is clearly an unpredictable factor that all businesses must take into account. At Highland Gold, we are taking the utmost precautions to protect the health of our employees and the small, remote communities in which we operate. Fortunately, we have not experienced any significant disruptions to our production or sales to date, and our mines continue to operate albeit with measures designed to protect our teams from the risks associated with this pandemic. We have already published one COVID-19 operations update in March 2020, and will continue to do so should any material issues arise.

Eugene Shvidler
Executive Chairman

Financial highlights

Production (gold and gold eq. oz)		
300,704	269,500	+12%
All-in sustaining costs (US$/oz)[1]		
791	682	+16%
Total cash costs (US$/oz)[1]		
556	506	+10%
Revenue (US$ M)		
395.4	311.2	+27%
Operating profit (US$ M)[1]		
161.5	109.2	+48%
EBITDA (US$ M)[1]		
205.1	153.1	+34%
Net profit (US$ M)		
177.8	56.1	+217%
Earnings per share (US$)		
0.487	0.154	+216%
Net cash inflow from Operations (US$ M)		
138.4	136.2	+2%
Capital expenditure (US$ M)		
89.3	62.3	+43%
Net debt (US$ M)[1]		
250.2	211.4	+18%
Net debt/EBITDA ratio (31 Dec.)		
1.22	1.38	

Operational highlights

- MNV – Outperformed management expectations, with production up 10% on the back of improved grades and higher processing volume.
- Novo – Exceeded production targets for 2019, although output was 5% lower year-on-year due to expected lower grades and changes in the balance of prices for metals in its concentrates.
- Belaya Gora – Despite a strong Q4, production decreased by 9% due to lower grades and downtime at the processing plant earlier in the year.
- Valunisty – Acquired at year-end 2018, Valunisty added 11% (30k oz) to Highland Gold's production in 2019.
- Kekura – Construction gathered pace, with several key infrastructure facilities at or near completion, while initial stripping and mining commenced in Q4.

1. *The financial performance reported by the Company contains certain Alternative Performance Measures (APMs) disclosed to complement measures that are defined or specified under International Financial Reporting Standards (IFRS). For more information on the definition and calculation of non-IFRS APMs used in this report, including Earnings before interest, tax, depreciation and amortisation (EBITDA), Total cash costs, All-in sustaining costs and Net debt, please see the "CFO's Report" section.*

Strategic Report

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Our mission is to unite achievers to carefully and responsibly mine the riches of the land, to develop regions, to improve the wellbeing of families, and to deliver returns for shareholders.

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A world-class asset base of producing, development and exploration projects

OPERATIONS

Highland Gold's operations are located around three main hubs in the Khabarovsk, Zabaikalsk and Chukotka regions of Russia as well as Kyrgyzstan in Central Asia.

EXPLORATION AND DEVELOPMENT

1. Kekura
Kekura is Highland Gold's premier development project, with construction underway and commercial production expected to begin by 2023.

2. Klen
Highland Gold holds licences for the Klen gold deposit and the adjacent Verkhne-Krichalskaya property, where renewed exploration drilling is in progress.

3. Baley Hub
The Baley group of deposits includes the large Taseevskoye resource, the Sredny Golgotay deposit, and tailings from the former Baley 1 processing plant (ZIF-1).

4. Unkurtash
Unkurtash, located in Kyrgyzstan, is an advanced exploration project featuring stockwork-disseminated gold mineralisation hosted in a granite intrusion.

5. Kayenmivaam (Kayen)
Kayen is a 1,214km^2 exploration area located approximately 130km from Kupol, the second largest gold mine in Russia. It consists of five exploration targets.

6. Blagodatnoye
The Blagodatnoye deposit is being targeted as an additional source of ore for the Belaya Gora processing plant.

GOLD PRODUCED

Mnogovershinnoye
123,814

Belaya Gora
40,067

Novoshirokinksoye
106,784

Valunisty
30,039

ounces of gold & gold equivalent

KEY TARGETS FOR 2020

» Maintain production in the range of 290-300k oz of gold and gold equivalent
» Complete improvement projects at Novo (1.3 Mtpa expansion) and Belaya Gora (processing plant upgrade)
» Continue construction work at Kekura in preparation for commercial production in 2023
» Support and expand ongoing efforts to improve workplace safety and employee wellbeing

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Strategic Report

Chairman's Statement

The ongoing pursuit of our stated strategy of balancing a steady rate of gold production with the advancement of our major development and exploration projects was reflected in a highly satisfactory year's trading during 2019.

CEO's Review

I have every confidence that management's continued pursuit of our clearly defined operating strategies, hand in hand with adherence to the Company's rigorous cost controls, augurs well for the attainment of our growth targets.

CFO's Report

For the first time in its history, the Company recorded production of over 300 thousand ounces, generating EBITDA of US$205.1 million and funding a US$98.2 million investment in projects.

Chairman's Statement

Eugene Shvidler

Chairman

Dear Shareholder,

I am pleased to report that the ongoing pursuit of our stated strategy of balancing a steady rate of gold production with the advancement of our major development and exploration projects was reflected in a highly satisfactory year's trading during 2019.

Overall output from our four operating mines – MNV, Novo, Belaya Gora and Valunisty – totalled 300,704 oz of gold and gold equivalent. This represented a 12% increase (largely reflecting the Valunisty acquisition) versus 2018's output of 269,500 oz and more than met our guidance range of between 290,000 and 300,000 oz. In line with the aforementioned objective our production guidance in respect of 2020 remains at 290,000 - 300,000 oz.

I make no apologies for reiterating the importance of Highland Gold Mining's low cost credentials: the differentiator that is integral to the fulfilment of the Company's growth targets and the distribution of the resultant rewards to shareholders.

Such low cost characteristics will be highly beneficial during the current financial year when capital expenditure is expected to more than double from 2019's US$89 million to US$205 – 210 million as construction at Kekura, our flagship development project in the Chukotka region gathers momentum, modernisation is brought to bear at MNV, upgrades are progressed at Novo and Belaya Gora, expansion is undertaken at Valunisty and our investment in exploration continues.

Shareholders will be pleased to learn that, in keeping with the Company's traditional financing practices, the capex envisaged for 2020 will be fully funded by a combination of operating cash flow and low cost bank debt.

The Company's gross debt, as at end-December 2019, totalled US$288 million while net debt, excluding lease liabilities, amounted to US$245 million. All debt is fixed rate with an average interest rate of 3.76% and, as of that date, an average tenor of 47 months.

This reflects a significant restructuring of the debt portfolio in order to take advantage of lower interest rates in the summer of 2019 when the average maturity was approximately 18 months. As at 31 December 2019, more than US$400 million of undrawn revolving credit facilities were available.

Total Cash Costs (TCC) of US$556 per oz (2018: US$506 per oz) and All-In Sustaining Costs (AISC) of US$791 per oz (2018: US$682 per oz) underwrite our status as one of the most competitive gold mining enterprises in the world, despite the adverse impact of the inclusion of our newly acquired Valunisty mine on both calculations.

The significance of our 'low cost' status is well illustrated by comparison of the US$791 per oz AISC metric with the average gold and gold equivalent price realised by the Company in 2019 of US$1,344 per oz (2018: US$1,171 per oz).

One such transaction, which took place on 2 December 2019, made history when Highland Gold Mining became the first gold producer to conduct a sale on the Precious Metals Market of the Moscow Exchange (MOEX). The Company sold 1,198 oz of gold at the Rouble equivalent of US$1,455.40 per ounce, in line with the prevailing London spot price. MNV, which delivered the gold, thus became the first gold producing enterprise to be registered on the Moscow platform.

Revenue benefited from the Valunisty contribution, an excellent performance from MNV and a higher gold price, resulting in a 27% increase year-on-year to US$395.4 million. Throughout the year, the Company continued to adhere to a 'no hedge' policy.

EBITDA advanced 34% to US$205.1 million to give a stable EBITDA margin of 52%: a sound indication of a satisfactory operating performance.

Your Board has consistently emphasised the Company's commitment to the return of value to shareholders by way of dividend distributions: a commitment underlined by a dividend policy that seeks to achieve a minimum annual distribution of 20% of net operating cash flow before capex.

It is gratifying to record that, over a period of a little less than a decade, your Company has distributed in excess of US$330 million worth of dividends which equates to an average of more than US$140 per oz of gold produced.

Against this background, I am pleased to report that the Board has approved a third interim dividend of £0.035 per share which, taking into account previous interim payments, will make a total distribution of £0.135 per share (2018: £0.134 per share) for the financial year to 31 December 2019.

Details of the major expansion plans scheduled for 2020 appear in the Chief Executive's Report which follows and, as we enter our 18th year as a public company and progress the unlocking of the Company's extensive asset base, your Directors look to the future with ongoing confidence.

Meanwhile it is my sad duty to record the death last August of Terry Robinson, our Senior Independent Director, after a brief illness. Terry, a qualified chartered accountant, joined the Board in 2008 following a distinguished international business career and served on the Board's Audit & Risk, HSE, and Remuneration & Nomination Committees. Terry's experience, judgment and inimitable diligence will be greatly missed and all of us at Highland offer our deepest condolences to Terry's wife and family.

I am also deeply saddened to report that five fatal operational accidents occurred during the first half of 2019. Once again the Directors join me in offering our sincere condolences to each of the families of the deceased. Details of the subsequent actions taken by management are addressed in the Health and Safety section of this report.

In December, Deborah Gudgeon, a qualified chartered accountant with more than 30 years' experience, was appointed an Independent Non-Executive Director, thereby filling the vacancy caused by the untimely passing of Terry Robinson. Ms Gudgeon commenced her international career with Coopers & Lybrand, is a former member of Lonrho's Finance Committee and has been a Non-Executive Director of Evraz since 2015. The Directors welcome Deborah to the Board and have every confidence that she will make a valuable contribution to the Company's governance.

Last but far from least I would like to take this opportunity, on behalf of the Board, to thank all our employees for the hard work and dedication that lies behind 2019's considerable achievements.

Eugene Shvidler
Chairman

In Memoriam

Terry Robinson

Independent
Non-Executive Director

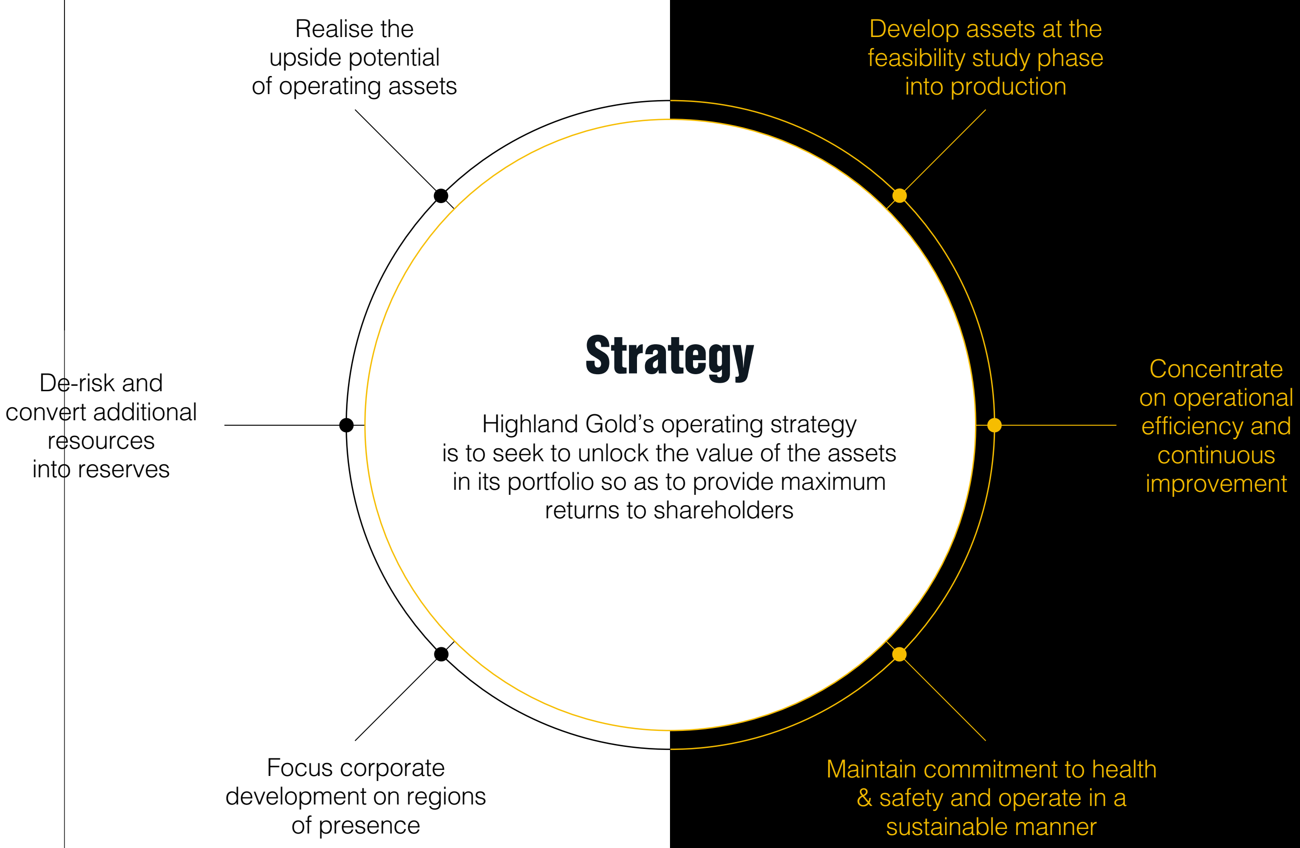
Senior Independent Non-Executive Director Terry Robinson passed away on 16 August 2019 after a brief illness.

Terry joined the Highland Gold Board of Directors in 2008 and served on its Audit & Risk, HSE, and Remuneration & Nomination Committees. Throughout his tenure, he was an integral part of the work of the Board and its committees.

Executive Chairman Eugene Shvidler said: "On behalf of the Board and everyone at Highland Gold, I would like to offer our deepest, sincerest condolences to Terry's wife and family. Terry was a true gentleman in every sense of the word, and his experience, judgment, incomparable attention to detail and, most of all, his friendship will be sorely missed."

A strategy that delivers growth

Through this strategy the Company endeavours to:



Find out more about our business model on page 10

Find out more about our operational review on page 12

Vision and Mission

Vision

Gold holds eternal value on Earth. It is our honour to deliver it to people.

Mission

We unite achievers to carefully and responsibly mine the riches of the land, to develop regions, to improve the wellbeing of families, and to deliver returns for shareholders.

Values

Core set of values that underpin our business model.

Responsibility is concern

- Initiative and commitment
- People's health & safety
- Protect the environment
- Rational use of mineral resources
- Concern for the Company

Improve others, improve ourselves

- Self-awareness & openness
- Influence & contribution
- Training & mentoring
- Development of the regions of operation

Teamwork means results

- Communication & trust
- Respect & feedback
- Conflict management
- Executive discipline
- Positivity at work

*un*Attainable – courage without limits

- Honesty
- Ambition
- Creativity
- Courage & determination

CEO's Review

Denis Alexandrov
Chief Executive Officer

Dear Shareholder,

I am pleased to report that the successful implementation of our operating strategies during 2019 and the major capex funded expansion scheduled for the current financial year will serve to bring your Company's key growth targets into significantly sharper focus.

By the year 2023, when Highland Gold Mining will be celebrating its 21st anniversary as a public company, management is looking to attain:

- A two-thirds increase in annual production to more than 500,000 oz of gold and gold equivalent;
- The doubling of the current level of EBITDA; and
- Total Cash Costs kept in the range of US$550-600 per ounce produced.

The anticipated returns from Kekura, situated in the mineral rich Chukotka region, may well represent a sizeable portion of our 500,000 oz Au production target, but I would like to emphasise that the optimisation of the upside potential of all our operating assets (a favourite corporate maxim) remains integral to the achievement of the three objectives referred to above.

As previously reported, commercial gold production at Kekura is scheduled to commence in 2023 and, in line with the development's high grade/low cost credentials, is expected to produce an average of 172,000 oz of gold per annum with Total Cash Costs tentatively estimated at US$511 per ounce.

Our capex spend at Kekura is budgeted at US$107 million for the current financial year which will herald the onset of the construction of Phase 2 facilities, including the main processing plant with a projected capacity of 800,000 tonnes per annum. Stripping and preliminary ore mining at the site commenced in October 2019 and by the year-end the majority of Phase 1 facilities (see the Operating Review) had reached completion.

July brought official confirmation from Russia's Far East Development Corporation that the Kekura and Klen projects had been granted 'residency' within the Chukotka Advanced Special Economic Zone (ASEZ). Shareholders will be pleased to learn that the tax incentives derived from this 'inclusion' have the potential to add more than US$100 million to Kekura's net present value (NPV). The scale of the Government's support, including the construction of a power line to Kekura in addition to a 'year-round' road nearby, underlines Chukotka's investment attractiveness and Kekura's importance to the development of the region.

Another Company maxim is to focus corporate development on 'regions of presence' as reflected in the addition of the Valunisty mine and the surrounding KAS licence to our Chukotka portfolio at the close of 2018.

As indicated in my report a year ago, our priorities at Valunisty are twofold, namely to increase production and reduce costs. This will primarily be achieved by the development of underground mining operations, designed to reach richer ore grades, and the expansion of processing plant capacity from 250,000 tonnes per annum to 350,000 tonnes per annum. A US$9 million capex budget has been allocated to Valunisty in respect of 2020, with US$2 million designated for project commissions (engineering surveys and design work are currently under way) and US$7 million for exploration and maintenance.

As shareholders will recall, confirmation of a further seven-year extension of MNV's 'Life of Mine' (LOM) to 2029 (originally 2018) was received at the onset of 2019, the forerunner to an above budget production performance reflected in a 10% increase in output to close on 124,000 oz Au, equivalent to more than 40% of the Company's record production of 300,704 oz of gold and gold equivalent for the year under review.

Management is intent on identifying further reserves at MNV and, to this effect, 2020's exploration schedule will continue to encompass near-mine activity and a trio of adjacent greenfield licences. In light of MNV's longevity, a series of improvements are planned including replacements of equipment and machinery. Out of a budgeted US$26 million capex spend, US$21 million has been allocated to maintenance and US$5 million to exploration.

The primary task at Novo remains the dual expansion of the plant's mining and processing capacity from 800,000 tonnes per annum to 1.3 million tonnes per annum in order to offset the expected decline in ore grades. Target date for the completion of both projects – an important aspect of our 2023 objectives -- is year-end 2020. Out of a total capex allocation of US$35 million, US$23 million is allotted to the processing plant expansion and US$12 million to maintenance and exploration. Despite reduced grades in the first half, overall output of 107,000 oz – 5% lower year-on-year – exceeded budget expectations and represented some 35% of total production.

The upgrade of Belaya Gora's processing plant is scheduled for completion later this year and the strategic utilisation of Blagodatnoye's reserves has effectively extended the combined life of the project to 2032. This compares with an original time frame of 2023 for the 'stand alone' Belaya Gora mine. Output of 40,000 oz Au (2018: 44,000 oz Au) represented a 13% contribution to overall production. The majority of the US$17 million capex allocated to Belaya Gora for 2020 will facilitate the processing plant upgrade.

I should make clear that although Kekura will account for the lion's share of our capex spend in 2020 it is not the only development being progressed towards production and, subject to final regulatory approval, we expect construction to commence on our Baley ZIF-1 Tailings open-pit/heap leach project by next year with 'first gold' scheduled for 2022. We have also applied for admission to the Trans-Baikal Advanced Special Economic Zone (ASEZ) in order for the project to qualify for the potential tax incentives. Life of Mine is estimated at 11 years, annual production is expected to average 15,000 oz Au and development costs for the period 2019-2022 are approximately US$23 million. Details regarding our 'early stage' projects, namely Klen, Taseevskoye and Unkurtash, are to be found in the Operating Review.

The actions taken by management in response to the deeply regrettable operational fatalities experienced during the first half of the year, including the commissioning of an extensive external audit of the Company's systems in autumn 2019, are detailed in the Health and Safety section of this report.

It gives me much pleasure to report that, at MINEX, Russia's premier domestic mining industry event, Highland Gold won the Russian Mining Excellence Award for Corporate Social Responsibility in 2019. We are immensely proud of this distinction which recognises Highland's corporate sponsorship of the renovation/ construction of amenities such as kindergartens, schools, churches and sports facilities in the communities within which we operate.

Highland also received recognition from the Worldwide Fund for Nature which, in its 2019 Environmental Transparency Rating, ranked us 13th out of Russia's 40 largest metals and mining companies. We achieved second place in terms of lowest environmental impact and were recognised for the most improved reporting.

Finally, I would like to address how the Company is responding to the challenges presented by the COVID-19 pandemic. Our primary concern is the health and safety of our employees and, in many ways, the measures we are undertaking now are a natural progression of our ongoing focus on improving employee wellbeing. In 2019, we installed a state-of-the-art health monitoring system at our mines, and that system is now additionally being used to screen for signs of coronavirus infection before employees enter a site. Last year, we also contracted recognised worldwide healthcare provider International SOS for services at our mine sites, and they are now assisting with supplementary preventative measures, including the screening of all shift employees in regional capitals before they travel to site.

To further protect our colleagues and the communities in which we operate, we have extended employee shifts until 1 June 2020 and are compelling contractors to do the same. Each mine site has identified and equipped a comfortable isolation zone in case an employee needs to be temporarily quarantined. In the near future, we plan to implement a broad coronavirus testing programme and establish centralised pre-shift holding facilities that would enable team members to subsequently travel to site.

Fortunately, our operations are located in remote areas with limited geographical access and that has allowed us, with the aid of the measures described above, to continue working without interruption. Nevertheless, we understand that we must plan for contingencies and much work is being conducted in that direction, starting with the creation of an internal COVID-19 task force. Our mines are currently stockpiling from one to three months of ore which, in the event of a shutdown, could feed the processing plants operating on a skeleton crew. We are also looking at ways to improve automation in our processes, an effort which could yield benefits beyond the current pandemic.

By way of conclusion, I have every confidence that management's continued pursuit of our clearly defined operating strategies, hand in hand with adherence to the Company's rigorous cost controls, augurs well for the attainment of the growth targets outlined above.

Denis Alexandrov
Chief Executive Officer

Operational Review

Production statistics

Summary

	Units	FY 2019	FY 2018	H2 2019	H1 2019	H2 2018	H1 2018
Waste stripping	t	21 674 951	9 464 138	12 065 147	9 609 804	4 903 781	4 560 357
Underground development	m	22 683	23 225	11 818	10 865	11 118	12 107
Waste dumps ore mined	t	291 845	69 469	145 596	146 249	22 173	47 296
Waste dumps ore grade	g/t	1.10	1.04	1.09	1.10	1.04	1.04
Open-pit ore mined	t	3 292 519	2 522 315	1 965 163	1 327 356	1 325 737	1 196 578
Open-pit ore grade	g/t	0.88	1.10	1.08	1.27	1.22	0.98
Underground ore mined	t	1 684 305	1 676 568	892 796	791 509	829 235	847 333
Underground ore grade	g/t	4.40	4.25	4.33	4.28	4.10	4.40
Total ore mined	t	5 268 669	4 268 352	3 003 555	2 265 114	2 177 145	2 091 207
Average grade	g/t	2.02	2.34	2.04	2.31	2.31	2.36
Ore processed	t	4 055 982	3 722 406	2 027 032	2 028 950	1 988 903	1 733 503
Average grade	g/t	2.46	2.69	2.82	2.59	2.59	2.79
Recovery rate	%	93.9	83.9	86.2	84.1	84.8	82.9
Gold and gold eq. produced	**oz**	**300 704**	**269 500**	**158 451**	**142 254**	**140 579**	**128 921**

Khabarovsk region

Mnogovershinnoye (MNV)

	Units	FY 2019	FY 2018	H2 2019	H1 2019	H2 2018	H1 2018
Waste stripping	t	7 201 954	4 255 199	4 566 608	2 635 346	2 157 753	2 097 446
Underground development	m	11 694	11 783	6 124	5 570	5 860	5 923
Waste dumps ore mined	t	291 845	69 469	145 596	146 249	22 173	47 296
Waste dumps ore grade	g/t	1.10	1.04	1.09	1.10	1.04	1.04
Open-pit ore mined	t	236 355	426 986	60 166	176 189	286 004	140 982
Open-pit ore grade	g/t	2.30	2.42	2.07	2.38	2.50	2.23
Underground ore mined	t	814 391	810 806	434 057	380 334	402 903	407 903
Underground ore grade	g/t	3.95	3.31	3.89	4.01	3.52	3.10
Total ore mined	t	1 342 591	1 307 261	639 819	702 772	711 080	596 181
Average grade	g/t	3.04	2.90	3.08	2.99	3.03	2.73
Ore processed	t	1 391 859	1 310 293	687 607	704 252	701 167	609 126
Average grade	g/t	3.00	2.92	3.08	2.92	3.07	2.75
Recovery rate	%	92.0	92.3	92.3	91.7	93.2	92.0
Gold produced	**oz**	**123 814**	**112 608**	**64 497**	**59 317**	**64 518**	**48 090**

Belaya Gora

	Units	FY 2019	FY 2018	H2 2019	H1 2019	H2 2018	H1 2018
Waste stripping	t	8 803 465	5 208 939	4 296 669	4 506 796	2 746 028	2 462 911
Ore mined	t	2 744 241	2 095 329	1 727 489	1 016 752	1 039 733	1 055 596
Average grade	g/t	0.86	0.84	0.84	0.88	0.86	0.81
Ore processed	t	1 550 888	1 578 890	772 104	778 784	860 022	718 868
Average grade	g/t	1.05	1.13	1.08	1.03	1.15	1.11
Recovery rate	%	77.6	74.8	80.2	74.9	76.4	75.4
Gold produced	**oz**	**40 067**	44 085	21 745	18 322	24 281	19 804

Zabaikalsky region
Novoshirokinskoye (Novo)

	Units	FY 2019	FY 2018	H2 2019	H1 2019	H2 2018	H1 2018
Underground development	m	10 989	11 442	5 694	5 295	5 258	6 184
Ore mined	t	869 914	865 762	458 739	411 175	426 332	439 430
Average grade*	g/t	4.82	5.13	4.74	4.53	4.65	5.60
Ore processed	t	842 472	833 223	428 151	414 321	427 714	405 509
Average grade*	g/t	4.94	5.26	5.35	4.73	4.72	5.83
Recovery rate*	%	79.8	80.1	80.2	79.0	79.8	80.3
Gold eq produced*	**oz**	**106 784**	**112 807**	**57 043**	**49 742**	**51 780**	**61 027**

Chukotka region
Valunisty**

	Units	FY 2019	H2 2019	H1 2019
Waste stripping	t	5 669 532	3 201 870	2 467 662
Ore mined	t	311 923	177 508	134 415
Average grade*	g/t	3.06	3.02	2.76
Ore processed	t	270 763	139 170	131 593
Average grade*	g/t	3.64	3.44	3.37
Recovery rate*	%	95.2	94.6	95.2
Gold eq produced*	**oz**	**30 039**	**15 166**	**14 873**

* *Calculated in gold equivalent including silver, lead, zinc and copper for Novo and silver for Valunisty. Gold equivalent is calculated based on average factual prices for other metals during the period.*

** *Valunisty acquired at year-end 2018.*

Khabarovsk region, Russia

Mnogovershinnoye (MNV)

- MNV recorded a 10% increase in gold production to 124 koz in 2019 compared with 113 koz in 2018, thereby accounting for some 41% of the Company's total output. This primarily reflected a year-on-year improvement in head grade from 2.90 g/t to 3.04 g/t and a 6% plus increase in processing volume to 1,391,000 tonnes.
- Access to high-grade blocks in the Deer ore body was reflected in a 16% year-on-year increase in Q4 ore grades from underground operations.
- Total ore mined for the full year was marginally higher at 1,342,591 tonnes despite a 14% year-on-year decline in Q4 due to a reduction in open-pit mining to facilitate stripping work in relation to new mining blocks at the Quiet ore body.
- The overall recovery rate was little changed at 92.0% (2018: 92.3%).

Management's long standing near-mine exploration programme continued throughout 2019 and benefited from the innovative method of drilling upward to locate new ore occurrences and downward from the surface to verify and delineate the relevant zones.

During the course of the year drilling focused on the Deep, Quiet, Intermediate, Northern and Deer ore bodies. This involved 216 holes encompassing 15,981 metres. Analysis of the results has commenced and tentative estimates of prospective additions to the gold reserves of several ore bodies are due to be finalised. Meanwhile, the assessment of MNV's historic waste dumps, which supplied 291,000 tonnes of ore at 1.1 g/t to the processing plant in 2019, is ongoing. An evaluation of stockpiles close to the Pebble ore body, with ore containing an estimated 900 kg of gold (29,000 oz of gold), was prepared in late 2019 and submitted for state expert review which is pending.

In the wake of relevant geochemical prospecting work a full exploration programme, including diamond drilling and trenching, was carried out at various sites within the three greenfield licences adjacent to MNV namely: Kulibinskaya, Zamanchivaya and Vilkinskaya. Assay tests and associated analysis are in progress.

Production costs

Total cash costs amounted to US$565 per oz (2018: US$600 per oz) while all-in sustaining costs were US$724 per oz (2018: US$757 per oz).

Capital costs

A total of US$21.2 million was invested at MNV in 2019. This included capitalised expenditures and construction (US$9.1 million), purchase of equipment (US$10.3 million) and exploration (US$1.7 million).

Outlook

With a view to further extending MNV's Life of Mine beyond 2029 (originally 2018) near-mine exploration will continue in 2020, with primary focus on the Intermediate, Watershed and Upper ore bodies and on the Kulibinskaya and Vilkinskaya licence areas.

Close on 1 million tonnes of ore from waste dumps at approximately 1.1 g/t Au has been processed since 2016 and this programme will continue during the current year.

In line with the extension of LOM various improvements are planned at both the mine and the mill including replacements of equipment and machinery.

Capex in 2020 is estimated at US$26 million (maintenance: US$21 million; exploration: US$5 million).

Mnogovershinnoye

Belaya Gora

- Belaya Gora recorded a 9% year-on-year decline in gold production to 40 koz in 2019 due to a combination of lower ore grades and operational challenges at the processing plant during the first half of the year. This represented a 13% contribution to total production.
- Ore mining more than doubled in Q4 2019 versus Q4 2018 and registered a 30% increase to 2,744,240 tonnes for the full year compared with 2,095,329 tonnes in 2018.
- Processing plant throughput for the year was only marginally lower at 1,550,888 tonnes (2018: 1,578,890 tonnes) despite a year-on-year decline of 12% in the fourth quarter. Recovery rates for the year advanced from 74.8% to 77.6% although the fourth quarter performance was substantially higher at 82.6%.

Work on the Company's planned upgrade to the processing plant and associated capital projects gathered momentum in Q4 2019. The addition of a carbon-in-pulp (CIP) circuit is designed to improve gold recoveries from 2019's 77.6% average to around 90% and also enable the processing of ore from the nearby Blagodatnoye deposit.

Other developments during Q4 2019 included:

- The completion, review, and revision of detailed design documentation and architectural plans for various structures including the layout of the enhanced processing plant. In order to reduce costs the new circuit will be housed in an adjacent building;
- Initial site preparations for construction of the sorption/elution circuit; and
- The development of plans for the expansion of the tailings dam, which are undergoing regulatory review. In addition, the construction of a new buttress on the existing dam was completed as was a raising of the level of the dam.

Exploration on the flanks of Belaya Gora also continued in Q4 2019, with particular focus on the Kolchansky ore zone. In December, the Company conducted 2,000 metres of diamond drilling to verify previously identified geophysical anomalies.

Production costs

Total cash costs amounted to US$794 per oz (2018: US$724 per oz) while all-in sustaining costs were US$1,181 per oz (2018: US$811 per oz).

Capital costs

A total of US$5.4 million was invested at Belaya Gora in 2019. This included capitalised expenditures and construction (US$4.9 million), purchase of equipment (US$0.1 million) and exploration (US$0.4 million).

Outlook

The focus during 2020 will remain on upgrading the processing plant (scheduled for completion in H2 2020) and increasing recovery rates in order to fully capitalise on the utilisation of ore from the Blagodatnoye deposit. Improvements to the tailings dam are also ongoing. Equipment for the project was delivered in Q1 2020 and is now being transported to site.

In parallel with the drilling activity on the Belaya Gora flanks, a new exploration programme was developed covering Kolchansky and the entire Belaya Gora flanks licence through 2023. This was submitted for regulatory approval in December 2019.

Capex in 2020 is estimated at US$17 million (including US$14 million for the processing plant upgrade).

Belaya Gora

Zabaikalsky region, Russia

Novoshirokinskoye

Novoshirokinskoye (NOVO)

- The final quarter of 2019 witnessed year-on-year improvements in grades and recovery rates of 22% and 3% respectively thereby raising the production of gold equivalent by 25% versus Q4 2018.
- The production of gold equivalent for the full year 2019 was above forecast at 106 koz but 5% below 2018's performance due to lower first half grades in addition to fluctuations in the balance of gold, silver, lead and zinc prices.
- Ore mining registered an 8% increase year-on-year in Q4 2019 to 231 k tonnes to give an overall volume of 870 k tonnes (2018: 866 k tonnes). Ore processing for the full year was marginally higher at 842 k tonnes (2018: 833 k tonnes).

The expansion of Novo's ore mining and processing capacity from 800 ktpa to 1.3 Mtpa remains the strategic priority. To this end, progress during Q4 2019 included:

- The completion of a buttress and the fifth level expansion of the tailings dam;
- The commencement of the construction of building foundations and air vents in relation to the new underground ventilation system; and
- The award of a contract for reconstruction of the skip hoist, scheduled for mid-2020.

Production costs

Total cash costs amounted to US$391 per oz (2018: US$323 per oz) while all-in sustaining costs were US$467 per oz (2018: US$388 per oz).

Capital costs

A total of US$13.0 million was invested at Novo in 2019. This included capitalised expenditures and construction (US$8.8 million) and purchase of equipment (US$4.2 million).

Outlook

The construction of the infrastructure required to expand mine capacity (Stage 1), including the ventilation system, the skip hoist, the pumping station, the water treatment facility and the boiler unit, is at an advanced stage.

The X-ray transmission (XRT) ore sorting technology, integral to the expansion of the processing plant's capacity (Stage 2), has been manufactured and is expected to arrive on-site in mid-2020. Design work on the ore sorting facility will permit construction to commence later this year and completion of the entire project is scheduled for year-end 2020.

Capex in 2020 is estimated at US$35 million (mine/processing expansion: US$23 million; maintenance and exploration: US$12 million).

Baley Ore Cluster (Taseevskoye, Sredny Golgotay and ZIF-1)

Regulatory approval for the overall design of the Baley ZIF-1 Tailings heap leach project was received from the State Expert Panel in Krasnoyarsk in Q4 2019 following earlier sign-offs by the regional mining agency and state environmental experts.

The project is expected to deploy an annual processing capacity of 840,000 tonnes of ore per annum extracted from the former Baley processing plant's tailings dam. It is estimated that the latter contains approximately 9.7 million tonnes of slime at a grade of 0.98 g/t Au, capable of producing 15,000 oz of gold per annum. Construction design work is under way with commissioning scheduled for 2022. The estimated project cost is US$23 million over three years.

Contractor Wardell Armstrong completed work on a scoping study at the Sredny Golgotay deposit, presenting various options for the development of the project. More than 10 different technologies were reviewed in the report, which forms the basis of ongoing evaluation. In parallel, preparations are under way to select a contractor to undertake a pre-feasibility study encompassing geological, technical, metallurgical and hydro-geological assessments.

Project bureau Zabaikalzolotoproekt LLC completed amendments to the mine design for the Taseevskoye deposit (including relocation of the project's process water pond) which received approval from regulators in December 2019. This sets a new target of 2024 for the commencement of mining at Taseevskoye.

Outlook

The Baley project is close to the infrastructure – electricity, roads, water, rail etc., – associated with the town of the same name and serves to establish an operational base for future work on the Taseevskoye and Golgotay properties.

Application has been submitted for admission into the Trans-Baikal Advanced Special Economic Zone (ASEZ) which could potentially yield a series of tax incentives.

Design work in respect of the heap leach operation is under way and construction is scheduled to commence in the current financial year.

Chukotka, Russia

Valunisty

- Although final quarter and full year gold production at Valunisty recorded year-on-year declines of 13% and 20% respectively, the outcome was in line with 2019's revised production plans following the decision to process ore from the Glavnaya and Novaya zones instead of the main Valunisty deposit and the satellite Gorny mine. Total output of 30 koz of gold and gold equivalent represented 10% of the Company's overall production.
- Ore mining for the full year was 4% lower at 312 k tonnes but processing volume registered a 13% increase to 271 k tonnes.

The Company carried out 4,720 metres of exploration drilling at Valunisty in 2019 and a further 918.5 metres at the surrounding KAS licence. Drilling results were used to update open-pit mining plans and will facilitate future reserve audits.

Production costs

Total cash costs amounted to US$786 per oz while all-in sustaining costs were US$1,037 per oz.

Capital costs

A total of US$3.7 million was invested at Valunisty in 2019. This included capitalised expenditures and construction (US$0.1 million), purchase of equipment (US$1.0 million) and exploration (US$2.6 million).

Outlook

Medium-term plans for Valunisty include the expansion of the processing plant's capacity from 250,000 tonnes of ore per annum to 350,000 tonnes of ore per annum and the introduction of underground mining. In Q4 2019, contractors carried out inspections at the site and design work on both projects is in progress.

Capex in 2020 is estimated at US$9 million (maintenance and exploration: US$7 million; project work: US$2 million).

Kekura

Kekura, the Company's premier development project, conducted its first blast in October 2019 with pre-stripping and initial mining activity continuing throughout the quarter. Phase 1 facilities that are complete or close to completion include: fuel storage, the assay laboratory, middlings storage, the dispatcher's room, the communications tower, the power substation and internal power lines and the water pumping station. Testing work on the power substation was completed in Q4 2019, as was the refurbishment of the pilot processing plant and the crushing unit together with ground preparations for camp expansion and the assembly of mining equipment.

As announced last year, the Kekura project has been granted residency within the Chukotka Advanced Special Economic Zone (ASEZ), a development that adds an estimated US$100 million to the net present value (NPV) of the enterprise.

Design documentation in relation to mine construction and the planned 800,000 tonnes per annum processing plant, was submitted for environmental review in Q4 2019 and has already received sign-off from the sanitation regulators.

Outlook

Procurement of infrastructure materials and equipment is currently under way (to facilitate port deliveries during the summer navigation window) as 2020 sees the onset of Phase 2, including construction of the main processing plant and the repair shop.

Completion of the project, with an estimated Life of Mine of 16 years, is scheduled for 2023. Capex in 2020 is estimated at US$107 million (2019: US$38.7 million).

Klen

Further exploration was carried out at Klen and the surrounding Verkhne-Krichalskaya zone during 2019. Evaluation of the drilling results is currently in progress.

In addition, X-ray transmission (XRT) bulk sorting tests on ore samples were carried out to ascertain whether the use of such sensor-based technology would be appropriate.

As with Kekura, July 2019 brought official confirmation that the Klen project had been granted residency in the Chukotka Advanced Special Economic Zone (ASEZ), thereby becoming eligible to receive potential tax incentives.

Kyrgyzstan

Unkurtash

The scoping study completed in 2017 foresaw:

- Two open-pits and an 18-year LOM;
- Processing plant utilisation of gravity concentration and gravity tailings CIL with an annual throughput of 4 million tonnes and recoveries of more than 80%;
- Annual production of 133,000 oz Au at an average operating cost of US$616 per oz; and
- Estimated capex of US$322 million to commence production.

There were no substantial developments during the reporting year, however, the Company's budget for the current financial year includes funding for the initiation of a pre-feasibility study to further the search for a prospective partner.

Alla Baranovskaya

Chief Financial Officer

Dear Shareholder,

Favourable trends in global markets facilitated Highland Gold's solid financial performance in 2019, namely through higher gold prices, a weak local currency, and lower interest rates on bank loans.

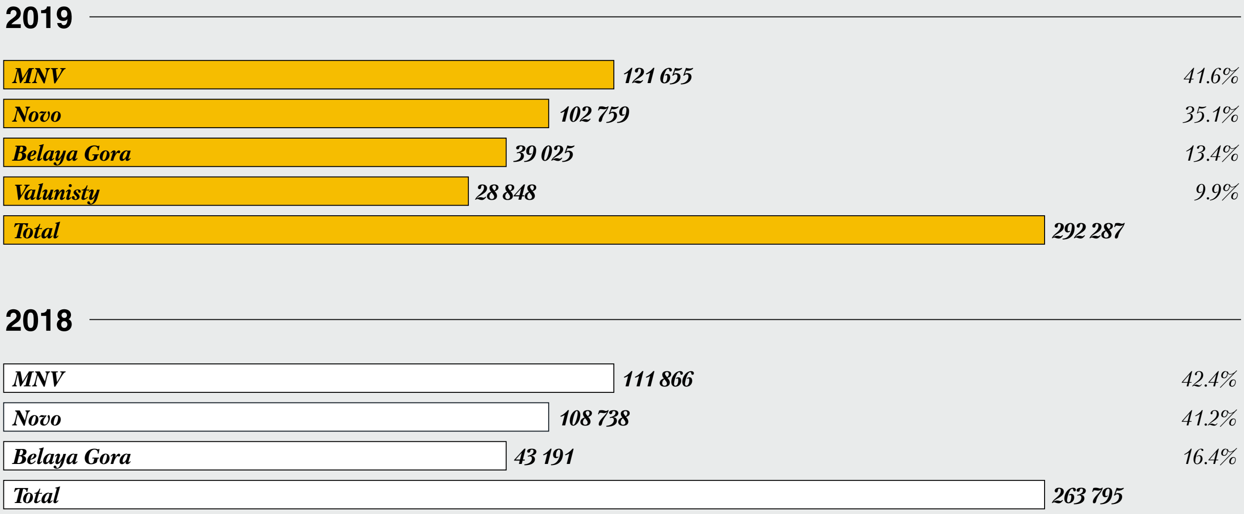
For the first time in its history, the Company recorded production of over 300,000 oz, generating EBITDA of US$205.1 million and funding a US$98.2 million investment in projects. The Company can also pride itself on providing shareholders with a competitive dividend yield for the eighth consecutive year.

Revenue for 2019 totalled US$395.4 million, with US$265.5 million coming from sales of gold and silver produced at MNV, Belaya Gora and Valunisty, and US$128.2 million from sales of lead and zinc concentrates from Novo (in 2018, those figures were US$311.2 million, US$196.6 million and US$113.8 million, respectively). The Company sold 292,287 oz of gold and gold equivalent, representing an 11% increase versus previous year.

Sales growth was driven primarily by the late-2018 acquisition of Valunisty, which sold 28,848 Au eq oz and contributed 10% to the total sales volume. MNV increased its sales by 9% to 121,655 oz, representing a 42% share of the total. Novo's contribution was 102,759 oz of Au eq or 35% of sales. Novo's sales volume decreased by 5% as a result of changes in the conversion rate for other metals (silver, lead, zinc and copper) into gold equivalent, as the higher gold price and lower price of other metals resulted in a lower quantity of Au eq ounces sold. Belaya Gora's sales volume dropped to 39,025 oz and accounted for a 13% share.

Financial dashboard

Gold and GE Sold by Mine (oz)



Cash Operating Costs – Breakdown

	2019 US$000	2018 US$000	Y-o-Y change
Cost of sales	**214,283**	**178,222**	**20.2%**
Depreciation, depletion and amortisation	(48,848)	(42,304)	15.5%
Cost of sales, excluding depreciation, depletion and amortisation	**165,435**	**135,918**	**21.7%**
Breakdown per item:			
Labour	62,583	47,439	31.9%
Consumables and spares	47,680	39,494	20.7%
Power	14,493	10,725	35.1%
Movement in ore stockpiles, finished goods and stripping assets	(31,854)	(3,084)	932.9%
Maintenance, repairs and third-party services	51,528	23,906	115.5%
Taxes other than income tax	21,005	17,438	20.5%
	165,435	**135,918**	**21.7%**

Financial dashboard continued

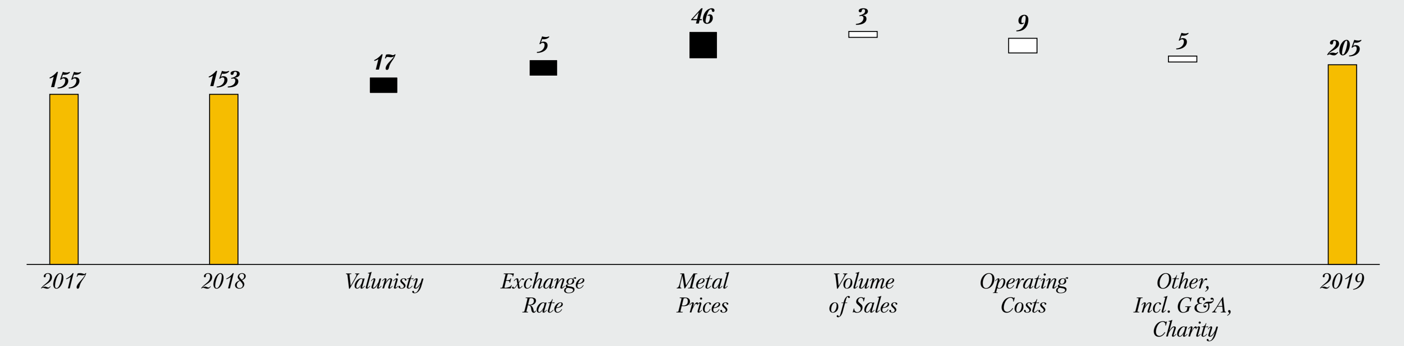
TCC and AISC Calculation

	2019 US$000	2018 US$000	Y-o-Y change
Cost of sales, excluding depreciation, depletion and amortisation	**165,435**	**135,918**	**21.7%**
» cost of by-products and other sales	(2,709)	(1,986)	36.4%
» taxes other than income tax at non-operating entities	(167)	(355)	(53.0%)
Total cash costs (TCC)	**162,559**	**133,577**	**21.7%**
+ administrative expenses	18,736	17,163	9.2%
+ accretion and amortisation on site restoration provision	2,176	1,460	49.0%
+ movement in ore stockpiles obsolescence allowance	11,998	722	1,561.8%
+ sustaining capital expenditure	35,706	27,018	32.2%
Total all-in sustaining costs (AISC)	**231,175**	**179,940**	**28.5%**
Gold sold (gold and gold eq.oz)	292,287	263,795	10.8%
TCC (US$/oz)	**556**	**506**	**9.8%**
AISC (US$/oz)	**791**	**682**	**15.9%**
Average realised price of gold equivalent (US$/oz)	**1,344**	**1,171**	**14.8%**
Headroom (US$/oz)	**553**	**489**	**13.1%**

EBITDA Reconciliation to Operating Profit

	2019 US$000	2018 US$000
Operating profit	**161,483**	109,186
Depreciation of mine properties and property, plant and equipment	**48,848**	42,304
Individual impairment of property, plant and equipment and mine assets	**236**	803
Reversal of impairment related to cash-generating units	**(18,227)**	–
Movement in ore stockpiles obsolescence allowance	**11,997**	722
Movement in raw materials and consumables obsolescence allowance	**742**	45
EBITDA	**205,079**	153,060

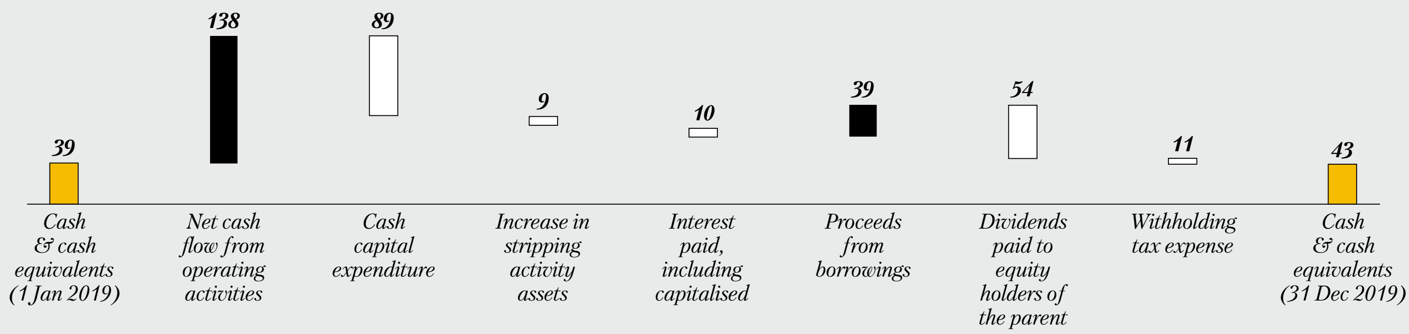
EBITDA Bridge (US$m)



Cost of Debt Management

	31 Dec 2019 US$000	31 Dec 2018 US$000
Gross debt	288,025	247,851
Net debt	250,169	211,433
Interest rate	3.76%	4.24%
Net debt/EBITDA	1.22x	1.38x

Cash Position Bridge (US$m)



Highland Gold continued to pursue a "no hedge" policy in 2019. The average realised price of gold and gold equivalent for the Company as a whole increased to US$1,344 per oz (2018: US$1,171 per oz). The average realised price of gold in respect of MNV and Belaya Gora (net of commission) was US$1,396 per oz (2018: US$1,258 per oz), which corresponded with the average market price. The price of gold equivalent realised by Novo was US$1,248[1] per eq. oz (+19% y-o-y).

The Company's cost of sales excluding depreciation increased by 22% to US$165.4 million (2018: US$135.9 million). Excluding the newly-acquired Valunisty, with its higher production cost profile, costs grew just 4% and totalled US$141.6 million. The Company was able to maintain relatively stable operating costs despite higher electricity tariffs (+27% in Khabarovsk and +9% in Chukotka), a 10% increase in salaries at the production sites, and higher prices for imported reagents and grinding balls. At the same time, the positive effect of a weak rouble was less noticeable, resulting in only a 2.7% offset.

Depreciation amounted to US$48.8 million, increasing by US$6.5 million mainly due to the acquisition of Valunisty (US$4.0 million).

Total cash costs[2] (TCC) recorded a 10% increase to US$556 per oz mainly influenced by inclusion of Valunisty (TCC US$786 per oz) into the Company's assets portfolio, but they were nevertheless comfortably below the industry average. A breakdown by operating units shows:

MNV, our oldest mine, succeeded in improving total cash costs to US$565 per oz (2018: US$600 per oz) despite the aforementioned pressure on energy, labour and supply costs. Our lowest-cost producer, Novo, increased TCC by 22% to US$391 per eq. oz (2018: US$321 per oz), resulting from the dip in sales volume and higher labour costs. Belaya Gora's total cash costs rose to US$794 per oz (2018: US$724 per oz) reflecting lower grade ore processing and the hiring of two contractors for mining activities.

All-in sustaining costs[3] (AISC) grew by 16% to US$791 (2018: US$682) per oz, with the change mainly driven by the impairment of low-grade ore at Belaya Gora and Valunisty in the amount of US$12.0 million (2018: US$0.7 million), more supporting capex at MNV, Belaya Gora and Novo, and higher TCC.

Administrative expenses amounted to US$18.7 million (2018: US$17.2 million), reflecting increased costs for sustainable improvement projects and competence centres, as well as bonus payments to employees linked to various KPIs.

The high gold price, combined with our competitive cost position, delivered strong headroom of about US$553 per oz, effectively underwriting the Company's development projects and dividend distributions.

EBITDA[4] improved to US$205.1 million (2018: US$153.1 million), and the EBITDA margin[5] was 52%, on par with the world's most efficient gold producers.

The increase in other operating expenses from US$6.6 million in 2018 to US$19.1 million in 2019 was mainly related to a US$12.0 million movement in ore stockpiles obsolescence allowance at Belaya Gora and Valunisty during the reporting period.

The Company's management has analysed internal and external indicators of impairment as of 31 December 2019 and no impairment loss relating to our cash generating units was recognised. Conversely, Kekura and Klen were both granted residency status in the Chukotka Advanced Special Economic Zone (ASEZ), thereby qualifying them for a series of tax incentives. These incentives, combined with substantial progress with the development programme and stronger gold prices, were the main triggers for the Company to record a US$18.2 million reversal of impairment loss accrued in the year 2015 in respect of Kekura assets.

In 2019, the Company recognised a net finance cost of US$2.0 million compared with US$1.8 million in 2018. The principal component was the accretion expense on site restoration provision of US$2.1 million in 2019 (2018: US$1.5 million).

A foreign exchange loss of US$0.8 million (2018: gain of US$0.8 million) resulted from the settlement of foreign currency transactions and the conversion of monetary assets and liabilities denominated in Russian roubles into US dollars.

The Company recognised an income tax credit of US$19.1 million in 2019, versus tax charge of US$52.2 million in 2018. The main reason was a substantial increase in deferred tax credit of US$67.8 million (2018: tax expenses of US$18.3 million) driven by a significant decrease in future tax related to Kekura and Klen as a result of the ASEZ tax incentives. Current tax expenses totalled US$37.3 million (2018: US$20.2 million) and comprised income tax expense of US$19.2 million (2018: US$9.8 million) at MNV, US$16.0 million (2018: US$10.3 million) at Novo, US$1.7 million at Valunisty, US$0.3 million (2018: US$0.1 million) at Belaya Gora and US$0.1 million (2018: US$0.05 million) at RDM. The withholding tax expense was US$11.4 million (2018: US$13.7 million).

Net profit, benefiting from strong operating results and supported by deferred tax credit, more than tripled to US$177.8 million (2018: US$56.1 million). Consequently, earnings per share jumped to US$0.487 for the year ended 31 December 2019 (2018: US$0.154).

The Company's cash inflow from operations rose by 1.6% to US$138.5 million, reflecting higher current income tax payments (+US$8.0 million) and a US$37.1 million increase in working capital due to the pending reimbursement of VAT for Q4 (+US$10.3 million), larger stockpiles (+US$20.8 million) and gold bars remaining on site.

Capital expenditure for the reporting period amounted to US$89.3 million versus US$62.3 million in respect of 2018. Stripping capitalised costs at MNV, Belaya Gora and Valunisty were US$8.9 million compared to US$1.3 million in 2018. Key expenses included near-mine exploration designed to further extend the Life of Mine at MNV, work on the expansion of Novo's mining and processing capacity, the progression of the Kekura project, and the replacement of obsolete equipment.

Capital expenditures broken down by asset were: US$21.2 million at MNV, US$13.0 million at Novo, US$5.4 million at Belaya Gora, US$3.7 million at Valunisty, US$38.7 million at Kekura, US$2.7 million at Taseevskoye and US$4.6 million in relation to other exploration and development projects. Capital expenditures were entirely funded by operating cash flow and bank loans.

All of the Company's debt is denominated in US dollars. The debt in relation to facility agreements with banks amounted to US$288.0 million as of 31 December 2019 (2018: US$247.9 million, including Valunisty). This amount was inclusive of the IFRS 9 modification impact. The effective annual interest rate was 3.76% (2018: 4.24%) with average tenor 47 months.

At the end of the reporting period, cash and cash equivalents amounted to US$42.9 million compared with US$38.7 million as of 31 December 2018. The Company's net debt position, including lease liabilities, was US$250.2 million as of 31 December 2019, compared with US$211.4 million as of 31 December 2018.

The ratio of net debt to EBITDA was 1.22 as at the end of 2019 (2018: 1.38 including Valunisty) which is well within the Board of Directors' debt policy.

Taking into account the Company's solid financial performance and stable balance sheet, the Board is pleased to declared a third interim dividend of GBP 0.035 per share.

Payment of dividends

The third interim dividend for the year ending 31 December 2018 in the amount of US$11.0 million (2018: US$24.2 million) was paid in May 2019.

With respect to 2019, the Company paid a first interim dividend of GBP 0.05 per share for the first half of the year (2018: interim dividend of GBP 0.06 per share) which resulted in an aggregate interim dividend payment of US$22.5 million (2018: US$25.5 million). The first interim dividend was paid in September 2019.

In December, the Board approved a second interim dividend of GBP 0.05 per share (2018: 0.05 per share) which, taking into account the first interim dividend paid in September 2019, brought the total dividends paid to GBP 0.10 per share for the year 2019 (2018: GBP 0.11 per share). The second interim dividend, totalling US$23.8 million, was paid to shareholders in January 2020. The total payout exceeds the minimum amount prescribed in the Company's dividend policy, reflecting the availability of additional funds for disbursement to shareholders.

The Board declared a third interim dividend of GBP 0.035 per share (2018: GBP 0.024) to be paid on 05 June 2020, thereby bringing the total payout based on the 2019 financial year to GBP 0.135. The ex-dividend date is 23 April 2020 and the record date is 24 April 2020.

The Company offers an option for shareholders to elect to receive their dividends in US dollars. Payments for dividends in US dollars will be fixed at an exchange rate of 1.2624 GBP/US$, or US$ 0.044 per share.

To receive payment in US dollars, shareholders should complete and file the Currency Election Form no later than the record date (Election Deadline), 15 May 2020. The form and instructions for filing it are available on the dividends page of the Investors' section of the Highland Gold website: https://www.highlandgold.com/home/investors/dividends/

Alla Baranovskaya
Chief Financial Officer

1 *Novo's average price is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver), net of fixed processing and refining costs at third-party plants.*

2 *Total cash costs include mine site operating costs such as mining, processing, administration, royalties and production taxes but are exclusive of depreciation, depletion and amortisation, capital and exploration costs. Total cash costs are then divided by ounces sold to arrive at the total cash costs of sales. This data provides additional information and is a non-GAAP measure.*

3 *In line with guidance issued by the World Gold Council, the formula used to define the all-in sustaining costs measurement 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 data 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.*

4 *EBITDA is defined as operating profit/(loss) excluding depreciation and amortisation, impairment losses or reversal, movement in ore stockpiles obsolescence allowance, movement in raw materials and consumables obsolescence allowance, result of disposal of a non-core entity and gain on settlement of contingent consideration.*

5 *EBITDA margin is defined as EBITDA divided by total revenue.*

6 *Net debt is defined as cash and cash equivalents less interest-bearing loans and lease liabilities.*

Rounding of figures may result in computational discrepancies.

Managing our risks effectively

The Group is exposed to a number of risks and uncertainties which in most cases are relevant to the entire gold mining industry. These risks and uncertainties could cause actual results to differ materially from expected or historical results. The main challenge is to manage them effectively. The Group recognises that dealing with risks is an integral part of managing its operations and is fundamental to the Group's business success.

The Group's risk management system is designed to provide a consistent and clear framework for managing and reporting the most significant strategic, market and financial, as well as operating risks to the Board of Directors. The Board is responsible for maintaining the Group's risk management system, defining risk appetite, and monitoring the most significant risks.

The Audit Committee supports the Board of Directors in monitoring the Group's risk exposures and is responsible for reviewing the effectiveness of the risk management system. The risk register is presented to the Audit Committee following periodic updates by the executive management. The risk register and framework utilises the Group's risk matrix and universal risk prioritisation and rating scale, which grade and prioritise perceived and known risks based on the probability of the adverse event occurring and scale of consequences from a risk occurrence. The risk register defines a responsible body or individuals who are charged with monitoring, managing and mitigating these risks.

Executive management performs the risk identification, assessment and mitigation throughout various areas of the Group's business, ranging from detailed assessment of environmental risk at the operational level of each mine, to the monitoring of delivery risks with respect to each major capital project and the assessment and mitigation of risks at executive management and Board levels through the internal control system and specific risk management actions. At an operational level, all mines identify, prioritise and directly engage stakeholder groups that have the potential to affect their operational, sustainability or financial performance.

The Group's principal risks are set out below. We consider that, in general, the Group was affected by the same risks as in prior periods, with the only exceptions being the new Coronavirus ("COVID-19") Pandemic risk and increased emphasis on capital projects. The precise implications of certain risks may have changed together with our remedial actions.

The Group takes into account known risks but there may be additional risks unknown to the Group and other risks, currently believed to be immaterial, which could develop into material risks. Therefore, the Group's risks listed below do not represent a complete register of the risks and uncertainties.

Risk Movement

Change in residual risk level assessment as compared to the similar risk in 2019:

- ✚ New
- ^ Increase
- = Unchanged
- ⌄ Decrease

Risk	Risk description	Mitigation	Movement
Strategic Risks			
Coronavirus ("COVID-19") Pandemic	COVID-19 carries a risk to life and health of people. There is a risk of the partial or complete shutdown of production. There is a risk of our regular shift personnel not being available at mine sites due to possible travel disruption within Russian Federation, border closing with other countries (HGML depends partially on foreign labour). The Company's head office in Moscow was affected by a city-wide stay-at-home order in late Q1 2020, and there is a possibility that stay-at-home orders could be enforced in other regions. Coronavirus COVID-19 generated a risk of no delivery or late delivery of equipment and materials, which can cause a delay in capital construction, downtime in production, higher costs and additional financial losses.	The effects of the pandemic (as the World Health Organization officially labelled COVID-19 on March 11) on communities are already relatively predictable, and the potential impact on our organisations, customers, vendors, and communities has been assessed. However, the preventative measures taken by lower-level municipal authorities in the regions where our mines operate may not always be sufficient and Highland Gold has initiated its own protocols to protect staff and the business. Highland Gold has established an emergency response team, based at its Moscow headquarters. Its role is to generate a plan of action and to provide a mechanism for communication and implementation through Readiness Assessments, Risk Management Plans, Business Impact Analysis and Policy Management. Secondary emergency response teams were established at each operating site, where the situation is more fluid and holds different levels of risks depending upon the spread of COVID-19 infections. The following risks relevant to Highland Gold's operations have been addressed: » Reduced Employee Productivity The Company initiated Lock-out/ Lock-down orders until 1 June 2020 to effectively isolate mine sites from possible contamination and eliminate risks of crew change disruption. Workforce motivation programmes are in place to encourage loyalty, alongside an increased focus on Health and Safety for employees working longer shifts. Strategic plans by partner company SOS International are in place to organise health control systems for each crew shift arriving on site. This work will most likely be completed after the current pandemic is over.	+

Risk	Risk description	Mitigation	Movement
Coronavirus ("COVID-19") Pandemic **Continued**		» Stressed Supply Chains All key equipment for the 2020 business cycle was supplied prior to pandemic disruptions, having been rush delivered or currently en route to the MNV, BG, and Novo sites. Risks remain for Kekura deliveries during this navigation season. Some of the risks have been addressed and contingency plans have been made for deliveries in 2021. The Company works closely with critical suppliers to ensure an uninterrupted cycle of mine operations. » Disruption Due to Social Distancing All mass employee events, conferences and meetings have been cancelled or postponed.	
An adequate resource base needs to be maintained for future operations and replacement of depleted mines	Due to the fact that the life of a mine is limited, the Group has to strategically seek to replenish its resource base through the development of organic projects or through M&A activity. Mine development from exploration to production is a prolonged process. There can be no guarantee that current or prospective exploration will lead to sustainable production in the future.	The Group undertakes exploration projects to sustain and increase the resource base. Comprehensive near-mine exploration plans are developed for all sites. The Group is actively looking for opportunities around its existing operational assets to create competitive advantages through synergies within the Group and with regard to competitors' projects.	=
Regulatory changes and government actions	Risks related to changes in the political and economic situation and legislative regulation in the Russian Federation and Kyrgyzstan are significant for the Group in that its major operations are located in these jurisdictions. The Group's operations in these jurisdictions are regulated by numerous laws, standards and guides. The Group's approach is to strive to comply with all applicable laws and regulations. There is a risk that government and government agencies could perform actions, adopt new laws, taxes, regulations, rules, or other requirements which could have a negative impact on the Group's business and operations.	Senior management monitors political developments and new legislation, and assesses possible implications for the Group. In addition, the Group has established lines of communication with various governmental authorities in order to contribute to the thinking of such bodies and, when appropriate, to participate in relevant discussions with political and regulatory authorities. The Group is not directly affected by any sanctions, although the macroeconomic situation in Russia could result in limited financing options thereby increasing the cost of capital.	=

Key
- + New
- ^ Increase
- = Unchanged
- v Decrease

Risk	Risk description	Mitigation	Movement
Market and Financial Risks			
Adverse economic conditions or uncertainties that affect global and Russian financial markets can give rise to risks which may negatively impact the Group's operations and results. Please refer to Note 30 to the Consolidated Financial Statements for further details explaining the implications and management of financial risks.			
Commodity prices	The Group's product prices are subject to international supply and demand and can be volatile. A significant and/or prolonged fall in the commodity prices of the metals produced by the Group (primarily Au and to a lesser extent Pb, Zn and Ag) could have an adverse impact on sales and profits. The Group did not utilise hedging in 2019 and prior periods and price fluctuations had an effect on the Group's profits. The capability to invest in growth projects is limited during periods of low commodity prices – which may, in turn, affect future performance. Furthermore, the financial viability of the Group's exploration, development projects and production operations is sensitive to price levels and may become questionable in an environment of decreasing prices.	The Group constantly monitors price trends and forecasts, maintains a cost cutting programme, checks the viability of exploration and development projects based on the current and projected price levels and, if necessary, revises specific investment plans and schedules. We continue monitoring metals prices under the pressure of the COVID-19 pandemic, which may add some volatility to the market. Management adopts a conservative approach to commodity price assumptions, favouring price forecasts below the broker consensus for planning purposes. We perform a sensitivity analysis of EBITDA depending on metals prices and we have the option to consider hedging in cases when it is critical for our capital projects or going concern, should the Board of Directors wish to adopt this approach.	=
Currency risk	Adverse fluctuations in Russian rouble/US dollar and GBP/USD exchange rates. The Group collects the majority of revenues in US dollars and also obtains financing in US dollars. The majority of costs are linked to US dollars although a significant proportion is incurred in Russian roubles.	The Group uses natural hedging and matches revenue and debt denominated in US Dollars, and reviews other possible ways to hedge exchange rate fluctuations if appropriate. The Group did not use currency hedges in 2019, nor in prior periods.	=
Credit risks	Risk of loss related to a counterparty's failure to perform its contractual obligations or transactions in a certain time frame and, as a result, certain financial assets (including assets with high liquidity) may be impaired.	The Group places cash with reputable and highly rated financial institutions and constantly monitors the financial/economic situation. The Group sells commodities to creditworthy and reliable customers.	=

Risk	Risk description	Mitigation	Movement
Interest rate risk	Interest rates are affected by geopolitical and macroeconomic events. An increase in interest rates may adversely affect the Group's financial results and its ability to demonstrate the economic viability of certain assets.	The majority of the Group's loans and borrowings have fixed rates at the date of debt drawdown.	=
Liquidity risk	Failure to accurately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss. An event such as a significant operational incident or geopolitical events may potentially increase financing costs and limit access to financing that could put pressure on the Group's liquidity.	The Group uses a short-term, medium-term cash planning system and long-term cash flow forecasts are prepared in line with strategic planning. The Group's centralised treasury function ensures that there is sufficient liquidity for day-to-day operations at each location and reviews the need to attract additional external financing. Opportunities to secure loans at appropriate rates are constantly monitored by the Group.	=

Operating Risks

Risk	Risk description	Mitigation	Movement
Risks associated with exploration activities	The Group's estimates of ore reserves and mineral resources are subject to a number of assumptions and approximations, including geological, metallurgical and technical factors, future commodity prices and production costs. Fluctuations in any of these variables could result in lower than expected revenues, higher costs and lower operating profits and could lead to reductions in estimated reserves and resources. The Group makes significant investments in exploration activities performed at greenfield sites to develop the business and at brownfield sites to extend the life of mines. For various reasons, including geological and economic factors, such activities may prove unsuccessful and may not result in an increase in Group resources. The failure to discover new resources could adversely affect the Group's future performance.	The Group conducts detailed exploration and assesses results in accordance with widely recognised methods of resources/reserves evaluation. The Group engages internationally recognised external consultants to confirm its resources and reserves estimates (information regarding the Group's mineral resources and reserves, reported in accordance with JORC, is presented on page 104). The Board reviews exploration projects on a regular basis and approves all exploration activities and costs based on indicative economic probabilities. Details of exploration activities at each of the Group's assets are included in the Operational Review on page 12.	=

Key

- New
- Increase
- Unchanged
- Decrease

Risk	Risk description	Mitigation	Movement
The Group's deposits are subject to exploration and mining licences	Group companies must comply with mineral exploration and mining licence requirements. Non-compliance with licence requirements or major licence changes may result in a loss of licence and mineral rights or significant costs to ensure compliance with new requirements.	Compliance with licence requirements is constantly monitored at management level. To diminish risks, measures are developed to meet or renegotiate the terms and conditions of licence agreements. The Group's senior management and the Board are regularly informed as to compliance with licence agreements.	=
Production risks and failure to deliver production plans	The Group's mining operations are affected by numerous risk factors not wholly within the Group's control, including flooding, pit slope and rim slide, unexpected/unusual geological variations or technical issues, extreme weather conditions and natural disasters. Such factors could adversely affect production volumes and costs or damage electricity supply facilities and/or other necessary items of equipment or infrastructure. Group companies, in both open-pit and underground operations, may encounter unusual geological formations, including overly thin ore bodies, incidental deterioration in ore quality (lower grade) and dilution. Unexpected interruptions in processing and technological characteristics of the ore may result in lower recovery rates than expected. As a result of these factors, end-product unit costs may turn out to be considerably above budget and this might hinder the implementation of production plans and cause major losses in the form of impairment of various assets and goodwill.	The Group employs in-house planning experts who specialise in mine engineering and design and are responsible for developing optimal safe and commercially-viable mine plans. In turn, the in-house mine plans are reviewed by external consultants and state authorities. 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.) and mine dewatering equipment. The Group implemented a number of processes to ensure that production is facilitated by the necessary machinery and equipment, and that relevant standby equipment is available. Regular maintenance is performed by qualified Group employees and contractors to ensure reliable machinery and equipment operations. Stocks of spare parts are maintained for urgent repairs. Details of the operational performance of each of the Group's assets are included in the Operational Review on page 12.	=

Risk	Risk description	Mitigation	Movement
New construction projects	The Group faces challenges in developing major projects, particularly in geographically remote locations and in technically challenging areas. Construction projects require significant resources and should be executed in accordance with planned costs and within defined terms. Cost overruns and timely execution in projects directly impact the capital, productivity and commercial performance of assets across the Group. Incorrect capital allocation and poor project management may result in a decrease in the profitability of a particular project and affect the Group's results.	The Group initiates new projects, mine extensions, etc., based on detailed investment plans and a review of management resources. Major projects are subject to external consultants' reports and JORC evaluation. Capital expenditure disciplines and controls are implemented to deliver on-budget performance for construction projects. Widely recognised project management techniques are employed. The Group applies a stage-gate process to ensure the cash generation potential of future growth projects. Management and the Board closely monitor the status of new projects, costs incurred and project issues.	^
Skilled workforce shortage	The Group experiences intense competition with other companies for the retention and engagement of mining and production staff, including geologists, engineers, production process managers and other mining specialists. The loss of key personnel or a failure to attract, retain and motivate qualified personnel, could have a materially adverse effect on the Group's business, financial position and operational results.	The Group monitors the labour and salary markets and develops motivation systems to attract qualified personnel and retain key employees. One of the responsibilities of the Group's Remuneration Committee is to consider and approve remuneration for senior management.	=

Key
- + New
- ∧ Increase
- = Unchanged
- ∨ Decrease

Risk	Risk description	Mitigation	Movement
The Group is subject to extensive environmental, health and safety laws and regulations	Group companies are subject to various environmental, health and safety regulations stipulated by the relevant regulatory agencies. The Group's operations require various licences/permissions with regard to the use of industrial explosives, the operation of flammable, explosive and chemically aggressive production facilities and the use of hazardous structures. Stricter regulations could cause the Group to incur additional costs in order to comply with the new directives. State environmental agencies supervise and regulate the Group's operations in accordance with applicable laws and regulations regarding the use of such contaminants as cyanide-containing reagents. The Group monitors compliance with environmental requirements and incurs costs to achieve compliance but if environmental regulations change, Group companies may face heavy fines and waste removal claims which may become a significant burden on the Group and result in demands to cease operational activity. The absence of a final product would lead to a decrease in profitability. Inability to deliver appropriate levels of safety and environmental protection may result in loss of life, workplace injuries, pollution and lead to a stoppage of operations, significant fines and a threat to the Group's licence to operate.	The Group is focused on health and safety issues and environmental protection, both of which are prioritised. Safety and environmental policies are based on the applicable legislation. Changes in legislation are monitored. The Group purchases the necessary equipment to prevent fires, flooding, other accidents and pollution. The Group organises training and assessment programmes for all staff and regularly checks their compliance with HSE rules and regulations. An external provider of rescue services is contracted in accordance with legislation. The Group strives to implement international best practices, conducts regular internal and external environmental audits, and implements remedial actions where required. In 2014, it completed the certification of all major production sites under ISO 14001:2004 and, in 2018, successfully completed ISO 14001: 2015 recertification audits. The 14001:2015 update remains the most recent version of the international environmental management system. At Board level the Group's HSE Committee considers and monitors all key HSE risks.	=
Cyber risks	Cyber proliferation: Increasing digitisation of services and processes has made sensitive data available to counterparties and workers alike anytime, anywhere. Threat actors have embraced the expanded digital footprint and are becoming increasingly sophisticated about taking advantage of vulnerabilities.	The Group is developing its competence in the field of IT and cyber security, protects itself against external attacks on information assets and educates employees.	+

Sustainability

Health and safety

We deeply regret that, despite management's sustained health and safety endeavours, the Company experienced five fatalities during the first half of 2019.

In addition to internal investigations and detailed safety briefings with employees, the Board commissioned external consultants to conduct an extensive audit of the Company's Health and Safety practices in autumn 2019. These exercises were carried out at Novo, Belaya Gora and MNV in November-December 2019. Three of the aforementioned fatalities occurred at Novo and two at Belaya Gora.

The Board also appointed a new senior executive to oversee the Company's HSE operations and a 2020 labour safety action plan, based on current risk assessment data is close to completion.

Meanwhile, management will continue to pursue its zero accident safety targets by endeavouring to minimise operational risks and the provision of extensive employee training programmes. The Company has always encouraged employees to develop a sense of accountability for their safety and the safety of others at the workplace: a message that will be underlined throughout the current year.

During 2019, the Lost Time Incident Frequency Rate (LTIFR), based on the number of incidents for every 1,000,000 man-hours, declined to 2.60 (2018: 4.01). A total of 14 minor accidents were recorded across the Company (five at Valunisty, four at Novo, four at MNV and one at Belaya Gora) compared with 22 in 2018.

Employee training courses during Q4 2019 included "Analysis of safe work performance" (attended by 25 Novo personnel and 65 MNV employees); "Conscious safety attitude" (34 Novo personnel and 63 MNV employees); and "Efficient safety management methods" and "Behavioural safety audits" (22 MNV managers).

Throughout the year, a total of 1,656 employees attended training sessions focused on specific aspects of the Company's Health & Safety standards.

The year also saw the revision or introduction of a range of corporate standards which covered:

- Contractor safety management;
- Emergency medical response;
- Leader inspections;
- HSE risk assessment;
- Safe working practices analysis;
- Hazard identification; and
- STOP (Safety Training Observation Programme) cards designed to assist employees in making safety assessments before commencing a task.

In addition, the Company opened a driving school near MNV and Belaya Gora in the town of Nikolaevsk-na-Amur, installed new health screening equipment at each operating mine, ordered new ambulatory vehicles and contracted International SOS to improve medical services.

The management-level HSE Committee and the Board of Directors' HSE Committee each held three meetings during the course of the year. Respective agendas covered all the topics outlined above, including detailed discussions of safety incidents and issues related to the ongoing implementation and improvement of the Company's Health & Safety strategy.

Environment

In December 2019, the Russian chapter of the World Wide Fund for Nature (WWF) published its annual Environmental Transparency Rating for mining and metals companies operating in Russia. Highland Gold achieved its highest-ever overall ranking of #13 out of the 40 largest companies in the industry and notably achieved second place in relation to lowest environmental impact. The WWF also recognised the Company for the most improved performance in respect of the level of information provided for the rating.

In Q2 2019, management launched a Company-wide contest to collect plastic for recycling with an end-year time frame. All employees participated and the final tally revealed that 4.4 tonnes of plastic had been collected across the Company's operations, with Novo leading the way with a contribution of 1.8 tonnes. The contest served as a basis for expanding trash sorting across the Company's operations while also educating employees as to the importance of recycling.

Minimising the impact of Highland Gold Mining's operations on the environment remains a key management priority and an environmental monitoring system is in place at each of the Company's operating sites.

During the fourth quarter, external consultants DNV conducted supervisory audits of environmental management systems at the Moscow office, Belaya Gora and MNV to assure compliance with the ISO 14001-2015 standard. No major deficiencies were identified, which confirms that the environmental management systems in place are effective.

Some 2,615 employees underwent refresher training on environmental safety in Q4 2019, while 130 employees received training on class I-IV hazard waste treatment with subsequent testing via the OlimpOKS system. A further 53 managers and specialists attended external professional environmental courses at specific training centres.

WWF-Russia Annual Environmental Transparency Rating For Mining Companies

2 out of 40
for lowest environmental impact

Plastic collected for recycling (tonnes)

4.4

Environmental safety training (employees)

2,615

Community

The year 2019 marked significant progress on the social responsibility front for Highland Gold. The Company has always endeavoured to operate as a responsible business, and concern for the well-being of our employees and local communities has remained central to our core values since inception.

During the past year, we have made substantial strides in the ways in which we record, report and communicate our performance in this area to our stakeholders, together with the completion of some important projects in our communities.

We are honoured and humbled that our efforts were recognised at the largest industry forum in Russia, MINEX 2019, where Highland Gold's projects won the grand prix for social responsibility. This will serve to encourage us to greater efforts, with new, more ambitious projects already underway.

Social Infrastructure

In the village of Mnogovershinniy, we initiated the construction of a sports arena that will be used as a hockey playground with artificial ice, suitable for a variety of ice sports. The arena will contain supporting infrastructure including lockers, showers and a café. In addition, the MNV mountain skiing school, which has trained junior national competition winners, received an upgrade to its ski lift.

In Novo-Shirokinskiy, we carried out renovations on the community recreation area, which included new flooring, ladders, benches, and a stage.

To promote more active lifestyles for local residents, the Company built an open-air hockey rink with free skate rentals and a heated dressing room. In the summer, residents will enjoy a newly constructed athletics track outside of the hockey rink, and a new outdoor workout area. Children in the village were served with a brand new playground.

As part of our efforts to introduce separate waste collection, the Company bought and installed new garbage and recycling containers and remodelled the village's waste collection facility.

School at MNV

Highland Gold worked together with the local administration to complete an important project in Mnogovershinniy. The school building received a much-needed update, with new furniture for classrooms, new window glazing, new kitchen supplies, and the renovation of the assembly hall and dining area. The school's computer network was connected to a hard-wired internet connection and licenses were purchased for an "interactive museum" program. This will allow students to participate in virtual tours of the world's most renowned museums and art galleries. The next step was to host a training programme for teachers to introduce new teaching methods focusing on developing children's learning skills, which is crucial in the modern world.

Churches

Recognising that there was demand in our communities for religious services, Highland Gold created a place of worship within one of the administrative buildings of our MNV mine. A dedicated separate church building is currently under construction to service the village of Mnogovershinniy.

At Novo, the Company paid for the construction of a new wooden church, the first such edifice in the village of Novo-Shirokinskiy. The opening ceremony was timed to coincide with celebrations of Novo's 10 anniversary and the professional Metallurgists' Day holiday in July 2019.

At both places of worship, the liturgy will be conducted by a priest on a regular basis.


ДЕНЬ МЕТАЛЛУРГА

Governance

Introduction to Governance

The Highland Gold Mining Board of Directors is led by the Chairman, who sets the Company's direction and ensures that the Board and management are working towards common goals and adhering to best practices.

Governance Report

Highland Gold's Board of Directors meets on a regular basis to review the business and performance of the Group, to ensure that financing needs are appropriate and to consider operational matters, development and acquisition opportunities.

Eugene Shvidler
Chairman

Setting a high standard of governance

The Directors of Highland Gold Mining are committed to the principles of good governance.

The Highland Gold Board of Directors is led by the Chairman, who sets the Company's direction and ensures that the Board and management are working towards common goals and adhering to best practices. The Board regularly reviews key business risks, via a number of properly constituted committees, as well as the financial risks facing the Group in the operation of its business. These committees include the Audit & Risk Committee, the Health & Safety Committee, and the Remuneration & Nomination Committee.

Prior to 2018, the Directors historically implemented many of the principles contained in the UK Corporate Governance Code issued in September 2016 by the Financial Reporting Council, having regard to the size of the Company and the nature of its activities. In September 2018, in light of revised rules published by the London Stock Exchange, the Directors decided to adopt the published Quoted Companies Alliance Code (QCA code) and the Company now strives to report on its corporate governance in accordance with the QCA code.

Board Dashboard

The Board has adopted an Anti-Corruption Policy and an Internal Code of Business Conduct and Ethics. These extend across all of our businesses and apply to every employee and all our business partners, and a hotline is available for employees and stakeholders to report violations. The Company makes these documents, as well as a Corporate Governance Statement, available on its website, www.highlandgold.com.

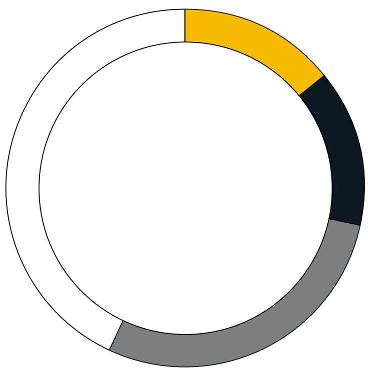
Furthermore, in 2018, the Board and management adopted statements of vision, mission, and values, which the Company continued to roll-out, publicise and promote across its subsidiaries throughout 2019. The goal is to foster a unified corporate culture and ensure that employees at all levels are aligned with the Company's strategy and standards. This relates not only to how we work, but also to how we relate to our stakeholders and protect the environment in which we operate.

The following pages detail how Highland Gold manages its operations, controls risks, communicates with stakeholders, and complies with the principles of the QCA code.

Board Attendance

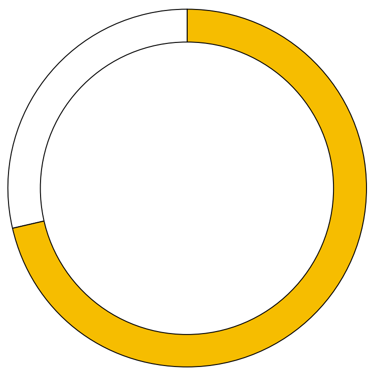
Eugene Shvidler	*7/8*
Duncan Baxter	*8/8*
Colin Belshaw	*8/8*
Deborah Gudgeon	*2/8*
John Mann	*8/8*
Valery Ouf	*6/8*
Olga Pokrovskaya	*8/8*
Terry Robinson	*2/8*

Board Structure



- *Chairman* 1
- *Executive Director* 1
- *Non-Executive Director* 2
- *Independent Non-Executive Director* 3

Board Diversity



- *Male* 5
- *Female* 2

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 2019.

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, then and now, of establishing a portfolio of gold mining operations within the Russian Federation and neighbouring territories. The Group's activities are detailed in the Strategic Report section of this Report on page 2, while its structure and operating companies are described more fully on page 107. The Chairman's Statement (page 6 and the Chief Executive Officer's Report (page 10) recount the Company's principal business developments during the year ended 31 December 2019 and prospective opportunities. The Company's shares are quoted on the AIM market of the London Stock Exchange.

Financial results

An overview of the Group's results for the financial year to 31 December 2019 appears in the Chief Financial Officer's Report on page 20 of this Annual Report. The Group achieved a net profit for the year of US$177.8 million (2018: net profit of US$56.1 million).

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.

Going concern

The Directors consider that the Group will continue as a going concern.

To support the Directors' going concern assessment, cash flow forecasts have been prepared and these have been stress tested under various scenarios. The assessment has included a focus on the potential impacts of the COVID-19 pandemic on Highland Gold's operations and financial position, noting that the impacts to date have benefited the Group's cash flows through higher gold prices and a weaker rouble. While the financial effect of the current COVID-19 crisis on the Group's business activities cannot be estimated with reasonable certainty at this stage, the Directors have identified certain risks related to the coronavirus pandemic and associated mitigating actions related to employee health, partial or complete shutdown of production and timely supply of equipment and materials.

The going concern assessment has considered the impact on liquidity and loan covenants of a sustained decrease in gold prices as compared to current market forecasts and a strengthening of the rouble, noting no breach of covenants in either scenario, or a combination of both downside scenarios. The Directors also note that, in the event of any lengthy interruption to production as a result of the COVID-19 pandemic, there are various mitigating actions readily available to the Group including the implementation of cost reductions, deferral of capital expenditure and draw down on available credit facilities which would adequately safeguard the Group's ongoing liquidity.

Having made relevant enquiries and following a thorough review by the Board's Audit & Risk Committee, 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.

Dividend policy

The Board of Directors has adopted the following Dividend Policy:

- Highland Gold aims to pay a dividend that takes into account the Company's cash generation, profitability, balance sheet strength and capital investment requirements.
- The Company anticipates that the total dividend payout for each financial year will be 20% of Net Cash Flow from Operating Activities.
- The Board may recommend the distribution of additional cash on the balance sheet through increased or special dividends should those funds not be required for capital expenditure or debt repayment.

The Board proposed a Scrip Dividend Scheme and received authorisation to implement the proposal in respect of future dividends at the Company's Annual General Meeting (AGM) on 24 May 2018. The terms of the Scheme were circulated with the 2017 Annual Report and Notice of the AGM. To date, the Board has resolved to implement the Scrip Dividend alternative under the approved scheme only once, with respect to the third interim dividend for 2018. There are no plans to offer a Scrip Dividend in the immediate future, although the Scrip Dividend Scheme authorisation remains active until the fifth AGM after the one at which it was approved.

Dividends

The Directors have approved the payment of a third interim dividend on the Company's ordinary shares of GBP 0.035 per share, payable on 5 June 2020. This follows the approval of a first interim dividend in September 2019 of GBP 0.05 per share and a second interim dividend of GBP 0.05 per share in December 2019. Thus, the total of dividend payments based on the 2019 operating year is GBP 0.135 per share (2018: GBP 0.134)

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;
- 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, to disclose with reasonable accuracy at any time the financial position of the Company, and to 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.

Annual General Meeting Notice

The Annual General Meeting will be held at 11.00 am on 30 July 2020 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the AGM is set out on page 108 of this Report.

In memoriam

Lastly, the Board would like to put on record its sadness at the untimely passing of our esteemed colleague Terry Robinson. Terry was central to the work of the Board and his wisdom, insight, and attention to detail will be sorely missed.

By Order of the Board
14 April 2020

A
Audit and Risk Committee

R
Remuneration and Nomination Committee

H
Health, Safety and Environment Committee

◆ *Committee member*

◇ *Committee Chair*

2008

Eugene Shvidler

Executive Chairman

Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a master's degree in applied mathematics, while also holding an MBA in accounting 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 Chairman of Millhouse LLC, and a non-executive director of the Evraz Group since 2006. He joined the Highland Gold Board of Directors in January 2008 and was appointed Executive Chairman in April 2015.

2008

Duncan Baxter

Independent Non-Executive Director

Duncan Baxter is a retired banker with over 25 years' experience in international banking, latterly as managing director of Swiss Bank Corporation. Since leaving Swiss Bank in 1998 he has undertaken consultancy projects for international banks and investment management companies. He is a Jersey resident and holds a number of other non-executive directorships. He is a Fellow of the Institute of Chartered Secretaries, the Securities Institute and the Institute of Bankers. He was a member of the Highland Gold Board of Directors from 2002 until early 2008 and re-joined the Board in autumn 2008.

◇R ◆A

2013

Colin Belshaw

Independent Non-Executive Director

Colin Belshaw studied mining engineering at the Camborne School of Mines in Cornwall, UK, graduating in 1979 with the Dip.CSM (First Class). Colin is a Fellow of the Institute of Materials Minerals and Mining (FIMMM), is registered as an Incorporated Engineer (IEng) with the Engineering Council of the UK, and holds the Mine Managers Certificate (Ghana). Colin's formative years were spent on the Zambian Copperbelt at the Nkana Division and at the South Crofty Mine in Cornwall. Subsequent senior operating and corporate positions held worldwide included: Navan Mining's Director of Operations, Bulgaria and Spain; Managing Director of Kinross Gold's Russian subsidiary, Omolon Gold, Magadan region; Kinross Gold's Group Consulting Mining Engineer, Nevada, USA; Vice President Operations with Golden Star Resources, Ghana; and Chief Operating Officer with Banro Corporation in the DRC. Colin joined Highland Gold's Board of Directors in September 2013.

◆H ◆R

2019

Deborah Gudgeon

Independent Non-Executive Director

A 1982 graduate of the London School of Economics, Ms Gudgeon is a qualified chartered accountant with over 30 years of experience. She started her career with Coopers and Lybrand and in 1987 became a senior accountant for Salomon Brothers International. From 1987 to 1995, she worked as a finance executive at Lonrho PLC and was appointed to the firm's Finance Committee in March 1993. From 1995 to 1998, she served as a director for Halstead Services Limited, and, from 1998 to 2003, she served as a director at Deloitte, specialising in corporate finance. From 2003 to 2009, Ms Gudgeon served as a founding director of the Special Situations Advisory team for BDO LLP, providing integrated advice on corporate finance, restructuring, debt and performance improvement. Ms Gudgeon was managing director of Gazelle Corporate Finance Limited from 2011 to 2017, and is a senior advisor at Penfida Limited. Since 2015, she has been an Independent Non-Executive Director at Evraz Plc, where she serves as Audit Committee chairperson. She joined Highland Gold's Board of Directors in December 2019.

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2015

John Mann

Executive Director, Head of Communications

John Mann studied political science at Harvard University with a focus on Soviet history and politics. He has worked in the fields of public relations, public affairs and investor relations for 22 years, 20 of which were spent in the CIS region. Mr Mann consulted some of the world's largest natural resources, energy, and consumer products corporations before joining Russian listed oil major Sibneft in 2002 as head of international public relations. From 2006, he has served as head of communications for Millhouse LLC, joining Highland in autumn 2014. He joined the Board of Directors in April 2015.

2008

Valery Oyf

Non-Executive Director

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, and later as General Director of Millhouse LLC. He was Chief Executive Officer of Highland Gold from 2008 until 2016.

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2008

Olga Pokrovskaya

Non-Executive Director

Olga Pokrovskaya graduated with honours 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 became Head of Corporate Finance at Millhouse LLC, where she currently serves in the role of financial advisor. She joined the Highland Gold Board of Directors in January 2008.

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The Board of Directors

The Board is currently comprised of seven Directors, five of whom are Non-Executives. Three Non-Executive Directors, namely Duncan Baxter, Colin Belshaw and Deborah Gudgeon, are considered by the Board to be independent in character and judgement and provide a balance to those Directors who cannot be regarded as independent. The two Executive Directors are the Chairman, Eugene Shvidler, and John Mann, the Company's Head of Communications.

Messrs Shvidler and Mann, and the remaining two Non-Executive Directors, Valery Oyf and Olga Pokrovskaya, are affiliated with Millhouse LLC, a company connected to individuals and entities holding a combined 43% of the issued share capital of the Company (including Eugene Shvidler's 12.3% shareholding and Valery Oyf's 4.5% interest).

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

Strategy and business model

Highland Gold's business strategy revolves around unlocking the value of assets in its portfolio and delivering returns to shareholders through effective management, efficient operations, and paying dividends in line with the policy adopted by the Board. The Company describes its business strategy and goals in detail in the Strategic Report section (see page 2) of its Annual Report and Accounts. Additional information on these topics and how we aim to promote shareholder value are contained on the corporate website, www.highlandgold.com, and are communicated through regular contacts with the investor community.

Understanding and meeting shareholder needs

Highland Gold's management holds semi-annual results conference calls, attends various industry and investment conferences, and meets regularly with institutional and private investors and other stakeholders to provide updates on the business and to elicit feedback on the Company's strategy and performance. The Company's management and investor relations team strive to respond quickly to inquiries and to process feedback from investors.

Management regularly reports to the Board on the results of investor relations outreach, and the Board is able to use this feedback in the decision making process and determine how the Company can best meet shareholder expectations. Independent Non-Executive Directors also make themselves available to speak to shareholders.

Shareholders are encouraged to use the Annual General Meeting as a forum at which to communicate with Directors. Due notice of the AGM is provided to all shareholders.

Shareholders passed a special resolution at the AGM on 17 May 2017 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 expires at the conclusion of the Company's upcoming 2020 AGM, at which shareholders will be asked to renew that authorisation for a further three year period.

Shareholders passed an ordinary resolution at the AGM on 24 May 2018 whereby the Directors were authorised to offer to any holder of any particular class of shares in the Company the right to elect to receive further shares (whether or not of that class) credited as fully paid, instead of cash, in respect of all or part of any dividend declared within the period commencing 24 May 2018 and ending at the conclusion of the fifth Annual General Meeting of the Company to be held post 24 May 2018.

Shareholders passed at the AGM on 24 May 2018 an ordinary resolution approving the Company's Scrip Dividend Scheme (contained within the 2017 Annual Report) details of which were contained in the Scrip Dividend Scheme Circular which can be found on the Company's website at www.highlandgold.com.

New Articles

The Board has taken a decision to update the Articles of Association of the Company, which will be put before shareholders at the upcoming Annual General Meeting. The principal changes are designed to reflect changes in Company Law and practice since 2009, when the Articles were last updated. They allow for, among other things, electronic and web communications and shorter notice periods for shareholder meetings. The full terms of the new Articles will be available for inspection at the Company's registered office and on its website from the date of the Notice of AGM until the close of the AGM.

Wider stakeholder needs and social responsibilities

Highland Gold is committed to operating in a sustainable and socially-responsible manner and the Board and management understand that the Company's success is enhanced by being a good corporate citizen. Management meets regularly with local government officials and community leaders to elicit and receive feedback and improve cooperation. Each year, the Company signs social contracts with municipal administrations in the regions where it operates that lay out a blueprint for assistance in funding pressing social needs in the regions.

Another key stakeholder group is Highland Gold's employees across Russia, Kyrgyzstan and Jersey. Company management seeks to maintain an active dialogue with its employees, communicating key corporate objectives and soliciting comments and suggestions on ways to improve operations and workplace conditions.

Board committees and risk management

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 & Risk Committee. There is an Internal Audit Charter, which can be seen on the corporate website. Key risks faced by the Company are outlined on page 27 of the Annual Report.

The Board currently has three permanent committees: the Audit & Risk Committee, the Remuneration & Nomination Committee, and the Health, Safety and Environment Committee

Audit & Risk Committee

The Audit & Risk Committee reviews the annual and interim Financial Statements and the internal and external audit programme. In 2019, the Committee initially consisted of two non-executive Directors, Olga Pokrovskaya and Chairperson Terry Robinson. Following Mr Robinson's passing, the Committee was expanded to three members by the addition of Duncan Baxter in August and Deborah Gudgeon in December. Ms Gudgeon assumed the role of Committee chairperson.

Details of the Committee's activities during the year are outlined in the Audit & Risk Committee section on page 53 of the Annual Report.

Remuneration & Nomination Committee

The Remuneration & Nomination 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, as and when appropriate, with regard to appointments of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies. In 2019, the Committee initially consisted of Duncan Baxter, as Chairman, Valery Oyf and Terry Robinson. Colin Belshaw was appointed in place of Mr Robinson in August and Deborah Gudgeon joined in December, thereby expanding the Committee's membership to four Directors. Details of the Committee's activities during the year are outlined in the Remuneration & Nomination Committee section on page 51 of the Annual Report.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee considers, in conjunction with management, development and training requirements and regulatory compliance matters related to health, safety and environmental issues.

The Committee is chaired by Olga Pokrovskaya. The other members of the Committee during 2019 were Terry Robinson and Colin Belshaw, with Duncan Baxter filling Mr Robinson's seat in August. The Committee met three times during the year.

The Committee makes recommendations to the Board, within agreed terms of reference, which the Board reviews at least annually. Details of the progress and performance of the Company in respect of health, safety and the environment are given in the Sustainability section of this Report on page 34.

Other Committees

In addition, the Group management company in Russia, Russdragmet LLC ("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 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 four internal RDM committees: the Risk Committee; the Budget Committee; the Production Committee and the Investment Committee.

Balanced and well-functioning Board

Highland Gold's Board of Directors meets on a regular basis to review the business and performance of the Group, to ensure that financing needs are appropriate and to consider operational matters, development and acquisition opportunities. A total of eight Board meetings were held during the year, along with nine committee meetings (four for Audit & Risk, three for HSE and two for Remuneration & Nomination).

Board Attendance

	Full Board Meetings	Committee Meetings
Eugene Shvidler	7	–
Duncan Baxter	8	5
Colin Belshaw	8	5
Deborah Gudgeon	2	2
John Mann	8	4*
Valery Oyf	6	1
Olga Pokrovskaya	8	7
Terry Robinson	2	3

* *As observer*
As Executive Directors, Messrs Shvidler and Mann are not committee members.

With three Independent Directors, two Executive Directors, and two Non-Executive Directors, the Board includes individuals with a range of professional backgrounds, skillsets and personalities, joined by a common goal of ensuring the growth and success of the Company. Board members receive from management monthly comprehensive reports on the Company's operational and financial performance, as well as regular updates on topics of vital interest when requested.

It is a requirement that all Directors retire by rotation at least within every three years and new appointments be confirmed at the following Annual General Meeting. Colin Belshaw and John Mann, who retire by rotation, and Deborah Gudgeon, who retires as a Director, will offer themselves for re-election at the 2020 AGM. The Remuneration & Nomination Committee has agreed and recommended these reappointments.

Directors' Interests and Share Dealing

The interests of the Directors in office, and of persons connected with them, in the Company's ordinary shares, as previously reported and with any subsequent changes up to the date of this Report, are shown below:

Director	Ordinary shares At 31/12/2018	Ordinary shares At 31/12/2019	% Holding At 31/12/2018
Eugene Shvidler	44,714,829	44,714,829	12.29%
Valery Oyf	16,439,486	16,439,486	4.52%
Duncan Baxter	20,000	20,000	0.01%

During 2018, the Company undertook a related-party transaction with Aristus Holdings Limited ("Aristus") for the acquisition of the Valunisty mine and related assets. Two members of the Board, Eugene Shvidler and Valery Oyf (through his company Matteson Overseas Limited) held respective interests in Aristus representing indirect holdings in the Company. The transaction, which resulted in Aristus holding a 10.6% interest in the Company, concluded in December 2018. Subsequently, in February 2019, Aristus distributed its holding in the Company to its shareholders pursuant to which the aforementioned indirect holdings in the Company became direct holdings in the Company as reflected above. At an Extraordinary General Meeting of the Company held on 24 May 2018, shareholders approved a waiver as required by the Panel on Takeovers and Mergers that would otherwise have required a general offer to be made to shareholders of the Company pursuant to Rule 9 of the City Code on Takeovers and Mergers.

No Directors besides those listed in the table above have an interest in the share capital of Highland Gold.

The Company has adopted a share dealing code for Directors and relevant employees which prescribes a strict permissions procedure prior to any trading in the Company's shares. This was updated in 2016 to incorporate the Market Abuse Regulation (MAR), which came into effect in July 2016.

Experience, skills, and capabilities of the Board

Highland Gold is confident that its Directors have the requisite experience, skills and capabilities to perform the duties entrusted to them. Current Directors bring together decades of experience in natural resources industries, with backgrounds covering a range of capabilities including financial, technical, regulatory affairs, and investor relations. Biographies of each Board member can be found on pages 44-45 of this Annual Report.

Through continuous engagement in the Company's activities and, in some cases, their work on the boards of other public companies, Directors are able to keep their skillsets up-to-date and to bring their experience to bear on behalf of the Company.

The Company Secretary, Jersey-based Ocorian Limited, ensures that the Group is compliant with relevant legislation and regulatory requirements, and keeps the Board informed of its legal responsibilities.

Board evaluation

In the absence of any changes to the Board during the year, the Directors undertook a self-assessment review in 2019 from which no material issues arose, having considered the interaction with Committees, Executive Management and Corporate Governance matters. The Board will continue to undertake such reviews on a biennial basis provided there are no major changes to the Board that would render such a review ineffective. The next review will take place during 2021 and its results presented in the subsequent Annual Report.

Promoting ethical corporate culture

The Company is committed to implementing the highest ethical standards in respect of our stakeholders. The Board has adopted an Anti-Corruption Policy and an Internal Code of Business Conduct and Ethics. These extend across all of our businesses and apply to every employee and all our business partners. Both documents are available on the corporate website, and a hotline is available for employees and stakeholders to report violations.

Highland Gold believes that all injuries are preventable and care for our people and the environment is an integral and vital part of our business. As such, employees are expected to abide by the Company's Health, Safety and Environment policy, which likewise is available on the corporate website.

Furthermore, the Board and management have adopted a statement of vision, mission, and values, which are being promoted throughout the Company and its subsidiaries with a view towards creating a unified corporate culture and ensuring that staff at all levels are aligned with the Company's strategy standards and objectives.

Maintaining proper governance structures and processes

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 operational matters, development and acquisition opportunities. 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 functions, and procedures of the Board of Directors and its committees are detailed earlier in this section of the Annual Report. The Board is assisted in its tasks by the Executive Committee, which is likewise described on page 47. The Board is confident that its corporate governance structure is efficient and effective in carrying out the work necessary for the Company to achieve its stated goals.

Shareholder relations

Highland Gold'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. The Company also utilises investor and public relations functions, conference calls, webinars, investor conferences, and road shows arranged through its brokers and Nominated Adviser ("Nomad") to communicate with shareholders.

The Company regularly publishes news and information via the RNS system in addition to its corporate website. Contact information for one Executive and one Non-Executive Director is always included in regulatory news filings.

Substantial Shareholdings

As at the close of business on 31 March 2020, the Company had been notified of the following interests, other than Directors' interests shown on page 49 of this Report, which amounted to three percent or more of the issued share capital of the Company:

Name of Holder	Number	Percentage
Roman Abramovich	37,608,816	10.34%
Van Eck Global	36,120,155	9.93%
Denalot Worldwide Limited	25,954,993	7.13%
Acadian Asset Management	14,580,417	4.01%
Premier Miton Investors	13,121,652	3.61%
David Davidovich	11,578,628	3.18%

Remuneration & Nomination Committee

During 2019, the Committee consisted of three Non-Executive Directors, comprising Duncan Baxter, as Chairman, Valery Oyf and Terry Robinson, It was expanded to four members with the appointment of Colin Belshaw in place of Mr Robinson in August and the addition of Deborah Gudgeon in December. 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. The Committee held two meetings during the year.

The Committee makes recommendations, as and when appropriate, with regard to appointments of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies. The composition of the Board is monitored on an ongoing basis.

The Board reviews recommendations made by the Committee, within defined terms of reference, at least annually. The Committee, on the recommendations from management, examines fees in relation to non-executive remuneration and committee Chairmen.

Details of the Directors' remuneration are given below. The Committee has considered and recommended to the Board the re-election of Colin Belshaw, John Mann and Deborah Gudgeon as Directors of the Company at the forthcoming AGM.

Remuneration Policy

The overall responsibility for establishing a suitable remuneration policy lies with the Board. The Remuneration & Nomination Committee has terms of reference to work within and makes recommendations to the Board designed to provide a framework for Executive Director and senior management remuneration.

The Remuneration Policy for Executive Directors, Non-Executive Directors and senior management is based on general principles that provide competitive packages designed to attract and retain suitably qualified and talented individuals who can align themselves with the overall objectives and corporate culture of the Company.

The remuneration of Executive Directors, other than the Executive Chairman and senior management, currently comprises basic salary and discretionary bonus. The executive management and Executive Directors are entitled to certain benefits and are eligible to participate in the long-term incentive programme. The Company does not operate a pension scheme for executive management or Directors. The Executive Chairman's fees are set by the Remuneration & Nomination Committee.

Basic salary takes into account the performance of the individual, any changes in responsibility and rates of market remuneration.

Bonuses, currently paid in cash although they could include a share element, are solely dependent on an overall assessment of the individual's performance, with both financial and non-financial key performance indicators taken into account.

In addition, incentives are available in relation to Executive Directors, senior management and other key personnel under the Unapproved Share Option Scheme, managed by the Committee. No such scheme shares are currently granted or vested.

The Committee does not operate a 'clawback' facility in respect of Directors' and senior managers' remuneration; such arrangements being unenforceable under the Russian labour code.

The remuneration of Non-Executive Directors is considered by the Executive Directors, with input from senior management, and takes into account the nature and risk of the business, time commitment, additional responsibilities and competitive fee levels. Other benefits are not available to Non-Executive Directors.

Directors’ Remuneration

The remuneration paid to the Directors in the financial period to 31 December 2019 (no bonuses were paid) was as follows:

Fees and Remuneration (US$)	2018	2019
Eugene Shvidler	850,000	**850,000**
Duncan Baxter	160,000	**203,333**
Terry Robinson	160,000	**113,333**
Olga Pokrovskaya	125,000	**125,000**
Colin Belshaw	120,000	**130,000**
John Mann	120,000	**120,000**
Valery Oyf	100,000	**100,000**
Deborah Gudgeon	n.a.	**12,500**

No grants of options under the Unapproved Share Option Scheme were made during 2019 and management and employees were incentivised through a bonus scheme based on production and other appropriate KPIs. There were no options outstanding as of 31 December 2019 (2018: nil).

The Group has entered into letters of appointment with both the Executive and Non-Executive Directors. In the case of Non-Executive Directors, such arrangements, none of which have an expiry date or notice period of more than one year, are reviewed annually. The Executive Directors, other than the Chairman, are governed by their Russian Contracts of Employment. During the year, the Remuneration & Nomination Committee and the Board agreed not to increase remuneration or pay any ex-gratia payments for additional work undertaken by the Non-Executive Directors.

Audit & Risk Committee

The Audit & Risk Committee at the beginning of 2019 consisted of two Non-Executive Directors, Olga Pokrovskaya, Duncan Baxter and Terry Robinson, who chaired the Committee. Duncan Baxter joined in August and Deborah Gudgeon assumed Mr Robinson's role as chairperson in December, bringing the number of Committee members to three.

The Committee met four times during the year to consider the annual and interim Financial Statements, the internal and external audit programme, and the re-election of the external auditors, and to review budgets for the year ahead. In April 2020, the Audit & Risk Committee considered and reviewed the 2019 Financial Statements and the sections of the Annual Report that related to the Company's Principal Risks and Uncertainties, the Directors' Report, the CEO's Report and Operational Review, and the CFO's Report.

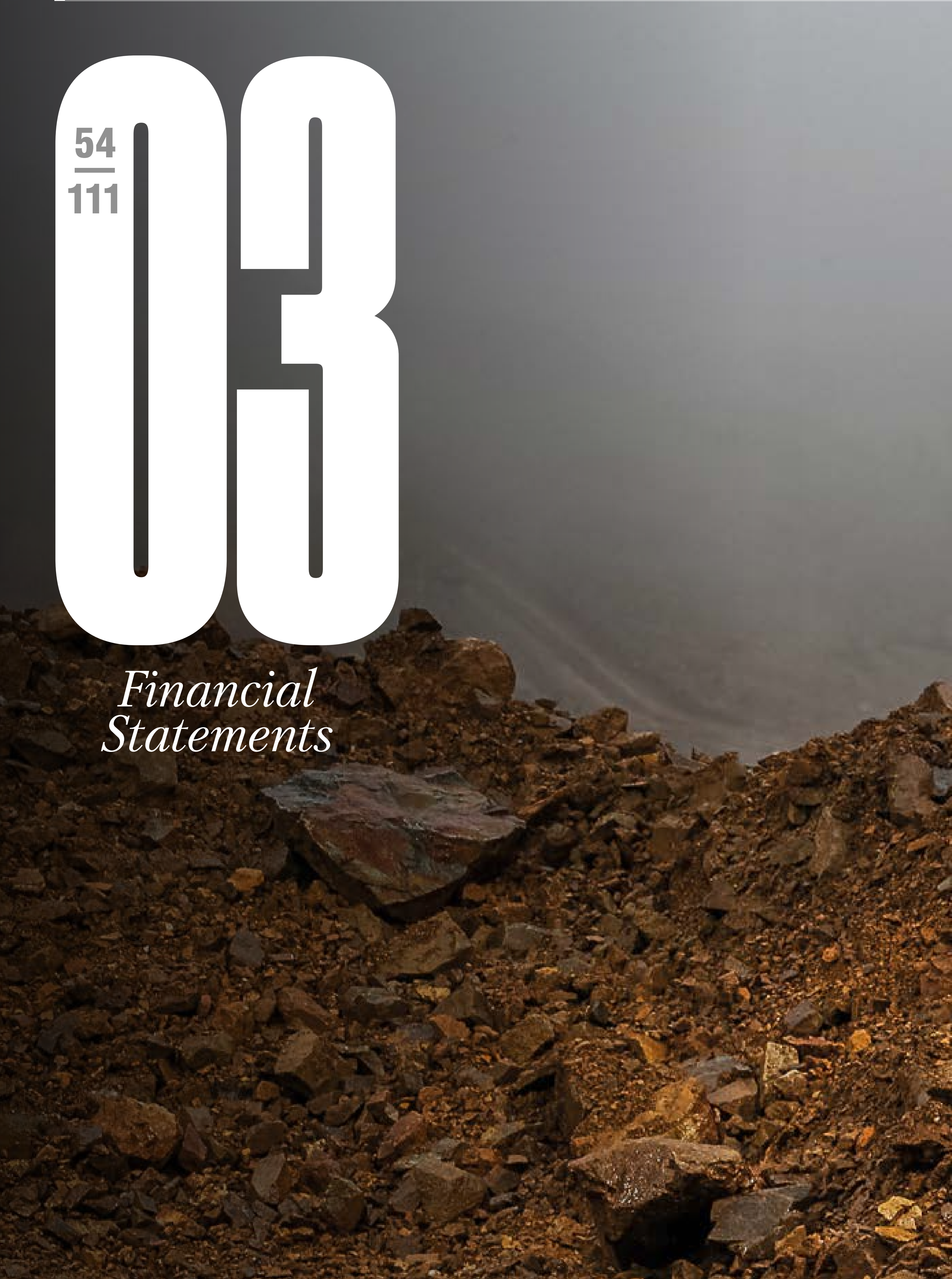
Management and external auditors are invited to attend Committee meetings as appropriate. There are defined Terms of Reference for the Audit & Risk Committee which are reviewed by the Board on an annual basis and are available for inspection at the AGM; details can also be found on the Company's website at www.highlandgold.com. 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 & Risk Committee also considers budgets and has agreed an authorisation and expenditure policy. The Audit & Risk Committee is responsible for monitoring key risks and has implemented, through the internal audit department, a process for reporting on and monitoring such risks.

The Audit & Risk Committee reviews the annual Internal Audit Plan and Internal Audit recommendations in response to their audit findings and, subsequently, Internal Audit reports to the Audit & Risk Committee on management's delivery of such audit recommendations. Internal Audit also reviews and reports on the measurement and completeness of the Risk Register including details of recommended remedial actions on the part of management. Reports on whistleblowing events to the Audit & Risk Committee and action in this regard are also within the remit of Internal Audit.

With regard to the Financial Statements, the Audit & Risk Committee's key considerations relate, in particular, to the consistency and appropriateness of management's estimates and judgements, the Going Concern basis of the preparation of the Financial Statements and the consideration for and the appropriateness of the inputs for an Impairment review. Such inputs: metals resources and reserves, prices for gold and other metals produced by the Company, annual production volumes, cash costs of production and capital expenditure, together with the proposed discount rate, are the drivers of the separate forward Life of Mine financial models and thus calculations of recoverable amounts compared to the carrying amounts in the financial statements.

The Audit & Risk Committee recommended the Interim Financial Statements and the 2019 full year audited Financial Statements to the Board for approval. Further the Audit & Risk Committee recommended to the Board the reappointment of Ernst & Young LLP as the Company's auditors.

The Audit & Risk Committee undertakes a self-assessment of its own performance and that of the Internal Audit function and additionally an assessment of the external auditors.



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Financial Statements

Opinion

We have audited the financial statements of Highland Gold Mining Limited (the 'Company') and its subsidiaries (together the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 33 to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

» give a true and fair view of the state of the group's affairs as at 31 December 2019 and of its profit for the year then ended;
» have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
» have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

» the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
» the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	» Impairment of goodwill and other non-current assets » Going concern
Materiality	» Overall group materiality of $6.2 million which represents 3% of EBITDA

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Impairment of goodwill and other non-current assets Refer to accounting policies (page 42); and Notes 17, 18 and 19 of the Consolidated Financial Statements (pages 88-92) At 31 December 2019 the aggregate carrying value of PP&E and goodwill was US$407 million (2018: US$381 million). The group recognised an impairment reversal of US$18.2 million (2018: US$nil) for the Kekura Cash Generating Unit (CGU) during the year by management due to the combined impact of a sustained gold price increase, further progress on development activities which have increased confidence over its returns, and the tax benefits that will accrue from the confirmation in 2019 of Kekura's residency in the Chukotka Advanced Special Economic Zone. No impairment was recognised for other CGUs. We focused on this area due to the significance of the carrying value of the assets being assessed, the potential for changes to the economic environment in the group's operating jurisdictions and the likelihood of any impairment (or reversal of impairment) being material to the financial statements. In addition, where impairment indicators are identified the assessment of the recoverable amount of the group's CGUs involves significant judgements about the future results of the business and the discount rates applied to management's future cash flow forecasts.	We performed the following procedures to address the risks identified: We understood management's process for impairment analysis and related controls through performing walkthroughs. For CGUs which have no goodwill, we evaluated whether potential indicators of impairment or impairment reversal had been assessed by management up to the year end date including commodity prices, foreign exchange movements, production and reserve estimates. Management did not identify any impairment indicators for these CGUs and identified indicators of impairment reversal for the Kekura CGU. For the Kekura CGU, and for CGUs which have goodwill allocated to them, we audited the impairment models prepared by management by testing the arithmetical accuracy and integrity of the impairment models and carrying out procedures on the reasonableness of the key assumptions including the sensitivity of the model to changes in these assumptions. We assessed the historical accuracy of management's budgets and forecasts, and sought appropriate evidence for any anticipated improvements in key assumptions such as production volumes or operating costs. We corroborated previous forecasts with actual data. We engaged EY valuation specialists to assist in our evaluation of whether the discount rates used by management fell within an acceptable range. Where the impairment analysis was based on estimates of reserves and/or resources, we reviewed the basis of estimation and assessed the competence and independence of the experts engaged in performing work on these estimates. We evaluated the appropriateness of the related disclosures provided in the financial statements. In particular, we assessed the completeness of the disclosures regarding those CGUs with material goodwill balances and whether a reasonably possible change in certain variables could lead to impairment charges.	We consider management's estimates used in the impairment tests to be reasonable for the current year with assumptions within an acceptable range. We concur with the impairment reversal of $18.2 million that had been previously recognised in respect of the Kekura CGU and with no impairment being recognised for other CGUs. We concluded that the related disclosures provided in the financial statements are appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Going concern Refer to Note 2: Basis of preparation (page 66); and Note 33 in the Consolidated Financial Statements (page 103) The consolidated financial statements have been prepared on the going concern basis of accounting. On 20 March 2020, the group announced an update on the policies and measures it was taking in response to the international COVID-19 pandemic, reporting that it had not experienced any disruptions to its mining operations and construction projects. The Board's going concern assessment has included consideration of the potential impacts of the COVID-19 pandemic on the Group's operations and future cash flows. Management prepared a detailed cash flow forecast and has undertaken sensitivity analysis to reflect certain downside scenarios by changing key assumptions that drive the forecasts and has assessed the impacts on liquidity and compliance with the group's loan covenants.	Our year end work on the Board's going concern assessment included specific consideration of the impact of the COVID-19 pandemic on the group's operations and cash flow forecasts. We observed that the effects of the pandemic have positively impacted the group's performance and financial position in 2020 as compared to budgets due primarily to higher gold prices and a weaker Russian rouble. We evaluated management's assessment of the potential adverse impacts of the coronavirus on the group's operations, including the risk of production interruption or shutdown and the impacts on liquidity and loan covenant compliance. Through this work we verified the availability of controllable mitigating actions, including cost reduction and the deferral of uncommitted capital expenditures, which would ensure the group can operate within its financial covenants in the event of a prolonged shutdown of one or more of its mine sites. We tested the cash flow forecasts prepared by management and ensured the integrity and arithmetical accuracy of the model. We evaluated the key assumptions used in the model, including gold price and exchange rates, comparing these to available market data, which enabled us to conclude on the reasonableness of management's assumptions. We performed stress testing on the forecasts to assess the extent of deterioration in gold price and the RUR/USD exchange rate that would impact compliance with loan covenants, after considering controllable mitigation, and concluded the risk was sufficiently low. We agreed the sources of liquidity to supporting documents, including unused committed loan facilities that can be drawn down in the event they are needed. We also assessed the adequacy of the going concern and COVID-19 disclosures included in notes 2 and 33 to the consolidated financial statements and consider these to appropriately reflect the assessments that management has performed.	Based on the audit procedures performed we concur with the conclusion reached by management that there is no material uncertainty in relation to the going concern basis of preparation of the consolidated financial statements. We are satisfied with the disclosures in the consolidated financial statements related to going concern and the impacts of COVID-19 on the group's business and operations.

In the prior year, our auditor's report included a key audit matter in relation to accounting for the acquisition of three companies with mining assets in the Chukotka region of Russia (the Valunisty acquisition). As the acquisition was completed in the prior year it was not deemed to be a key audit matter for our 2019 audit.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 11 (2018: 11) components covering Russia, Jersey and Kyrgyzstan, which represent the principal business units within the group.

Of the 11 components selected, we performed an audit of the complete financial information of three (2018: three) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining eight components ("specific scope components"), we performed audit procedures on specific accounts within each component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The extent of our audit work on the specific scope accounts was similar to that for a full scope audit.

The reporting components where we performed audit procedures accounted for 100% (2018: 100%) of the group's EBITDA, 100% (2018: 100%) of the group's Revenue and 95% (2018: 95%) of the group's Total assets. For the current year, the full scope components contributed 100% (2018: 100%) of the group's EBITDA, 90% (2018: 100%) of the group's Revenue and 33% (2018: 34%) of the group's Total assets. The specific scope components contributed 62% (2018: 61%) of the group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

Changes from the prior year

Our scope allocation in the current year is materially consistent with 2018 in terms of the resulting coverage of the group's Revenue, EBITDA and Total assets and the number of full and specific scope entities.

Involvement with component teams

In establishing our overall approach to the group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Audit procedures were performed on the three full scope components by our component teams in Russia. For the eight specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the group as a whole.

The primary audit team, which comprises team members based in both the UK and Russia, continued to follow a programme of planned visits that has been designed to ensure that each location is subject to an appropriate level of senior team member oversight during key activities. The nature and extent of these visits were designed relative to the size of the component, and the division of the responsibilities between the primary team on the significant risk areas applicable to the component. During the current year audit cycle, a senior UK-based representative from the primary team visited component teams in Russia during the interim stage in December 2019. Due to the travel ban in place from March 2020 related to the COVID-19 pandemic, the UK-based primary team members did not perform a site visit during the execution/conclusion stage of the audit, but instead held daily discussions with the other primary team members and interacted frequently with the component teams based in Russia, performing reviews remotely. The primary audit team focused time on the significant risks and judgemental areas of the audit, met and held other discussions with local management, participated in closing meetings and reviewed key working papers. The primary team interacted regularly with the component teams where appropriate during various stages of the audit and were responsible for the scope and direction of the audit activities. This, together with the additional procedures performed at group level, gave us appropriate evidence for our opinion on the consolidated financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be $6.2 million (2018: $4.6 million), which is 3% (2018: 3%) of EBITDA. We believe that EBITDA provides us with the most appropriate measure having taken into consideration what we believe to be the perspectives and expectations of the users of the financial statements in the context of our understanding of the entity and the environment in which it operates.

During the course of our audit, we reassessed initial materiality and made no changes from our original assessment at planning.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely $4.6 million (2018: $3.4 million). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $1.2 million to $3.9 million (2018: $1.6 million to $3.1 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of $0.3 million (2018: $0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

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

» proper accounting records have not been kept by the company, 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 company's accounting records and returns; or
» we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 43, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Andrew Smyth
for and on behalf of Ernst & Young LLP
London

14 April 2020

Notes:

1. *The maintenance and integrity of the Highland Gold Mining Limited website 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 website.*
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

	Notes	2019 US$000	2018 US$000
Revenue	9	395,386	311,153
Cost of sales	10	(214,283)	(178,222)
Gross profit		181,103	132,931
Administrative expenses	11	(18,736)	(17,163)
Other operating expenses, net	12	(19,111)	(6,582)
Reversal of impairment	7, 19	18,227	–
Operating profit		161,483	109,186
Foreign exchange (loss)/gain, net	13	(786)	834
Finance costs, net	14	(1,966)	(1,772)
Profit before income tax		158,731	108,248
Current income tax expense	15	(37,313)	(20,166)
Withholding tax expense	15	(11,431)	(13,704)
Deferred income tax credit/(expense)	15	67,807	(18,294)
Total income tax credit/(expense)	15	19,063	(52,164)
Profit for the year		177,794	56,084
Total comprehensive income for the year		177,794	56,084
Profit for the year attributable to:			
Equity holders of the parent		177,190	56,040
Non-controlling interests		604	44
Earnings per share (US$ per share)			
Basic and diluted earnings per share attributable to ordinary equity holders of the parent	16	0.487	0.154

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

Consolidated Statement of Financial Position
as at 31 December

	Notes	2019 US$000	2018 US$000
ASSETS			
Non-current assets			
Exploration and evaluation assets	17	**101,531**	92,972
Mine properties	17	**698,163**	649,716
Property, plant and equipment	17	**342,924**	316,928
Goodwill	18	**63,651**	63,651
Inventories	21	**5,742**	2,566
Deferred income tax asset	15	**3,584**	2,163
Other non-current assets	20	**21,887**	12,338
Total non-current assets		**1,237,482**	1,140,334
Current assets			
Inventories	21	**81,391**	70,459
Trade and other receivables	22	**44,957**	29,969
Prepayments		**2,872**	2,429
Income tax prepaid		**1,522**	3,074
Cash and cash equivalents	23	**42,919**	38,736
Other current assets		**2,853**	2,107
Total current assets		**176,514**	146,774
Total assets		**1,413,996**	1,287,108
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	24	**634**	634
Share premium		**786,613**	786,496
Assets revaluation reserve	24	**832**	832
Retained earnings		**160,665**	40,905
Total equity attributable to equity holders of the parent		**948,744**	828,867
Non-controlling interests		**2,935**	2,331
Total equity		**951,679**	831,198
Non-current liabilities			
Interest-bearing loans	25, 31	**274,568**	153,674
Lease liabilities	25, 31	**3,377**	1,558
Non-current payables	26	**376**	355
Income tax payable		**1,422**	1,600
Provisions	27	**38,270**	24,777
Deferred income tax liability	15	**66,840**	133,226
Total non-current liabilities		**384,853**	315,190
Current liabilities			
Interest-bearing loans	25, 31	**13,456**	94,177
Lease liabilities	25, 31	**1,686**	760
Trade and other payables	26	**58,183**	45,412
Income tax payable		**4,139**	371
Total current liabilities		**77,464**	140,720
Total liabilities		**462,317**	455,910
Total equity and liabilities		**1,413,996**	1,287,108

The financial statements were approved by the Board of Directors on 14 April 2020 and signed on its behalf by: John Mann and Olga Pokrovskaya.

Consolidated Statement of Changes in Equity
for the year ended 31 December

		Attributable to equity holders of the parent						
	Notes	Issued capital US$000	Share premium US$000	Assets revaluation reserve US$000	Retained earnings US$000	Total US$000	Non-controlling interests US$000	Total equity US$000
At 31 December 2017		585	718,419	832	55,371	775,207	2,309	777,516
Total comprehensive income for the year		–	–	–	56,040	56,040	44	56,084
Ordinary shares issued	24	49	68,077	–	–	68,126	–	68,126
Dividends to equity holders of the parent	32	–	–	–	(70,506)	(70,506)	–	(70,506)
Dividends to shareholders of non-controlling interests		–	–	–	–	–	(22)	(22)
At 31 December 2018		634	786,496	832	40,905	828,867	2,331	831,198
Total comprehensive income for the year		–	–	–	177,190	177,190	604	177,794
Ordinary shares issued	24	–	117	–	–	117	–	117
Dividends to equity holders of the parent	32	–	–	–	(57,430)	(57,430)	–	(57,430)
At 31 December 2019		**634**	**786,613**	**832**	**160,665**	**948,744**	**2,935**	**951,679**

Consolidated Statement of Cash Flows
for the year ended 31 December

	Notes	2019 US$000	2018 US$000
Operating activities			
Profit before income tax		158,731	108,248
Adjustments to reconcile profit before income tax to net cash flows from operating activities:			
Depreciation of mine properties and property, plant and equipment	7, 10, 17	48,848	42,304
Reversal of impairment related to cash-generating units	7, 19	(18,227)	–
Write-off of mine properties and property, plant and equipment	12, 17	2,026	235
Individual impairment of property, plant and equipment and mine assets	12	236	803
Loss on disposal of property, plant and equipment	12	131	–
Movement in ore stockpiles obsolescence allowance	12	11,997	722
Movement in raw materials and consumables obsolescence allowance	12	742	45
Movement in allowance for expected credit losses on prepayments and other receivables	12	120	2,577
Bank interest receivable	14	(475)	(350)
Interest expense on bank loans	14	–	400
Interest expense on lease liabilities	14	365	223
Accretion expense on site restoration provision	14	2,077	1,500
Foreign exchange gain, net	13	786	(834)
		207,357	155,873
Movements in working capital:			
(Increase)/decrease in trade and other receivables and prepayments		(18,963)	4,615
Increase in non-current inventories		(15,057)	(2,664)
(Increase)/decrease in current inventories		(9,508)	6,760
Increase/(decrease) in trade and other payables		6,425	(4,547)
Cash flows from operations		170,254	160,037
Income tax paid		(31,806)	(23,790)
Net cash flows from operating activities		138,448	136,247
Investing activities			
Proceeds from sale of property, plant and equipment		254	595
Purchase of property, plant and equipment	7	(89,275)	(62,347)
Capitalised interest paid	7, 17	(9,724)	(7,189)
Increase in stripping activity assets	10, 17	(8,938)	(1,304)
Interest received from deposits		475	350
Cash of acquired subsidiaries	6	–	758
Net cash flows used in investing activities		(107,208)	(69,137)
Financing activities			
Proceeds from loans		248,251	135,711
Repayments of loans		(209,019)	(111,320)
Interest paid on loans		–	(178)
Payments of lease liabilities		(1,574)	(1,077)
Interest paid on lease liabilities		(188)	(223)
Dividends paid to equity holders of the parent	32	(54,355)	(49,627)
Dividends paid to shareholders of non-controlling interests		–	(22)
Withholding tax paid	15	(11,431)	(13,602)
Net cash flows used in financing activities		(28,316)	(40,338)
Net increase in cash and cash equivalents		2,924	26,772
Cash and cash equivalents at the beginning of the year	23	38,736	12,388
Effect of foreign exchange rate changes on cash and cash equivalents		1,259	(424)
Cash and cash equivalents at the end of the year	23	42,919	38,736

1. Corporate information

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 14 April 2020.

Highland Gold Mining Limited (the Company) is a public company incorporated and domiciled in Jersey. The registered office is located at 26 New Street, St Helier, Jersey JE2 3RA. 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 are prepared on the historical cost basis except for financial instruments carried at fair value and assets and liabilities acquired in a business combination that have been measured at fair value.

All values are rounded to the nearest thousand (US$000), except where otherwise indicated.

Statement of compliance

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

Going concern

The Directors consider that the Group will continue as a going concern.

To support the Directors' going concern assessment, cash flow forecasts have been prepared and these have been stress tested under various scenarios. The assessment has included a focus on the potential impacts of the COVID-19 pandemic on Highland Gold's operations and financial position, noting that the impacts to date have benefited the Group's cash flows through higher gold prices and a weaker rouble. While the financial effect of the current COVID-19 crisis on the Group's business activities cannot be estimated with reasonable certainty at this stage, the Directors have identified certain risks related to the coronavirus pandemic and associated mitigating actions related to employee health, partial or complete shutdown of production and timely supply of equipment and materials.

The going concern assessment has considered the impact on liquidity and loan covenants of a sustained decrease in gold prices as compared to current market forecasts and a strengthening of the rouble, noting no breach of covenants in either scenario, or a combination of both downside scenarios. The Directors also note that, in the event of any lengthy interruption to production as a result of the COVID-19 pandemic, there are various mitigating actions readily available to the Group including the implementation of cost reductions, deferral of capital expenditure and draw down on available credit facilities which would adequately safeguard the Group's ongoing liquidity.

Basis of consolidation

These consolidated financial statements comprise the financial statements of Highland Gold Mining Limited and its subsidiaries, from the date on which the Group obtains control until the date that control effectively ceases. Refer to Note 29 for details.

The financial statements of the Company and its subsidiaries are prepared as at the same reporting date and for the same reporting period, using uniform accounting policies. All intercompany balances, transactions, unrealised gains and losses on intercompany transactions are eliminated in full. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the parent.

3. Changes in accounting policies

The accounting policies applied in the preparation of these consolidated financial statements are generally consistent with those applied in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2018 except for the changes related to the adoption of IFRS 16 Leases.

Adoption of new and revised standards and interpretations

IFRS 16 Leases

IFRS 16 Leases supersedes IAS 17 Leases and the related interpretations. IFRS 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases under a single on-balance sheet model.

The Group initially adopted IFRS 16 Leases from 1 January 2019. In accordance with the modified retrospective approach on the initial application of the standard, the comparative information for the year ended 31 December 2018 has not been restated. Under this approach right-of-use assets were recognised at the date of the initial application in the amount equal to the lease liability.

3. Changes in accounting policies *continued*

Adoption of new and revised standards and interpretations continued

IFRS 16 Leases continued

The Group applied the following practical expedients proposed by the standard:

» applied IFRS 16 Leases to the contracts that were previously identified as leases;
» did not recognise lease liabilities in respect of leases that have a lease term of 12 months or less (including all economically reasonable prolongation options) and do not contain a purchase option and leases for which the underlying assets are of low value;
» relied on its assessment of whether leases are onerous immediately before the date of initial application;
» used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

The Group has lease contracts for land plots, buildings and various items of machinery. It does not have any subleases. Following the exemption provided by IFRS 16 Leases, the Group did not recognise lease liabilities in respect of land plots leases to explore for or use mineral resources and will continue to recognise the related rent expenses in the corresponding periods.

On the initial application of IFRS 16 Leases the Group has recognised additional lease liabilities (both current and non-current) in the amount of US$2.3 million. These leases were previously classified as operating lease under IAS 17 Leases and not recognised as lease liabilities before 1 January 2019. Additional lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate of 7.66% at the date of initial application.

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. The requirements of IFRS 16 Leases were applied to these leases from 1 January 2019.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	US$000
Future minimum lease payments due under non-cancellable operating leases as at 31 December 2018 (undiscounted)	2,737
Less: non-lease components previously included as part of commitments in relation to existing lease contracts	(49)
Less: effect of discounting	(369)
Lease liabilities additionally recognised at 1 January 2019 (discounted)	**2,319**
Plus: finance lease liabilities recognised at 31 December 2018	2,318
Total lease liabilities as at 1 January 2019	**4,637**

Adoption of several other interpretations and amendments to the following standards for annual periods from 1 January 2019 did not have material impact on the accounting policies, financial position or results of the Group:

» IFRIC 23 Uncertainty over Income Tax Treatments;
» Amendments to IAS 19 Plan Amendment, Curtailment or Settlement;
» Amendments to IAS 28 Long-term interests in Associates and Joint Ventures;
» Amendments to IFRS 9 Prepayment Features with Negative Compensation;
» Annual Improvements to IFRSs 2015 – 2017 Cycle.

Standards and interpretations in issue but not yet effective

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective or endorsed in the EU.

Standards and interpretations	Effective for annual periods beginning on or after
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
Amendments to IFRS 3 Business Combinations	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform	1 January 2020
Amendments to references to the Conceptual Framework in IFRS standards	1 January 2020

Management of the Group plans to adopt all of the above standards and interpretations in the Group's consolidated financial statements for the respective periods.

4. 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 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 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.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument within the scope of IFRS 9 Financial Instruments is measured at fair value, with changes in fair value recognised either in profit or loss or other comprehensive income. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

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. An impairment loss on goodwill cannot be reversed under any circumstances. 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 (CGUs) 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.

Functional and presentation currency and foreign currency translation

The Group's consolidated financial statements are presented in US dollars (USD), which is the parent company's functional currency and the Group's presentation 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.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction. Non-monetary items measured at a revalued amount in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The principal exchange rates against USD that were applied are:

	31 December 2019	31 December 2018
Average		
Russian rouble (RUB)	**64.618**	62.926
Pound sterling (GBP)	**0.783**	0.749
Closing		
Russian rouble (RUB)	**61.906**	69.471
Pound sterling (GBP)	**0.758**	0.785

4. Significant accounting policies *continued*

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 and depletion

Mineral properties are depreciated using a unit of production method based on the depleted estimated proven and probable reserves and a portion of resources expected to be converted into reserves. The cost of mineral properties includes estimates of future capital expenditures necessary to produce the proven and probable reserves.

Buildings, plant and equipment 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.

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.

Exploration and evaluation assets contain a mixture of tangible (e.g. drill holes) and intangible assets (e.g. capitalised cost of evaluation reports, capitalised borrowing costs or capitalised expenses, cost of licence). 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. Exploration and evaluation assets are not depreciated. General and administrative and overhead costs directly attributable to the exploration and evaluation activities are included in exploration and evaluation assets' cost. The restoration provision cost does not form part of exploration and evaluation assets.

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.

4. Significant accounting policies *continued*

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.

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.

The depreciation on items of properties, plant and equipment used in exploration and development activities is recognised as part of the initial cost of the related assets and is treated on a consistent basis with the entity's other exploration and development expenditure. Mine development expenditure is included in mine assets.

Mine properties

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. Mine properties contain a mixture of tangible and intangible assets. The cost of acquiring mine assets after the start of production is capitalised within mine properties in the statement of financial position as incurred. The cost of acquiring rights on mineral reserves and mineral resources including directly attributable expenses is capitalised within mine properties in the statement of financial position as incurred. The initial cost of a mine property comprises its construction cost, any costs directly attributable to bringing the mining property into operation, the initial estimate of the provision for mine closure cost, and, for qualifying assets, borrowing costs.

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

The Group incurs waste removal (stripping) costs during the production phase of surface mining (open-pit) operations. The Group accounts for such stripping costs on the basis of the relevant production measure calculated for every identified component of every ore body (volume of waste to volume of ore extracted).

Production stripping costs are capitalised as part of a non-current stripping activity asset if:

» probable future economic benefits associated with the stripping activity will flow to the Group;
» costs can be measured reliably; and
» the Group can identify the component of the ore body for which access has been improved.

During the production phase, stripping costs can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as a stripping activity asset, where certain criteria are met.

Construction in progress

Assets in the course of construction are capitalised as construction in progress. No depreciation is charged on construction in progress. These assets are depreciated upon their completion and transfer to the appropriate category of property, plant and equipment.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use (a qualifying asset) are capitalised as part of the cost of the respective asset, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

4. Significant accounting policies *continued*

Impairment

At each reporting date, management assesses whether there is any indication of impairment of non-financial assets. Annual impairment test is performed on CGUs to which goodwill has been allocated irrespective of whether any indications exist. If any such indication exists, management estimates the asset's or CGU's recoverable amount, which is determined as the higher of fair value less costs of disposal 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 other than goodwill 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 of disposal and if there is an indication that the impairment loss may no longer exist or may have decreased.

Leases

Accounting policy applicable prior to 1 January 2019

Operating lease

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 with a corresponding liability at an amount equal to 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.

Accounting policy applicable from 1 January 2019

The Group assesses at the inception of the contract whether it is or contains a lease. The Group applies a single recognition and measurement approach for all leases, except for short-term leases (leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets.

The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets, if a lease contract transfers to the lessee the right to control the use of the identified asset for a period of time in exchange for a consideration. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the rate implicit in the lease or, if this rate cannot be readily determined, its incremental borrowing rate. Lease liabilities are subsequently increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification (which is not accounted for as a separate lease), a change in the lease term, a change in the lease payments (due to changes in an index or rate) or a change in the assessment of an option to purchase the underlying asset.

Lease liabilities are presented separately in the consolidated statement of financial position.

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date when the underlying asset is available for use). The cost of right-of-use assets includes the initial amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the corresponding lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets: buildings – 5 to 11 years; machinery – 5 years. If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Right-of-use assets are presented within property, plant and equipment in the consolidated statement of financial position.

4. Significant accounting policies *continued*

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.

Inventory items that represent significant parts of property, plant and equipment are capitalised as non-current assets and are depreciated separately. An existing part should be derecognised when it is replaced, with the book value of the replaced part written down through the depreciation charge.

Inventories include the following categories:

» finished goods (gold and gold equivalents on hand) which are valued on an average total production cost method;
» gold in process which is valued at the average total production cost at the relevant stage of production;
» ore stockpiles which are valued at the average cost of mining and stockpiling the ore less allowance for obsolescence;
» 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 cost less allowance for obsolete and slow-moving items.

Financial assets

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is determined at initial recognition and depends on their contractual cash flow characteristics and the Group's business model for managing them in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15 Revenue.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at fair value though profit or loss:

» it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
» its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The corresponding assessment (SPPI test) is performed at an instrument level. The Group generally classifies cash and cash equivalents, bank deposits, trade and other receivables (excluding trade receivables on provisionally priced contracts), and loans issued as financial assets at amortised cost.

4. Significant accounting policies *continued*

Financial assets continued

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are classified as financial assets at fair value through profit or loss.

The Group classifies trade receivables on provisionally priced contracts as financial assets at fair value through profit or loss. These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price at the relevant quotation period stipulated in the contract. This exposure to the commodity price causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at fair value through profit or loss from the date of recognition of the corresponding sale, with subsequent movements being recognised in the income statement.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on a financial asset measured at amortised cost.

The Group applies the simplified approach to measuring expected credit losses, which uses a lifetime expected credit loss allowance for all trade receivables. The expected loss rates are based on historical credit loss experience, adjusted to reflect current and forward-looking information on the ability of debtors to settle the receivables, as well as on the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off against the expected loss allowance when there is no reasonable expectation of recovering the contractual cash flows; this usually occurs when the asset is past due for more than one year and not subject to enforcement activity.

Changes in the expected loss allowance are recognised in the consolidated income statement.

Derecognition of financial assets

A financial asset is derecognised when the contractual rights to receive cash flows from the asset expire, or if the Group transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities are classified, at initial recognition, into loans and borrowings, trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs.

Interest-bearing loans and borrowings, trade and other payables are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Loan modification

The Group accounts for loan modifications under IFRS 9 Financial Instruments. The Group recalculates the amortised cost of the bank loans when the terms are modified. The estimated future cash flows under new terms (inflated at the new interest rate) are discounted at the original effective interest rate. As a result, bank loans accounted for under IFRS will differ from the liabilities under the corresponding loan agreements.

The Group applies the following when assessing the requirement to modify financial liabilities:

» a change in index (e.g. LIBOR) of the floating rate loans does not represent a modification;

» new tranches of the revolving agreements are treated as new loans under IFRS 9 Financial Instruments and therefore do not represent a modification.

4. Significant accounting policies *continued*

Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

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.

Value added tax

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

Share capital

Ordinary shares are classified as equity. 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.

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 economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Site restoration provision

Site restoration 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.

Provisions for site restoration costs are capitalised within mine properties and property, plant and equipment. Changes in the measurement of an existing site restoration provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted as follows: changes in the liability shall be added to, or deducted from, the cost of the related mine properties and property, plant and equipment; the amount deducted from the cost of the corresponding asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the related mine properties and property, plant and equipment, the excess shall be recognised immediately in statement of comprehensive income.

Revenue recognition

The Group's revenue from contracts with customers comprises two main streams being the sale of gold and silver bullion and lead and zinc concentrates. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

Gold and silver bullion sales

Most of the Group's gold and silver bullion is sold under spot sales arrangements with various banks. The timing between contract inception and the satisfaction of the performance obligation being gold and silver bullion is very short (several days).

Revenue is recognised at a point in time when control passes to the bank. This generally occurs after the unrefined dore is processed into bullion (outturned) and when the Group advises the refiner to transfer the metal to the bank and credit the metal account of the bank. At this moment the bank receives title, is required to pay for the bullion, is able to direct its use and is exposed to the corresponding risks and rewards. There are no advance payments received from banks and no conditional rights to consideration. A trade receivable is recognised at the date of sale.

The pricing is determined based on the gold or silver price on the London Metal Exchange at the date specified in each spot contract. The contract is entered into and the transaction price is determined at outturn by virtue of the deal confirmation and there are no further adjustments to this price. Also, given each spot sale represents the enforceable contract and all performance obligations are satisfied at that time, there are no unsatisfied or partially unsatisfied performance obligations requiring disclosure.

4. Significant accounting policies *continued*

Revenue recognition continued

Lead and zinc concentrate sales

Novoshirokinskoye (Novo) as a concentrate producer and seller has contracts where price risk is retained for a specified period after the sale has occurred. Such provisionally priced concentrate sales contain terms which allow for price adjustments based on the market price at the end of a quotation period stipulated in the contract.

The selling price under the concentrate contract is based on prevailing spot prices on a specified future date after shipment to the customer. Adjustments to the sales price occur based on movements in prices quoted in an organised market (London Metal Exchange, London Bullion Market Association) up to the end of the quotation period.

A portion of the provisional invoice is settled within a few days (80%). The remaining amount (20%), plus or minus any adjustment on 100% of the value of the sale for price variance between the provisional and the final invoices, plus any volume of metals adjustments resulting from the final assay, is settled at the end of the quotation period.

Buyer	Quotation period (final assay)	Title to the commodity passes to the buyer
Kazzinc	4 months after the shipment date	on shipment
Hyosung, Trafigura	up to 3 months after the delivery date	on delivery to the railway station at the border of the Russian Federation and the People's Republic of China
Hyosung TNC	up to 3 months after the delivery date	upon arrival of the vessel ready for unloading to the port of discharge – Busan, South Korea

The Group provides no freight or shipping services. Revenue is recognised when control passes to the customer, which occurs at a point in time when the metal in concentrate is physically transferred onto a vessel, train, conveyor or other delivery mechanism.

The revenue is measured in the amount to which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the quotation period, and a corresponding trade receivable is recognised. Given the exposure to the commodity price, these provisionally priced trade receivables are within the scope of IFRS 9 Financial Instruments and are measured at fair value through profit or loss from initial recognition and until the date of settlement. The subsequent changes in fair value are recognised in the statement of comprehensive income each period and disclosed separately from revenue under IFRS 15 Revenue. Changes in fair value up to the end of the quotation period are estimated by reference to updated market prices for metals in concentrate sold.

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.

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.

Dividend distribution

Dividends declared on equity shares are recognised in the consolidated statement of changes in equity.

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, deferred tax, withholding 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. Income taxes paid are included within operating activities in the consolidated statement of cash flows other than where they can be specifically identified within financing or investing activities. Accordingly, payments of withholding tax that relate specifically to cash flows that fund the Group's dividend payments are classified as cash flows from financing activities.

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.

4. Significant accounting policies *continued*

Income taxes continued

Deferred income tax liabilities are recognised for all taxable temporary differences 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;
- 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;
- in respect of site restoration as 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; and
- in respect of obsolescence allowances as these materials are unlikely to be used for production purposes in the future and therefore future tax relief is not assumed.

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.

5. Critical accounting estimates and judgements in applying accounting policies

In the course of preparing financial statements, management necessarily makes judgements and determines estimates based on historical 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 Group's 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 are presented below.

Judgements

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.

5. Critical accounting estimates and judgements in applying accounting policies *continued*

Judgements continued

Stripping costs and stripping activity assets

The Group applies judgement to distinguish between development stripping and production stripping. Once the Group has identified its production stripping ratio for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity.

Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan. The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, its geographical location and/or financial considerations.

Judgement is also required to identify a suitable production measure to be used to allocate production stripping costs between inventory and any stripping activity asset(s) for each component. The Group considers that the ratio of the expected volume of waste to be stripped for an expected volume of ore to be mined for a specific component of the ore body is the most suitable production measure. The stripping ratio is re-assessed in line with the Life of Mine (LOM) models.

Furthermore, judgements and estimates are used to determine the useful lives of stripping activity assets for the purposes of depreciation under the unit of production method.

Estimations and assumptions

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 as well as in accordance with JORC. Refer to the Mineral resources and Ore reserves sections for detailed information on mineral resources and reserves.

Proven and probable reserves and a portion of resources expected to be converted into reserves (as indicated in the detailed LOM plans) are used in the unit of production calculation for depreciation in 2019 and impairment assessments. Management believes this assessment represents the most accurate quantity of reserves and resources which will generate future cash flows.

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, addition to or reduction of reserves as a result of exploration works, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

Mine development costs (upon commencement of production), mine assets and mineral rights are depreciated using the unit of production method based on the estimated proven and probable reserves to which they relate and a portion of resources expected to be converted into reserves. Note 19 contains information on the life of mines that is in line with the present assessment of the economically recoverable reserves.

Impairment of non-financial assets

Management has determined that a CGU, which is the lowest level for which cash inflows are largely independent of those of other assets, is an individual mine. The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated, based on the LOM plans. The cash flows are significantly affected by a number of factors, including ore reserves and mineral resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure. Future changes in these variables may differ from management's estimates and may materially change the recoverable amounts of the CGUs.

In calculating the asset's or CGU's recoverable amount, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. Recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used which reflects management's judgements relating to the estimates a market participant would use to arrive at a fair value less costs of disposal valuation. These calculations are corroborated by valuation multiples and other available fair value indicators.

In determining the recoverable amount of a CGU, management applies judgement to determine reasonable assumptions within an acceptable range. Sensitivity analysis is performed to analyse the impact of changes in key assumptions on the CGU's recoverable amounts. Refer to Note 19 for further details on the significant judgements and estimations made when preparing impairment tests for non-financial assets, including post-tax discount rates.

5. Critical accounting estimates and judgements in applying accounting policies *continued*

Estimations and assumptions continued

Uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28 for details.

The Group establishes liabilities, based on reasonable estimates, for possible consequences of audits by the tax authorities in the countries in which it operates. The amounts of such liabilities are estimated 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.

Site restoration provision

Site restoration provision is reviewed on a semi-annual basis to account for changes in cost estimates or lives of operations. It is expected that most of close down, restoration and environmental clean-up costs will be incurred at the end of the life of the operating mine.

Assumptions used to calculate the provision for site restoration are based on the government requirements applicable to sites closure, and assumptions regarding the Life of Mine (refer to Note 27), expected site restoration activities (removal of waste, restoration of mine sites) and current prices for similar activities. An increase in discount rates by 2%, with all other valuation assumptions remaining the same, would reduce the site restoration provision by US$7.6 million and a decrease in discount rates by 2% would increase the site restoration provision by US$9.8 million.

Inventory obsolescence

The Group's units perform a detailed analysis of old items of stock and stockpiled ore and create a specific allowance for them once it is determined that the recovery of the item's value is unlikely. The Group performs a turnover analysis for the remaining items of raw materials and consumables grouped by age and identifies obsolete or slow-moving inventory. Stockpiled ore is tested for impairment semi-annually based on the gold contained in the ore, production costs and the selling price of the gold produced. An allowance is subsequently recognised in the statement of financial position, and the movement in the obsolescence allowance is recognised in the statement of comprehensive income.

6. Business combinations

Prior year acquisition of Valunisty

On 27 December 2018, the Group acquired from Aristus Holdings Limited a 100% interest in three companies with assets in the Russian region of Chukotka: Rudnik Valunisty LLC, Kanchalano-Amguemskaya Square LLC and Severo-Vostochnaya Gorno-Geologicheskaya Company LLC. The assets include the Valunisty gold mine and processing plant, the Kanchalano-Amguemskaya Square (KAS) licence, which covers territory surrounding Valunisty and hosts several satellite deposits, and the Kayenmivaam (Kayen) exploration licence.

It was a non-cash transaction during which the Group issued 38,621,343 ordinary shares of £0.001 each to Aristus. Costs incurred in relation to the acquisition during the year ended 31 December 2018 amounted to US$0.8 million.

The Group determined that this transaction represents a business combination.

Purchase consideration	US$000
Issued shares	68,126
Total consideration transferred	**68,126**

Fair value of issued shares was determined by multiplying the number of shares by market share price as at the acquisition date – 27 December 2018.

6. Business combinations *continued*

Assets acquired and liabilities assumed

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

	Fair value recognised on acquisition US$000
ASSETS	
Non-current assets	
Exploration and evaluation assets	1,789
Mine properties	42,398
Property, plant and equipment	29,174
Deferred income tax asset	2,066
Other non-current assets (Note 20)	2,820
Total non-current assets acquired	**78,247**
Current assets	
Inventories	18,206
Trade and other receivables	1,516
Cash and cash equivalents	758
Other current assets	383
Total current assets acquired	**20,863**
Total assets acquired	**99,110**
LIABILITIES	
Non-current liabilities	
Interest-bearing loans	(17,563)
Lease liabilities	(145)
Income tax payable	(1,600)
Provisions	(7,197)
Deferred income tax liability	(7,350)
Total non-current liabilities assumed	**(33,855)**
Current liabilities	
Interest-bearing loans	(186)
Trade and other payables	(2,791)
Total current liabilities assumed	**(2,977)**
Total liabilities assumed	**(36,832)**
Total identifiable net assets at fair value	**62,278**
Goodwill arising on acquisition	**5,848**
Total consideration transferred	**68,126**

The purchase price allocation to the identifiable assets and liabilities of the business acquired has been finalised: there have been no changes to the preliminary assessment in the consolidated financial statements for the year ended 31 December 2018.

The goodwill balance of US$5.8 million 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. Goodwill is allocated entirely to the Chukotka region CGU. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group did not assess the amount of revenue and profit assuming that the combination had taken place at the beginning 2018 because of the absence of corresponding figures under IFRS.

7. Segment information

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

» Gold production of Khabarovsk region;
» Gold production of Chukotka region;
» Polymetallic concentrate production;
» Development and exploration; and
» Other.

The Gold production of Khabarovsk region 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. MNV and BG have been aggregated into one reportable segment as they exhibit similar long-term financial performance and have similar economic characteristics: nature of products (gold and silver), nature of production processes, type of customer for their products (banks), methods used to distribute their products and the nature of the environment (both are located in the Khabarovsk region).

Following the acquisition of subsidiaries in late December 2018, another operating and reportable segment was identified – the Gold production of Chukotka region. This new segment consists of three companies, namely Valunisty (VAL), Kanchalano-Amguemskaya Square (KAS) and Severo-Vostochnaya Gorno-Geologicheskaya Company (Kayen), All three companies operate in the same region and have similar economic characteristics. They produce gold and silver and perform exploration work with the aim of extending their reserves base.

The Polymetallic concentrate production segment, namely Novoshirokinskoye (Novo), is analysed by management separately due to the fact that the nature of its activities differs from the gold production process.

The Development and exploration segment contains entities which hold licences in the development and exploration stage: Kekura, Klen, Taseevskoye, Unkurtash, Lyubov, and related service entities: Zabaykalzolotoproyekt (ZZP) and BSC.

Head office, management company and other non-operating companies have been aggregated to form the Other reportable segment.

Segment performance is evaluated based on EBITDA (defined as operating profit excluding depreciation and amortisation, impairment losses or reversal of impairment, movement in ore stockpiles obsolescence allowance, movement in raw materials and consumables obsolescence allowance and gain on settlement of contingent consideration). The Development and exploration segment is evaluated based on the LOM models with reference to the capital expenditure spent during the reporting period.

The following tables present revenue, EBITDA and other segment information for the Group's reportable segments. The segment information is reconciled to the Group's profit after tax for the year. Finance income and costs, income tax and foreign exchange gains and losses are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 4 of these consolidated financial statements.

Revenue from several customers was greater than 10% of total revenue.

In 2019 the gold and silver revenue reported in the Gold production segment of Khabarovsk region was received from sales to Gazprombank in the amount of US$166.1 million (2018: US$196.6 million), to Sberbank in the amount of US$54.6 million (2018: no sales to Sberbank) and to MOEX in the amount of US$4.7 million (2018: no sales to MOEX) in the territory of the Russian Federation.

In 2019 the gold and silver revenue reported in the Gold production segment of Chukotka region was received from sales to Gazprombank in the amount of US$40.1 million in the territory of the Russian Federation.

In 2019 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US$48.9 million was received from sales to Kazzinc (2018: US$40.0 million) in the territory of the Republic of Kazakhstan and to Hyosung TNC in the territory of the People's Republic of China in the amount of US$79.3 million (2018: Hyosung and Trafigura corporation in the territory of the People's Republic of China in the amount of US$72.8 million and Hyosung TNC in the territory of South Korea in the amount of US$1.0 million).

Other third-party revenues in both 2019 and 2018 were received in the territory of the Russian Federation.

Inter-segment revenues mostly represent management services.

7. Segment information *continued*

Year ended 31 December 2019	Gold production of Khabarovsk region US$000	Gold production of Chukotka region US$000	Polymetallic concentrate production segment US$000	Development and exploration US$000	Other US$000	Eliminations US$000	Total US$000
Revenue							
Gold sales	224,348	35,996	–	–	–	–	260,344
Silver sales	1,075	4,103	–	–	–	–	5,178
Concentrate sales (7.1)	–	–	128,245	–	–	–	128,245
Other third-party sales	84	1,135	325	–	75	–	1,619
Inter-segment sales	42	–	–	–	399	(441)	–
Total revenue	225,549	41,234	128,570	–	474	(441)	395,386
Cost of sales	129,145	28,116	56,934	190	179	(258)	214,306
Segment EBITDA	121,314	17,353	86,581	(1,999)	(676)	–	222,573
Unallocated							(17,494)
Consolidated EBITDA							205,079
Other segment information							
Depreciation	(27,747)	(4,017)	(16,177)	(7)	(900)	–	(48,848)
Movement in ore stockpiles obsolescence allowance	(7,463)	(4,534)	–	–	–	–	(11,997)
Movement in raw materials and consumables obsolescence allowance	(135)	(669)	62	–	–	–	(742)
Individual impairment of property, plant and equipment and mine assets	(236)	–	–	–	–	–	(236)
Reversal of impairment related to cash-generating units	–	–	–	18,227	–	–	18,227
Finance costs, net							(1,966)
Foreign exchange gain, net							(786)
Profit before income tax							158,731
Income tax							19,063
Profit for the year							177,794
Segment assets at 31 December 2019							
Non-current assets	179,577	75,568	153,821	727,588	6,064	–	1,142,618
Capital expenditure (7.2)							
Goodwill	9,691	5,848	5,134	42,978	–	–	63,651
Other non-current assets	9,574	7,789	3,403	9,559	888	–	31,213
Current assets (7.3)	73,927	35,613	53,278	6,162	29,339	(21,805)	176,514
Total assets							1,413,996
Capital expenditure – additions in 2019 (7.4), including:	36,413	4,709	11,951	57,419	348	–	110,840
Stripping activity assets	8,186	752	–	–	–	–	8,938
Capitalised bank interest	–	–	–	10,319	–	–	10,319
Unpaid/(settled) accounts payable	1,539	310	(997)	1,452	4	–	2,308
Cash capital expenditure	26,688	3,647	12,948	45,648	344	–	89,275

7. Segment information *continued*

Year ended 31 December 2018	Gold production of Khabarovsk region US$000	Gold production of Chukotka region US$000	Polymetallic concentrate production segment US$000	Development and exploration US$000	Other US$000	Eliminations US$000	Total US$000
Revenue							
Gold sales	195,138	–	–	–	–	–	195,138
Silver sales	1,440	–	–	–	–	–	1,440
Concentrate sales (7.1)	–	–	113,806	–	–	–	113,806
Other third-party sales	414	–	287	–	68	–	769
Inter-segment sales	61	–	–	–	–	(61)	–
Total revenue	197,053	–	114,093	–	68	(61)	311,153
Cost of sales	126,735	–	50,929	484	74	–	178,222
Segment EBITDA	94,201	–	75,254	(364)	(356)	–	168,735
Unallocated							(15,675)
Consolidated EBITDA							153,060
Other segment information							
Depreciation	(26,464)	–	(15,756)	(5)	(79)	–	(42,304)
Movement in ore stockpiles obsolescence allowance	(722)	–	–	–	–	–	(722)
Movement in raw materials and consumables obsolescence allowance	–	–	(45)	–	–	–	(45)
Individual impairment of property, plant and equipment and mine assets	(531)	–	–	(272)	–	–	(803)
Finance costs, net							(1,772)
Foreign exchange gain, net							834
Profit before income tax							108,248
Income tax							(52,164)
Profit for the year							56,084
Segment assets at 31 December 2018							
Non-current assets							
Capital expenditure (7.2)	171,544	73,361	157,549	656,111	1,051	–	1,059,616
Goodwill	9,691	5,848	5,134	42,978	–	–	63,651
Other non-current assets	4,981	4,886	845	5,847	508	–	17,067
Current assets (7.3)	64,063	25,523	39,481	3,637	24,391	(10,321)	146,774
Total assets							1,287,108
Capital expenditure – additions in 2018 (7.4), including:	25,613	73,361	14,087	29,709	706	–	143,476
Stripping activity assets	1,304	–	–	–	–	–	1,304
Capitalised bank interest	–	–	–	5,633	–	–	5,633
Unpaid/(settled) accounts payable	(1,122)	–	390	1,604	(41)	–	831
Acquisition of subsidiaries	–	73,361	–	–	–	–	73,361
Cash capital expenditure	25,431	–	13,697	22,472	747	–	62,347

7. Segment information *continued*

7.1. Concentrate sales for the year ended 31 December 2019 comprise US$122.5 million of IFRS 15 revenue based on initial invoices, a positive provisional price adjustment of US$5.3 million which represents changes in the fair value of the provisional pricing feature in the trade receivables of 2019 and a positive price adjustment of US$0.5 million related to 2018 sales.

Concentrate sales for the year ended 31 December 2018 comprise US$118.8 million of IFRS 15 revenue based on initial invoices, a negative provisional price adjustment of US$4.5 million which represents changes in the fair value of the provisional pricing feature in the trade receivables of 2019 and a negative price adjustment of US$0.5 million related to 2017 sales.

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

7.3. Current assets at 31 December 2019 include corporate cash and cash equivalents of US$42.9 million, inventories of US$81.4 million, trade and other receivables of US$46.5 million and other assets of US$5.7 million.

Current assets at 31 December 2018 include corporate cash and cash equivalents of US$38.7 million, inventories of US$70.5 million, trade and other receivables of US$33.1 million and other assets of US$4.5 million. Eliminations relate to intercompany accounts receivable.

7.4. Capital expenditure – additions in 2019 – includes additions to property, plant and equipment of US$94.1 million (Note 17), less addition of right-of-use assets of US$1.7 million, plus capitalised interest of US$10.3 million (Note 17), including cash interest expense of US$9.6 million, US$0.6 million of modification effect and US$0.1 million of capitalised upfront commission, and prepayments previously made for property, plant and equipment of US$8.0 million.

Capital expenditure – additions in 2018 – includes additions to property, plant and equipment of US$63.6 million (Note 17), capitalised interest of US$5.6 million (Note 17), including cash interest expense of US$7.2 million, less US$1.7 million of modification effect, plus US$0.1 million of capitalised upfront commission, acquisition of subsidiaries of US$73.4 million and prepayments previously made for property, plant and equipment of US$0.9 million.

Non-current assets in 2019 are located in the Russian Federation (US$1,189.5 million) and in the Kyrgyz Republic (US$47.9 million). Non-current assets in 2018 are located in the Russian Federation (US$1,094.3 million) and in the Kyrgyz Republic (US$46.0 million). Current assets in 2019 and 2018 are located in the Russian Federation.

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		Other		Total	
	2019 US$000	2018 US$000	**2019 US$000**	2018 US$000	**2019 US$000**	2018 US$000
Audit of the Group financial statements	**474**	462	**–**	–	**474**	462
Interim review of the Group financial statements	**110**	110	**–**	–	**110**	110
Other non-audit services	**11**	30	**–**	–	**11**	30
Local statutory audits for subsidiaries	**11**	16	**102**	43	**113**	59
	606	618	**102**	43	**708**	661

9. Revenue

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

	2019 US$000	2018 US$000
Gold sales	**260,344**	195,138
Concentrate sales (Note 7)	**128,245**	113,806
Silver sales	**5,178**	1,440
Other sales	**1,619**	769
Total revenue	**395,386**	311,153

10. Cost of sales

	2019 US$000	2018 US$000
Operating costs	66,021	34,630
Movement in ore stockpiles and gold in progress	(21,748)	(1,038)
Movement in finished goods	(1,168)	(741)
Capitalised to stripping activity assets	(8,938)	(1,304)
Employee benefits expense	62,583	47,439
Depreciation, depletion and amortisation	48,848	42,304
Raw materials and consumables used	47,680	39,494
Taxes other than income tax	21,005	17,438
Total cost of sales	214,283	178,222

Taxes other than income tax include mineral extraction tax, property tax and transport tax.

11. Administrative expenses

	2019 US$000	2018 US$000
Management company administrative expenses	14,185	11,617
Salaries and wages of the parent company	1,654	1,635
Legal and professional fees	1,258	1,780
Auditors' remuneration (Note 8)	708	661
Travel expenses of the parent company	304	237
Bank charges	155	134
Lease payments	19	844
Other administrative expenses	453	255
Total administrative expenses	18,736	17,163

12. Other operating expenses, net

	2019 US$000	2018 US$000
Movement in ore stockpiles obsolescence allowance (12.1, Note 21)	11,997	722
Mine properties and property, plant and equipment write-off (Note 17)	2,026	235
Donations to local communities	1,676	1,370
Movement in raw materials and consumables obsolescence allowance (Note 21)	742	45
Mineral extraction tax correction and tax penalties	365	(1,088)
Individual impairment of property, plant and equipment and mine assets (12.2, Note 17)	236	803
Loss on disposal of inventory	210	931
Loss on disposal of property, plant and equipment	131	–
Allowance for expected credit losses (12.3)	120	2,577
Other operating expenses, net	1,608	987
Total other operating expenses, net	19,111	6,582

12. Other operating expenses, net *continued*

12.1. During 2019 a portion of ore stockpiles in the amount of US$12.0 million was written down (2018: US$0.7 million).

12.2. At 31 December 2019 it was determined that the recoverable amounts of some non-current assets were lower than their carrying amounts. The individual impairments for the year ended 31 December 2019 totalled US$0.2 million relating to BG construction in progress assets (2018: US$0.8 million, including US$0.5 million relating to negative drilling results at the Medvezhye exploration asset (MNV) and US$0.3 million relating to the Kekura construction in progress asset).

12.3. In 2018, a prepayment relating to capital development at Novo was impaired for US$2.4 million.

13. Foreign exchange gains and losses

The total amount of foreign exchange loss for the year ended 31 December 2019 was US$0.8 million (2018: gain of US$0.8 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 (RUB) and British pounds (GBP) into the functional currency of the respective Group entities.

14. Finance costs, net

	2019 US$000	2018 US$000
Accretion expense on site restoration provision (Note 26)	**2,077**	1,500
Interest expense on bank loans	**–**	400
Interest expense on lease liabilities	**365**	223
Bank interest receivable	**(475)**	(350)
Other finance income	**(1)**	(1)
Total finance costs, net	**1,966**	1,772

15. Income tax

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 US$000	2018 US$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	**37,313**	20,166
Withholding tax on dividends	**11,431**	13,704
	48,744	33,870
Deferred income tax:		
Related to (reversal)/origination of temporary differences	**(67,807)**	18,294
Income tax (credit)/expense reported in the statement of comprehensive income	**(19,063)**	52,164

The majority of the Group entities are Russian tax residents.

Withholding tax on dividends represents 15% of dividends paid by Russian subsidiaries to the holding company.

There are no tax amounts recognised directly in equity in 2019 and 2018.

15. Income tax *continued*

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by the Russian statutory tax rate of 20% for the years ended 31 December 2019 and 2018 is as follows:

	2019 US$000	2018 US$000
Accounting profit before income tax	158,731	108,248
At Russian statutory income tax rate of 20%	31,746	21,650
Non-deductible expenses	2,481	2,135
Effect of translation of tax base denominated in foreign currency	(15,936)	16,698
Withholding tax on dividends	11,431	13,704
Lower tax rates on overseas income	4,358	(2,718)
Effect of migration of Kekura and Klen to ASEZ*	(52,930)	–
Unrecognised/(recognised) losses	622	(185)
Adjustments in respect of prior year deferred tax	(1,974)	–
Loss from other unrecognised temporary differences	1,139	880
Income tax (credit)/expense at the effective tax rate* of 14% (2018: 36%)	(19,063)	52,164
Income tax (credit)/expense reported in the consolidated statement of comprehensive income	(19,063)	52,164

* *In July 2019 the Group signed an agreement with Russia's Far East Development Corporation officially confirming residency in the Chukotka Advanced Special Economic Zone (ASEZ) for Kekura and Klen projects. As residents in the ASEZ, Kekura and Klen will be subject to zero or reduced income tax, mineral extraction tax, land rental, land tax and property tax over the first five to ten years of operations. They will also pay a unified social tax on payroll of 7.6% versus the statutory rate of 30.0%, and be entitled to an expedited refund process for value added tax expenses. This has resulted in a release of US$52.9 million for the year ended 31 December 2019.*

The effective tax rate was calculated based on income tax expense adjusted for lower tax rates for residents of ASEZ and withholding tax on dividends. The effect of translation of tax base denominated in foreign currency reflects future tax revaluation of RUB (appreciation)/depreciation against USD.

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit.

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Acquisition of Valunisty	Consolidated statement of comprehensive income	
	2019 US$000	2018 US$000	2018 US$000	2019 US$000	2018 US$000
Deferred income tax liability					
Property, plant and equipment	(93,456)	(163,287)	(13,673)	(69,831)	11,481
Inventory	(3,152)	(5,692)	–	(2,540)	2,392
Trade and other receivables	(348)	(727)	–	(379)	(285)
Deferred financing costs	(221)	(364)	–	(143)	311
	(97,177)	(170,070)	(13,673)	(72,893)	13,899
Deferred income tax asset					
Trade and other receivables	–	–	–	–	96
Lease liabilities	1,298	433	–	(865)	169
Trade and other payables	1,045	767	–	(278)	650
Tax losses	31,578	37,807	8,389	6,229	3,480
	33,921	39,007	8,389	5,086	4,395
Net deferred income tax liability	(63,256)	(131,063)	(5,284)	(67,807)	18,294

15. Income tax *continued*

Reconciliation to the statement of financial position is presented below:

	2019 US$000	2018 US$000
Deferred income tax asset	3,584	2,163
Deferred income tax liability	(66,840)	(133,226)
Net deferred income tax liability	**(63,256)**	(131,063)

No deferred tax benefits are recognised in relation to site restoration provisions and obsolescence allowances. 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 2019 is US$37.1 million (31 December 2018: US$20.2 million).

No deferred tax benefit is recognised in relation to the allowance 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 allowance at 31 December 2019 is US$20.2 million (31 December 2018: US$30.8 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 2019 is US$25.9 million (31 December 2018: US$22.8 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

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$600.3 million (2018: US$476.6 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 not probable that the temporary differences will reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences could be up to US$90.4 million (2018: up to US$71.5 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2019 and 2018 years of assessment will be subject to Jersey tax at the standard corporate income tax 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, for no consideration, on the exercise of share options into ordinary shares. There is no effect of dilution in 2019 and 2018.

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

	2019 US$000	2018 US$000
Net profit attributable to ordinary equity holders of the parent	177,190	56,040

	Thousands	Thousands
Weighted average number of ordinary shares	363,874	363,843

The share capital comprises only one class of ordinary shares, which carry a voting right and the right to a dividend.

There are no restrictions on the distribution of dividends and the repayment of capital.

17. Mine properties, exploration and evaluation assets, and property, plant and equipment

	Exploration and evaluation assets US$000	Mine assets US$000	Stripping activity assets US$000	Buildings US$000	Plant and equipment US$000	Construction in progress US$000	Total US$000
Cost							
At 31 December 2018	**93,503**	**848,688**	**18,785**	**233,402**	**260,477**	**91,159**	**1,546,014**
Recognition of right-of-use assets (Note 3)	–	–	–	2,319	–	–	2,319
At 1 January 2019	**93,503**	**848,688**	**18,785**	**235,721**	**260,477**	**91,159**	**1,548,333**
Additions	8,380	20,961	8,938	1,691	239	53,852	94,061
Transfers	613	5,414	–	5,045	17,288	(28,360)	–
Write-off (17.1)	(798)	(315)	–	(1,525)	(8,517)	–	(11,155)
Disposals	(12)	–	–	(24)	(2,110)	(146)	(2,292)
Capitalised depreciation	376	4,904	–	–	–	2,124	7,404
Capitalised interest (17.2)	–	10,319	–	–	–	–	10,319
Change in estimation – site restoration asset (17.3)	–	11,447	–	–	–	–	11,447
Other movements	–	191	–	–	206	(1,170)	(773)
At 31 December 2019	**102,062**	**901,609**	**27,723**	**240,908**	**267,583**	**117,459**	**1,657,344**
Depreciation and impairment							
At 31 December 2018	**531**	**207,346**	**10,411**	**106,139**	**160,109**	**1,862**	**486,398**
Provided during the year	–	24,246	2,521	6,696	15,385	–	48,848
Transfers	–	888	–	(888)	–	–	–
Write-off (17.1)	–	(232)	–	(772)	(8,125)	–	(9,129)
Disposals	–	–	–	(17)	(1,890)	–	(1,907)
Capitalised depreciation	–	2	–	3,267	4,135	–	7,404
Reclass to inventory	–	3	–	389	711	–	1,103
Impairment	–	–	–	–	–	236	236
Reversal of impairment (Note 19)	–	(14,016)	–	(2,064)	(778)	(1,369)	(18,227)
At 31 December 2019	**531**	**218,237**	**12,932**	**112,750**	**169,547**	**729**	**514,726**
Net book value							
At 31 December 2018	**92,972**	**641,342**	**8,374**	**127,263**	**100,368**	**89,297**	**1,059,616**
At 31 December 2019	**101,531**	**683,372**	**14,791**	**128,158**	**98,036**	**116,730**	**1,142,618**

17. Mine properties, exploration and evaluation assets, and property, plant and equipment *continued*

	Exploration and evaluation assets US$000	Mine assets US$000	Stripping activity assets US$000	Buildings US$000	Plant and equipment US$000	Construction in progress US$000	Total US$000
Cost							
At 31 December 2017	**88,926**	**768,181**	**19,724**	**218,474**	**237,103**	**76,852**	**1,409,260**
Additions	5,742	18,106	1,304	–	1,106	37,349	63,607
Transfers	(3,210)	13,310	–	574	13,850	(24,524)	–
Write-off (17.1)	–	–	(2,243)	(602)	(3,609)	–	(6,454)
Disposals	–	–	–	(261)	(1,005)	(422)	(1,688)
Capitalised depreciation	256	5,791	–	–	–	1,026	7,073
Capitalised interest (17.2)	–	5,633	–	–	–	–	5,633
Change in estimation – site restoration asset (17.3)	–	(4,731)	–	–	–	–	(4,731)
Acquisition of subsidiaries	1,789	42,398	–	15,217	13,138	819	(73,361)
Other movements	–	–	–	–	(106)	59	(47)
At 31 December 2018	**93,503**	**848,688**	**18,785**	**233,402**	**260,477**	**91,159**	**1,546,014**
Depreciation and impairment							
At 31 December 2017	**–**	**191,223**	**8,647**	**96,375**	**145,302**	**1,590**	**443,137**
Provided during the year	–	16,403	4,007	5,955	15,939	–	42,304
Transfers	–	(888)	–	888	–	–	–
Write-off (17.1)	–	–	(2,243)	(596)	(3,380)	–	(6,219)
Disposals	–	–	–	(236)	(857)	–	(1,093)
Capitalised depreciation	–	605	–	3,363	3,105	–	7,073
Reclass to inventory	–	3	–	390	–	–	393
Impairment	531	–	–	–	–	272	803
At 31 December 2018	**531**	**207,346**	**10,411**	**106,139**	**160,109**	**1,862**	**486,398**
Net book value							
At 31 December 2017	**88,926**	**576,958**	**11,077**	**122,099**	**91,801**	**75,262**	**966,123**
At 31 December 2018	**92,972**	**641,342**	**8,374**	**127,263**	**100,368**	**89,297**	**1,059,616**

17.1. Write-off for 2019 in the amount of US$1.2 million (2018: US$0.2 million) relates to retirement of old inefficient equipment and some buildings. Write-off for 2019 in the amount of US$0.8 million relates to exploration assets at Evgraf area (Lyubov) that are not expected to provide future economic benefits.

17.2. Borrowing costs capitalised to Kekura mine assets in 2019 amounted to US$10.3 million (2018: US$5.6 million). They consist of US$9.6 million (2018: US$7.2 million) of interest as per agreement, plus the modification effect of US$0.6 million (2018: less US$1.7 million), plus the capitalised upfront commission of US$0.1 million (2018: plus US$0.1 million). The modified effective interest rates in 2019 were between 3.78% and 4.72% compared to actual effective interest rates as per agreements between 3.62% and 3.77% (2018: modified effective interest rates were between 3.42% and 6.2% compared to actual effective interest rates as per agreements between 3.42% and 4.64%).

17.3. In 2019 and 2018 there was a change in the rehabilitation estimate associated with the change in volumes of expected site restoration activities, discount and inflation rates. The net present value of the increase in the cost estimate booked as an increase to mine assets and non-current provisions in 2019 is US$11.4 million: increase of US$3.6 million at MNV, increase of US$3.6 million at Novo, increase of US$1.2 million at BG, increase of US$1.7 million at Valunisty, increase of US$1.2 million at Kekura and increase of US$0.1 million at Klen (2018: US$4.7 million booked as a decrease to mine assets and non-current provisions – decrease of US$3.5 million at MNV, decrease of US$0.6 million at Novo, decrease of US$0.7 million at BG, decrease of US$0.1 million at Klen and increase of US$0.2 million at Kekura).

17. Mine properties, exploration and evaluation assets, and property, plant and equipment *continued*

Set out below are the carrying amounts of right-of-use assets recognised under IFRS 16 Leases and the movements during the period:

	Office US$000	Hotel and apartments US$000	Equipment US$000	Total US$000
At 31 December 2018	**–**	**–**	**3,244**	**3,244**
Recognition of right-of-use assets (Note 3)	2,319	–	–	2,319
At 1 January 2019	**2,319**	**–**	**3,244**	**5,563**
Additions	1,568	123	–	1,691
Depreciation expense	(740)	(30)	(582)	(1,352)
At 31 December 2019	**3,147**	**93**	**2,662**	**5,902**

The carrying amounts of lease liabilities and the accretion of interest during the period are presented in Notes 14, 25 and 31.

No plant and equipment has been pledged as security for bank loans in 2019 and 2018.

Mine properties in the consolidated statement of financial position comprise mine assets and stripping activity assets.

Property, plant and equipment in the consolidated statement of financial position comprise buildings, plant and equipment and construction in progress.

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:

	2019 US$000	2018 US$000
Operating expenses	**(87)**	(354)
Net cash used in investing activities	**8,796**	3,336

18. Goodwill

Goodwill arises principally because of the following factors:

» the ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing mines in our regional business units, and

» the requirement to recognise deferred tax assets and liabilities for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value.

At 31 December 2019, goodwill allocated to the following groups of CGUs was as follows (discussion of impairment testing for these CGUs is included in Note 19):

	2019 US$000	2018 US$000
Goodwill allocated to the operating gold mining asset (MNV)	**9,691**	9,691
Goodwill allocated to the operating gold mining asset (Valunisty)	**5,848**	5,848
Goodwill allocated to the polymetallic mining asset (Novo)	**5,134**	5,134
Goodwill allocated to the group of development and exploration assets (Taseevskoye, Unkurtash and Lyubov)	**42,978**	42,978
Balance at 31 December	**63,651**	63,651

19. Impairment testing of non-current assets

In accordance with accounting policies and processes, each asset or CGU is evaluated annually at 31 December to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed. Notwithstanding whether indicators exist, recoverability of goodwill allocated to CGUs (Note 18) is tested annually.

Management has determined the recoverable amounts in 2019 and 2018 using fair value less costs of disposal (FVLCD) calculations. FVLCD is determined at the CGU level, in this case being the separate gold production and development and exploration assets (Taseevskoye, Unkurtash and Lyubov), by discounting the expected cash flows estimated by management over the life of the mine:

» MNV, including Blagodatnoye – 2032 (31 December 2018: 2034);
» BG, including Blagodatnoye – 2033 (31 December 2018: 2034);
» Novo – 2033 (31 December 2018: 2033);
» Klen – 2032 (31 December 2018: 2031);
» Kekura – 2038 (31 December 2018: 2038);
» Taseevskoye – 2031 (31 December 2018: 2030);
» Unkurtash – 2039 (31 December 2018: 2038);
» Lyubov – 2030 (31 December 2018: 2029);
» Valunisty, KAS and Kayen – 2030 (31 December 2018: 2029).

The calculation of the FVLCD is sensitive to the following assumptions:

» recoverable reserves and resources, which are based on the proven and probable reserves and a portion of resources expected to be converted into reserves in existence at the end of the year;
» estimated production volumes, which are based on detailed LOM plans and take into account development plans for the mines approved by management as part of the long-term planning process;
» real discount rates that represent the current market assessment of the risks specific to each project, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in cash flow estimates;
» metal prices and foreign exchange rates, which are based on management judgement with reference to well-known analysts' forecasts;
» capital expenditure; and
» operating costs, which are based on management's best estimate over the life of the mine.

The table below shows the key assumptions used in the fair value calculation at 31 December 2019 and 2018.

	2019	2018
Post-tax discount rates for cash flows		
Operating gold mining company (MNV), %	5.58	6.81
Operating gold mining company (BG), %	6.58	7.81
Operating gold mining company (VAL), %	7.58	–
Polymetallic mining company (Novo), %	5.58	6.81
Gold mining company being at development stage (Klen), %	7.58	8.81
Gold mining company being at development stage (Taseevskoye), %	7.58	8.81
Gold mining company being at development stage (Kekura), %	7.58	8.81
Gold mining company being at exploration stage (Unkurtash), %	7.58	8.81
Gold mining company being at exploration stage (Lyubov), %	7.58	8.81
Metal prices		
Gold price, US$ per ounce in year 1	1,484	1,250
Gold price, US$ per ounce in year 2	1,536	1,300
Gold price, US$ per ounce in year 3 and beyond	1,375	1,300
Silver price, US$ per ounce in year 1	18	15
Silver price, US$ per ounce in year 2 and beyond	19	17
Lead price, US$ per tonne in year 1	2,008	1,990
Lead price, US$ per tonne in year 2 and beyond	1,874	1,920
Zinc price, US$ per tonne in year 1	2,320	2,430
Zinc price, US$ per tonne in year 2 and beyond	2,350	2,370

19. Impairment testing of non-current assets *continued*

In July 2019 Kekura and Klen have been granted certain tax benefits and other incentives for residents within the Chukotka Advanced Special Economic Zone (ASEZ), a programme designed to encourage investment in the region. Removal of the ASEZ assumption from the cash flow model would result in an impairment charge.

As a result of the recoverable amount analysis performed during the year, reversal of impairment amounting to US$18.2 million was recognised in the consolidated statement of comprehensive income in respect of Kekura non-current assets in 2019 (2018: no impairment reversal or losses). The main triggers were substantial progress with the development programme, stronger gold prices and lower tax rates for Kekura as resident of ASEZ. The recoverable amount determined was US$638.4 million. The reversal of impairment increased the book value of mine properties and property, plant and equipment and is attributable to the Development and exploration segment.

A more than 18% (1.16 p.p.) increase in the post-tax discount rate, 7% decrease in long-term gold price, 4% decrease in the foreign exchange rate or a significant increase in operating or capital costs at Belaya Gora (BG), would result in an impairment charge.

For impairment of property, plant and equipment and intangible assets, fair value less costs of disposal are determined by discounting the post-tax cash flows expected to be generated from future gold production net of selling costs taking into account assumptions that market participants would typically use in estimating fair values. These estimates are categorised within Level 3 of the fair value hierarchy. Post-tax cash flows are derived from projected production profiles for each asset taking into account forward market commodity prices over the relevant period and, where external forward prices are not available, the Group's Board-approved LOM model assumptions are used. As each asset has different reserve and resource characteristics and contractual terms, the post-tax cash flows for each asset are calculated using individual economic models which include assumptions around the amount of recoverable reserves, production costs, Life of Mine/licence period and the selling price of the gold produced.

20. Other non-current assets

	2019 US$000	2018 US$000
Non-current prepayments	19,028	9,279
Other non-current assets	2,859	3,059
Total other non-current assets	**21,887**	12,338

Non-current prepayments include advances issued to suppliers for equipment and construction works.

Other non-current assets include US$2.6 million (2018: US$2.8 million) of indemnity from Aristus Holdings Limited, the seller of the companies acquired in 2018 (Note 6), in respect of probable tax and environmental risks, which represents a receivable from a related party. The corresponding liabilities are accounted for within non-current income tax payable and non-current provisions (Note 27).

21. Inventories

	2019 US$000	2018 US$000
Ore stockpiles	36,130	21,072
Ore stockpile obsolescence allowance (21.1)	(30,388)	(18,506)
Total non-current inventories	**5,742**	2,566

21. Inventories *continued*

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.

	2019 US$000	2018 US$000
Raw materials and consumables	61,053	59,382
Ore stockpiles	20,532	14,774
Gold in progress	9,544	6,424
Finished goods	3,369	2,129
	94,498	82,709
Raw materials and consumables obsolescence allowance (21.2)	(12,992)	(12,250)
Ore stockpile obsolescence allowance (21.1)	(115)	–
Total current inventories	81,391	70,459

As at 31 December 2018, certain reclassifications mostly related to Valunisty were made between line items within current inventories.

21.1. Stockpiled low-grade ore is tested for impairment semi-annually. Movement in ore stockpile obsolescence allowance in 2019 amounted to US$7.5 million at BG (2018: increase by US$0.7 million) and US$4.5 million at Valunisty.

21.2. Movement in raw materials and consumables obsolescence allowance amounted to US$0.7 million in 2019, related to Valunisty (2018: US$0.04 million).

No inventory has been pledged as security.

22. Trade and other receivables

	2019 US$000	2018 US$000
Trade receivables	21,677	17,718
VAT receivable	21,109	10,775
Other taxes receivable	77	125
Other receivables	2,094	1,351
Total trade and other receivables	44,957	29,969

At 31 December 2019, trade receivables include US$1.2 million measured at fair value through profit or loss upon recognition, Level 2 of fair value hierarchy (2018: US$1.5 million). Other trade receivables are measured at amortised cost.

At 31 December 2019 and 2018, there were no material trade and other receivables which were past due or individually determined to be impaired. Management of the Group believes that these amounts are fully recoverable. Other receivables are non-interest bearing and are generally on 30-90 day terms.

The VAT allowance 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 allowance is recognised within other operating expenses.

23. Cash and cash equivalents

Cash at bank earns interest at fixed rates based on daily bank deposit rates. The fair value of cash and cash equivalents is equal to the carrying value.

	2019 US$000	2018 US$000
Cash in hand and at bank	17,129	8,291
Short-term deposits	25,790	30,445
	42,919	38,736

24. Issued capital and reserves

Issued capital

Authorised	**2019 Thousands**	2018 Thousands
Ordinary shares of £0.001 each	**750,000**	750,000

Ordinary shares issued and fully paid	**Shares**	US$000
At 31 December 2017	**325,222,098**	585
Ordinary shares issued	**38,621,343**	49
At 31 December 2018	**363,843,441**	634
Ordinary shares issued	**53,549**	–
At 31 December 2019	**363,896,990**	634

In December 2018, the Group issued 38,621,343 ordinary shares of £0.001 each to Aristus Holdings Limited (Note 6). As a result, the number of issued shares increased to 363,843,441. In June 2019, the Group issued 53,549 ordinary shares of £0.001 each under the Scrip Dividend alternative (Note 32). As a result, the number of issued shares increased to 363,896,990.

Share premium

The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

Assets revaluation reserve

The assets 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.

25. Interest-bearing loans, lease liabilities

		Average nominal rate, %	Effective interest rate under IFRS 9, %	Maturity	**2019 US$000**	2018 US$000
Revolving facilities (USD)						
Sberbank	25.1	3.70%	3.70%	2023	**146,500**	20,000
Alfa-Bank	25.1	3.87%	3.87%	2024	**43,000**	–
UniCredit		4.80%	4.80%	2023	**25,000**	25,000
Rosbank	25.2	3.05%	3.05%	2025	**25,000**	33,000
Raiffeisen	25.2	3.97%	3.97%	2019	**–**	24,630
Gazprombank	25.2	5.55%	5.55%	2019	**–**	7,329
Expobank	25.2	5.00%	5.00%	2019	**–**	9,770
					239,500	119,729
Modified bank loans (USD)						
UniCredit (modified)	25.3	3.62%	3.78%	2020	**12,979**	94,149
Raiffeisen (modified)	25.3	3.77%	4.72%	2024	**34,352**	32,485
					47,331	126,634
Subsidised bank loans (RUB)						
Sberbank	25.4	1.50%	1.50%	2020-2022	**1,193**	1,488
					1,193	1,488
Total interest-bearing loans					**288,024**	247,851
Less: current portion of interest-bearing loans					**(13,456)**	(94,177)
Non-current interest-bearing loans					**274,568**	153,674

25. Interest-bearing loans, lease liabilities *continued*

25.1. In August and September 2019, the Group raised financing with Sberbank in the amount of US$126.5 million. In August and December 2019, the Group raised financing with Alfa-Bank in the amount of US$43.0 million.

25.2. In August 2019, the Group repaid US$8.0 million under the revolving facility signed with Rosbank in September 2017. In September 2019, the Group repaid US$24.6 million under the revolving facility signed with Raiffeisen Bank in September 2018. In March 2019, the Group repaid in advance of maturity US$17.1 million of credit facilities with Gazprombank and Expobank.

25.3. During 2019, the Group repaid US$82.8 million of credit facilities with UniCredit. The remaining effect of loan modification recognised as at 1 January 2018 upon adoption of IFRS 9 amounts to US$0.02 million at 31 December 2019 (31 December 2018: US$1.6 million). In March 2019, the Group repaid US$11.0 million and raised new financing of US$13.8 million with Raiffeisen Bank. In September 2019, the terms were modified: the interest rate decreased to 3.77% and maturity was extended from 2022 to 2024. The effect of loan modification, which is the difference between the present value of the modified cash flows discounted using the original effective interest rate and the present value of the original cash flows, amounts to US$1.0 million at 31 December 2019 (31 December 2018: US$0.1 million).

25.4. The effective rate of 1.50% under subsidised bank loans with Sberbank is lower than the RUB-based interest rate of 8.75%, given the compensation received from the Belarusian government.

	Average borrowing rate during the reporting year, %	Maturity	2019 US$000	2018 US$000
Lease liabilities				
Office lease in RUB	6.29%-8.03%	2022-2024	**3,451**	–
Buildings and machinery lease in RUB	7.88%-15.61%	2021-2025	**452**	568
Machinery lease in USD	6.45%-7.94%	2020-2022	**1,160**	1,750
Total lease liabilities			**5,063**	2,318
Less: current portion of lease liabilities			**(1,686)**	(760)
Non-current lease liabilities			**3,377**	1,558

The maturity analysis of lease liabilities is disclosed in Note 30. Carrying values of interest-bearing loans and lease liabilities approximate their fair values.

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining certain financial ratios:

» the ratio of net debt to EBITDA should not exceed 3.5;
» the ratio of EBITDA to interest expense should be at or above 4.0;
» the ratio of net debt to equity should be lower than 0.6.

As at 31 December 2019, the Group was in compliance with all restrictive financial and other covenants contained in its loan agreements.

26. Trade and other payables

	2019 US$000	2018 US$000
Non-current portion of pension liabilities	376	355
Total non-current payables	**376**	355

	2019 US$000	2018 US$000
Announced but unpaid dividends	23,838	20,879
Salaries payable	12,998	9,159
Trade payables	12,528	8,560
Other taxes payable	7,957	5,689
Other current payables	862	1,125
Total trade and other current payables	**58,183**	45,412

Terms and conditions of current financial liabilities are as follows:

- » salaries payable include outstanding vacations, are non-interest bearing and are normally settled on 30-day terms;
- » 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, are non-interest bearing and are normally settled within 30-60 days;
- » dividends announced in December 2019 were paid in January 2020; dividends announced in December 2018 were paid in January 2019.

27. Provisions

	Site restoration provision US$000	Environmental and social provision US$000	Total US$000
At 31 December 2017	**20,830**	**–**	**20,830**
Accretion	1,500	–	1,500
Utilisation of provision	(19)	–	(19)
Effect of changes in the discount and inflation rates	(2,236)	–	(2,236)
Effect of changes in estimated costs	2,760	–	2,760
Acquisition	5,976	1,220	7,196
Effect of exchange rate changes	(5,254)	–	(5,254)
At 31 December 2018	**23,557**	**1,220**	**24,777**
Accretion	2,077	–	2,077
Utilisation of provision	(31)	–	(31)
Effect of changes in the discount and inflation rates	582	–	582
Effect of changes in estimated costs	6,364	–	6,364
Effect of exchange rate changes	4,501	–	4,501
At 31 December 2019	**37,050**	**1,220**	**38,270**

27. Provisions *continued*

Site restoration provision

In 2019 the Group performed a re-assessment of the site restoration provision. The assessments were based on government requirements applicable to similar sites that have closed recently, assumptions regarding the Life of Mine and current prices for similar activities. Site restoration activities (removal of waste, restoration of mine sites) are expected to be carried out in respective periods (Note 19) at the Group's sites, in 2029 at MNV and in 2031 at Klen.

The table below shows the risk-free RUB-denominated government bonds discount rates used to calculate the site restoration provision at 31 December 2019 and 2018.

	2019	2018
MNV	6.4	7.9
BG open-pit	6.5	8.0
BG plant and infrastructure	6.5	8.1
Novo	6.5	8.7
Klen	6.4	8.7
Kekura	6.6	8.8
Valunisty, KAS, Kayen	6.4	7.9

The increase in site restoration provision in the amount of US$4.5 million was due to appreciation of RUB against USD in 2019 (2018: decrease of US$5.3 million).

The total increase in estimation of site restoration costs amounts to US$6.4 million in 2019 (2018: increase of US$2.8 million).

Environmental and social provision

The Group created an environmental and social provision at Valunisty for US$1.2 million as at 31 December 2018 following the business combination (Note 6). US$1.1 million relates to an environmental claim and US$0.1 million relates to a social claim against the Company. The environmental and social provision is fully indemnified if the payment occurs within two years after the closing date of the transaction (27 December 2018). The indemnity is currently accounted for within other non-current assets.

28. Commitments and contingencies

Capital commitments

At 31 December 2019 the Group had commitments of US$11.0 million (2018: US$8.2 million) principally relating to development assets and US$5.4 million (2018: US$3.2 million) for the acquisition of new machinery.

Contingent liabilities

Management has identified possible tax claims within the various jurisdictions in which the Group operates totalling US$0.5 million as at 31 December 2019 (2018: US$0.3 million). In management's view, these possible tax claims will likely not result in a future outflow of resources; consequently no liability is required in respect of these matters.

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.

29. Related party disclosures

Subsidiary undertakings

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	Effective shareholding, %
Held by the ultimate parent		
Stanmix Holding Limited	Cyprus	100
Highland Exploration LLC (Unkurtash)	Kyrgyzstan	100
Rudnik Valunisty LLC (VAL)	Russia	100
Kanchalano-Amguemskaya Square LLC (KAP)	Russia	100
Severo-Vostochnaya Gorno-Geologicheskaya Company LLC (Kayen)	Russia	100
Held indirectly via subsidiaries		
Mnogovershinnoye JSC (MNV)	Russia	100
Novo-Shirokinsky Rudnik JSC (Novo)	Russia	99.19*
Belaya Gora LLC (BG)	Russia	100
Lyubavinskoye LLC (Lyubov)	Russia	100
Taseevskoye LLC	Russia	100
Klen LLC	Russia	100
Bazoviye Metally JSC (Kekura)	Russia	100
Russdragmet LLC (RDM)	Russia	100
BSC LLC	Russia	100
Zabaykalzolotoproyekt LLC (ZZP)	Russia	100
RDM Trade House	Russia	100

* *Effective control is equivalent to a 99.19% direct shareholding in the subsidiary. The remaining 0.81% is held by unaffiliated individual shareholders. There are no restrictions imposed by non-controlling interests on the Group's ability to use assets and settle liabilities of the subsidiary.*

Entities with significant influence over the Group

As a result of the share issue in relation to the acquisition during the year ended 31 December 2018 (Note 6), a group of individuals and entities, considered to be acting in concert, increased its stake in the Company from 37.41% to 43.77%. These parties, and their shareholdings (direct and indirect) as of 31 December 2019, included: Mr Eugene Shvidler (12.29%), Mr Roman Abramovich (10.34%), Denalot Worldwide Limited (7.13%), Matteson Holdings Limited (4.52%), David Davidovich (3.18%), New Evolution Trading Limited (2.40%), Ms Irina Panchenko (2.32%), Mr Andrey Gorodilov (1.06%), and Mr Efim Malkin (0.53%). All of the above parties have agreed to be bound by the terms of the relationship agreement with Highland Gold entered into by parties affiliated with them in January 2008.

Among officers and Directors with substantial shareholdings, Eugene Shvidler, Executive Chairman of the Company, owned 44,714,829 shares representing 12.29% of the total issued share capital of the Company as of 31 December 2019. Through his ownership of Matteson Overseas Limited, Non-Executive Director Valery Oyf controlled 16,439,486 shares representing 4.52% of total issued share capital.

Other large shareholders unaffiliated with the parties mentioned above include Van Eck Global and affiliated entities, which held 10.66% of Highland Gold's issued shares at 31 December 2019 on behalf of three exchange-traded funds (ETFs). No other shareholder held in excess of 5% of the issued share capital of the Company.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are generally made at normal market prices and arm's length terms. There are no outstanding balances at 31 December 2019 and 2018. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2019 and 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties. 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.

29. Related party disclosures *continued*

Compensation of key management personnel of the Group

	2019 US$000	2018 US$000
Short-term employee benefits	**6,839**	5,823
Total compensation paid to key management personnel	**6,839**	5,823

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel, the Directors of the parent company and subsidiaries, including social security contributions. For detailed Directors' compensation refer to the report on Directors' remuneration.

30. 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 2019 as well as in prior years, the Group was exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces. The Group's policy is to manage these risks through the use of contract-based prices with customers. The Group continued its no hedge policy in relation to the gold price.

Provisional pricing risk

Novo as a concentrate producer and seller has contracts where price risk is retained for a specified period after the sale has occurred (Note 4).

Market price risk

The following table demonstrates the sensitivity of the provisional pricing feature within concentrate sales to a reasonably possible decrease in metal prices:

	5% price decrease impact on the provisional pricing feature	
	2019 US$000	2018 US$000
Gold	**(1,038)**	(1,053)
Silver	**(206)**	(238)
Lead	**(143)**	(259)
Zinc	**(12)**	(95)
Copper	**(73)**	(82)

Foreign currency risk

Taking into account that gold prices are formed in international markets and denominated in USD, the Group seeks to mitigate the foreign currency risk by raising its debt facilities and most of its trade liabilities denominated in USD. 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 RUB/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 RUB 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):

	Impact on profit before tax US$000	
	10% decrease in RUB rate	5% decrease in GBP rate
2018	315	(49)
2019	**(1,029)**	**(36)**

There is no other foreign currency impact on equity.

30. Financial risk management objectives and policies *continued*

Credit risk

Maximum exposure to credit risk is represented by carrying amount of financial assets. Credit risk arises from a debtor's inability to make payment of its 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 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.

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group sells the produced gold mainly to recognised, creditworthy banks, which is usually paid immediately after the sale. For remaining sales the Group trades only with recognised creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which are based on an extensive credit rating scorecard, short-term liquidity and financial position. Individual credit limits are defined in accordance with this assessment. In addition, outstanding receivable balances are regularly monitored on an ongoing basis, with the result that the Group's exposure to credit-impaired balances and bad debts is not significant.

At 31 December 2019, the Group had three customers (2018: four customers) that owed the Group more than US$21 million and accounted for 100% (2018: 99%) of trade receivables.

An impairment analysis is performed at each reporting date using an individual analysis of each counterparty to measure expected credit losses. All major customers have high levels of creditworthiness and no negative historical credit loss experience. The Group has established a provision matrix that is based on past historical credit loss experience, forward-looking factors specific to the debtors and the economic environment. As a result at the reporting date the Group did not identify any significant expected credit loss.

The maximum exposure to credit risk for trade receivables at the reporting date is the carrying value disclosed in Note 22.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only in creditworthy banks and within credit limits assigned to each subsidiary.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2019 and 2018 is their carrying amount as per the statement of financial position.

Liquidity risk

The Group monitors its risk of 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 receivable, 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, leases and hire purchase contracts.

Please refer to Note 25 for information on the financial covenants the Group is bound by.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2019 based on contractual undiscounted payments.

Year ended 31 December 2018	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	–	170,149	53,950	40,198	–	264,297
Trade and other payables	–	39,200	–	–	–	39,200
Lease liabilities	–	760	688	870	–	2,318
	–	210,109	54,638	41,068	–	305,815

Year ended 31 December 2019	**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	**–**	**34,667**	**23,547**	**270,659**	**–**	**328,873**
Trade and other payables	**–**	**49,950**	**–**	**–**	**–**	**49,950**
Lease liabilities	**–**	**1,778**	**1,561**	**1,890**	**65**	**5,294**
	–	**86,395**	**25,108**	**272,549**	**65**	**384,117**

Interest-bearing loans for the year ended 31 December 2019 with maturity of less than one year include revolving facilities secured with Rosbank and UniCredit Bank: the amount of US$10.7 million outstanding at 31 December 2019 has been presented as non-current liabilities in the consolidated statement of financial position.

30. Financial risk management objectives and policies *continued*

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 (please see the Group's dividends policy), 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 the consolidated statement of changes in equity. For information on debt financing refer to Note 25. 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. Exposure to the risk of changes in market interest rates relates primarily to long-term debt obligations with floating interest rates. The Group mitigates this risk through signing financing arrangements mostly at fixed rates. The Group's treasury function performs analysis of current interest rates and in case of changes in market fixed or floating interest rates, management may consider the refinancing of a particular debt on more favourable terms.

As at 31 December 2019 the Group has outstanding bank debt of US$288.0 million, including an IFRS 9 modification impact of US$1.0 million (2018: US$247.9 million, including an IFRS 9 modification impact of US$1.7 million).

31. Financial assets and liabilities

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:

- the carrying amounts of financial instruments, such as cash and short-term deposits, current accounts receivable and payable and other current liabilities approximate their fair value;
- fixed-rate interest-bearing loans are evaluated based on current market interest rates.

The fair value of trade receivables on provisionally priced contracts is based on quoted market prices.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The Group uses the following fair value 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: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following financial instruments measured at fair value, Level 2 of fair value hierarchy:

	2019 US$000	2018 US$000
Trade receivables	1,202	1,463

31. Financial assets and liabilities

Changes in liabilities arising from financing activities

	Interest-bearing loans US$000	Lease liabilities US$000	Other liabilities US$000	Total US$000
At 31 December 2017	**207,368**	**3,340**	**91**	**210,799**
Changes from financing cash flows:				
Proceeds from loans and borrowings	135,711	–	–	135,711
Repayment of loans and borrowings	(111,320)	–	–	(111,320)
Dividends paid to equity holders of the parent	–	–	(49,627)	(49,627)
Dividends paid to non-controlling holders of Novo	–	–	(22)	(22)
Payment under lease	–	(1,077)	–	(1,077)
Interest paid	–	(223)	(178)	(401)
Total changes from financing cash flows	**24,391**	**(1,300)**	**(49,827)**	**(26,736)**
Other changes:				
Interest accrued	–	223	7,589	7,812
Capitalised interest paid	–	–	(7,189)	(7,189)
Dividends announced	–	–	70,528	70,528
Effect of changes in foreign exchange rates	(101)	(100)	–	(201)
Acquisition of subsidiary	17,749	155	–	17,904
Other changes	(1,556)	–	–	(1,556)
Total other changes	**16,092**	**278**	**70,928**	**87,298**
At 31 December 2018	**247,851**	**2,318**	**21,192**	**271,361**
Changes from financing cash flows:				
Proceeds from loans and borrowings	248,250	–	–	248,250
Repayment of loans and borrowings	(209,019)	–	–	(209,019)
Dividends paid to equity holders of the parent	–	–	(54,355)	(54,355)
Payment under lease	–	(1,574)	–	(1,574)
Interest paid	–	(188)	–	(188)
Total changes from financing cash flows	**39,231**	**(1,762)**	**(54,355)**	**(16,886)**
Other changes:				
Interest accrued	–	364	9,723	10,087
Capitalised interest paid	–	–	(9,724)	(9,724)
Dividends announced	–	–	57,430	57,430
Effect of changes in foreign exchange rates	162	376	–	538
Other changes	780	3,767	(186)	4,361
Total other changes	**942**	**4,507**	**57,243**	**62,692**
At 31 December 2019	**288,024**	**5,063**	**24,080**	**317,167**

Other liabilities include announced but unpaid dividends and interest accrued but unpaid.

32. Dividends

The second interim dividend for the year ending 31 December 2018 in the amount of US$20.9 million was paid on 18 January 2019. The third interim dividend for the year ending 31 December 2018 in the amount of US$11.0 million was paid on 30 May 2019. Scrip Dividend elections were received with respect to 3,628,719 shares and resulted in the issue of 53,549 new ordinary shares of £0.001 each, admitted to trading on 7 June 2019.

The Group paid a first interim dividend of GBP 0.05 per share in respect of 2019 (2018: first interim dividend of GBP 0.06 per share) which resulted in an aggregate interim dividend payment of US$22.5 million (2018: US$25.5 million). The first interim dividend was paid on 24 September 2019.

The Group paid a second interim dividend of GBP 0.05 per share in respect of 2019 (2018: second interim dividend of GBP 0.06 per share) which resulted in an aggregate interim dividend payment of US$23.8 million (2018: US$20.9 million). The second interim dividend was paid on 9 January 2020.

The Board has recommended a third interim dividend of GBP 0.035 per share (2018: third interim dividend of GBP 0.024 per share), which gives a total dividend of GBP 0.135 per share for the year 2019 (2018: GBP 0.134 per share). The total payout exceeds the minimum amount prescribed in the Company's dividend policy, reflecting the availability of additional funds for disbursement to shareholders.

33. Events after the reporting period

On 11 March 2020, the World Health Organization declared the Coronavirus COVID-19 outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain, and in many jurisdictions, now delay, the spread of the virus, including: requiring self-isolation/quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders and "locking-down" cities/regions or even entire countries.

Since 31 December 2019, the financial performance and position of the Group have benefited due to the higher gold prices and weaker rouble which have resulted from the current crisis. The risks to the overall business activities and the operations of the Group and the mitigating actions being taken have been set out in the Strategic Report. While the outcome of the COVID-19 pandemic cannot be estimated with reasonable certainty at this stage, the Group has not experienced any substantial disruptions to production or sales and our mines continue to operate, albeit with measures designed to protect our teams from this pandemic.

In February and March 2020, the Company repaid US$23.0 million and drew down US$60.0 million from existing credit lines.

Mineral Resources as at 31 December 2019
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	Indicated	7,862,855	3.0	769,026	100%	769,026
	Measured + Indicated	**7,862,855**	**3.0**	**769,026**	**100%**	**769,026**
	Inferred	6,000,157	3.2	625,470	100%	625,470
	Total	**13,863,012**	**3.1**	**1,394,496**	**100%**	**1,394,496**
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	21,024,000	1.7	1,179,836	100%	1,179,836
	Indicated	32,870,000	1.8	1,860,917	100%	1,860,917
	Measured + Indicated	**53,894,000**	**1.8**	**3,040,753**	**100%**	**3,040,753**
	Inferred	12,291,000	1.7	656,004	100%	656,004
	Total	**66,185,000**	**1.7**	**3,696,757**	**100%**	**3,696,757**
Novoshirokinskoye	Measured	14,143,441	4.2	1,931,501	99.2%	1,912,186
	Indicated	3,213,136	2.8	293,511	99.2%	290,575
	Measured + Indicated	**17,356,576**	**4.0**	**2,225,011**	**99.2%**	**2,202,761**
	Inferred	4,462,000	2.6	375,298	99.2%	371,545
	Total	**21,818,576**	**3.7**	**2,600,310**	**99.2%**	**2,574,306**
Belaya Gora	Measured	500,000	1.0	16,000	100%	16,000
	Indicated	7,100,000	1.2	276,000	100%	276,000
	Measured + Indicated	**7,600,000**	**1.2**	**292,000**	**100%**	**292,000**
	Total	**7,600,000**	**1.2**	**292,000**	**100%**	**292,000**
Kolchanka	Indicated	2,700,000	1.1	96,000	100%	96,000
(Belaya Gora)	**Total**	**2,700,000**	**1.1**	**96,000**	**100%**	**96,000**
Zayachii	Indicated	400,000	1.3	17,000	100%	17,000
(Belaya Gora)	**Total**	**400,000**	**1.3**	**17,000**	**100%**	**17,000**
Blagodatnoye	Indicated	19,200,000	1.3	776,000	100%	776,000
	Inferred	49,000	0.8	1,286	100%	1,286
	Total	**19,249,000**	**1.3**	**776,119**	**100%**	**776,119**
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**
Kekura	Measured	580,000	11.0	205,765	100%	205,765
	Indicated	8,720,000	8.0	2,234,477	100%	2,234,477
	Measured + Indicated	**9,300,000**	**8.2**	**2,440,242**	**100%**	**2,440,242**
	Inferred	160,000	3.1	16,075	100%	16,075
	Total	**9,460,000**	**8.1**	**2,456,317**	**100%**	**2,456,317**

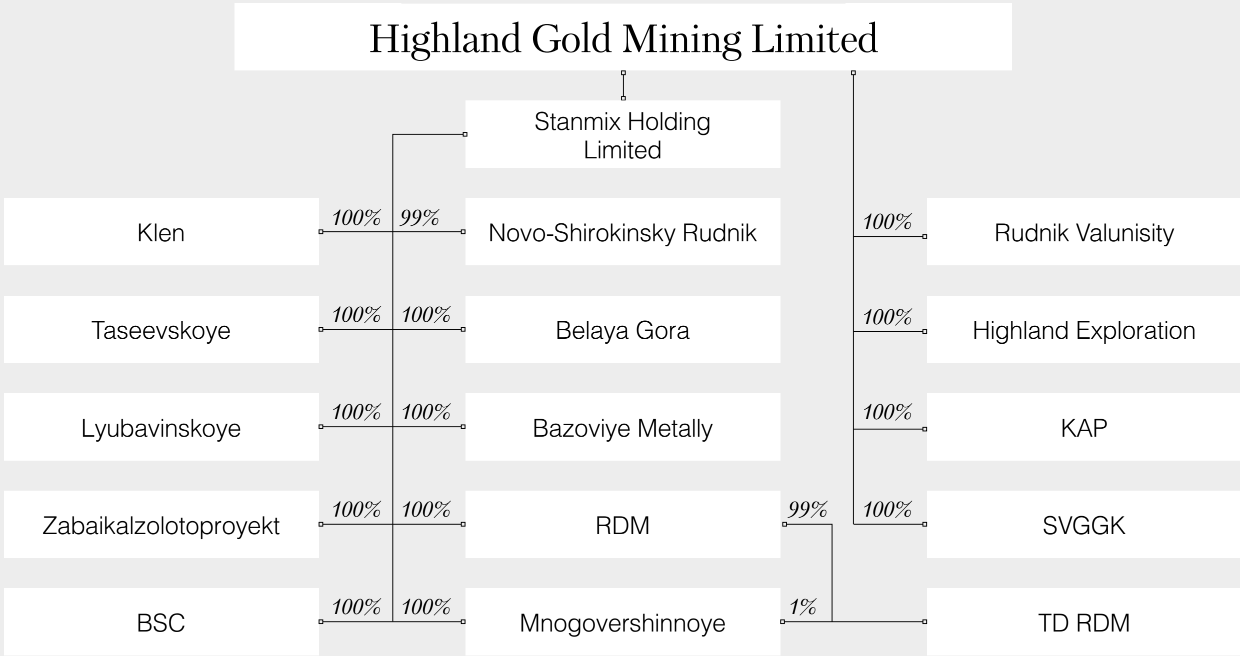
Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
Lyubavinskoye	Measured	1,304,990	1.5	62,758	100%	62,758
	Indicated	9,802,700	1.3	413,330	100%	413,330
	Measured +Indicated	**11,107,690**	**1.3**	**476,088**	**100%**	**476,088**
	Inferred	139,540	1.8	8,198	100%	8,198
	Total	**11,247,230**	**1.3**	**484,287**	**100%**	**484,287**
Valunisty	Indicated	8,284,899	3.3	883,386	100%	883,386
	Inferred	2,689,730	2.3	196,020	100%	196,020
	Total	**10,974,629**	**3.1**	**1,079,406**	**100%**	**1,079,406**
Gorny (Valunisty/KAS)	Indicated	562,944	3.4	62,369	100%	62,369
	Inferred	3,053,305	2.4	231,757	100%	231,757
	Total	**3,616,249**	**2.5**	**294,126**	**100%**	**294,126**
Zhilny (Valunisty/KAS)	Inferred	2,330,000	3.5	261,868	100%	261,868
	Total	**2,330,000**	**3.5**	**261,868**	**100%**	**261,868**
Total	Measured	37,552,431	2.8	3,395,860		3,376,545
	Indicated	129,351,534	3.0	12,270,412		12,267,476
	Measured +Indicated	**166,903,965**	**2.9**	**15,666,273**		**15,644,022**
	Inferred	37,472,732	2.9	3,499,194		3,495,441
	Total	**204,376,697**	**2.9**	**19,165,466**		**19,139,462**

1. *MNV, Taseevskoye, Belaya Gora, Kolchanka, Zayachii, Blagodatnoye, Unkurtash, Klen and Lyubavinskoye resource estimations do not include a silver assessment.*
2. *MNV, Novoshirokinskoye, Belaya Gora, Kolchanka, Blagodatnoye, Kekura, Valunisty and Gorny Mineral Resources are inclusive of Mineable Reserves.*
3. *MNV Mineral Resources are undiluted and based upon a gold price of US$1,250 per ounce. Resources were evaluated with specific cutoff grade > 0.7 g/t for open cut mining, and > 1.0 g/t for underground mining*
   Taseevskoe Mineral Resources are undiluted and based upon a gold price of US$ 1,000 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$1,600 per ounce. Resources were evaluated with specific cutoff grade > 0.85 g/t.
   Belaya Gora, Kolchanka and Zayachii Mineral Resources are undiluted and based upon a gold price of US$1,500 per ounce. Resources were evaluated with specific cutoff grade:
   – for Belaya Gora > 0.4g/t;
   – for Kolchanka > 0.72g/t;
   – for Zayachii > 0.59g/t.
   Blagodatnoye Mineral Resources are undiluted and based upon a gold price of US$1,500 per ounce. Resources were evaluated with specific cutoff grade > 0.5g/t.
   Klen Mineral Resources were evaluated with specific cutoff grade > 1.0 g/t.
   Kekura Mineral Resources are diluted and based upon a gold price of US$1,500 per ounce. Resources were evaluated with specific cutoff grade > 1.2 g/t for open cut; 1.7 g/t for Vertical zones and 2.8 g/t for Horizontal zones for underground mining.
   Lyubavinskoye Mineral Resources were evaluated with specific cutoff grade > 0.5 g/t.
   Valunisty and Gorny Mineral Resources were evaluated with specific cutoff grade > 0.5 g/t.
   Zhilny Mineral Resources were evaluated with specific Ag cutoff grade > 40 g/t.
4. *Resource estimate for Taseevskoye deposit was confirmed by Micromine Consulting, 2008.*
   Resource estimates for MNV were confirmed by Micon International Co. LTD, 2018 and 2019.
   Resource estimate for Blagodatnoye was confirmed by SRK Consulting, 2017.
   Resource estimate for Belaya Gora was reconfirmed by SRK Consulting, 2019.
   Resource estimate for Kolchanka and Zayachii was confirmed by SRK Consulting, 2019.
   Resource estimate for Novoshirokinskoye was confirmed by Wardell Armstrong International (WAI), 2017.
   Resource estimate for Lyubavinskoye was confirmed by IMC Montan, 2012.
   Resource estimate for Unkurtash was reconfirmed by IMC Montan, 2013.
   Resource estimate for Klen was confirmed by Micon International, 2012.
   Resource estimate for Kekura was reconfirmed by SRK Consulting, 2017.
   Resource estimate for Valunisty, Gorny and Zhilny was reconfirmed by CSA Global PTY, 2018.
5. *Highland Gold internal gold-equivalent resource and reserve estimates are based on the following data:*
   Novo – 2017 WAI JORC-compliant MRE and ORE, conversion coefficients calculated using WAI 2017 metal prices and recovery parameters. Au Eq. (g/t) = Au(g/t)+0,017096Ag(g/t)+0,559710Pb(%) +0.538668Zn(%).
   Valunisty, Gorny and Zhilny – 2018 CSA Global JORC-compliant MRE and ORE, conversion coefficient calculated using CSA 2018 metal prices and recovery parameters:
   *Valunisty Au Eq. (g/t) = Au (g/t) + 0.01011*Ag (g/t)*
   *Gorny Au Eq. (g/t) = Au (g/t) + 0.01032*Ag (g/t)*
   *Zhilny Au Eq. (g/t) = Au (g/t) + 0.01196*Ag (g/t)*
6. *Mineral resources at MNV, Belaya Gora, Novo, Valunisty, Gorny and Zhilny have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the resources with annual production.*

Ore Reserves as at 31 December 2019
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	Probable	8,691,484	2.50	710,759	100%	710,759
	Proven + Probable	**8,691,484**	**2.50**	**710,759**	**100%**	**710,759**
Novoshirokinskoye	Proven	12,940,989	3.1	1,279,840	99.0%	1,267,042
	Probable	2,456,229	2.2	170,762	99.0%	169,054
	Proven + Probable	**15,397,218**	**2.9**	**1,450,602**	**99.0%**	**1,436,096**
Belaya Gora	Proven	260,000	1.3	11,000	100%	11,000
	Probable	3,970,000	1.4	181,000	100%	181,000
	Proven + Probable	**4,230,000**	**1.4**	**192,000**	**100%**	**192,000**
Kolchanka	Probable	2,110,000	1.1	76,000	100%	76,000
(Belaya Gora)	**Proven + Probable**	**2,110,000**	**1.1**	**76,000**	**100%**	**76,000**
Blagodatnoye	Probable	10,200,000	1.4	472,000	100%	472,000
	Proven + Probable	**10,200,000**	**1.4**	**472,000**	**100%**	**472,000**
Kekura	Proven	650,000	9.2	192,904	100%	192,904
	Probable	8,230,000	6.9	1,816,517	100%	1,816,517
	Proven + Probable	**8,880,000**	**7.0**	**2,009,422**	**100%**	**2,009,422**
Valunisty	Probable	2,546,669	5.5	451,092	100%	451,092
	Proven + Probable	**2,546,669**	**5.5**	**451,092**	**100%**	**451,092**
Gorny	Proven	31,621	5.4	5,468	100%	5,468
(Valunisty/KAS)	Probable	118,580	3.8	14,446	100%	14,446
	Proven + Probable	**150,201**	**4.1**	**19,914**	**100%**	**19,914**
Total	Proven	13,882,610	3.3	1,489,212		1,476,414
	Probable	38,322,962	3.2	3,892,576		3,890,868
	Proven + Probable	**52,205,572**	**3.2**	**5,381,788**		**5,367,282**

- *MNV, Belaya Gora, Kolchanka, Blagodatnoye and Kekura reserves estimates do not include a silver assessment.*
- *Novo reserves are calculated for Au equivalent and include Pb, Zn and Ag assessment.*
- *Valunisty and Gorny reserves are calculated for Au equivalent and include Ag assessment.*
- *MNV Mineable Reserves are diluted and based upon a gold price of US$ 1250 per ounce and marginal cut-off 1.0 g/t for underground mining (1.2 g/t for the Northern ore body) and 0.7 g/t for open cut.*
- *Novo Mineable Reserves are diluted and based upon a gold price of US$ 1279.2 per ounce and marginal cut-off 1.6 % Pb Eq.*
- *Belaya Gora Mineable Reserves are based upon a gold price of US$ 1200 per ounce and marginal cut-offs in between 0.4 and 2.05 g/t .*
- *Blagodatnoye Mineable Reserves are based upon a gold price of US$ 1200 per ounce and marginal cut-off 0.77 g/t .*
- *Kekura Mineable Reserves are diluted and based upon a gold price of US$ 1150 per ounce and marginal cut-off 1.6 g/t for open cut; 2 g/t for Vertical zones and 3 g/t for Horizontal zones for underground mining.*
- *Valunisty and Gorny Mineable Reserves are diluted and based upon a gold price of US$ 1250 per ounce and marginal cut-offs 1.49 g/t AuEq (Valunisty) and 1.0 g/t AuEq (Gorny) for open pit.*
- *Mineable reserves at MNV, Novo, Belaya Gora, Valunisty and Gorny have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the reserves with annual production.*



Highland Gold Mining Limited holds equity share capital in the following companies:

Name	%	Country of incorporation	Principal activity and place of business
Stanmix Holding Limited	100	Cyprus	Holding Company, Cyprus
Highland Exploration LLC	100	Kyrgyzstan	Holder of Unkurtash and Kassan licences
Rudnik Valunisty LLC	100	Russia	Holder of Valunisty licence
KAP LLC	100	Russia	Holder of Kanchalan-Amguema Square licence
SVGGK LLC	100	Russia	Holder of Kayenmivaam (Kayen) licence

Stanmix Holding Limited holds equity share capital in the following companies:

Name	%	Country of incorporation	Principal activity and place of business
RDM LLC	100	Russia	Management company (Russdragmet)
Mnogovershinnoye JSC	100	Russia	Holder of Mnogovershinnoye (MNV) and adjacent licences and Blagodatnoye and Krasnaya Gorka licences
Taseevskoye LLC	100	Russia	Holder of Taseevskoye, ZIF-1 and Sredny Golgotay licences
Zabaykalzolotoproyekt LLC	100	Russia	Project engineering
Novo-Shirokinsky Rudnik JSC	99[1]	Russia	Holder of Novoshirokinskoye (Novo) licence
Belaya Gora LLC	100	Russia	Holder of Belaya Gora and adjacent licences
Lyubavinskoye LLC	100	Russia	Holder of Lyubavinskoye (Lyubov) licence
Klen LLC	100	Russia	Holder of Klen licence
BSC LLC	100	Russia	Service company
Bazoviye Metally JSC	100	Russia	Holder of Stadukhinsky Area (Kekura) licence

RDM LLC holds equity share capital in the following companies:

Name	%	Country of incorporation	Principal activity and place of business
TD RDM LLC	99[2]	Russia	Vladivostok logistics centre (RDM Trade House)

1. *The remaining 1% is held by unaffiliated individual shareholders*
2. *The remaining 1% is held by Mnogovershinnoye JSC*

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 Thursday 30 July 2020 at 26 New Street, St Helier, Jersey JE2 3RA at 11.00 am to consider and if thought fit, pass the following resolutions (1 to 6 below to be proposed as ordinary resolutions and 7 and 8 to be proposed as special resolutions);

Ordinary Resolutions

1. THAT the Directors' Report, the Audited Financial Statements and the Auditor's report for the year ended 31 December 2019 (each as contained within the 2019 Annual Report circulated with this AGM Notice), be received.
2. THAT Colin Belshaw who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
3. THAT John Mann who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
4. THAT Deborah Gudgeon who retires as a Director of the Company be elected as a Director of the Company.
5. THAT Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
6. THAT the Directors be authorised to fix the Auditor's remuneration.

Special Resolutions

7. THAT with effect from the conclusion of the meeting the draft Articles of Association produced to the meeting and, for the purposes of identification, initialled by the Chairman be approved and adopted as the Articles of Association of the Company, in substitution for and to the exclusion of all existing Articles of Association (Note 8).
8. THAT the Directors be and they are hereby generally and unconditionally authorised to allot, grant options or warrants over, offer or otherwise deal with up to 33% of the authorised but unissued share capital of the Company at the date of the passing of this resolution to such persons at such times and on such terms as they think proper without first making an offer to each person who holds ordinary shares in the Company, such authority to expire at the conclusion of the Annual General Meeting of the Company in 2023, save that the Directors may, notwithstanding such expiry, allot any ordinary shares or grant such rights under this authority in pursuance of any offer or agreement to do so made by the Company before the expiry of this authority.

By Order of the Board

20 May 2020

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 (or show of hands), 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 Link Asset Services, FREEPOST PXS, 34 Beckenham Road, Beckenham, BR3 9ZA not less than 24 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. If you wish to appoint a proxy utilising the CREST electronic proxy service, complete and submit a CREST Proxy Instruction in accordance with the procedures described in the CREST Manual, so that it is received by Link Asset Services not less than 24 hours before the time fixed for the meeting (or any adjournment of such meeting).
5. Only those shareholders registered in the register of members of the Company as at close of business on 28 July 2020 (or, in the cause of an adjournment, as at 24 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.
6. In the case of joint holders the vote of the most senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding (other than in the event that such joint holders shall have already notified the Company in writing as to which of their number shall represent them).
7. 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.
8. A copy of the proposed new Articles of Association is available on request from the Company's registered office at 26 New Street, St Helier, Jersey, JE2 3RA, and a copy is posted on the Company's website at www.highlandgold.com. The proposed new Articles of Association will also be available for inspection at the Annual General Meeting at least 15 minutes prior to the start of the meeting and up until the close of the meeting.

Current Directors

Eugene Shvidler
Executive Chairman

Duncan Baxter[1]
Non-Executive Director
Senior Independent Director

Colin Belshaw
Independent Non-Executive Director

Deborah Gudgeon[2]
Independent Non-Executive Director

John Mann
Executive Director
Head of Communications

Olga Pokrovskaya[3]
Non-Executive Director

Valery Oyf
Non-Executive Director

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

1 Chairperson of the Nomination and Remuneration Committee

2 Chairperson of the Audit and Risk Committee

3 Chairperson of the Health, Safety and Environment Committee

Head Office and Registered Office

26 New Street
St Helier, JE2 3RA
Jersey

Company Secretary

Ocorian Secretaries Limited
26 New Street
St Helier, JE2 3RA
Jersey

Nominated Adviser and Broker

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London, EC4M 7LT
United Kingdom

Joint Broker

BMO Capital Markets Limited
95 Queen Victoria St
London, EC4V 4HG
United Kingdom

Joint Broker

Peat & Co
118 Piccadilly
London, W1J 7NW
United Kingdom

Auditors to the Company and Group

Ernst & Young LLP
1 More London Place
London, SE1 2AF
United Kingdom

Solicitors to the Company

as to Russian Law

PricewaterhouseCoopers
Kosmodamianskaya Nab. 52 Bld. 5,
Moscow, 115054
Russian Federation

as to Jersey Law

Bedell Cristin
PO Box 75
26 New Street
St Helier, JE4 8PP
Jersey

Registrars

Link Market Services (Jersey) Limited
12 Castle Street
St Helier, JE2 3RT
Jersey

Transfer Agent

Link Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent, BR3 4TU
United Kingdom

Financial Calendar

Ex-Dividend Date:
23 April 2020

Record Date:
24 April 2020

Post 2019 Annual Report:
20 May 2020

Dividend Currency Election Date:
15 May 2020

Dividend Payment Date:
5 June 2020

Annual General Meeting:
30 July 2020

Listing Sector/Ticker Reuters:
HGM.L

Number Of Shares In Issue:
363,896,990

Design and Production
www.carrkamasa.co.uk
ckd

26 New Street
St. Helier,
Jersey JE2 3RA

HIGHLANDGOLD.COM