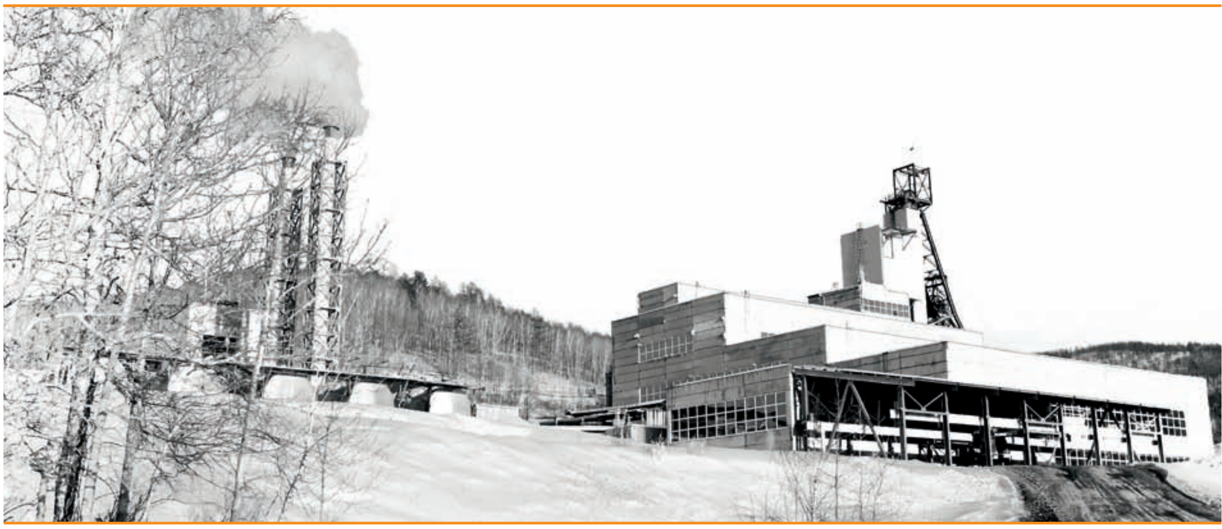
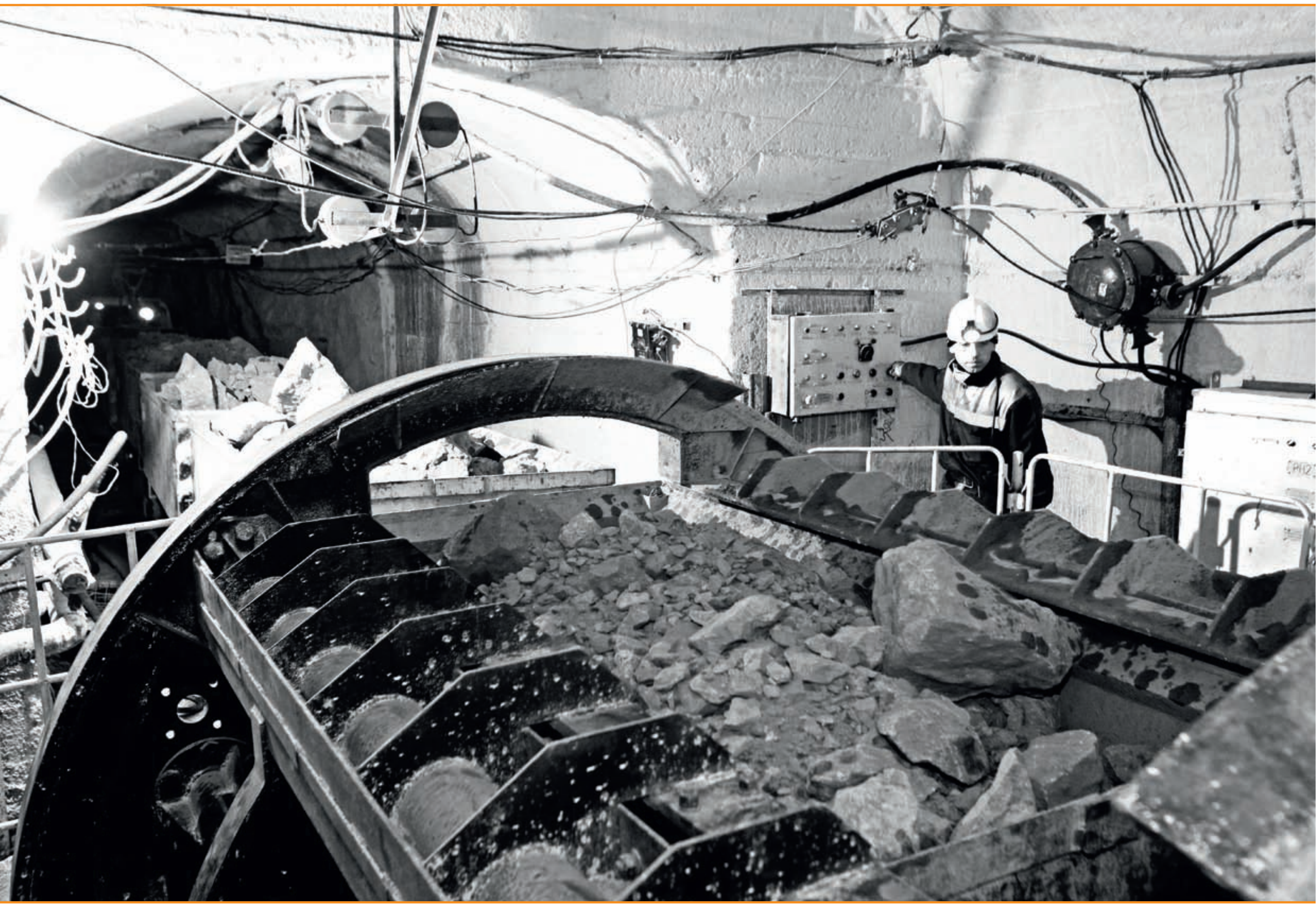
ANNUAL REPORT & ACCOUNTS 2010



HIGHLAND GOLD MINING LIMITED

CONTENTS



BUILDING ON OUR STRENGTHS

THE YEAR IN REVIEW

FINANCIAL HIGHLIGHTS

IFRS, US$000 (unless stated)	2010	2009
Production (gold and gold eq.oz)	**200,028**	163,208
Total cash costs at MNV (US$/oz)	**496**	486
Revenue	**243,629**	164,747
Gross profit	**119,365**	63,504
EBITDA	**121,271**	57,101
Earnings per share (US$)	**0.376**	0.242
Net cash inflow from operations	**94,620**	45,110
Capital expenditure	**36,944**	32,020
Cash and short term investments	**222,470**	242,969

2010 KEY EVENTS

- Company met production guidance by producing 200,028 oz of gold and gold equivalents, a 23% increase on 2009
- EBITDA of US$121.3 million (2009: US$57.1 million) was 112.4% higher than the previous year due to higher production and realised prices
- At US$496 per ounce in 2010, total cash costs at MNV were well contained (2009: US$486) considering the higher royalties paid due to the higher gold price
- Novo continued to ramp up mining and processing with a steady decrease in cash costs of US$597 in 2010
- JORC compliant audit supports GKZ reserve at Belaya Gora of 0.82 million oz
- Commissioning of mining at Belaya Gora
- Continued to develop the ore processing flow sheet for Taseevskoye
- Development accelerated at two advanced stage exploration projects (Unkurtash and Lyubov)
- New acquisitions in 2010 included Blagodatnoye and Belaya Gora Flanks
- Cash, short term deposits and short term investments were US$222.5 million

POST YEAR END

- Group currently debt free after early repayment of all outstanding loans
- Initial C1+C2 reserves of 1.71 million oz at Unkurtash are with Kyrgyzstan GKZ for approval

GOALS FOR 2011

- Production in 2011 (from MNV, Novo and Belaya Gora) is forecast in the range of 210,000 – 220,000 oz of gold and gold equivalents
- MNV – leverage our exploration successes to date to support the life of mine
- Novo – continue to ramp up mining and processing levels
- Belaya Gora – progress construction of a stand-alone processing facility with an anticipated commissioning date in H2 2012
- Unkurtash – conclude JORC compliant audit on initial Kyrgyzstan GKZ reserve estimate
- Lyubov – prepare reserve estimate for submittal to Russian GKZ
- Taseevskoye – confirm project economics through semi-industrial test works
- Group will continue to evaluate possibilities for new acquisitions

STRONGER, GROWING, EFFICIENT AND RESPONSIBLE

I am delighted to be able to report to you on an exceptional year of achievement at every level of your Company. These achievements include the commissioning of mining operations at our third mine at Belaya Gora, the production of over 200,000 ounces of gold hitting our stated target for the year and the significant progress we made with our development and exploration projects. This progress has enabled us to repay all our debt early as we are generating strong operating cash flows. While our growth strategy clearly focuses on both organic and M&A development, I am pleased to report that excellent progress has been made with our organic project development portfolio. We see these assets as key to the continued creation of additional shareholder value. Our growth strategy will require a significant deployment of capital. The current and expected cash positions are favorable, allowing Highland to bring its projects into operating mines and allow us to continue to assess M&A opportunities, under accretive conditions.

Our restructuring of operations over the last two years has transformed your Company and we are therefore moving into a period of sustained growth with an exciting portfolio of projects. This has been reflected in the improved performance of our share price which rose by over 100% in 2010 while in comparison over the same period the gold price rose only 26% and we firmly believe that our on-going commitment on delivering results on all fronts should support an improved market valuation. With our current projects, we are aiming to increase production to between 210,000–220,000 ounces in 2011.

The Company's stated strategy of increasing the productivity of our existing mines and pushing forward our development and exploration projects continues apace. Whilst I will leave reporting the detail of our production to our Chief Executive Officer Valery Oyf under his Operational Review, I would like to highlight some of the exciting prospects that the Company has in its pipeline.

We are continuing with our near mine exploration efforts at MNV which are showing promising results from both the Pebble Prospect and other exploration targets on the mine's property. We believe these efforts will provide a more robust resource for the life of mine. The trucking of ore from nearby Belaya Gora to MNV commenced and, whilst the project development of a stand-alone processing plant at Belaya Gora, is ongoing we will continue to move ore to MNV until that operation is up and running in the second half of 2012. This strategy will generate a seamless integration to our production profile.

In line with our capital allocation and project development discipline, we continued to study the Taseevskoye project. We are proceeding with further test work in order to advance the project and we expect to give fuller details on this project by the end of this year. We now feel that all the key risks have been well identified and the associated mitigating strategies are being developed and engineered.

Towards the end of 2010 we were able to announce positive progress at Unkurtash in Kyrgyzstan and therefore we intend to spend a further US$20 million at the site during 2011 to move the project forward. An application for registration of a preliminary (C1+C2) category reserves of 1.71 million oz was submitted and is under review by the State Committee on Reserves of the Kyrgyz Republic (GKZ). Further as you will note later, our total allocation of funds towards our exploration projects is at an unprecedented level for the Company. This is a true reflection of our degree of confidence with the geological potential of our assets. The initial audit for Unkurtash in order to comply with JORC standards is planned to be completed in H2 2011.

In accordance with international best practice the Company has committed to audit all current and future GKZ reserves in order to provide Reserves and Resources statements that will be JORC compliant.

Our efforts to increase production whilst keeping costs to a minimum, is working well. We are one of the few mining companies today to be keeping costs in check. Affected by higher royalties due to the stronger gold price total cash costs at MNV increased slightly and amounted to US$496/oz (2009: US$486/oz). At Novoshirokinskoye, our second operating mine, costs continued to improve as we proceeded with ramp up. Of equal importance was the early repayment of our debt and maintenance of sufficient cash resources to develop our growth strategy without recourse to the equity and debt markets. This leaves us with the option to acquire new resources in order to accelerate the Company's growth.

The confidence that we have in the growth of your Company is further supported by our continued positive outlook for the gold price, and we are convinced that our on-going efforts to contain costs and maximise efficiencies, will benefit the Company going forward.

While the Company's strategy is to fully leverage the existing mining and processing infrastructure by lowering our mining cut-off grade through operational effectiveness and by adding new ounces through exploration, pushing our development projects towards production and continuing to explore for new assets is well on track. Your Company is in good health and achieving its objectives.

We are fortunate to have a very strong Board with its mix of mining expertise, supported by Barrick Gold Corporation of Canada ("Barrick"), and Russian knowledge and influence coming from our major shareholder Millhouse, placing us in an enviable position to take advantage of the growth potential in the markets in which we operate, being Russia and regional countries.

In September 2010, Mr James (Jim) Mavor was appointed to the Board of Directors to serve as a non-executive director. Mr Mavor holds the position of Vice President and Treasurer at Barrick and is based at their head office in Toronto. He brings a wealth of mining financial and treasury expertise to the Company.

In June 2010, we announced the resignations from the Board of Directors, of non-executive directors Ivan Koulakov, who wished to pursue other interests, and Nick Nikolakakis, who had resigned from Barrick and therefore was no longer eligible as their appointee. We take the opportunity to wish both Ivan, who still has a major interest in the Company and Nick well in their future endeavours and to thank them both for their assistance and support over many years and welcome Jim whose appointment has already been effective.

Finally, I would like to thank the Board, management and all our employees for an excellent result, as well as our shareholders for their continued support. Whilst appreciating that we are in the mining space and the risks that are associated with that, and regret the two fatalities over the last nine months, I continue to have great confidence in our ability to achieve our targets in the year ahead.

Duncan Baxter
Chairman


Belaya Gora
MNV
Novoshirokinskoye
MOSCOW
RUSSIA
Khabarovsk
Astana
Chita
KAZAKHSTAN
Vladivostok
MONGOLIA
Bishkek
KYRGYZSTAN
Taseevskoye
Iska
Unkurtash
Lyubov
Blagodatnoye
Operating Mine
Development Project
Exploration Project

ON TARGET AND DELIVERING GROWTH

As planned, 2010 has been a year where the Company has delivered on target at all operating, development and exploration properties. Our flagship Mnogovershinnoye mine continued to perform well and exceeded targets while the addition of our second mine, Novoshirokinskoye, increased overall gold production with the first concentrates being delivered in February 2010. Initial oxide ore mining commenced at Belaya Gora in November.

Licenses for exploration and mining rights at Blagodatnoye (30 kms SW of Belaya Gora in the Khabarovsk Region) and Belaya Gora Flanks (an area of 33 sq km surrounding the Company's Belaya Gora deposit) were acquired in February and July respectively. These have provided new resource targets to support the potential for ongoing growth of operations in the Khabarovsk region, while our exploration successes at Unkurtash in Kyrgyzstan and Lyubov (SW of our Taseevskoye project) in the Chita region of Russia provided organic resource growth opportunities and confidence in establishing a strong pipeline for future operations.

A full year on year increase in gold production of 23% led to stronger revenues and improved margins as we continued to keep our cash costs in check. In 2011 we see a continuation of these positive trends with the Company now operating at three mines, progressing major projects at Taseevskoye, Unkurtash and Lyubov and having a substantially strengthened exploration portfolio to its credit.

CORPORATE & SOCIAL RESPONSIBILITY

Highland Gold is dedicated to ensuring that social responsibility is at the core of our operations. With this aim in mind we have continued efforts in developing partnership relations with local communities in the regions where we operate. We have helped to maintain and upgrade the infrastructure in the villages and towns where our employees live and demonstrated a responsible attitude in settlement of taxes and fees due to local and state budgets. We have also been active in developing various social and cultural facilities, helping senior citizens' organisations, as well as participating in regional environmental protection projects.

The main focus of our effort is on jointly initiating territorial social development programmes with regional and local authorities. Working together, Highland Gold Mining and the local authorities define critical areas for the local community to apply the joint welfare efforts. During 2010, and in addition to the Social Partnership Agreement in place with the Nikolaevsk district authorities, we have signed a similar agreement at a higher level – with the Government of the Khabarovsk Region. Our Company participates in development and implementation of regional socioeconomic welfare programmes in the field of education, health, culture and sports as well as improving living standards for the local population.

Similar assistance on a smaller scale has been provided by the Company to the local communities at our exploration projects, in particular at Lyubov in the Zabaikalsky region of Russia and the Unkurtash deposit in Kyrgyzstan.

Financing of the regional social charity foundation "Illustrated books for visually impaired children" provided dozens of children with complimentary specialised printing materials. We facilitate development and social integration of physically challenged children of the Khabarovsk Region through financing of the charity project "White Steamship". Preserving the cultural and historic heritage of Russia we fund the projects of the Zabaikalsky Museum of the Decembrists. Nonrecurring charity assistance is provided to various organizations of the Baley (Taseevskoye) district in the Zabaikalsky Region.

HEALTH, SAFETY & ENVIRONMENT

At year-end 2010 the Highland Gold group employed 2,791 employees (including 100% of the personnel at Novoshirokinskoye) in comparison to 2,435 employed during 2009. Staffing increases continued at the Novoshirokinskoye Mine and Belaya Gora's project activities increased its human resource throughout the year.

Efforts to improve on health and safety remained on target at all sites within the HGM Group and the full year lost time injury rate (LTI rate is the number of lost time injuries for every 200,000 man hours worked) decreased to 0.37 in 2010, a 33% improvement in comparison to the LTI rate in 2009 (0.55). 1,258 employees attended introductory (1 day) safety training, 477 employees went through a course of introductory hazardous work (5 days) safety training and 111 employees were involved in industrial safety certification and training courses. In spite of the overall improvements in safety Group wide, we regret to announce the fatality of a contract employee in July 2010, who was engaged in building repair works at our warehousing facility in Nikolaevsk-na-Amure in the Khabarovsk region. In March 2011 a company employee suffered a fatal road accident while delivering a light vehicle to our facility at Nikolaevsk-na-Amure in the Khabarovsk region.

Environmental audit procedures were implemented for all sites of the Company during the year which assisted with ensuring that environmental compliance remained in good standing with all regulatory authorities. 68 employees at MNV and Taseevskoye attended environmental safety requirement training with another 24 MNV employees taking environmental risk and assessment training in addition to 42 employees passing their best practices of environmental protection training.

Highland Gold has also initiated efforts for the implementation of accreditation of its environmental management system (ISO 14001 compliant) Group wide with compliance audits expected for YE 2012.

OPERATIONS

MNOGOVERSHINNOYE (MNV), Khabarovsk region, Russia

In 2010 mining operations continued at the Upper and Flank open pits where ore production exceeded the target at 701,962 tonnes and waste stripping of 1,933,948 m^3 was marginally reduced relative to the previous year. The Intermediate, Northern, and Deer underground zones combined contributed 490,934 tonnes of ore production while underground development achieved 6,725 metres. Off-balance sheet ore from old surface stockpiles continued to be tested for economic potential and then hauled to the plant site as additional low grade stockpile.

Retrofit and upgrading initiatives continued within the Process Plant. The aim of the upgrade is to improve throughput while maintaining recovery levels. A record 1,144,459 tonnes of ore were processed in 2010 providing a 5.8% increase year-on-year. Recoveries were slightly lower at 87.6% for the full year and related to increased throughput. Both milling and gravity circuit upgrades are expected to be commissioned during Q1 2011.

MNV		H2 2010	H2 2009	2010	2009
Mine development					
Stripping	m^3	1,220,558	900,568	**1,933,948**	2,238,637
Underground development	Metres	3,098	4,396	**6,725**	8,635
Mining					
Total ore mined	Tonnes	642,878	544,435	**1,192,896**	1,009,384
Average grade	g/t	5.1	5.2	**5.1**	5.4
Ore processing					
Ore processed	Tonnes	622,604	541,278	**1,144,459**	1,081,605
Average grade	g/t	5.3	5.2	**5.3**	5.2
Recovery rate	%	87.3	88.4	**87.6**	88.3
Gold produced	oz	94,585	84,787	**170,356**	163,208

PRODUCTION COSTS

Cash operating costs in 2010 were US$414 per ounce (2009: US$425), total cash costs were US$496 per ounce (2009: US$486), total production costs were US$597 per ounce (2009: US$578).

CAPITAL COSTS

During 2010 the Company invested US$14.6 million at MNV. This included: capital construction (US$5.8 million), purchase of equipment (US$7.1 million), exploration (US$1.7 million).

OUTLOOK

Initiatives of capital equipment replacements in the open pit and underground operations along with milling and gravity circuit retrofits and upgrades in the processing plant will contribute to steady production at current levels while helping to keep maintenance operating costs in check.

NOVOSHIROKINSKOYE (NOVO), Zabaikalsky region, Russia

Since commissioning in October 2009, both the underground mine and process plant continue to ramp up production levels. During February 2010 initial concentrates were delivered for sale with full year production standing at 397,075 tonnes processed producing approximately 28,672 ounces of gold and gold equivalents (representing Highland's 48.3% share).

Ore production at 345,737 tonnes and waste development at 6,364 metres remained on target as additional ore blocks are accessed and prepared for production.

Novoshirokinskoye 100%		H2 2010	H1 2010	FY 2010
Mine development				
Underground development	Metres	3,221	3,143	**6,364**
Mining				
Ore mined	Tonnes	223,989	121,748	**345,737**
Average grade	g/t	6.48	6.12	**6,35**
Processing				
Ore processed	Tonnes	233,752	163,323	**397,075**
Average grade	g/t	6.34	5.38	**5.86**
Recovery rate	%	81.0%	78.0%	**79.5%**
Gold produced	oz	38,662	20,741	**59,403**
HGML (48.3%) interest	oz	18,654	10,018	**28,672**

*Au + Au equivalents (calculated)

PRODUCTION COSTS

Cash operating costs in 2010 were US$544 per ounce, total cash costs were US$597 per ounce, total production costs were US$679 per ounce.

CAPITAL COSTS

In 2010 US$3.3 million was invested at Novo representing our 48.3% share.

OUTLOOK

The mine will continue ramping up operations during 2011 and is expected to produce ca. 450,000 tonnes of ore with 550,000 tonnes targeted as nameplate capacity. Technical studies will continue to investigate the potential for productivity improvements throughout the mining and processing operations.

BELAYA GORA, Khabarovsk region, Russia

As the result of identified synergies between Belaya Gora and MNV located 66 kms away, a decision was taken to mobilise men and equipment to commence selective mining operations for delivery of oxide ore to the MNV processing plant early in H2 2010. Due to permit requirements mining commenced in November and resulted in 10,791 tonnes being milled yielding 1,000 oz of gold with a stockpile of ore being accumulated.

Belaya Gora		Nov & Dec 2010
Mining		
Waste Stripping	m^3	**226,000**
Ore mined	Tonnes	**76,000**
Average grade	g/t	**1.66**
Select Ore to MNV	Tonnes	**26,700**
Average grade	g/t	**2.41**
Processing at MNV		
Ore processed	Tonnes	**10,971**
Average grade	g/t	**3.25**
Recovery rate	%	**87.3**
Gold produced	oz	**1,000**

CAPITAL COSTS

In 2010 US$7.7 million was invested at Belaya Gora. This included: capitalised expenditures and construction (US$5.0 million), purchase of equipment (US$2.6 million), exploration (US$0.1 million).

OUTLOOK

Oxide ore will continue to be mined during 2011 providing approximately 5% to 8% of the total ore feed to the MNV process plant. This is expected to continue through the construction phase and start up of stand-alone production at the planned Belaya Gora processing facility at which time ore will be treated at the new plant.


CAT
988H

DEVELOPMENT PROJECTS

TASEEVSKOYE, Zabaikalsky region, Russia

In 2009 the mining of a 360 tonne bulk sample from an open-pit excavation allowed the Company to perform further metallurgical testing in order to better define the viability of pressure oxidation, bio-oxidation or ultra fine grinding given the refractory nature of the Taseevskoye ore. The work was concluded during H2 2010. These results have now provided management with the needed guidance to undertake a semi-industrial pilot test using a gravity – flotation concentration – pressure oxidation (POX) processing route. Given the specific technical requirements of the processing plant, the mine plan will be optimized in 2011 to ensure the integration of the respective production schedules, which will drive the project economics.

Upon conclusion of these milestones management expects to be in a position to finalise the full feasibility study and to provide a recommendation to the Board by the end of the year.

CAPITAL COSTS

In 2010 we spent US$2.2 million in capital investments at Taseevskoye.

EXPLORATION

Our work programmes in 2010 continued to yield promising results and further corroborated our confidence in the potential of our exploration projects. While the focus remains on our most advanced exploration projects Unkurtash in Kyrgyzstan and Lyubov in Russia, both nearing the development stage, we also seized opportunities to acquire new quality properties to sustain a foundation for organic growth for the Company. All in all in 2010 we spent US$11.5 million on exploration including near-mine works at MNV which represents almost a 1.5 times increase compared to 2009.

UNKURTASH, Kyrgyzstan

At our flagship exploration project in Kyrgyzstan, 2010 saw continued exploration activities at the three adjoining prospects Unkurtash, Sarytube and Karatube. The prospects are located within an elongated gold mineralised zone which is covered entirely by our licenses and measures approximately 4,000 metres on strike, 250-500 metres in width and has a proven vertical extent of at least 350 metres. In 2010 we completed over 13,000 metres of reverse circulation (RC) and core drilling in addition to underground exploration at Unkurtash where 430 metres of old workings were rehabilitated and 142 new metres developed. Drilling results continue to support the potential for hosting a large open-pit mineable stockwork-type resource at Unkurtash in addition to a smaller satellite deposit at Karatube. Metallurgical testwork completed to date for the two targets supports conventional processing scenarios with expected recoveries in the range of 82 to 90%.

A pre-feasibility study, submitted in late 2010, for registration of a preliminary C1+C2 category reserves of 1.71 million oz at the Unkurtash and Karatube targets is under review by the State Committee on Reserves of the Kyrgyz Republic (GKZ), an audit in compliance with JORC standards is planned to be completed in H2 2011.

For 2011 a substantial increase in budgeted annual exploration expenditure to US$20.0 million underpins the Company's confidence in tapping the total potential of this project. Over 50,000 metres of RC and core drilling has been allocated at the three targets in addition to 3,000 metres of underground exploration development planned at Unkurtash during 2011.

Despite the political events that took place in the first half of 2010 in Kyrgyzstan our operations, as well as that of other major producers in the country, have been unaffected and continue to operate normally. The Company remains confident that the country will maintain its stable investment climate and continue on its path of creating wealth from its natural resources.

LYUBOV, Zabaikalsky region, Russia

At Lyubov, we completed a resource definition drilling programme targeting stockwork-type gold mineralisation hosted within the Evgraf granite stock and its surrounding shales. The programme was designed to convert previously defined prognostic P1 resources into the C1+C2 category at the Evgraf target. Due to good drilling progress and with the aim of accelerating the project towards reserve registration, we decided mid-year to double the originally allocated drilling volume of 6,000 metres to a total of 12,000 metres. Drilling results are in line with a C1+C2 resource model for Evgraf containing up to 1 million ounces of gold at an average grade in the range of 1.6 – 1.8 g/t and at cut-off grades between 0.5 – 0.7 g/t (unaudited in-house estimate).

Metallurgical test work results support conventional processing options including heap leaching which we will further corroborate by additional independent test work planned for completion throughout 2011.

Lyubov is now nearing the development stage and during 2011 the Company plans to complete additional drilling and other work, which will fulfil critical requirements for a pre-feasibility study. Together with a reserve calculation, this is planned to be submitted for approval to the State Committee on Reserves of the Russian Federation (GKZ) towards the end of 2011. A JORC compliant resource audit is expected prior to the year end 2011.

MNOGOVERSHINNOYE, Khabarovsk region, Russia

At MNV we continued with our near-mine exploration programme which is directed at discovering additional reserves for open-pit exploitation over the short term. The focus in 2010 was on surface exploration which included more than 6,200 metres of drilling at 4 exploration targets within the MNV license area. As a positive result, pit optimisation is now underway for the Pebble (Valunistoye) prospect estimated to host 190,000 oz of gold contained in open-pit mineable ore grading between 3.0 – 5.0 g/t. Pebble is part of the 2 kilometre long Quiet (Tikhoye) – Pebble zone where positive drilling results obtained from other targets warrant follow-up work in 2011 and highlight the exploration potential that still remains at MNV.

Maximising the mine life at MNV is a top priority for the Company and consequently we have stepped up our exploration programme at MNV for 2011 to include 8,000 metres of surface drilling with an additional 16,000 metres allocated to underground exploration.

BLAGODATNOYE, Khabarovsk region, Russia

Located close to the Belaya Gora mine, the Blagodatnoye property was acquired in public auction in H1 2010 and has a reported prognostic resource estimate of 161,000 oz of gold. The prospect features stockwork-type gold mineralisation with reported average gold grades in the range of 1.5-2.0 g/t. In H2 2010 we completed a resampling programme of old trench workings which has returned positive results defining several continuous intercepts of gold mineralisation confirming previous results.

With the prospect that this property could become a significant contribution to Highland Gold's strategic hub in the Khabarovsk region the exploration programme planned for 2011 aims to increase the reported resource substantially and includes 10,000 metres of drilling to confirm continuity of mineralisation at depth.

BELAYA GORA FLANKS, Khabarovsk region, Russia

In H2 2010 we acquired in public auction the Belaya Gora Flanks (BGF) license which encapsulates the Belaya Gora deposit and represents excellent near-mine exploration potential to increase the resource base there. The BGF licence area was partially explored in the past and historical data notes a reported prognostic resource estimate of 200,000 oz of gold. The area hosts several known prospects with linear zones of vein-type and stockwork gold mineralisation with reported grades ranging between 1 g/t and 3 g/t and noted highlights up to 20 g/t.

The exploration programme in 2011 includes trenching and a 5,000 metre drilling programme for verifying and expanding the known mineralised prospects as well as testing of unexplored areas.

ISKA, Khabarovsk region, Russia

Iska features geological similarities with Belaya Gora and several occurrences of previously known gold prospects underline the potential of this grass root exploration property. As part of the 2010 exploration programme a previously drilled alunite deposit on the property was re-sampled and tested for gold but returned unsatisfactory results.

In 2011 we continue our analysis of the area to determine further steps for the property.

EXPLORATION OUTLOOK

While 2010 saw a significant increase in exploration spending compared to previous years the exploration budget for 2011 is considerably more and allocates US$30 million in order to advance both new and existing exploration projects rapidly towards the development stage. More than 80,000 metres of drilling have been committed for 2011 at 5 projects but the bulk of the drilling works has been allocated to Unkurtash owing to its large size and promising potential.

Mr. Werner Klemens, Head of Exploration at Highland Gold has reviewed and verified the information contained in this release with respect to reserve and resource matters. Mr. Klemens holds a Ph.D. in Geology from the University of Toronto. He has 13 years of experience in mineral exploration and is a fellow of the Geological Association of Canada. A rigorous quality assurance programme complying with international standards is in effect at all exploration projects and includes duplicate sampling, insertion of standards and check assaying at external laboratories.

CONCLUSION

Highland's asset portfolio delivered an excellent performance in 2010 and the Company aims to add to this success with ongoing and continuous improvement initiatives as well as organic growth. Our resource will grow as a result of exploration fast tracking where such project is deemed of strategic importance. Accelerating such assets into production remains a near to medium term goal as well as propelling the Company towards mid-tier gold producer status.

Valery Oyf
Chief Executive Officer


MAXIDRILL

STRONG FINANCIAL PERFORMANCE

Highland Gold posted a profit of US$122.3 million in 2010 compared to US$78.8 million in 2009. The main reasons for this were increased operating activity resulting in a gross profit of US$119.4 million compared to US$63.5 million in 2009 and the further reversal of an impairment loss at the Novoshirokinskoye project amounting to US$52.8 million (2009: US$22.7 million).

Revenue for the Group in 2010 was US$243.6 million compared to US$164.7 million in the prior year. The increase was due to our "no hedge" policy which allowed the Group to fully participate in stronger gold prices and also to the increase in production at MNV as a result of various mine initiatives implemented in 2010. The average price per ounce of gold sold was US$1,232 which represents a 27.8% increase compared to 2009.

The Group's costs of sales increased by 22.7%, or US$23.0 million compared to the prior year due to the recognition of the cost of sold concentrates at Novoshirokinskoye (2009: US$nil).

In spite of the general inflation rate in the Russian Federation of 8.8% and the appreciation of the Rouble against the US dollar by 4.4% in 2010, cash operating costs per ounce at MNV were reduced by 2.6% to US$414 in 2010 (2009: US$425 per ounce). Recapitalisation of equipment in the open pit, underground and process plant operations have helped in keeping costs contained as older less efficient equipment was retired. Total cash costs were affected by higher royalties due to the stronger gold price in 2010. As a result, at MNV they increased to US$496 per ounce (2009: US$486 per ounce).

Cash operating costs at Novoshirokinskoye were US$544 per ounce in 2010 while the total cash costs including royalties and other production taxes were US$597 per ounce. The reduction of total cash costs in H2 2010 (H1 US$721 per ounce) was a result of productivity improvements in both mining and process operations.

The Group's EBITDA in 2010 increased by 112.4% to US$121.3 million compared to US$57.1 million in 2009. The increase was a result of higher revenue from gold sales at MNV (increased by 26.3%) and a positive EBITDA at Novoshirokinskoye amounting to US$15.4 million.

As a result of a reassessment of the economic model for the Novoshorokinskoye joint venture project (HGML share 48.3%) the reversal of the impairment charge amounting to US$52.8 million (2009: US$22.7 million) was recognised in the Group's accounts in 2010. The main triggers for this were stronger world metal prices (gold, silver, lead and zinc) and the optimisation of mining, processing and overhead costs. The reversal of the impairment charge reflected the increase of the book value of the property, plant and equipment of the Novoshirokinskoye mine for the same amount.

The total amount of the foreign exchange loss for the year ended 31 December 2010 was US$1.8 million (2009: gain of US$20.4 million) resulting from the settlement of foreign currency transactions and from the transfer of monetary assets and liabilities denominated in foreign currencies such as Russian Roubles and Pounds Sterling into our functional currency (US$). The foreign exchange loss was affected by a slight devaluation of the Russian

Rouble closing rate by 0.77% in 2010 (2009: devaluation by 2.94%) and the devaluation of the Pound Sterling by 2.87% (2009: strengthening by 9.12%). US$1.2 million of the total foreign exchange loss (2009: gain of US$21.0 million) was attributable to the movement and translation of the Pound denominated deposits.

Finance income increased to US$13.4 million in 2010 (2009: US$7.8 million) while the finance costs were up to US$20.3 million (2009: US$4.0 million). The main change was due to the fair value re-assessment of the loans given to the Novoshorokinskoye joint venture by the Group and its partner Kazzinc, and the negative fair value movement of bonds acquired by the Group in 2009-2010. All borrowing costs related to the bank loans were capitalised both in 2010 and 2009 as the Group used the borrowed facilities to finance works on its development projects.

The income tax charge was US$22.0 million in 2010 compared to US$7.1 million the prior year. The tax charge consists of US$19.7 million of current tax expenses (US$19.4 million at MNV and US$0.3 million at RDM), adjustments in respect of the prior year income tax of US$0.1 million and of US$2.4 million as a deferred tax charge.

The Group's cash inflow from operating activities in 2010 was US$94.6 million compared to US$45.1 million in 2009. The cash flow contribution was a result of higher revenues from gold sales at MNV and from sales of concentrates at Novoshirokinskoye.

Highland Gold continued to advance its development project pipeline having invested US$36.9 million in capital expenditures (2009: US$32.0 million) including US$3.3 million at Novoshirokinskoye and US$2.2 million at Taseevskoye. Due to upgrades to mobile equipment and fixed plant the Group invested US$14.6 million at MNV. US$16.8 million was invested in advancing the Company's exploration projects and other Group entities.

The net financing cash outflows were US$72.9 million in 2010 (2009: outflow of US$61.6 million). The Group completed an early repayment of bank loans in the amount of US$66.2 million, paid bank interest of US$2.9 million and made lease payments of US$0.5 million.

Cash, short term deposits and bonds at 31 December 2010 were US$222.5 million versus US$243.0 million at 31 December 2009 while the net cash position of the Group totaled US$219.5 million versus US$176.4 million at 31 December 2009. The net cash of the Group includes cash at bank, deposits and bonds, increased by 51.7% in loans given by the Group to the Novoshirokinskoye project offset by 48.3% of the Novoshirokinskoye receipt from Kazzinc (US$1.7 million) and decreased by bank borrowings (US$4.7 million). The positive change of US$43.1 million in the net cash position was mainly a result of the higher cash inflows from operating activities.

After the year end, in January 2011 the Group made an early repayment of US$4.7 million to MDM Bank. After this repayment Highland Gold has no outstanding bank debt.

Tatyana Breeva
Chief Financial Officer

DIRECTORS' REPORT

The Directors of Highland Gold Mining Limited have pleasure in submitting their annual Directors' Report together with the audited financial statements for the year ended 31 December 2010.

REVIEW OF ACTIVITIES

Highland Gold Mining Limited ("Highland Gold" or the "Company") was incorporated in Jersey on 23 May 2002 for the principal aim of building a portfolio of gold mining operations within the Russian Federation. The Group's activities, structure and operating companies are described more fully on page 78-79 of this annual report. The Chairman's Report and the Chief Executive Officer's Report explain in detail the business developments during 2010 and future prospects. The Company's shares are quoted on the AIM market of the London Stock Exchange.

RESULTS AND DIVIDENDS

The overview of the Group's results for the period to 31 December 2010 are given in the Chief Financial Officer's Report on page 18 and 19 of this report. The Group achieved a profit for the year of US$122.3 million (2009: profit for the year of US$78.8 million). The Directors do not recommend the payment of a dividend on the ordinary shares.

ACCOUNTING POLICIES

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

DIRECTORS AND THEIR INTERESTS

The Directors in office during the year and their interests, and of persons connected with them, in the ordinary shares of the Company, and not reported previously and any changes since then to the date of this report are shown below:

Director	Ordinary shares	Ordinary shares	Available options	Available options
	At 31/12/ 2010	At 31/12/ 2009	At 31/12/2010	At 31/12/2009
Duncan Baxter	**20,000**	20,000	**300,000**	300,000
Ivan Koulakov	**17,552,500**	18,872,500	**–**	750,000
Eugene Shvidler	**26,020,000**	26,020,000	**–**	–

No other Directors have an interest in the capital of the Company.

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

CORPORATE GOVERNANCE

The Directors have implemented many of the main principles of good governance under the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 having regard to the size and nature of the activities of the Company. The Board is assisted by a number of Committees with delegated authority to review key business risks, in addition to the financial risks facing the Group in operating its business.

THE BOARD

The Board currently has seven directors, all of whom are non-executives. Two non-executive Directors, comprising the Chairman Duncan Baxter and the Senior Independent Director Terry Robinson, bring an independent outlook to the Board and provide a balance to those Directors who cannot be regarded as independent. Eugene Shvidler, Eugene Tenenbaum and Olga Pokrovskaya work for Millhouse LLC, which together with persons connected with it, owns 32% of the issued share capital of the Company. Jacques McMullen and Jim Mavor are executives of Barrick Gold Corporation of Canada ("Barrick"), which has an interest of 20.4%. The Chairman is a non-executive independent Chairman.

The Board meets on a regular basis to review the performance and the business of the Group, ensure that financing needs are appropriate and to consider development and acquisition opportunities. During the year there were eight Board and twelve Board Committee meetings.

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.

On 17 June 2010 Ivan Koulakov and Nick Nikolakakis, being one of Barrick's appointed directors, resigned as Directors. Jim Mavor as a Barrick appointee joined the Board on 16 September 2010.

The Board undertook a self assessment review in early 2011 from which there were no material issues arising. The Board will continue to undertake a review on a biannual basis provided there are no major changes to the Board at that time rendering any review ineffective.

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

It is a requirement that all Directors retire by rotation at least every three years and new appointments be confirmed at the next Annual General Meeting. Jim Mavor is due to retire by rotation and offer himself for election, and Eugene Shvidler, Eugene Tenenbaum and Terry Robinson will retire by rotation and offer themselves for re-election at the Annual General Meeting to be held on 16 June 2011. The Remuneration and Nomination Committee has agreed and recommended these appointments.

The profiles of the Non-Executive Directors are to be found on page 26 and 27 of this report.

AUDIT COMMITTEE

The Audit Committee consists of three non-executive Directors and is chaired by Terry Robinson. The Audit Committee met three times in 2010 to consider the annual and interim financial statements and the audit programme. Management are invited to attend meetings as appropriate. There are defined Terms of Reference for the Audit Committee which are reviewed by the Board on an annual basis and will be available for inspection at the Annual General Meeting. The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies, meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit Committee also considers budgets and has agreed an authorisation and expenditure policy. The Audit Committee is responsible for monitoring key risks and has implemented, through the internal audit department, a process for reporting on and monitoring those risks. The other members are Olga Pokrovskaya and Jim Mavor. Audit Committee members meet with management and the auditors on a regular basis.

REMUNERATION AND NOMINATION COMMITTEE

The Committee consists of four non-executive Directors, comprising Duncan Baxter, as Chairman, Eugene Tenenbaum, Jacques McMullen and Terry Robinson. It is responsible for reviewing the performance of executive management and, where appropriate, other senior executives, and for determining their appropriate levels of remuneration. It makes recommendations on the appointment of Directors, Chairmanship of Committees, senior management and directors to Group subsidiary companies as appropriate and monitors the composition of the Board on an ongoing basis. The Committee makes recommendations to the Board, within defined terms of reference, which the Board reviews at least annually. The Committee also examines fees in relation to non-executive remuneration and committee Chairmen. The Committee had three meetings during the year at which all members were present. Details of the Directors' remuneration are given on page 25. The Committee has considered and recommended to the Board the election and re-election of Jim Mavor, Eugene Shvidler, Eugene Tenenbaum and Terry Robinson at the forthcoming AGM.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Board has established a Health, Safety and Environmental Committee which is chaired by Olga Pokrovskaya. The other members of the Committee are Terry Robinson and Jacques McMullen. The Committee considers, in conjunction with management, development and training requirements and regulatory compliance matters related to health, safety and environmental issues. The Committee makes recommendations to the Board, within agreed terms of reference, which the Board reviews at least annually. The Committee met twice during the year. Details of the progress and performance of the Company in respect of health, safety and the environment are given in the Chief Executive Officer's report on page 7.

OTHER COMMITTEES

In addition, the Group management company in Russia, OOO Russdragmet ("RDM"), has established a risk and control platform through regular meetings. The Executive Committee meets weekly. The members include management of RDM functional departments and the General Directors of the mine sites. It is chaired by Valery Oyf, the Chief Executive Officer at RDM. Its role 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. It delegates part of its duties to three internal RDM committees; the Risk Committee; Budget Committee and Investment Committee.

INTERNAL CONTROLS

The Directors have overall responsibility for the Group's internal control and effectiveness in safeguarding the assets of the Group. Internal controls can only provide a 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 through the Audit Committee.

RELATIONS WITH SHAREHOLDERS

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

Shareholders passed a special resolution at an Extraordinary General meeting on 14 January 2008 whereby the Directors were authorised to allot and grant rights to subscribe for or to convert securities into shares of the Company up to a maximum nominal amount equal to 33% of the nominal amount of the authorised but unissued share capital of the Company, to such persons at such times and on such terms as they think proper without first making an offer to each person who holds shares in the Company. Such authority will expire at the Annual General Meeting of the Company in 2011. The Board intends to seek Shareholder approval for an extension to this authority as outlined in the Annual General Meeting notice.

SUBSTANTIAL SHAREHOLDINGS

As of close of business on 18 April 2011, the Company had been notified of the following interests, other than Directors' interests, which amounted to three per cent or more of the issued share capital of the Company;

Name of Holder	Number	Percentage
Primerod International Limited*	**105,910,000**	**32.56%**
Barrick Gold Corporation of Canada	**66,235,264**	**20.37%**
Ivan Koulakov	**17,552,500**	**5.40%**
J.P Morgan Asset Management	**12,871,040**	**3.96%**

* Primerod International Limited is the holding vehicle through which certain individual persons, managers and connected parties of OOO Millhouse, including Valery Oyf Highland's CEO, hold their 32.56% interest in the Company.

GOING CONCERN

Having made suitable enquiries and performed significant procedures, the Directors believe that it is appropriate to adopt the going concern basis in preparing the financial statements as 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. A resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING NOTICE

The Annual General Meeting will be held at 11.00 am on Thursday 16 June 2011 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is as set out on page 80 of this Annual Report.

Special business will be conducted at the meeting to give authority to the Directors to Allot Shares and dis-apply Pre-Emption Rights. A Special Resolution (as set out as Resolution 8 in the Notice of the Annual General Meeting) will be proposed to empower the Directors to allot up to 33% of the authorised but unissued share capital of the Company without having to obtain prior approval from shareholders on each occasion and to allot these Ordinary Shares without being first required to offer such shares to existing shareholders. The authority, when given, will expire at the conclusion of the Annual General Meeting in 2014.

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 law and regulations.

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the group's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

REPORT ON DIRECTORS' REMUNERATION

There were no Executive Directors during the year. Executive management have remuneration that currently comprises basic salary and bonus. In addition there is the Unapproved share option scheme and other benefits for executive management and other key personnel. The scheme is managed by the Remuneration and Nominations Committee.

No grants of options under the Unapproved share option scheme were made during the year. Management and employees were incentivised through a bonus scheme, currently of a discretionary nature. All remaining options under the scheme have vested and are exercisable up to the seventh anniversary from the date when the options were granted. The number of options outstanding at 31 December 2010, were 1,050,000 (2009: 2,022,500).

The Company does not operate a pension scheme for its employees, executive management or directors.

The remuneration paid to the current Directors in the financial period to 31 December 2010 was as follows:

	US$	US$
	2010	2009
Duncan Baxter	**500,000**	500,000
Eugene Shvidler	**100,000**	100,000
Eugene Tenenbaum	**100,000**	100,000
Olga Pokrovskaya	**125,000**	100,000
Terry Robinson	**154,165**	154,165
Jacques McMullen	**100,000**	5,645
Jim Mavor	**28,888**	–

The remuneration paid to the Directors who retired during the financial year to 31 December 2010 was as follows;

	US$	US$
	2010	2009
Ivan Koulakov	**58,333**	100,000
Nick Nikolakakis	**58,333**	100,000

The Group has entered into letters of appointment with the Directors, all of which are reviewed on an annual basis and none of which has an expiry date or notice period of more than one year. The Remuneration and Nomination Committee and Board agreed not to increase remuneration for the ensuing year or pay any ex-gratia payments for additional work undertaken during the year.

By Order of the Board
26 April 2011

DUNCAN BAXTER

Non-Executive Chairman

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

JAMES MAVOR

Non-Executive Director

James Mavor graduated in 1988 from Queen's University with a degree in Electrical Engineering. Subsequently in 1992, he completed his Chartered Accountancy. He joined Barrick in 1994 as Operations Controller and currently holds the position of Vice President and Treasurer at Barrick Gold Corporation of Canada. He joined the Highland Gold Board of directors in September 2010.

JACQUES MCMULLEN

Non-Executive Director

Jacques McMullen graduated in 1977 from Laval University (Quebec, Canada) with a degree in Metallurgical Engineering; subsequently, he completed a Master's Degree in Mineral Processing. He joined Barrick in 1994 as a result of Barrick's acquisition of LAC Minerals. With over thirty years of industrial experience, he has held numerous operating and corporate positions which have involved him internationally with cross-functional expertise applied to operations, feasibility studies, evaluations, project development and start-ups. Mr. McMullen currently holds the position of Senior Vice President, Special Projects at Barrick Gold Corporation of Canada ("Barrick"), and is based at Barrick's head office in Toronto. He joined the Highland Gold Board of directors in December 2009.

OLGA POKROVSKAYA

Non-Executive Director

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

TERRY ROBINSON

Senior Independent Director and Non-Executive Director

Terry Robinson has 40 years international business experience. He was 20 years at Lonrho PLC, the international mining and trading group. Since 1998 he has been variously occupied with international business including natural resources in the UK, Russia, the CIS and Brazil. He is a non-executive director of the LSE GDR quoted Evraz Group, the largest Russian steel producer. He is a non-executive director of the Toronto listed Katanga Mining Limited with copper and cobalt mining operations in the DRC and until recently was managing director of Interactive Records Management Ltd, a private equity controlled investment. He is a member of the Institute of Chartered Accountants of England and Wales. He joined Highland Gold Board of directors in April 2008.

EUGENE SHVIDLER

Non-Executive Director

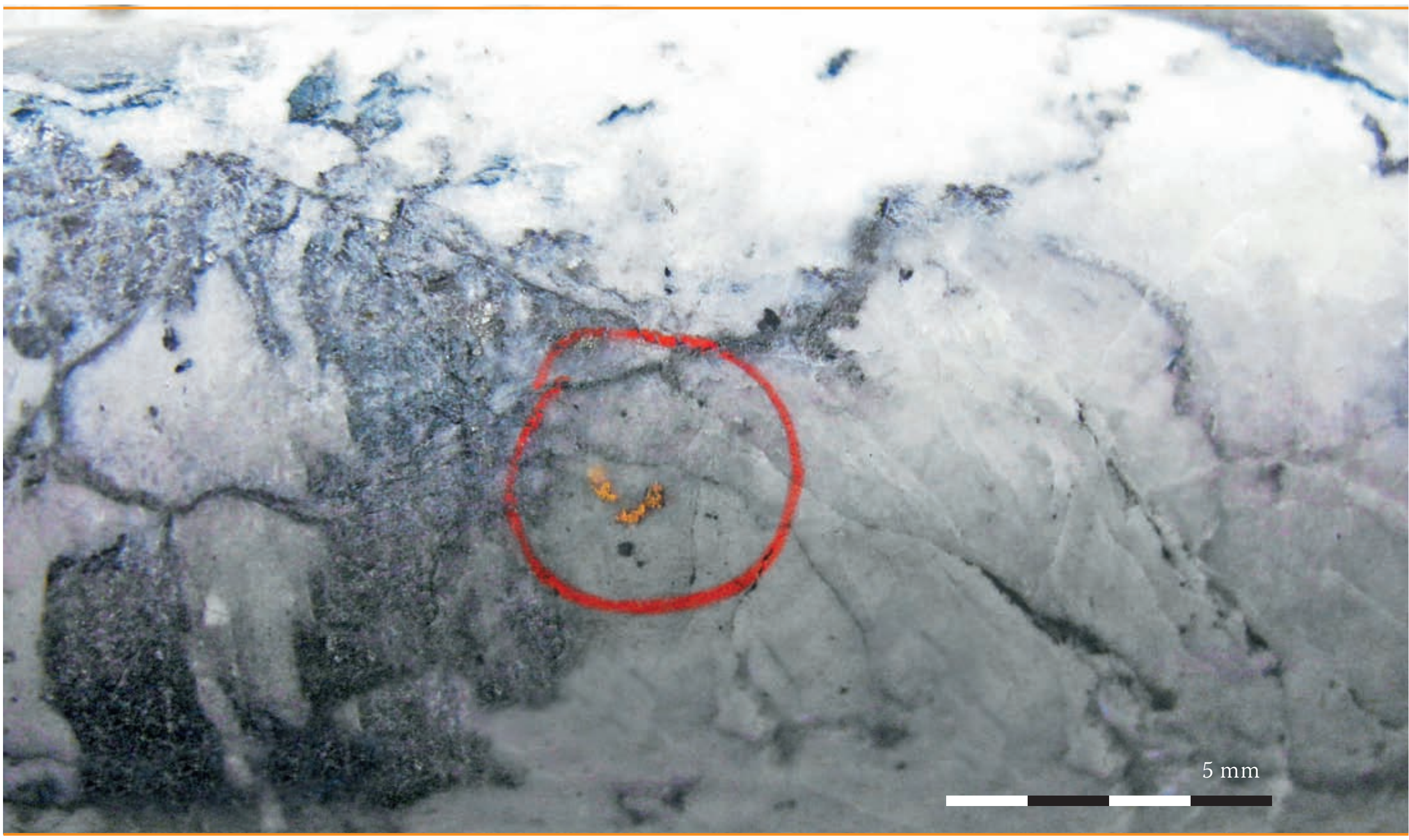
Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a masters degree in applied mathematics, and holds an MBA in finance and MS in international tax from Fordham University. He worked as senior vice president of Sibneft beginning in 1995 and served as president of the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

EUGENE TENENBAUM

Non-Executive Director

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

ACCOUNTS 2010



Visible gold in quartz vein. Drill core from hole EV-407 at 289.8 m, Evgraf target, Lyubov project

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

We have audited the financial statements of Highland Gold Mining Limited for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 37. 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.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 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 prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

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

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

Mirco Bardella
for and on behalf of Ernst & Young LLP
London
26 April 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

	Notes	2010 US$000	2009 US$000
Continuing operations			
Revenue	8	**243,629**	164,747
Cost of sales	9	**(124,264)**	(101,243)
Gross profit		**119,365**	63,504
Administrative expenses	10	**(13,092)**	(16,866)
Other operating income	11	**1,432**	2,462
Other operating expenses	12	**(7,453)**	(8,462)
Impairment reversal	5,22	**52,782**	22,655
Operating profit		**153,034**	63,293
Foreign exchange (loss)/gain	13	**(1,811)**	20,374
Finance income	14.1	**13,416**	7,792
Finance costs	14.2	**(20,308)**	(4,014)
Profit before income tax		**144,331**	87,445
Income tax expense	15	**(22,003)**	(7,050)
Profit for the period from continuing operations		**122,328**	80,395
Discontinued operation			
Loss after tax for the period from a discontinued operation	16	**–**	(1,552)
Profit for the year		**122,328**	78,843
Total comprehensive income for the year		**122,328**	78,843

Attributable to:			
Equity holders of the parent		**122,328**	78,843
Earnings per share (US$ per share)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	17	**0.376**	0.242
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	17	**0.374**	0.241
Earnings per share for continuing operations (US$ per share)			
Basic, for the profit from continuing operations attributable to ordinary equity holders of the parent	17	**0.376**	0.247
Diluted, for the profit from continuing operations attributable to ordinary equity holders of the parent	17	**0.374**	0.246
Loss per share for discontinued operations (US$ per share)			
Basic, for the profit from discontinued operations attributable to ordinary equity holders of the parent		**–**	(0.005)
Diluted, for the profit from discontinued operations attributable to ordinary equity holders of the parent		**–**	(0.005)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2010

	Notes	As at 31 December 2010 US$000	As at 31 December 2009* US$000	As at 1 January 2009* US$000
ASSETS				
Non-current assets				
Exploration and evaluation assets	18	**27,317**	30,853	27,806
Mine properties	19	**178,380**	124,898	109,308
Property, plant and equipment	20	**74,090**	57,507	123,026
Intangible assets	21	**65,231**	65,231	65,231
Financial assets	23	**30,738**	40,424	33,749
Other non-current assets		**4,305**	1,440	3,832
Deferred income tax asset	15	**941**	2,837	–
Total non-current assets		**381,002**	323,190	362,952
Current assets				
Inventories	25	**46,753**	42,857	61,466
Trade and other receivables	26	**31,663**	20,825	36,174
Income tax prepaid		**214**	2,719	889
Prepayments		**2,649**	2,335	3,108
Other financial assets	23	**4,022**	2,973	–
Investments	35	**54,902**	46,274	–
Cash and cash equivalents	27	**167,568**	196,695	173,062
Total current assets		**307,771**	314,678	274,699
Total assets		**688,773**	637,868	637,651
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital	28	**585**	585	585
Share premium		**718,370**	718,370	718,370
Assets revaluation reserve	28	**832**	832	832
Accumulated losses		**(106,231)**	(227,152)	(305,912)
Total equity		**613,556**	492,635	413,875
Non-current liabilities				
Long-term interest payable		**–**	5,031	3,216
Interest-bearing loans and borrowings	29	**29,210**	52,120	104,493
Provisions	31	**9,691**	9,492	9,278
Deferred income tax liability	15	**11,734**	11,257	12,405
Total non-current liabilities		**50,635**	77,900	129,392
Current liabilities				
Trade and other payables	30	**15,198**	13,698	41,955
Interest-bearing loans and borrowings	29	**8,524**	52,842	49,698
Income tax payable		**801**	734	624
Provisions	31	**59**	59	2,107
Total current liabilities		**24,582**	67,333	94,384
Total liabilities		**75,217**	145,233	223,776
Total equity and liabilities		**688,773**	637,868	637,651

*Certain line items have been reclassified in the statements of financial position as at 31 December 2009 and 1 January 2009. Refer to Note 3 for further details.

The financial statements were approved by the Board of Directors on 26 April 2011 and signed on its behalf by: Duncan Baxter and Olga Pokrovskaya

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Notes	Issued capital US$000	Share US$000 premium	Asset revaluation reserve US$000	Accumulated profits/(losses) US$000	Total US$000
At 1 January 2009		585	718,370	832	(305,912)	**413,875**
Profit for the year		–	–	–	78,843	**78,843**
Share-based payment	24	–	–	–	(83)	**(83)**
At 31 December 2009		585	718,370	832	(227,152)	**492,635**
Profit for the year		–	–	–	122,328	**122,328**
Share-based payment	24	–	–	–	(1,407)	**(1,407)**
At 31 December 2010		**585**	**718,370**	**832**	**(106,231)**	**613,556**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2010

	Notes	2010 US$000	2009 US$000
Operating activities			
Profit before tax from continuing operations		**144,331**	87,445
Loss before tax from discontinued operations	16	**–**	(1,552)
		144,331	85,893
Adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation of property, plant and equipment	9	**20,041**	15,817
Impairment reversal	22	**(52,782)**	(22,655)
Inventory write-down	5,12.1	**978**	646
Write-off of property, plant and equipment		**2,176**	2,057
Exploration costs write-off	12.2	**1,066**	1,584
Property, plant and equipment adjustments	19,20	**952**	–
Deferred stripping costs write-off	19	**1,792**	–
Share-based payments credit	24	**(1,407)**	(83)
Finance income	14,16	**(5,614)**	(7,797)
Bonds fair value movement	14,35	**8,739**	3,173
Finance expense	14,16	**3,394**	892
Net foreign exchange loss/(gain)	13,16	**1,811**	(19,014)
Movement in provisions		**946**	(1,017)
Accounts payable write-off	11	**(47)**	–
Fair value expense related to loans given to jointly controlled entity	14.2	**8,175**	–
Fair value gain related to receipts from Kazzinc to finance joint venture	14.1	**(7,802)**	–
Other non-cash income and expenses		**(174)**	–
Working capital adjustments:			
(Increase)/decrease in trade and other receivables and prepayments		**(15,030)**	6,153
(Increase)/decrease in inventories		**(5,881)**	13,554
Increase/(decrease) in trade and other payables		**4,099**	(23,413)
Income tax paid		**(15,143)**	(10,680)
Net cash flows from operating activities		**94,620**	45,110
Investing activities			
Proceeds from sale of property, plant and equipment		**170**	121
Proceeds received from Mayskoye disposal, net of cash disposed	16	**–**	104,719
Purchase of property, plant and equipment		**(36,944)**	(32,020)
Increase in deferred stripping costs	19	**(118)**	(1,737)
Loans given to jointly controlled entity	33	**(2,068)**	(4,860)
Interest received		**7,062**	3,481
Interest received from jointly controlled entity		**5,466**	–
Sale of investments – bonds	35	**17,401**	–
Purchase of investments – bonds	35	**(40,137)**	(49,805)
Net cash flows (used in)/from investing activities		**(49,168)**	19,899
Financing activities			
Proceeds from borrowings		**–**	53,326
Repayment of borrowings		**(66,243)**	(107,318)
Interest paid		**(2,861)**	(12,146)
Interest paid to Kazzinc		**(5,181)**	–
Receipts from Kazzinc to finance joint venture	33	**1,843**	6,133
Lease payments		**(505)**	(1,577)
Net cash flows used in financing activities		**(72,947)**	(61,582)
Net (decrease)/increase in cash and cash equivalents		**(27,495)**	3,427
Effects of exchange rate changes		**(1,632)**	20,206
Cash and cash equivalents at 1 January	27	**196,695**	173,062
Cash and cash equivalents at 31 December	27	**167,568**	196,695

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 26 April 2011. Highland Gold Mining Limited, is a public company incorporated and domiciled in Jersey. Its ordinary shares are traded on the Alternative Investment Market ("AIM").

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments and certain fixed assets that have been measured at fair value. The consolidated financial statements are presented in US dollars, which is the Group's functional and presentation currency. All values are rounded to the nearest thousand (US$000) except when otherwise indicated.

Statement of compliance

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

Basis of consolidation

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of 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.

When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Foreign currency translation

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

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

	31 December 2010	31 December 2009
Average		
RUR	**30.377**	31.767
GBP	**0.647**	0.641
Closing		
RUR	**30.477**	30.244
GBP	**0.646**	0.628

INTEREST IN A JOINT VENTURE

The Group has a contractual agreement with Kazzinc which represents a joint venture entity.

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

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

PROPERTY, PLANT AND EQUIPMENT

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.

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

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

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

Before 2010 depreciation of mineral properties at MNV has been calculated based on a JORC report with estimated economically recoverable reserves up to 2012. During 2010 mineral properties were depreciated based on a new draft JORC report (with revaluated economically recoverable reserves up to 2014). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2016).

The expected useful lives are as follows:

Buildings	7–16 years
Plant and Equipment	1–16 years

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.

Exploration and evaluation expenditure

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

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

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

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

these costs are carried forward provided that at least one of the conditions outlined above is met.
Expenditure is transferred to mine development assets once the work completed to date supports the future development of the property and such development receives appropriate approvals.

MINE DEVELOPMENT EXPENDITURE

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

MINERAL PROPERTIES

The development costs are transferred to the mineral properties category when the asset is available for use; this is when commercial levels of production are achieved. The restoration provision cost is capitalised within mine assets. The cost of acquiring mine assets after the start of production is capitalised on the statement of financial position as incurred. Mine assets are amortised using the units-of-production method based on estimated proven and probable mineral reserves. The net carrying amounts of mine assets 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.

MINERAL RIGHTS

The cost of acquiring rights on mineral reserves and mineral resources including directly attributable expenses is capitalised on the statement of financial position as incurred and included in the mineral rights category. Mineral rights are amortised using the units-of-production method based on estimated proven and probable mineral reserves. The net carrying amounts of 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 in the statement of comprehensive income in the financial year in which this is determined.

STRIPPING COSTS

Stripping costs incurred in open-pit operations during the production phase to remove waste ore are charged to operating costs on the basis of the average life of mine stripping ratio and the average life of mine cost per cubic metre. The average stripping ratio is calculated as the number of cubic metres of waste material expected to be removed during the life of mine per ounce of gold mined. The average life of mine cost per cubic metre is calculated as the total expected costs to be incurred to mine the ore body, divided by the number of cubic metres expected to be mined. The average life of mine stripping ratio and the average life of mine cost per cubic metre are recalculated annually in the light of additional knowledge and changes in estimates.
The cost of the "excess stripping" is capitalised on the statement of financial position when the actual mining costs exceed the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonnes multiplied by the average life of mine stripping ratio, multiplied by the life of mine cost per cubic metres. When the actual mining costs are

below the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonne multiplied by the average life of mine stripping ratio, multiplied by the life of mine cost per cubic metres, previously capitalised costs are expensed to increase the cost up to the average.

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

IMPAIRMENT

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

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

CONSTRUCTION WORK IN PROGRESS

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

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

LEASES

Operating leases

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

Finance lease

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

Goodwill

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

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

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.
For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the statement of comprehensive income.
Further information is contained in Note 21.

FINANCIAL INSTRUMENTS

Financial instruments classification and recognition

Financial assets and liabilities are recognised when the Group becomes party to the contracts that give rise to them. The Group determines the classification of its financial assets and liabilities at initial recognition (which in the case of financial assets existing at the transition date, includes designation at that date) and, where allowed and appropriate, re-evaluates this designation at each financial year end. When financial assets and liabilities are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.
Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. Where as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, the investment is reclassified into the available-for-sale category.
Currently the Group does not have held-to-maturity investments or available-for-sale financial assets.

Loans and receivables

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

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

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

Where the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, it continues to recognise the financial asset to the extent of its continuing involvement in the asset.
A financial liability is derecognised when the obligation under the liability is discharged or is cancelled or expires. Gains on derecognition are recognised within finance revenue and losses within finance costs.

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

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

INVENTORIES

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

The inventories are segregated by the following:

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

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

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 presented in the notes as share premium.

VALUE ADDED TAX

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

BORROWINGS

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

TRADE AND OTHER PAYABLES

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

PROVISIONS FOR LIABILITIES AND CHARGES

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

ENVIRONMENTAL PROTECTION, REHABILITATION AND CLOSURE COSTS

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

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

REVENUE RECOGNITION

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Gold sale revenue is recognised when the product has been dispatched to the purchaser and is no longer under the physical control of the producer.

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

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

Adjustments for prices are calculated using the actual prices available at the reporting date and future contract prices (3 months futures). Adjustments for volumes (metal grades in concentrates) are based on the available actual test results. No corrections are made in respect of periods where no final test results are available.

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

EMPLOYEE BENEFITS

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

PENSION PLAN

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

SHARE BASED PAYMENTS

Equity-settled transactions

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

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

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

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

Cash-settled transactions

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

EARNINGS PER SHARE

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

INCOME TAXES

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

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

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

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

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

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

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

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

RECLASSIFICATIONS

Some reclassifications were made in the statement of financial position items as at 31 December 2009 and 1 January 2009 to keep the presentation form consistent with 2010 presentation. As a result of the reclassifications, exploration and evaluation assets were decreased by US$0.1 million (1 January 2009: US$nil), mine properties were decreased by US$nil (1 January 2009: US$0.1 million), property, plant and equipment was decreased by US$1.3 million (1 January 2009: US$1.9 million) and other non-current assets were increased by US$1.4 million (1 January 2009: US$2.0 million). Salaries payable were decreased by US$0.6 million (1 January 2009: US$0.7 million) with the simultaneous increase to other taxes payable by US$0.6 million (1 January 2009: US$0.7 million) due to allocation of social taxes related to outstanding vacations.

NEW STANDARDS

The accounting policies adopted in the preparation of the Group‘s annual financial statements for the year ended 31 December 2010 are consistent with those followed in the preparation of the Group‘s annual financial statements for the year ended 31 December 2009, except for the adoption of new standards and interpretations as of 1 January 2010, noted below:

IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The adoption of this amendment did not have any impact on the financial position or the performance of the Group.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The adoption of this interpretation did not have any impact on the financial position or the performance of the Group.

The IASB and IFRIC have issued the following standards and interpretations with effective dates that are subsequent to 1 January 2010. Consequently, these pronouncements will impact the Group's financial statements in future periods.

	Effective date
IAS 24 'Related Party Disclosures (Amendment)'	1 January 2011
IFRS 9 'Financial Instruments: Classification and Measurement'	1 January 2013
IFRIC 14 'Prepayments of a Minimum Funding Requirement (Amendment)	1 January 2011
IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'	1 July 2010
IAS 32 'Financial Instruments: Presentation' (Amendment)	1 February 2010
IFRS 7 'Financial Instruments: Disclosures' (Amendment)	1 July 2011
IAS 12 'Income Taxes' (Amendment)	1 January 2012

With the exception of IFRS 9, the Directors do not anticipate that the adoption of these standards and interpretations on their effective dates will have a material impact on the Group's financial statements in the period of initial application. The Group will quantify the effect of IFRS 9 in conjunction with other phases, when issued, to present a comprehensive picture.

The annual financial statements of the Group were prepared in accordance with International Financial Reporting Standards as issued by the European Union.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of goodwill

The Group tests goodwill for impairment at least annually. Notes 21 and 22 outline the significant judgements and estimations made when preparing impairment tests of non-current assets.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Please refer to Note 32 for details.

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

Deferred income tax asset recognition

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

Site restoration provision

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

Discount rates affecting impairment calculations

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

Inventory obsolescence

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

Going concern

Management considered that the Group will continue as a going concern. In making this judgement management considered current intentions and financial position of the Group.
The Group meets its day to day working capital requirements through its positive cash balance and bank facilities. The current economic conditions create a stability regarding the demand for and prices of gold.
The Group's forecasts and projections, taking account of reasonably possible changes in market opportunities, show that the Group has adequate resources to continue the operational existence for the foreseeable future.

Determination of ore reserves and resources

The Group estimates its ore reserves and mineral resources in accordance with the rules and requirements of the Russian State Committee for Reserves (GKZ) as well as in accordance with JORC.
Reserves and resources estimated in accordance with JORC have been used in the units of production calculation for depreciation, as management views the JORC reserves as a more accurate approximation of the reserves that will ultimately be recovered.
There are numerous uncertainties inherent in estimating ore reserves. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may ultimately result in the reserves being restated.

Exploration and evaluation expenditure

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

5. INTEREST IN A JOINT VENTURE

The Group has a 48.3% interest in OAO Novoshirokinskoye ("Novo"). On 1 December 2006 the Group signed a joint venture agreement with Kazzinc with the purpose of further developing the Novoshirokinskoye polymetallic deposit. The interest in this joint venture is accounted using the proportionate method of consolidation.

The revised valuation of Novoshirokinskoye mine accompanied by the strengthening world metal prices led to a decision to commission the mine in October 2009.

The share of the assets, liabilities, income and expenses of the jointly controlled entity at 31 December 2010 and 2009 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2010 US$000	2009 US$000	2009 (as reported) US$000
Current assets	**11,912**	5,067	5,067
Non-current assets*	**97,760**	45,992	39,758
Total	**109,672**	51,059	44,825
Current liabilities	**(10,331)**	(4,087)	(42,681)
Non-current liabilities**	**(31,733)**	(40,237)	(1,643)
Total	**(42,064)**	(44,324)	(44,324)
Net assets	**67,608**	6,735	501
Revenue	**34,190**	98	98
Cost of sales	**(20,711)**	(580)	(580)
Administrative expenses	**(418)**	(6)	(6)
Impairment reversal	**52,782**	22,655	22,655
WIP write-down	**-**	(646)	(646)
Obsolescence provision change	**(340)**	-	-
Foreign exchange gain/(loss)	**25**	(89)	(89)
Finance costs	**(2,792)**	(113)	(113)
Gain on modification of terms of loan **	**7,802**	-	-
Other income	**298**	156	156
Other operating expenses	**(371)**	(273)	(273)
Profit before tax	**70,465**	21,202	21,202
Income tax (charge)/credit	**(2,498)**	3,439	3,439
Profit after tax	**67,967**	24,641	24,641

**The share of non-current assets of the jointly controlled entity was increased by the amount of capitalised borrowing costs on Group bank loans (US$6,2 million).*

*** The share of non-current liabilities of the jointly controlled entity includes receipts from Kazzinc to finance the joint venture both in 2009 and 2010. Gain on modification of terms of loan in 2010 (US$7.8 million) relates to receipts from Kazzinc to finance the joint venture. Loans given by the Group to the jointly controlled entity in the amount of US$34.8 million are included in investments and other financial assets. Interest income related to loans given to the jointly controlled entity (US$2.9 million) is shown as part of finance income (Note 14.1). Fair value expense related to loans given to jointly controlled entity (US$8.2 million) is shown as part of finance costs (Note 14.2).*

The increased fair value of Novoshirokinskoye mine indicated an impairment reversal in the amount of US$52.8 million recognised as income in 2010 (2009: US$22.7 million). Please refer to Note 22.

In 2010 lead and zinc concentrates as well as the stock-piled low grade ore have been tested for impairment and no additional WIP write-down was recognised in 2010 (2009: US$0.6 million).

6. SEGMENT INFORMATION

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

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

Management monitors the gold production segment, namely Mnogovershinnoye and Belaya Gora, for the purpose of making decisions about resource allocation and evaluating the effectiveness of its activity. To keep the presentation form consistent with 2010 presentation, Belaya Gora was reclassified from the development and exploration segment to the gold production segment in segment information for 2009 given it began production during 2010.

The polymetallic concentrate production segment, namely Novoshirokinskoye, was commissioned in October 2009. Management analyses it separately due to the fact that the nature of its activities differs from the gold production process.

The development and exploration segment contains the holders of the licenses being in the development and exploration stage.

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

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

The following tables present revenue, EBITDA, profit and loss and asset information for the Group's operating segments.

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

Non-current financial assets include long-term loans given to a jointly controlled entity that are not allocated to operating segments.

Revenue from two customers was greater than 10% of total revenues.

Year ended 31 December 2010	Gold production segment US$000	Polymetallic concentrate production segment US$000	Development & exploration US$000	Other US$000	Adjustments and eliminations US$000	Total US$000
Revenue						
Gold revenue	**202,905**	–	–	–	–	**202,905**
Silver revenue	**1,437**	–	–	–	–	**1,437**
Concentrate revenue	–	**33,983**	–	–	–	**33,983**
Other third-party	**7**	**207**	**2**	**5,088**	–	**5,304**
Inter-segment	**271**	–	**203**	**12,557**	**(13,031)**	–
Total revenue	**204,620**	**34,190**	**205**	**17,645**	**(13,031)**	**243,629**
Cost of sales	**100,135**	**20,703**	**37**	**3,389**	–	**124,264**
EBITDA	**106,303**	**15,350**	**(924)**	**542**	–	**121,271**
Other segment information						
Depreciation	**(16,893)**	**(2,696)**	–	**(452)**	–	**(20,041)**
Impairment reversal (Note 5)	–	**52,782**	–	–	–	**52,782**
WIP write-down	**(978)**	–	–	–	–	**(978)**
Net finance expenses including foreign exchange						**(8,703)**
Profit from continuing operations before income tax						**144,331**
Income tax						**(22,003)**
Profit for the period from continuing operations						**122,328**
Segment assets at 31 December 2010						
Non-current assets						
Capital expenditure*	**78,942**	**96,739**	**102,543**	**1,563**	–	**279,787**
Goodwill	**22,253**	–	**42,978**	–	–	**65,231**
Non-current financial assets						**30,738**
Other non-current assets						**5,246**
Current assets**						**307,771**
Total assets						**688,773**
Capital expenditure – addition in 2010, including:	**20,350**	**3,292**	**12,191**	**4,074**	–	**39,907**
Deferred stripping costs	**118**	–	–	–	–	**118**
Capitalised interest	**603**	–	**2,153**	–	–	**2,756**
Capitalised expenses	**89**	–	–	–	–	**89**

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

***Current assets include corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash and cash equivalents of US$168 million (2009: US$197 million), investments of US$55 million (2009: US$46 million), inventories of US$47 million (2009: US$43 million), trade and other receivables of US$32 million (2009: US$21 million), and other assets of US$6 million (2009: US$8 million).*

Year ended 31 December 2009	Gold production segment US$000	Polymetallic concentrate production segment US$000	Develop-ment & exploration US$000	Other US$000	Adjustments and eliminations US$000	Total US$000
Revenue						
Gold revenue	159,618	–	–	–	–	159,618
Silver revenue	1,281	–	–	–	–	1,281
Other third-party	6	98	71	3,673	–	3,848
Inter-segment	140	–	3	14,017	(14,160)	–
Total revenue	161,045	98	74	17,690	(14,160)	164,747
Cost of sales	96,892	580	57	4,991	(1,277)	101,243
EBITDA	68,596	(604)	(99)	(10,999)	207	57,101
Other segment information						
Depreciation	(15,262)	–	–	(555)	–	(15,817)
Impairment reversal (Note 5)	–	22,655	–	–	–	22,655
WIP write-down (Note 5)	–	(646)	–	–	–	(646)
Net finance revenue including foreign exchange						24,152
Profit from continuing operations before income tax						87,445
Income tax						(7,050)
Profit for the period from continuing operations						80,395
Segment assets at 31 December 2009						
Non-current assets						
Capital expenditure*	77,297	42,760	91,311	1,890	–	213,258
Goodwill	22,253	–	42,978	–	–	65,231
Non-current financial assets						40,424
Other non-current assets						4,277
Current assets						314,678
Total assets						637,868
Capital expenditure – addition in 2009, including:	27,239	12,294	7,090	3,921	–	50,544
Deferred stripping costs	1,737	–	–	–	–	1,737
Capitalised interest	–	10,826	5,456	–	–	16,282
Mayskoye capitalised expenses	–	–	–	–	–	505

**Capital expenditure is the sum of exploration and evaluation assets, mine properties and property, plant and equipment. All revenue and assets are located in CIS.*

7. AUDITORS' REMUNERATION

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

	Ernst & Young		Others	
	2010 US$000	2009 US$000	2010 US$000	2009 US$000
Audit of the Group financial statements	**965**	992	**–**	–
Other fees to auditors:				
– Local statutory audits for subsidiaries	**55**	30	**64**	70
– Fees in relation to previous year Group audit	**10**	4	**–**	–
	1,030	1,026	**64**	70

8. REVENUE

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

	2010 US$000			2009 US$000		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
Gold sales	**202,905**	**–**	**202,905**	159,618	–	159,618
Concentrate sales	**33,983**	**–**	**33,983**	–	–	–
Silver sales	**1,437**	**–**	**1,437**	1,281	–	1,281
Other sales	**5,304**	**–**	**5,304**	3,848	244	4,092
	243,629	**–**	**243,629**	164,747	244	164,991

9. COST OF SALES

Continuing operations	2010 US$000	2009 US$000
Operating costs	**23,362**	22,551
Employee benefits expense	**30,192**	21,163
Depreciation, depletion and amortisation	**20,041**	15,817
Raw materials and consumables used	**35,407**	31,186
Taxes other than income tax	**15,262**	10,526
	124,264	101,243
Depreciation of owned assets	**17,696**	13,893
Depreciation of leased assets	**2,345**	1,924
	20,041	15,817

10. ADMINISTRATIVE EXPENSES

Included in administrative expenses:

Continuing operations	2010 US$000	2009 US$000
Selling and distribution expenses	**2,047**	1,454
Minimum lease payments recognised as an operating lease expense	**985**	2,682
Auditors' fee	**1,094**	1,096
Salaries and wages	**1,216**	1,377
Share-based payments credit	**(1,407)**	(83)

11. OTHER OPERATING INCOME

Continuing operations	2010 US$000	2009 US$000
Legal provision movement	–	2,073
Other income	**1,385**	389
Accounts payable write-off	**47**	–
Total other operating income	**1,432**	2,462

12. OTHER OPERATING EXPENSES

Continuing operations	Notes	2010 US$000	2009 US$000
Inventory write-down	12.1	**978**	646
Exploration licenses write-off	12.2	**1,066**	1,584
Fixed assets write-off	12.3	**2,176**	2,005
Property, plant and equipment adjustments		**952**	–
Donations		**353**	202
Contract termination penalty	12.4	–	2,726
Movements in inventory obsolescence provision		**900**	643
Other		**1,028**	656
Total other expenses		**7,453**	8,462

12.1. Inventory write-down

In 2010 stock-piled low grade ore has been tested for impairment at Belaya Gora. The balance of WIP in the amount of US$0.98 million has been written down in 2010 (2009: Novo WIP write-down of US$0.6 million).

12.2. Exploration licenses write-off

During 2010, following the receipt of unsuccessful drilling results, the capitalised costs related to the Mnogovershinnoye ore bodies in the amount of US$0.3 million (2009: the capitalised costs related to the Mnogovershinnoye ore field in the amount of US$1.6 million) have been written-off to the statement of comprehensive income. Write-off of exploration licenses associated with the Iska (US$0.8 million) license was recognised in 2010 due to negative drilling results.

12.3. Asset write-off

In 2010 US$2.2 million (2009: US$1.1 million) write off relates to retirement of old inefficient equipment. In 2009 US$0.9 million of the write-off related to leasehold improvements on the terminated Russdragmet operating lease contract.

12.4. Contract termination penalty

In 2009 the termination of Russdragmet operating lease contract caused the termination penalty of US$2.7 million.

13. FOREIGN EXCHANGE GAINS AND LOSSES

The total amount of foreign exchange loss for the year ended 31 December 2010 was US$1.8 million (2009: gain of US$20.4 million) resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies such as Russian Roubles and pounds into the functional currency.

14. FINANCE INCOME AND COSTS

14.1 Finance income

Continuing operations	2010 US$000	2009 US$000
Interest from joint venture	**2,936**	4,788
Gain on modification of terms of loan from Kazzinc	**7,802**	–
Bank interest	**2,678**	3,004
Total finance revenue	**13,416**	7,792

14.2. Finance costs

Continuing operations	2010 US$000	2009 US$000
Write off of deferred financing costs	**59**	311
Interest expense – related party (Note 33)	**2,792**	–
Finance charges payable under finance leases and hire purchase contracts	**33**	153
Loss on modification of terms on loans to jointly controlled entity	**8,175**	–
Bonds fair value movement (Note 35)	**8,739**	3,173
Accretion expense on site restoration provision	**510**	377
Total finance costs	**20,308**	4,014

From the beginning of 2010 the terms of original loan agreements of Kazzinc and HGML for financing joint venture Novoshirokinsky rudnik have changed. The change of terms included revision of interest rates and re-schedule of repayment. As the discounted present value of the cash flows under the new terms using the original effective interest rate was more than 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability, the new terms are considered as substantially different. Such changes in existing debt instrument were accounted for as an extinguishment of the original financial assets and liabilities and recognition of new ones. Costs connected with the modifications were recognised as part of the extinguishment in the statement of comprehensive income.

The carrying amount of financial assets and liabilities was adjusted to the present values of all future cash receipts and repayments under new terms using market rate of 8.5%. This resulted in a decrease of Kazzinc loans received by US$7.8 million (48.3%) and a decrease of loans issued by the Group to Novo by US$8.2 million (51.7%). These differences were recognised as fair value gain and fair value expense within finance income and finance costs in the statement of comprehensive income.

15. INCOME TAX

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

	2010 US$000	2009 US$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	**19,727**	10,808
Adjustments in respect of prior year current tax	**(97)**	227
	19,630	11,035
Deferred income tax:		
Relating to origination and reversal of temporary differences	**2,373**	(3,985)
Income tax expense reported in the statement of comprehensive income	**22,003**	7,050

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by Russian statutory tax rate of 20% for the year ended 31 December 2010 and 2009 is as follows:

	2010 US$000	2009 US$000
Accounting profit before tax from continuing operations	**144,331**	87,445
Loss before tax from a discontinued operation	**–**	(1,552)
Accounting profit before income tax	**144,331**	85,893
At Russian statutory income tax rate of 20%	**28,866**	17,179
Non-deductible expenses	**1,607**	1,595
Gain on impairment reversal at Novo	**(10,556)**	(4,531)
Lower tax rates on overseas earnings and disposals	**1,016**	(5,580)
Unrecognised losses/(recognised losses)	**1,171**	(1,373)
Movements in other unrecognised temporary differences	**(4)**	(467)
Adjustments in respect of prior year current tax	**(97)**	227
Income tax expense	**22,003**	7,050
Income tax expense reported in the consolidated statement of comprehensive income	**22,003**	7,050

DEFERRED INCOME TAX

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		Mayskoye disposal	
	2010 US$000	2009 US$000	2010 US$000	2009 US$000	2010 US$000	2009 US$000
Deferred income tax liability						
Property, plant and equipment	**(23,542)**	(17,482)	**6,060**	7,929	**–**	(8,116)
Inventory	**(3,174)**	(1,923)	**1,251**	(1,687)	**–**	–
Accounts receivable and other debtors	**(600)**	(74)	**526**	(122)	**–**	–
Finance lease obligations	**–**	(16)	**(16)**	16	**–**	–
Deferred financing costs	**–**	(12)	**(12)**	(43)	**–**	–
	(27,316)	(19,507)	**7,809**	6,093	**–**	(8,116)
Deferred income tax assets						
Accounts receivable and other debtors	**–**	–	**–**	–	**–**	29
Inventory	**113**	178	**65**	(534)	**–**	6,769
Finance lease obligations	**–**	–	**–**	172	**–**	–
Provisions for liabilities and charges	**1,931**	1,874	**(57)**	(365)	**–**	–
Trade accounts and notes payable	**786**	713	**(73)**	(6)	**–**	1,177
Other accounts payable and accrued liabilities	**–**	–	**–**	–	**–**	141
Tax losses	**13,693**	8,322	**(5,371)**	(9,345)	**–**	–
	16,523	11,087	**(5,436)**	(10,078)	**–**	8,116
Net deferred income tax liabilities	**(10,793)**	(8,420)	**2,373**	(3,985)	**–**	–

	2010 US$000	2009 US$000
Deferred income tax assets	**941**	2,837
Deferred income tax liabilities	**(11,734)**	(11,257)
Deferred tax liabilities net	**(10,793)**	(8,420)

No deferred tax benefits are recognised in relation to site restoration provisions and obsolescence provisions. Restoration expenses are tax deductible when incurred. However, it is not certain that there will be sufficient income towards the end of the mine's life against which the restoration expenditure can be offset and therefore future tax relief has not been assumed.
The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the site restoration provision at 31 December 2010 is US$7.5 million (31 December 2009: US$8.4 million).
No deferred tax benefit is recognised in relation to the provision for obsolete inventory. These materials are unlikely to be used for production purposes in the future and therefore future tax relief is not assumed. The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the obsolescence provision at 31 December 2010 is US$9.4 million (31 December 2009: US$8.5 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 2010 is US$21.8 million (31 December 2009: US$49.9 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.
According to Russian tax legislation, tax losses expire if not utilised within 10 years of accruing.
At 31 December 2010, there was no recognised deferred tax liability (2009: nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries, or its interest in the Novo joint venture, as:

- the Group has determined that undistributed profits of its subsidiaries and its interest in the Novo joint venture will not be distributed in the foreseeable future.

The temporary differences associated with investments in subsidiaries and the joint venture, for which deferred tax liability has not been recognised aggregate to US$188.1 million (2009: US$87.5 million).
The total deferred tax liabilities arising from these temporary differences should be between US$0 and US$28.2 million (2009: US$0 and US$4.5 million), depending on the manner in which the investments are ultimately realised.
With effect from the 2009 year of assessment Jersey abolished the exempt company regime for existing companies. Profits arising in the Company for the 2009 year of assessment will be subject to tax at the standard rate of 0%. Prior to 1 January 2009, the Company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended.

16. DISCONTINUED OPERATIONS

On 29 April 2009, the Board of Directors of Highland Gold Mining Limited publicly announced that it has sold the issued share capital of its subsidiary Zolotorudnaya Kompaniya Mayskoye Limited Liability Company ("Mayskoye") for a net cash consideration of US$104.7 million to a group of Russian companies, one of which is JSC Polymetal and none of which were connected with any of Highland Gold's directors or major shareholders. The transaction was completed on 28 April 2009.
The results of Mayskoye are as follows:

	2009 US$000
Revenue	**244**
Expenses	**(293)**
Gross loss	**(49)**
Administrative costs	**(100)**
Other operating income	**3**
Operating loss	**(146)**
Finance income	**5**
Finance costs	**(51)**
Exchange loss	**(1,360)**
Loss before tax from discontinued operation	**(1,552)**
	–
Loss after tax for the period from discontinued operation	**(1,552)**
Loss per share from discontinued operation:	
Basic	**(0.005)**
Diluted	**(0.005)**

The carrying values of the major classes of assets and liabilities of Mayskoye at its disposal date were as follows:

	28 April 2009 US$000
Property, plant and equipment	**100,452**
Inventory	**3,767**
Trade and other receivables	**8,198**
Cash	**281**
Total assets	**112,698**
Non-current liabilities	**–**
Current liabilities	**(7,698)**
Net Assets	**105,000**

Net result from Mayskoye in 2009 was as follows:

	2009 US$000
Proceeds from Mayskoye disposal	**105,000**
Mayskoye's net assets disposed	**(105,000)**
Loss for the period from a discontinued operation	**(1,552)**
Net result from Mayskoye	**(1,552)**

Cash inflow on sale:

	US$000
Consideration received	**105,000**
Net cash disposed of with the discontinued operation	**(281)**
Net cash inflow from disposal	**104,719**

17. EARNINGS PER SHARE

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

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

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

	2010 US$000	2009 US$000
Net profit attributable to ordinary equity holders of the parent from continuing operations	**122,328**	80,395
Loss attributable to ordinary equity holders of the parent from a discontinued operation	**–**	(1,552)
Net profit attributable to ordinary equity holders of the parent	**122,328**	78,843
	Thousands	Thousands
Weighted average number of ordinary shares for basic earnings per share	**325,197**	325,197
Effect of dilution:		
Share options	**1,448**	2,141
Weighted average number of ordinary shares adjusted for the effect of dilution	**326,645**	327,338

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

18. EXPLORATION AND EVALUATION ASSETS

	US$000
Cost as at 1 January 2009	**27,806**
Additions*	**4,631**
Unsuccessful exploration expenditure derecognised (Note 12.2)	**(1,584)**
Cost as at 31 December 2009	**30,853**
Additions	**11,527**
Unsuccessful exploration expenditure derecognised (Note 12.2)	**(1,066)**
Transfer to development (Belaya Gora)	**(13,997)**
Cost as at 31 December 2010	**27,317**
Net book value as at 31 December 2009	**30,853**
Net book value as at 31 December 2010	**27,317**

**Additions for 2009 were decreased by the amount of US$0.1 million to keep the presentation form consistent with 2010.*

Unsuccessful exploration and evaluation expenditure has been recognised in 'other operating expenses' in the statement of comprehensive income in the amount of US$1.07 million (2009: US$1.58 million).

19. MINE PROPERTIES

	Mining US$000	Deferred stripping costs US$000	Total US$000
Cost as at 1 January 2009	**359,295**	**55**	**359,350**
Reclassification*	**(38,415)**	**–**	**(38,415)**
Cost as at 1 January 2009 (after reclassification)	**320,880**	**55**	**320,935**
Additions**	**29,360**	**1,737**	**31,097**
Transfers	**5,830**	**–**	**5,830**
Write-off	**(9)**	**–**	**(9)**
Capitalised depreciation	**46**	**–**	**46**
Disposal of Mayskoye	**(153,013)**	**–**	**(153,013)**
Change in estimation	**(41)**	**–**	**(41)**
Cost as at 31 December 2009	**203,053**	**1,792**	**204,845**
Additions**	**9,434**	**118**	**9,552**
Transfers	**20,198**	**–**	**20,198**
Write-off	**(633)**	**–**	**(633)**
Deferred stripping write-off	**–**	**(1,792)**	**(1,792)**
Capitalised depreciation	**44**	**–**	**44**
Change in estimation – site restoration asset	**136**	**–**	**136**
Other adjustments	**642**	**–**	**642**
Cost as at 31 December 2010	**232,874**	**118**	**232,992**
Depreciation and impairment as at 1 January 2009	**249,986**	**–**	**249,986**
Reclassification*	**(38,360)**	**–**	**(38,360)**
Depreciation and impairment as at 1 January 2009 (after reclassification)	**211,626**	**–**	**211,626**
Provided during the year	**9,845**	**–**	**9,845**
Impairment reversal	**(14,968)**	**–**	**(14,968)**
Mayskoye impairment (per note 16)	**(114,065)**	**–**	**(114,065)**
Impairment transfer	**(12,491)**	**–**	**(12,491)**
Depreciation and impairment as at 31 December 2009	**79,947**	**–**	**79,947**
Provided during the year	**12,471**	**–**	**12,471**
Write-off	**(20)**	**–**	**(20)**
Impairment reversal	**(33,348)**	**–**	**(33,348)**
Impairment transfer	**(4,438)**	**–**	**(4,438)**
Depreciation and impairment as at 31 December 2010	**54,612**	**–**	**54,612**
Net book value as at 31 December 2009	**123,106**	**1,792**	**124,898**
Net book value as at 31 December 2010	**178,262**	**118**	**178,380**

**As a result of the reclassifications, cost as at 1 January 2009 was decreased by the amount of US$38.4 million and depreciation and impairment as at 1 January 2009 was decreased by the amount of US$38.4 million.*

***Additions for 2009 were increased by the amount of US$0.1 million to keep the presentation form consistent with 2010.*

Additions for 2010 include US$2.8 million of borrowing costs capitalised during the period (2009: $16.3 million). The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation are as follows:

	2010	2009
Loans	**7.5%**	9.25%

20. PROPERTY, PLANT AND EQUIPMENT

	Freehold building US$000	Plant and equipment US$000	Construction in progress US$000	Total US$000
Cost				
At 1 January 2009	40,993	94,383	64,506	199,882
Reclassification*	(16,841)	(12,650)	(8,670)	(38,161)
At 1 January 2009 (after reclassification)	24,152	81,733	55,836	161,721
Additions**	–	3,058	11,760	14,818
Transfers	9,268	2,494	(17,592)	(5,830)
Write-off	(1)	(1,674)	–	(1,675)
Disposals	(1)	(2,708)	–	(2,709)
Mayskoye (per note 16)	(9,383)	(18,096)	(37,392)	(64,871)
At 31 December 2009	24,035	64,807	12,612	101,454
Additions	–	7,231	11,597	18,828
Transfers	3,944	7,418	(17,563)	(6,201)
Other adjustments	(1,773)	(19)	198	(1,594)
Write-off	–	(4,298)	(15)	(4,313)
Disposals	–	(613)	(9)	(622)
At 31 December 2010	26,206	74,526	6,820	107,552
Depreciation				
At 1 January 2009	24,949	43,237	6,746	74,932
Reclassification*	(16,841)	(12,650)	(6,746)	(36,237)
At 1 January 2009 (after reclassification)	8,108	30,587	–	38,695
Provided during the year	634	5,338	–	5,972
Write-off	–	(758)	–	(758)
Disposals	(1)	(1,456)	–	(1,457)
Mayskoye (per note 16)	(652)	(2,715)	–	(3,367)
Impairment reversal	(4,008)	(3,679)	–	(7,687)
Impairment transfer	9,267	3,224	–	12,491
Capitalised depreciation	7	51	–	58
At 31 December 2009	13,355	30,592	–	43,947
Provided during the year	1,049	6,521	–	7,570
Write-off	–	(2,750)	–	(2,750)
Disposals	–	(354)	–	(354)
Impairment reversal	(10,388)	(9,046)	–	(19,434)
Impairment transfer	2,195	1,540	703	4,438
Capitalised depreciation	8	37	–	45
At 31 December 2010	6,219	26,540	703	33,462
Net book value:				
At 31 December 2009	10,680	34,215	12,612	57,507
At 31 December 2010	19,987	47,986	6,117	74,090

**As a result of the reclassifications, cost as at 1 January 2009 was decreased by the amount of US$38.2 million and depreciation and impairment as at 1 January 2009 was decreased by the amount of US$36.2 million.*

***Additions for 2009 were increased by the amount of US$0.6 million to keep the presentation form consistent with 2010.*

At 31 December 2010 US$14.5 million (2009: US$16.8 million) of plant and equipment costs relate to assets under finance lease with accumulated depreciation of US$12.8 million (2009: US$12.5 million). No plant and equipment has been pledged as security for bank loans (2009: US$10.0 million).

21. INTANGIBLE ASSETS

Intangible assets represent goodwill arising from the Barrick transaction.

	2010 US$000	2009 US$000
Goodwill allocated to gold production segment	**22,253**	9,690
Goodwill allocated to development and exploration segment	**42,978**	55,541
Balance at 31 December	**65,231**	65,231

Goodwill amounting to US$65.2 million arose during the Barrick transaction in December 2006. For the purposes of the impairment testing of goodwill, Management has determined that the goodwill created under the Highland/Barrick transaction is allocated to the entire Highland group of assets as the whole Group is expected to benefit from the synergies of the business combination. Upon adoption of IFRS 8 "Operating segments" effective from 1 January 2009, it is necessary under IAS 36 to allocate goodwill to the operating segments of the Group. Management has decided that the gold production and development and exploration segments will benefit from this synergy. Accordingly goodwill has been allocated to these two segments on the basis of their fair values at 31 December 2008 and has been further re-allocated based on the fair values at 31 December 2010 due to the movement of Belaya Gora from the development and exploration segment to the gold production segment in 2010.

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. Management has determined the recoverable amounts in 2010 and 2009 using fair value less costs to sell calculations. The fair value is determined at the cash-generating unit level, in this case being the gold production and development and exploration segments, by discounting the expected cash flows estimated by management over the life of the mine. No goodwill impairment loss has been identified and recognised in both periods.

The key assumptions used for its calculation are as follows:

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

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

Metal prices are based on management judgement with reference to world known analysts forecasts.

Cash costs are based on management's best estimate over the life of the mine.

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

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

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

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

The table below shows the key assumptions used in the fair value calculation at 31 December 2010 and 2009.

	2010	2009
Pre-tax discount rate for cash flows in operating gold mining companies (MNV),%	**23.30**	29.50
Pre-tax discount rate for cash flows in gold mining companies being at development stage (Taseevskoye),%	**12.10**	11.67
Pre-tax discount rate for cash flows in operating gold mining companies (Belaya Gora),%	**15.40**	14.54
Gold price, US$ per ounce in the next year	**1,100**	900
Gold price, US$ per ounce after the next year*	**1,100**	850
Silver price, US$ per ounce in the next year	**18**	13

**Gold price for 2012 used in the 2010 impairment testing is US$1,300 per oz*

In management's view, no reasonable change in the key assumptions would trigger an impairment charge of goodwill at 31 December 2010.

22. IMPAIRMENT TESTING OF NON-CURRENT ASSETS

Novo reversal of impairment

In 2010 Novoshirokinskoye commenced concentrates sales and continued to ramp up the production plant throughout the year.

In 2010 the Group performed a reassessment of the economic model for Novoshirokinskoye based on the updated production data, increased metal prices and discount rate. As a result of the model improvement, an impairment reversal was recognised. The reversal of the impairment charge amounting to US$52.8 million (2009: US$22.7 million) was made in 2010 to reflect the Board's revised valuation of the Novoshirokinskoye mine. The main triggers for this were stronger world metal prices (gold, silver, lead and zinc), optimisation of mining processing and overhead costs in 2010 and 2009. The reversal of the impairment charge reflected the increase of the book value of the mine properties and property, plant and equipment of the Novoshirokinskoye mine for the same amount.

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

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

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

The future cash flows of the Novoshirokinskoye mine were discounted using a pre-tax discount rate of 12.85% (2009: 12.73%). The discount rate is derived from the Group's weighted average cost of capital adjusted for 2% (2009: 3%) of risk specific to Novo. The impairment charge and subsequent reversal are attributable to the Polymetallic concentrate production segment.

The table below shows zinc and lead prices used in the fair value calculation of the Novoshirokinskoye mine at 31 December 2010 and 2009.

	2010	2009
Zinc price, US$ per tonne in the next year	**2,000**	1,800
Lead price, US$ per tonne in the next year	**2,000**	1,800

23. FINANCIAL ASSETS

Current

	2010 US$000	2009 US$000
Loan and interest receivable from Novoshirokinskoye	**4,022**	2,973
	4,022	2,973

Non-current

	2010 US$000	2009 US$000
Loan and interest receivable from Novoshirokinskoye	**30,738**	40,424
	30,738	40,424

The loan to Novoshirokinskoye has a maturity date of 2023. Interest is earned at a rate of 8.5% (2009: 15.0%). Please refer to Note 14 for more details.

24. SHARE-BASED PAYMENT PLANS

The result recognised for share-based payment transaction during the year is shown in the following table:

	2010 US$000	2009 US$000
Credit arising from equity-settled share-based payment transaction	**1,407**	83
Total credit arising from share-based payment transaction	**1,407**	83

Employee share option plan

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

During the 12 months ended 31 December 2010 the Group did not issue any new share options as the Board considered and agreed that at the present time there would be no further grant of options under the unapproved share option scheme. Previously each grant of options was divided into four equal parts which could be exercised starting from the first anniversary of the date of grant for the first part, the second anniversary for the second part etc. until the fourth anniversary. In 2008 it was agreed that for those still in the scheme their options would vest and that 50% would be exercisable up and until 30 September 2009 at which point thereafter all options could be exercised up to the seventh anniversary from when the options were granted.

Options for 972,500 shares have been forfeited in 2010 because of the retirement of certain participants. No share options have been exercised.

Currently there are 18 participants of the scheme representing board members, directors and executive management of the Group.

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

	2010	2010	2009	2009
	No.	WAEP	No.	WAEP
Outstanding as at 1 January	**2,022,500**	**£2.04**	2,500,000	£1.95
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(972,500)**	**£2.68**	(477,500)	£1.53
Outstanding as at 31 December	**1,050,000**	**£1.45**	2,022,500	£2.04
Exercisable at 31 December	**1,050,000**	**£1.45**	1,835,000	£1.94

For the share options outstanding as at 31 December 2010, the weighted average remaining contractual life is 2.89 years (2009: 3.67 years).

The range of exercise prices for options outstanding at the end of the year was £0.96 – £2.11 (2009: £0.96 – £3.02).

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

25. INVENTORIES

	2010 US$000	2009 US$000
Raw materials and consumables	**45,196**	42,942
Ore stockpiles	**3,035**	3,494
Gold in progress	**4,988**	4,878
Finished goods	**2,891**	–
	56,110	51,314
Obsolescence provision	**(9,357)**	(8,457)
Total inventories	**46,753**	42,857

No inventory has been pledged as security.

26. TRADE AND OTHER RECEIVABLES

	2010 US$000	2009 US$000
VAT receivable	**22,356**	18,777
Other taxes receivable	**120**	26
Receivables from joint venture (Note 33)	**1**	7
Related party receivables (Note 33)	**6,104**	18
Trade receivables	**98**	135
Other receivables	**2,984**	1,862
	31,663	20,825

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

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

	2010 US$000	2009 US$000
At 1 January	**507**	193
(Utilisation)/Addition	**(110)**	314
At 31 December	**397**	507

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

27. CASH AND CASH EQUIVALENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is equal to the carrying value.

	2010 US$000	2009 US$000
Cash in hand and at bank	**2,609**	10,922
Short-term deposits	**164,959**	185,773
	167,568	196,695

28. ISSUED CAPITAL AND RESERVES

a) Issued share capital

Authorised	2010	2009
	Shares	Shares
Ordinary shares of £0.001 each	**750,000,000**	750,000,000

Ordinary shares issued and fully paid	Shares	Amount
At 1 January 2009	**325,197,098**	585
At 31 December 2009	**325,197,098**	585
At 31 December 2010	**325,197,098**	585

b) Nature and purpose of other reserves

Asset revaluation reserve

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

Employee equity benefits reserve

The employee equity benefits reserve held within accumulated losses is used to record the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 24 for further details of these plans.

29. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate%	Maturity	2010	2009
Current				
Obligations under finance leases and hire purchase contracts (Note 32)	**12.60**	**2009–2010**	**–**	505
Other loans:				
Kazzinc (Note 14)	**8.50 (2009: 15.00)**	**September 2023**	**3,814**	–
$60 million bank loan	**7.50**	**December 2011**	**–**	13,846
$20 million bank loan	**7.50**	**November 2011**	**4,710**	13,551
$15 million bank loan	**9.49**	**March 2010**	**–**	14,956
$10 million bank loan	**10.00**	**June 2010**	**–**	9,984
			8,524	52,842
Non-current				
Other loans:				
Kazzinc (Note 14)	**8.50 (2009: 15.00)**	**September 2023**	**29,210**	33,563
$60 million bank loan	**7.50**	**December 2011**	**–**	13,847
$20 million bank loan	**7.50**	**November 2011**	**–**	4,710
			29,210	52,120

For the year ended 31 December 2010 the weighted average effective interest rate of bank loans was 7.5% (2009: 9.25%).

30. TRADE AND OTHER PAYABLES

	2010 US$000	2009 US$000
Trade payables	**3,460**	2,047
Other payables	**921**	1,129
Salaries payable	**5,239**	4,259
Other taxes payable	**5,341**	3,124
Other related parties (Note 33)	**233**	285
Other related parties interest accrual	**–**	2,777
Interest payable	**4**	77
	15,198	13,698

Terms and conditions of the financial liabilities included above:

- Salaries payable are non-interest bearing and are normally settled on 30-day terms. Outstanding vacations are also included in this line.
- Trade and other payables are non-interest bearing and are normally settled on 30–60 day terms.
- Interest payable is normally settled monthly throughout the financial year.
- Other taxes payable includes mineral extraction tax, property tax, social taxes and VAT. These are non-interest bearing and are normally settled within 30–60 days.
- For terms and conditions in regards of related parties, refer to Note 33.

31. PROVISIONS

	Site restoration provision US$000	Legal provision US$000	Other US$000	Total US$000
At 1 January 2009	8,991	2,107	287	11,385
Accretion	377	–	–	377
Disposal	–	–	(122)	(122)
Provided during the year	–	25	–	25
Change in estimation	(41)	–	–	(41)
Unused amounts reversed	–	(2,073)	–	(2,073)
At 31 December 2009	9,327	59	165	9,551
Accretion	510	24	–	534
Disposal	–	(14)	(78)	(92)
Change in estimation	(243)	(10)	10	(243)
At 31 December 2010	9,594	59	97	9,750
Current 2010	–	59	–	59
Non-current 2010	9,594	–	97	9,691
	9,594	59	97	9,750
Current 2009	–	59	–	59
Non-current 2009	9,327	–	165	9,492
	9,327	59	165	9,551

Site restoration provision

In 2010 the Group performed a re-assessment of the site restoration provision at Mnogovershinnoye. Both assessments were based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life of mine (which is assumed to close in 2016), expected site restoration activities (removal of waste, restoration of mine sites), current prices for similar activities and a risk-free discount rate of 5.2% (2009: 5.2%).

A risk-free discount rate of 5.9% (2009: 6.3%) has been used to calculate the site restoration liability at Novo assuming its closure in 2025. The changes in the liability associated with the change in discount rate have been added to the cost of the related asset.

Legal provision

The legal provision relates to various possible claims towards the Group. It was assumed to be used or expire within the next two years.

32. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

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

The operating lease charge for the year ended 31 December 2010 was US$1.0 million (2009: US$2.7 million)

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

	2010 US$000	2009 US$000
Within one year	**979**	945
After one year but not more than five years	**3,303**	4,281
	4,282	5,226

Capital commitments

At 31 December 2010, the Group had commitments of US$2.2 million (2009: US$1.2 million) principally relating to development assets and US$2.7 million (2009: US$0.3 million) for the acquisition of new machinery.

Finance lease and hire purchase commitments

As at 31 December 2010 the Group has no current finance leases and hire purchase contracts.

	2010 US$000		2009 US$000	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	–	–	538	505
After one year but not more than five years	–	–	–	–
Total minimum lease payments	–	–	538	505
Less amounts representing finance charges	–	–	(33)	–
Present value of minimum lease payments	–	–	505	505

Contingent Liabilities

Management has identified possible tax claims within the various jurisdictions in which it operates totalling US$0.5 million as at 31 December 2010 (at 31 December 2009: US$0.5 million). In management's view these possible tax claims will likely not result in a future outflow of resources, consequently no provision is required in respect of these matters.

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.

33. RELATED PARTY DISCLOSURES

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

Name	Country of incorporation	Shareholding %
Subsidiary undertakings		
Held by the ultimate parent		
Stanmix Ventures Limited	**Cyprus**	**100**
Stanmix Investments Limited (STIL)	**Cyprus**	**100**
Stanmix Holding Limited (Stanmix)	**Cyprus**	**100**
Highland Exploration Kyrgyzstan LLC	**Kyrgyzstan**	**100**
Held indirectly via 100% owned subsidiaries		
Auberon Limited	**Cyprus**	**100**
ZAO Mnogovershinnoye (MNV)	**Russia**	**100**
OOO Belaya Gora	**Russia**	**100**
OOO Lyubavinskoye	**Russia**	**100**
OOO Taseevskoye	**Russia**	**100**
OOO Russdragmet (RDM)	**Russia**	**100**
OOO RDM–Logistika	**Russia**	**100**
OOO Highland Gold Finance	**Russia**	**100**
ZAO TH Mnogovershinnoye	**Russia**	**100**
OOO Zabaykalzolotoproyekt (ZZP)	**Russia**	**100**
OOO RDM-Resources	**Russia**	**100**
OOO ChOP Komandor	**Russia**	**100**
Jointly controlled entity		
OAO Novoshirokinskoye (Novo)	**Russia**	**48.3**

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at 31 December 2010 and 2009, refer to Notes 23, 26 and 30):

		Services/sales provided to related parties US$000	Services/sales provided by related parties US$000	Amounts owed by related parties US$000	Amounts owed to related parties US$000
Entity with significant influence over the Group:					
Barrick International	2010	**–**	**–**	**18**	**–**
	2009	–	–	18	–
Barrick Gold Services	2010	**–**	**–**	**–**	**197**
	2009	–	–	–	198
Joint venture in which the parent is the venturer:					
OAO Novoshirokinskoye	2010	**10**	**–**	**1**	**8**
	2009	321	–	7	11
Partner in the joint venture:					
Kazzinc	2010	**33,983**	**781**	**6,086**	**28**
	2009	–	343	–	76

		Loans given to related parties US$000	Interest on the loan given to the related party US$000	Interest paid to related parties US$000	Loans received from related parties US$000	Interest on the loan received from the related party US$000	Interest paid by related parties US$000	Fair value adjustment due to discounting US$000	Amounts owed by related parties US$000	Amounts owed to related parties US$000
Joint venture in which the parent is the venturer:										
OAO Novoshirokinskoye	2010	**2,068**	**2,936**	**(5,466)**	**–**	**–**	**–**	**(8,175)**	**34,760**	**–**
	2009	4,860	4,788	–	–	–	–	–	43,397	–
Partner in the joint venture:										
Kazzinc	2010	**–**	**–**	**–**	**1,843**	**2,792**	**(5,180)**	**(7,802)**	**–**	**33,024**
	2009	–	–	–	6,133	4,592	–	–	–	41,371

Entity with significant influence over the Group

Barrick Gold Corporation

Barrick Gold Services and Barrick International are companies controlled by Barrick Gold Corporation of Canada. Barrick Gold Corporation of Canada owns 20.37% of the ordinary shares in Highland Gold Mining Limited.

Primerod LLC

Following the Second Subscription on new ordinary shares in Highland Gold Mining Limited on 15 January 2008 by Primerod International Limited, Primerod held 32.01% of Highland Gold at 31 December 2010.

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

Joint venture in which the parent is a venturer

OAO Novoshirokinskoye (Novo)

The Group has a 48.3% interest in OAO Novoshirokinskoye (2009: 48.3%).

Partners in the joint venture

Kazzinc

Kazzinc and Highland Gold Mining Limited are the parties with joint control over OAO Novoshirokinskoye.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices and arm's length terms. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2009: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

	2010 US$000	2009 US$000
Short-term employee benefits*	**3,998**	3,410
Share-based payments	**–**	107
Total compensation paid to key management personnel	**3,998**	3,517

**– for detailed directors' compensation refer to report on directors' remuneration.*

Directors' interests in an employee share incentive plan

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

Date of issue	Expiry date	Exercise price	Number 2010	Number 2009
2005	**2012**	**£2.11**	**200,000**	**200,000**
2006	**2013**	**£3.02**	**–**	**750,000**
2007	**2014**	**£0.96**	**100,000**	**100,000**

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Gold price risk

In year 2010 as well as in prior years, the Group continued its no hedge policy in relation to the gold price.

Foreign currency risk

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

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

	Increase/decrease in EUR rate	Effect on profit before tax	Increase/decrease in RUR rate	Effect on profit before tax	Increase/decrease in GBP rate	Effect on profit before tax
		US$000		US$000		US$000
2009	**25%**	**104**	**25%**	**4,208**	**25%**	**29,954**
	-25%	**(104)**	**-25%**	**(4,208)**	**-25%**	**(29,954)**
2010	**5%**	**(5)**	**5%**	**2,115**	**5%**	**2,791**
	-5%	**5**	**-5%**	**(2,115)**	**-5%**	**(2,791)**

There is no other foreign currency impact on equity.

Credit risk

Maximum exposure to credit risk is represented by carrying amount of financial assets. Credit risk arises from debtor's inability to make payment of their obligations to the Group as they become due (without taking into account the fair value of any guarantee or pledged assets); and by non-compliance by the counterparties in transactions in cash, which is limited to balances deposited in banks and accounts receivable at the reporting dates. To manage this risk, the Group deposits its surplus funds in highly rated financial institutions, establishes conservative credit policies and constantly evaluates the conditions of the market in which it conducts its activities. The Group sells the produced gold to recognised, creditworthy banks. The sold gold is being paid for in advance, or immediately after the sale. Therefore, there are no trade receivables associated with the gold trade. The Group's "no hedge" policy allows the Group to fully participate in current stronger gold prices.

The Group has a loan receivable from Novoshirokinskoye, a partner in the OAO Novoshirokinskoye Rudnik joint venture. Management does not believe this arrangement exposes the Group to unacceptable credit risks and the recoverability of the loan is monitored on an ongoing basis. Credit risk is not concentrated for other financial assets Consequently, the Group does not expect to incur significant losses on account of credit risk.

Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 31 December 2009 based on contractual undiscounted payments.

Year ended 31 December 2009	On demand US$000	< 1 year US$000	1–2 years US$000	2–5 years US$000	> 5 years US$000	Total US$000
Interest bearing loans and borrowings	–	**58,276**	**22,204**	**14,032**	**40,028**	**134,540**
Obligations under finance leases	–	**538**	–	–	–	**538**
Trade and other payables	–	**8,418**	–	–	–	**8,418**
	–	**67,232**	**22,204**	**14,032**	**40,028**	**143,496**

Year ended 31 December 2010	On demand US$000	< 1 year US$000	1–2 years US$000	2–5 years US$000	> 5 years US$000	Total US$000
Interest bearing loans and borrowings	–	**8,679**	**2,410**	**9,504**	**41,692**	**62,285**
Trade and other payables	–	**9,857**	–	–	–	**9,857**
	–	**18,536**	**2,410**	**9,504**	**41,692**	**72,142**

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Capital comprises equity and debt financing. For information related to equity refer to Consolidated Statement of Changes in Equity. For information on debt financing refer to Note 29. In order to ensure an appropriate return for shareholders' capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board where applicable.

Interest rate risk

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

The Group manages its interest rate risk by having mostly fixed rate loans in its debt portfolio.

35. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, investments, cash, deposits, foreign exchange hedges and various items, such as trade debtors, trade creditors and contractual provisions arising in the ordinary course of its operations. The Group does not acquire, hold or issue derivative instruments for trading purposes.

Fair values

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

	Carrying amount		Fair value	
	2010 US$000	2009 US$000	2010 US$000	2009 US$000
Financial assets				
Cash and cash equivalents	**167,568**	196,695	**167,568**	196,695
Financial instruments at fair value through profit or loss (coupon bonds)	**54,902**	46,274	**54,902**	46,274
Trade and other receivables	**9,187**	2,022	**9,187**	2,022
Loan to Novo including accrued interest	**34,760**	43,397	**34,760**	31,114
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under finance leases and hire purchase contracts	**–**	505	**–**	485
Floating rate borrowings	**–**	15,000	**–**	15,000
Fixed rate borrowings	**4,710**	55,894	**4,710**	54,048
Fixed rate borrowings – Kazzinc including accrued interest	**33,024**	41,371	**33,024**	29,745
Trade and other payables	**9,860**	8,495	**9,860**	8,495

The fair values have been calculated by discounting the expected future cash flows at current market interest rates.

Coupon bonds

In November 2009 the Group invested US$49.8 million in acquisition of British pound denominated bank coupon bonds. During 2010 the Group additionally invested US$40.1 million and received US$17.4 million as a result of selling bonds purchased in 2009. The bonds are treated as financial assets at fair value through profit or loss as the performance of these investments will be assessed on a fair value basis in accordance with management's investment strategy. Fair value of those bonds was determined based on quoted bid prices (source: Bloomberg). The table below contains fair value movement from acquisition till reporting date.

	2010	2009
	US$000	US$000
At 1 January	**46,274**	-
Fair value loss	**(11,655)**	(1,768)
Foreign exchange loss	**(1,731)**	(2,012)
Coupon interest income accrued	**4,647**	607
Coupon interest income received	**(5,369)**	(358)
Bonds sold	**(17,401)**	–
Bonds acquired	**40,137**	49,805
At 31 December	**54,902**	46,274

Fair value hierarchy

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

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

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

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

Assets measured at fair value	31 Dec 2009 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Financial assets at fair value through profit or loss				
Coupon bonds	**46,274**	**46,274**	–	–
	31 Dec 2010 US$000	Level 1 US$000	Level 2 US$000	Level 3 US$000
Financial assets at fair value through profit or loss				
Coupon bonds	**54,902**	**54,902**	–	–

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

36. DIVIDENDS

There were no dividends declared or paid in 2009 and 2010.

37. EVENTS AFTER THE REPORTING PERIOD

After the year end, in January 2011 the Group made an early repayment of US$4.7 million to MDM bank. After this repayment Highland Gold has no outstanding bank debt.

GKZ RESERVES AS AT 31 DECEMBER, 2010

Project name	Classi-fication	Ore, tonnes	Gold, g/t	Contained gold, ounces	Silver g/t	Contained silver, ounces	Highland Interest (%)	Gold Ounces attributable to Highland	Silver Ounces attributable to Highland
MNOGOVERSHINNOYE	B	111,000	7.86	28,068			100%	28,068	
	C1	1,852,000	17.63	1,049,593	18.30	1,089,911	100%	1,049,593	
	C2	1,935,000	11.24	699,214	16.80	1,044,900	100%	699,214	
	Total	3,898,000	14.18	1,776,875	17.03	2,134,810	100%	1,776,875	2,134,810
BELAYA GORA	C1	4,251,000	3.51	480,364			100%	480,364	
	C2	2,977,000	3.51	335,718	6.16	1,430,708	100%	335,718	
	Total	7,228,000	3.51	816,082		1,430,708	100%	816,082	1,430,708
NOVOSHIROKINSKOYE	B	634,000	7.62	155,224	89.45	1,823,269	48.25%	74,896	
	C1	4,930,500	3.45	546,306	97.74	15,493,445	48.25%	263,592	
	C2	3,482,000	2.13	238,944	70.33	7,873,718	48.25%	115,290	
	Total	9,046,500	3.23	940,474	86.61	25,190,432	48.25%	453,778	12,154,383
TASEEVSKOYE	C1	4,743,000	4.61	702,558	8.94	1,363,192	100%	702,558	
	C2	15,510,000	5.40	2,693,590	9.29	4,632,923	100%	2,693,590	
	Total	20,253,000	5.22	3,396,148	9.21	5,996,115	100%	3,396,148	5,996,115
ZIF 1	C2	8,232,000	1.13	299,549			100%	299,549	
	Total	8,232,000	1.13	299,549			100%	299,549	
SREDNE-GOLGOTAYSKOYE	B	6,000	15.83	3,054			100%	3,054	
	C1	465,000	16.71	249,876	4.52	67,517	100%	249,876	
	C2	175,000	12.06	67,870	10.86	61,086	100%	67,870	
	Total	646,000	15.45	320,800	6.19	128,603	100%	320,800	128,603
TOTAL	B	751,000	7.72	186,346	75.51	1,823,269		106,018	
	C1	16,241,500	5.80	3,028,697	34.50	18,014,064		2,745,984	
	C2	32,311,000	4.17	4,334,885	14.48	15,043,335		4,211,232	
	Total	49,303,500	4.76	7,549,928	22.00	34,880,668		7,063,233	21,844,620

Notes

1. All reported reserves are approved by the Russian State Committee for Reserves (GKZ).
2. Reserves are mineable, and do not include dilution or recovery.
3. Novoshirokinskoye is a poly-metallic deposit and contains additionally B+C1+C2 Reserves of 162Kt of zinc and 339Kt of lead.
4. Ounces mean “troy ounces”.
5. The reserve values stated for MNV, Belaya Gora and Novoshirokinskoe have been depleted for 2010 production.

MINERAL RESOURCES AS AT 31 DECEMBER, 2010 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	1,677,000	6.5	352,300	100%	352,300
	Inferred	1,199,400	7.1	272,800	100%	272,800
	Total	2,876,400		625,100		625,100
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		5,088,353		5,088,353
NOVOSHIROKINSKOYE	Measured	737,007	8.7	207,042	48.3%	99,898
	Indicated	7,103,493	8.3	1,905,628	48.3%	919,465
	Measured + Indicated	7,840,500	8.4	2,112,669	48.3%	1,019,363
	Inferred	288,000	6.2	57,711	48.3%	27,846
	Total	8,128,500	8.3	2,170,380	48.3%	1,047,209
BELAYA GORA	Measured	6,273,387	2.2	451,750	100%	451,750
	Indicated	5,030,013	2.3	375,631	100%	375,631
	Measured + Indicated	11,303,400	2.3	827,381	100%	827,381
	Inferred	4,028,000	2.3	291,707	100%	291,707
	Total	15,331,400	2.3	1,119,088		1,119,088
TOTAL	Measured	7,010,394	2.9	658,791		551,647
	Indicated	39,595,506	5.3	6,691,146		5,704,983
	Measured + Indicated	46,605,900	4.9	7,349,937		6,256,631
	Inferred	10,793,400	4.8	1,652,984		1,623,119
	Total	57,399,300	4.9	9,002,921		7,879,749

1. MNV, TAS, BG resource estimations do not include a silver assessment.
2. MNV Mineral Resources are exclusive of Mineral Reserves. The values shown are undiluted and based upon a gold price of US$575 per ounce. MNV Mineral Resources include ore blocks not yet approved by GKZ. MNV Mineral Resources have been estimated in accordance with JORC guidelines, and include adjustments that have been made to reconcile the resources with annual mine production. An update of JORC compliant resourses/reserve audit was initiated during Q1 2011 and remains outstanding.
3. Resource estimates for the Novoshirokinskoye, Taseevskoye, and Belaya Gora deposits were confirmed by Micromine Consulting.
4. The Novoshirokinskoye resource estimate is performed for gold equivalent calculated as follows: Au+Pb*0.632+Zn*0.722+Ag*0.0184.

RESERVES AS AT 31 DECEMBER, 2010 REPORTED IN ACCORDANCE WITH JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained Gold, ounces	Highland's interest (%)	Gold Ounces attributable to Highland
MNOGOVERSHINNOYE	Proven					
	Probable	1,166,183	5.7	214,791	100%	214,791
	Proven + Probable	1,166,183	5.7	214,791	100%	214,791
NOVOSHIROKINSKOYE	Proven	708,354	7.8	177,136	48.3%	85,557
	Probable	6,827,327	7.4	1,630,376	48.3%	787,472
	Proven + Probable	7,535,681	7.5	1,807,512	48.3%	873,028
BELAYA GORA	Proven	3,820,536	2.7	333,016	100%	333,016
	Probable	2,953,464	2.8	265,933	100%	265,933
	Proven + Probable	6,774,000	2.8	598,949	100%	598,949
TOTAL	Proven	4,528,890	3.5	510,152		418,572
	Probable	10,946,974	6.0	2,111,100		1,268,196
	Proven + Probable	15,475,864	5.2	2,621,252		1,686,768

– MNV, TAS and BG reserve estimate does not include a silver assessment.
– The MNV values shown are based upon a gold price of $525/oz.
– The Belaya Gora values shown are based upon a gold price of $850/oz.
– Mineral reserves at MNV, Novo and Belaya Gora have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the reserves with annual production.

CURRENT DIRECTORS

Duncan Baxter
Non-Executive Chairman*

Terry Robinson
Non-Executive Director***

Olga Pokrovskaya
Non-Executive Director**

Eugene Shvidler
Non-Executive Director

Eugene Tenenbaum
Non-Executive Director

Jacques McMullen
Non-Executive Director

James (Jim) Mavor
Non-Executive Director
(Appointed 16 September 2010)

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

PAST DIRECTORS

Ivan Koulakov
Non-Executive Director
(Resigned 17 June 2010)

Nicholas Nikolakakis
Non-Executive Director
(Resigned 17 June 2010

* Chairman of the Nomination and Remuneration Committee;
** Chairman of the Health, Safety and Environment Committee;
*** Chairman of the Audit Committee

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26 New Street
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Jersey JE2 3RA

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Bedell Secretaries Limited
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Jersey JE2 3RA

NOMINATED ADVISER AND BROKER
(Appointed 1 October 2010)
Matrix Corporate capital LLP
One Vine Street
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(Resigned 30 September 2010)
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St Helier
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BANKERS
Royal Bank of Canada
(Channel Islands) Limited
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St Helier
Jersey JE4 8RR

TRANSFER AGENT
Capita Registrars
PXS
34 Beckenham Road
Beckenham
Kent BR3 4TU

FINANCIAL CALENDAR

Post 2010 Annual Report
20 May 2011

Annual General Meeting
16 June 2011

2011 Interim Announcement and Interim Report
September 2011

SHAREHOLDING STRUCTURE AT 3 MAY 2011 AND PRECEDING 12 MONTHS;

Listing sector/ticker Reuters – HGM.L

Number of Shares in issue – 325,222,098

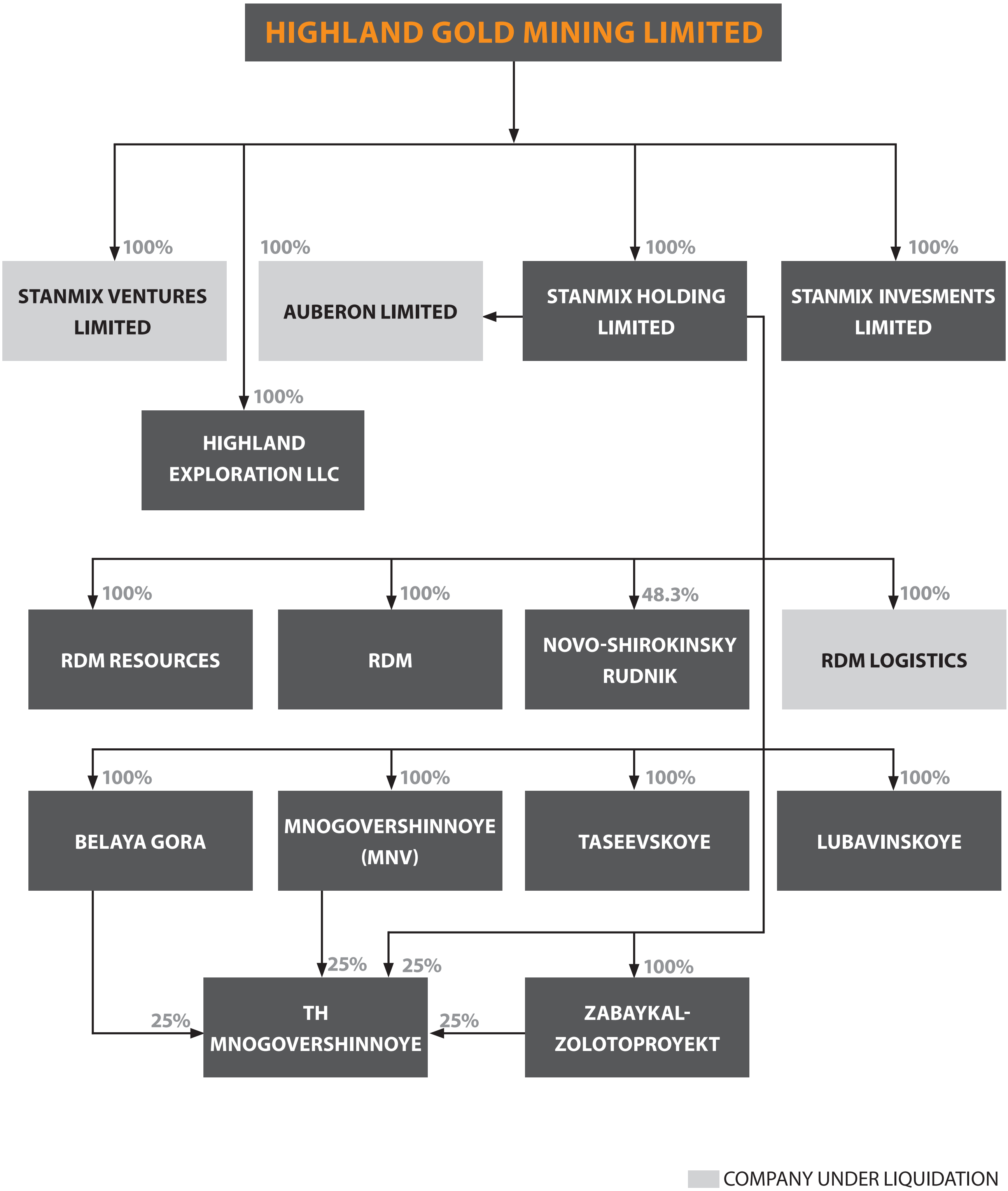
Share Price: £1.7025 per share

Market Cap: £553,690,622 – US$913,589,526

Price High: £1.995 – 06 December 2010

Price Low: £1.10 – 07 July 2010

Average Daily Volume: 469,378


HIGHLAND GOLD MINING LIMITED
100%
STANMIX VENTURES LIMITED
100%
AUBERON LIMITED
100%
STANMIX HOLDING LIMITED
100%
STANMIX INVESMENTS LIMITED
100%
HIGHLAND EXPLORATION LLC
100%
RDM RESOURCES
100%
RDM
48.3%
NOVO-SHIROKINSKY RUDNIK
100%
RDM LOGISTICS
100%
BELAYA GORA
100%
MNOGOVERSHINNOYE (MNV)
100%
TASEEVSKOYE
100%
LUBAVINSKOYE
25%
25%
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TH MNOGOVERSHINNOYE
25%
100%
ZABAYKAL-ZOLOTOPROYEKT
COMPANY UNDER LIQUIDATION

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

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

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

Name	%	Country of incorporation	Principal activity and place of business
Auberon Limited	100	Cyprus	In liquidation
Russdragmet (RDM) (OOO)	100	Russia	Management company
RDM Logistics (OOO)	100	Russia	In liquidation
Mnogovershinnoye (MNV) (ZAO)	100	Russia	Holder of MNV and Blagodatnoye licences
Taseevskoye (OOO)	100	Russia	Holder of Taseevskoye, ZIF-1 and Sredne-Golgotayskoye licences
Zabaykalzolotoproyekt (OOO)	100	Russia	Project engineering, Russia
Novo-Shirokinsky Rudnik (Novo) (OAO)	48,3	Russia	Holder of Novo licence
RDM Resources (OOO)	100	Russia	Holder of Iska licence
TH Mnogovershinnoye (ZAO)	25	Russia	Consumer durables for MNV employees
Belaya Gora (OOO)	100	Russia	Holder of Belaya Gora licence
Lubavinskoye (OOO)	100	Russia	Holder of Lubavinskoye licence

MNV holds the equity share capital of the following companies:

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

Zabaykalzolotoproyekt holds the equity share capital of the following companies:

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

Belaya Gora holds the equity share capital of the following companies:

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

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 16 June, 2011 at 26 New Street, St Helier, Jersey JE2 3RA at 11.00 am to consider and if thought fit, pass the following ordinary resolutions;

Ordinary Business

1. To receive and adopt the Report of the Directors, the Audited Financial Statements and Auditor's report for the year ended 31 December 2010.
2. That Jim Mavor who retires as a Director of the Company be elected.
3. That Eugene Shvidler who retires by rotation as a Director of the Company be re-elected.
4. That Eugene Tenenbaum who retires by rotation as a Director of the Company be re-elected.
5. That Terry Robinson who retires by rotation as a Director of the Company be re-elected.
6. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
7. That the Directors be authorised to fix the Auditor’s remuneration.

Special Business

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 2014, 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 2011

Notes

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

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