HIGHLAND GOLD MINING LIMITED

Annual Report & Accounts 2011







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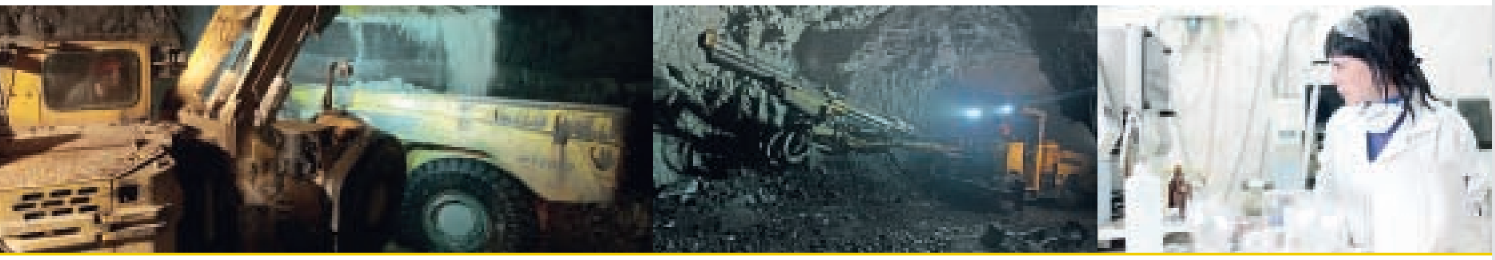

A YEAR OF ORGANIC AND ACQUISITIVE GROWTH

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THE YEAR IN REVIEW

FINANCIAL HIGHLIGHTS

IFRS, US$000 (unless stated)	**2011**	2010
Production (gold and gold eq.oz)	**184,102**	200,028
Group total cash costs (US$/oz)	**594**	513
Revenue	**300,181**	243,629
Gross profit	**154,495**	119,365
EBITDA	**157,118**	121,271
Earnings per share (US$)	**0.319**	0.376
Net cash inflow from operations	**116,930**	97,080
Capital expenditure	**65,611**	39,404
Cash and short term investments	**126,746**	222,470

2011 KEY EVENTS

- Total production of gold and gold equivalents amounted to 184,102 oz (2010: 200,028 oz) derived from MNV, Novo (48.3%) and Belaya Gora
- 29.6% increase in EBITDA to US$157.1 million (2010: US$121.3 million) reflecting higher realisations on gold sales
- Total cash costs of US$594 per ounce remain highly competitive versus peer group (2010: US$513 per ounce)
- Interest in Novo doubled to 96.6% following US$110 million acquisition of Kazzinc's 48.3% holding thereby substantially increasing production capacity
- Onset of construction of the second phase of the stand-alone processing plant at Belaya Gora directly supervised by enhanced new projects development and construction team
- 190% (JORC compliant) increase in MNV's proven and probable reserves versus 31 December 2010
- More than 75,000 metres of drilling completed at exploration projects
- Pre-feasibility study of Lyubov project submitted to Russian regulatory authorities
- Drilling results at Blagodatnoye project indicate significant resource potential
- Interim dividend of 5 pence per share (2.5 pence special; 2.5 pence ordinary) paid in October
- Strong debt free balance sheet. Cash and cash equivalents totalled US$126.7 million as of 31 December 2011 (2010: US$222.5 million).

POST YEAR EVENTS

- The Company's JORC compliant resource base increased by 41% to 11.11 Moz (2010: 7.88 Moz) due to the initial independent audit at the Unkurtash project early in 2012 and last year's Novo transaction and resource audit update at MNV
- Completion of audit at Sarytube prospect expected to yield additional 1 Moz of resource in H1 2012

2012 TARGETS

- MNV – maintain stable production at flagship mine in parallel with ongoing surface drilling programme with the aim of extending open pit mining operations
- Novo – leverage 96.6% ownership by raising annual throughput to an estimated 450,000 tonnes in 2012 with 550,000 tonnes targeted for 2013
- Belaya Gora – progress construction of second phase of the stand-alone processing facility with commissioning scheduled for Q4 2012
- Unkurtash – continue with exploration programme in order to drive development of potential world class deposit
- Taseevskoye – conclude drilling, sampling and testwork necessary for a decision on advancing to a definitive feasibility study
- Lyubov – obtain Russian GKZ registration for submitted reserve base, followed by an independent JORC compliant audit
- Blagodatnoye – advance exploration programme to substantiate resource potential
- Vigilant deployment of internationally comparable best practice health, safety and environmental standards Group wide

CREATING THE PLATFORM FOR ONGOING GROWTH

It gives me great pleasure to report to you on a year which, while not without its challenges, witnessed a significant expansion of your Company's asset base in line with management's declared objective of pursuing a dual organic and acquisitive growth strategy.

Such expansion is designed to underwrite our output potential in both the short and medium term and is well illustrated by our year end completion of a doubling of our interest in the Novoshirokinskoye (Novo) mine to 96.6% following the acquisition of a 48.3% interest in Novo-Shirokinsky Rudnik, the owner of the mine, from our joint venture partner LLP Kazzinc. This transaction, financed entirely through the Company's cash reserves, involved a total consideration of US$110 million which comprised US$47.5 million in respect of the equity and US$62.5 million in respect of the repayment of Kazzinc's share of intercompany debt.

Novo is an efficient and profitable operation which represents a 'known quantity' to management and your Board is pleased to have taken the opportunity, against a favourable market background in relation to base and precious metals, to enhance a major asset through a transaction which will have an immediate and positive impact on our annual production capability and the scale of our reserves.

The improved output at Novo in 2011 is covered in detail by Valery Oyf, our Chief Executive, in his Operational Review and serves to underline one of the principal aims of this investment, namely stability of production. Some 450,000 tonnes of ore are expected to be mined and processed at Novo in 2012 and we are looking to optimise throughput at 550,000 tonnes per annum in 2013 and beyond.

With an eye to organic growth, 2011 also saw the onset of construction of the second phase of the stand-alone processing plant at the Belaya Gora complex in the Khabarovsk region. Notwithstanding an initial delay, relating to the receipt of final approval from government authorities (now awarded), commissioning of the plant is still scheduled for the fourth quarter of 2012 and management remains committed to achieving this target.

An in-house review of site grade control procedures was rewarded with improved ore quality at Belaya Gora where the trucking of select ore to our nearby Mnogovershinnoye (MNV) mine for processing will continue in the first half of 2012.

I have highlighted the Novo and Belaya Gora developments because both projects, seen alongside our principal MNV mine, are integral to the establishment of an enlarged production base: the requisite platform for the significant growth in output envisaged over the ensuing years.

One of the highlights, in this context, was the outcome of an independent Joint Ore Reserves Committee (JORC) compliant audit at MNV, carried out between June 2010 and July 2011, which confirmed a 190% increase in the project's proven and probable reserves to 622,000 oz: an evaluation that effectively endorses a robust reserve base throughout the life of the asset.

The completion of a major exploration schedule at our Unkurtash project in Kyrgyzstan contributed a further JORC compliant resource of 1.84 million ounces to our portfolio, while an additional one million ounces of resource is anticipated from a third prospect within the project licence.

I should emphasise that the results at Unkurtash indicate a potentially world class gold deposit and one of management's key tasks in 2012 will be to extend our exploration activity in order to maximise the project's full possibilities.

At Lyubov, our emerging development project in the Zabaikalsky region, exploration data has been submitted for approval to the Russian regulatory authorities and a JORC compliant resource audit is scheduled for H2 2012.

Positive exploration drilling results were also received from Blagodatnoye, in the Khabarovsk region, while our study of the Taseevskoye project, in the Zabaikalsky region, will continue in 2012 as we seek to obtain fully representative samples and confirm ore block characteristics.

The net effect of the respective audits at MNV and Unkurtash, together with the Novo transaction, ultimately translated into a JORC compliant 41% increase in your Company's resources accompanied by a 54% increase in reserves during the year.

In 2011 the Company produced 184,102 ounces of gold and gold equivalents. This figure fell below our revised forecast of 190,000-200,000 ounces, a shortfall that reflected first quarter weather related production delays at MNV combined with lower than targeted ore grades in Q4. Our forecast production range for 2012 is 200,000-215,000 ounces.

The Company continues to pursue its M&A programme following the successful acquisition of the majority interest in Novo. Several opportunities are currently being assessed and are at various stages of evaluation and in some cases financial information has been received allowing the Company to form an initial view on possible value. In no case is the Company in exclusive discussions and any potential transaction will require detailed due diligence before agreement can be reached.

I am delighted to report that the revenues of your Company rose by 23.2% to more than US$300 million: an achievement that reflected the strength of the gold price and, in turn, higher realisations on sales. A 'no hedge' policy enabled us to take full advantage of favourable market conditions. In line with this, EBITDA advanced by almost 30% to US$157.1 million in 2011 as against US$121.3 million in 2010. As a result, our EBITDA margin, defined as EBITDA divided by total revenue, registered a year-on-year advance from 49.8% to 52.3%.

Various factors, including a second half decrease in the average gold grade delivered for processing at MNV and Novo and inflationary pressures in relation to the costs of materials, labour and services, raised total Group cash costs to US$594 per oz in 2011 against a comparable US$513 per oz in 2010. Shareholders should note, however, that at a figure of under US$600 per oz, our cash costs remain highly competitive in the context of peer group comparison.

The Company's balance sheet is ungeared and, notwithstanding an initial consideration of US$110 million in respect of the Novo transaction, a US$65.6 Capex spend and the US$25.7 million funding of our interim dividend, all of which were met through existing cash balances and net cash flow, showed cash and short term investments and deposits of US$126.7 million as at 31 December 2011. Our strong cash position, allied to efficient production disciplines, leaves us well placed to progress our development projects towards production, extend our exploration targets and continue to review our M&A options.

Whilst an interim dividend was paid in October 2011, the Board has taken into account the Company's project pipeline capital expenditure for 2012 and the purchase of a further 48.3% interest in Novo at the end of 2011 and therefore does not recommend the payment of a final dividend.

The health and safety of our employees is of paramount importance and your Company remains totally committed to the provision of appropriate training and the promotion of constant vigilance in this regard. We are equally committed to fulfilling our responsibilities in relation to the environment and the communities within which we work and, to this end, we are currently developing our ISO 14001 environmental management system with compliance auditing expected by the end of 2012.

We are conscious that, despite our aforementioned approach to health and safety, aspects of risk are inherent in the mining industry and, as reported previously, I deeply regret that one Company employee fatality occurred during the year.

The full year lost time injury frequency rate rose from 0.37 in 2010 to 0.57 in 2011 (per 200,000 man-hours worked).

As previously announced, Barrick Gold Corporation advised us in February 2012 of its plans to divest its approximate 20.4% shareholding in Highland which is perceived as non-core to its ongoing business strategy. We place considerable value on the goodwill that exists between ourselves and Barrick, the world's largest gold mining enterprise, and I would like to thank all of Barrick's former representatives for their respective support and input throughout our association.

Prior to this development Jacques McMullen, a Barrick nominated Director and a member of the Health and Safety Committee, resigned from the Board on 14 December 2011 following his decision to leave Barrick in order to pursue other interests. Similarly, Jim Mavor, a Barrick nominated Director and a member of the Audit Committee, also left Barrick to pursue other interests and, accordingly, stepped down from Highland's Board on 27 January 2012.

I take pleasure in welcoming Numis Securities following their appointment as nominated adviser and broker to the Company on 7 November 2011. I would also like to take this opportunity, on behalf of myself and my Boardroom colleagues, to thank all of our management and employees for their dedication, hard work and invaluable contributions to the ongoing growth of your Company.

Duncan Baxter
Chairman


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

CONFIDENCE IN THE FUTURE

During 2011 the Company continued to build for the future through the implementation of a major exploration programme, integral to the growth of our organic resource base, accompanied by ongoing production operations at three mines. Our flagship Mnogovershinnoye (MNV) mine delivered 143,864 oz, slightly less than its planned gold target, while Novoshirokinskoye (Novo), our second mine, provided its first full year of production at 33,293 oz of gold equivalent (in relation to the Company's 48.3% share). In addition, Belaya Gora contributed 6,945 oz of gold via delivery of oxide ore to MNV for processing.

The purchase of LLP Kazzinc's 48.3% interest in Novo's holding company represented the culmination of an active year which also brought State authorisation for the commencement of the second phase of the construction of the Belaya Gora stand-alone processing facility, scheduled to be commissioned during the final quarter of 2012.

Capex rose from US$39.4 million in 2010 to US$65.6 million in 2011 and, in the light of the Belaya Gora development and the scale of the ongoing exploration programme, is budgeted to show a further increase in 2012. The success of such projects is synonymous with individual commitment and initiative and our investment in people has remained a constant priority. We have every confidence in the calibre of our respective teams.

Our exploration operations yielded encouraging results with the initial GKZ reserve balance registration and subsequent JORC compliant resource audit serving to underline the scale of potential at our Unkurtash project in Kyrgyzstan. Drilling activities at Taseevskoye continued in pursuance of updating the ore characteristics and resource base of this development project while significant exploration work was also undertaken at Blagodatnoye, Belaya Gora Flanks and Lyubov, the findings of which augur well for the growth of our resource base.

Revenue inevitably benefited from a 26.8% increase in the average spot gold price received during 2011 and we achieved higher revenues together with improved margins. We are budgeting for an increase in overall production from our three mines in 2012, a year which will also see the construction and commissioning of the Belaya Gora processing facility and significant ongoing exploration and development activity with particular focus on our exciting Unkurtash and Lyubov projects.

CORPORATE & SOCIAL RESPONSIBILITY

Social responsibility represents an essential aspect of Highland Gold Mining's corporate culture and we are particularly focused on the desirability of making positive and meaningful contributions to the welfare of local communities in those areas in which we operate. In order to further such objectives we place considerable importance on the development of close working relationships with the appropriate authorities.

We act responsibly in relation to due settlement of all local taxes, fees and charges and we help to maintain and modernise the infrastructure in the towns and villages that are home to many of our employees. Above all, we are particularly proud to contribute to, and be associated with, the provision of various social and cultural facilities.

The most important aspect of such work lies in assisting regional and local administrations in the advancement of social development programmes. To this end we work alongside the local authorities in order to prioritise community requirements in relation to joint welfare projects which encompass education, health, culture and sport. During 2011 the Company's activities in this regard were guided by the Social Partnership Agreement with the Nikolayevsk district authorities and separate Agreements with the respective Governments of the Khabarovsk Region and the Zabaikalsky Region.

A new social programme in relation to the Chlya settlement, situated in the Nikolayevsk district in the Khabarovsk Region, was launched at Belaya Gora. The project involves renovations of the secondary school, the kindergarten and the rural office of the local obstetrician and has also facilitated the purchase of office equipment for the local library. One of the most pleasing results of this joint initiative has been the emergence of a regular bus service between Mnogovershinnoye and Nikolayevsk-on-Amur. Highland Gold donated the initial bus.

An incentive programme based on the provision of housing to specialist employees at Novo has been operating successfully for several years. The scheme is designed to attract skilled personnel from other parts of Russia and, at the same time, serves to channel investment into the social infrastructure of the settlement. The families of 75 employees have proved beneficiaries of the scheme to date and, in 2011, work commenced on the construction of an additional 36-apartment building. The kindergarten and the local school also proved the subject of partial renovations.

Social support, albeit on a smaller scale, has also been provided to local communities close to our exploration sites, namely the Lyubov deposit in the Zabaikalsky Region of Russia, and the Unkurtash deposit in Kyrgyzstan.

The Company participates in various national charity programmes, while our support of the regional charity foundation "Illustrated books for visually impaired children" brought its reward through the provision of specialised reading products for dozens of young people.

In addition to the corporate allocation of funds for various social needs it is pleasing to note the personal commitment of our employees who play active and important roles in contributing to the communities associated with the Company's operating units.

Highland Gold will continue to progress such programmes, with an ongoing emphasis on the welfare of local communities, throughout 2012.

HEALTH, SAFETY & ENVIRONMENT

At year-end 2011 the number of employees at Highland Gold totalled 2,848 (including 100% of the personnel at Novoshirokinskoye) in comparison to 2,791 employed during 2010. This modest increase largely reflected additional workforce requirements in relation to the commencement of construction of the Belaya Gora processing facility.

Constant efforts are made to introduce new precautions and improve existing safeguards with regard to health and safety and this focus continued throughout all of the Company's sites. The Lost Time Injury Frequency Rate (designed to calculate the number of lost time injuries for every 200,000 man hours worked) was 0.57 in 2011 compared with 0.37 in 2010. A total of 1,470 employees attended introductory (1 day) safety training classes, 509 employees attended a work performance/production safety course (3–5 days) and 372 employees completed industrial safety certification training programmes (7–30 days). In addition, training was provided to 50 MNV employees in the use of heavy mobile equipment, while 70 MNV employees completed light vehicle driving proficiency tests.

The Company's environmental compliance remained in good standing with the regulatory authorities, with internal environmental audits carried out at all sites within the Group during the year. Environmental safety training was provided to 68 employees encompassing MNV, Belaya Gora and Taseevskoye.

The Company continued to work towards accreditation of its Group wide environmental management system (ISO 14001 compliant) with compliance audits expected by the end of 2012. To this end 56 employees received internal audit training at MNV and Russdragmet (RDM), the management company, while an additional 32 MNV employees received training, developed by an external consultant, with regard to environmental risks and assessments.

OPERATIONS

MNOGOVERSHINNOYE (MNV), Khabarovsk region, Russia

In 2011 mining operations continued at the Upper and Flank open pits where ore production at 744,643 tonnes and waste stripping at 2,353,800 m³ both exceeded internal targets. Lower than targeted open pit grades were encountered during the second half of the year resulting in metal production remaining much in line with that of the first half of the year. The Intermediate, Northern, and Deer underground zones contributed a combined 527,660 tonnes of ore production, while underground development attained 5,731 metres. Off-balance ore from old surface stockpiles continued to be tested for economic potential as prospective low grade plant feed.

Commissioning of the new gravity circuit and additional grinding upgrades were accomplished during H1 2011 which resulted in slightly improved recovery levels during the second half of the year. Ore totalling 1,128,668 tonnes from MNV was processed in 2011, largely due to the achievement of record second half levels of throughput after the noted upgrades.

PRODUCTION COSTS

Cash operating costs in 2011 totalled US$475 per ounce, total cash costs amounted to US$574 per ounce and total production costs were US$685 per ounce.

CAPITAL COSTS

During 2011 US$19.0 million was invested at MNV. This included: capitalised expenditure and construction (US$7.0 million), purchase of equipment (US$6.8 million) and exploration (US$5.2 million).

OUTLOOK

Capital expenditure on the replacement of several underground mobile units is expected to improve productivity and will also assist in keeping maintenance costs in check. The surface drilling programme is focused on identifying additional resources to facilitate the extension of open pit mining beyond the projected 2013 time frame, with underground mining expected to continue through to the end of 2016.

MNV		H2 2011	H1 2011	H2 2010	FY 2011	FY 2010
Waste stripping	m³	1,562,903	790,897	1,220,558	**2,353,800**	1,933,948
Underground development	metres	2,816	2,915	3,098	**5,731**	6,725
Open pit ore	tonnes	372,485	372,158	397,664	**744,643**	701,962
Underground ore	tonnes	293,378	234,282	245,214	**527,660**	490,934
Total ore mined	tonnes	665,863	606,440	642,878	**1,272,303**	1,192,896
Average grade mined	g/t	4.0	4.6	5.1	**4.3**	5.1
Ore processed	tonnes	629,586	499,082	622,604	**1,128,668**	1,144,459
Average grade processed	g/t	3.9	5.2	5.4	**4.5**	5.3
Recovery rate	%	88.2	87.7	87.4	**88.0**	87.6
Gold produced	oz	71,938	71,926	94,585	**143,864**	170,356

NOVOSHIROKINSKOYE (NOVO), Zabaikalsky region, Russia

Novo's underground mine and process plant operated for a full 12 months during 2011. Processed production totalled 438,343 tonnes to yield 33,293 ounces of gold and gold equivalents (representing Highland's 48.3% share).

Mined ore production at 439,368 tonnes and waste development at 7,115 metres remained much on target as additional ore blocks were accessed and prepared for production.

Novo 100%		H2 2011	H1 2011	H2 2010	FY 2011	FY 2010
Underground development	metres	3,501	3,614	3,221	**7,115**	6,364
Ore mined	tonnes	220,390	218,978	223,989	**439,368**	345,737
Average grade mined*	g/t	5.1	6.6	6.5	**5.9**	6.4
Ore processed	tonnes	220,390	217,953	233,752	**438,343**	397,075
Average grade processed*	g/t	5.1	6.6	6.3	**5.9**	5.9
Recovery rate*	%	82.4	84.9	81.0	**83.5**	79.5
Gold produced*	oz	29,719	39,214	38,662	**68,930**	59,403
HGML (48.3%)	oz	14,353	18,940	18,654	**33,293**	28,672

*calculated approximate Au equivalent

PRODUCTION COSTS

Cash operating costs in 2011 totalled US$576 per ounce, total cash costs amounted to US$639 per ounce and total production costs were US$846 per ounce.

CAPITAL COSTS

During 2011 US$4.8 million was invested at Novo (48.3%). This included: capitalised expenditure and construction (US$3.2 million) and purchase of equipment (US$1.6 million).

OUTLOOK

The mine is expected to produce ca. 450,000 tonnes of ore in 2012 and planned milling upgrades are expected to improve throughput to ca. 550,000 tonnes per annum in 2013. Technical studies will be undertaken to assess the scope for productivity improvements at both the mining and processing operations.

BELAYA GORA, Khabarovsk region, Russia

Taking advantage of relative proximity, Belaya Gora continued to deliver oxide ore to MNV's processing plant throughout the year. A total of 61,386 tonnes @ 4.0 g/t were processed and produced 6,945 oz Au. The planned construction of a stand-alone process plant did not receive State approval until the year end, a factor that has necessitated the need to fast-track building activity which commenced in the winter.

During the year several key senior personnel were hired in order to bolster the Group's project development and construction activities. This enhanced in-house team will play a crucial role in supervising the delivery of all project development activities and construction works as per budget and schedule.

Belaya Gora		H2 2011	H1 2011	H2 2010	FY 2011	FY 2010
Waste stripping	m^3	87,390	202,310	226,000	**289,660**	226,000
Ore mined	tonnes	162,661	255,319	76,000	**417,984**	76,000
Average grade mined	g/t	2.1	2.1	1.7	**2.1**	1.7
Ore processed at MNV	tonnes	30,926	30,460	10,971	**61,386**	10,971
Average grade processed	g/t	5.5	2.6	3.3	**4.0**	3.3
Recovery rate	%	87.3	87.3	87.3	**87.3**	87.3
Gold produced	oz	4,754	2,191	1,000	**6,945**	1,000

PRODUCTION COSTS

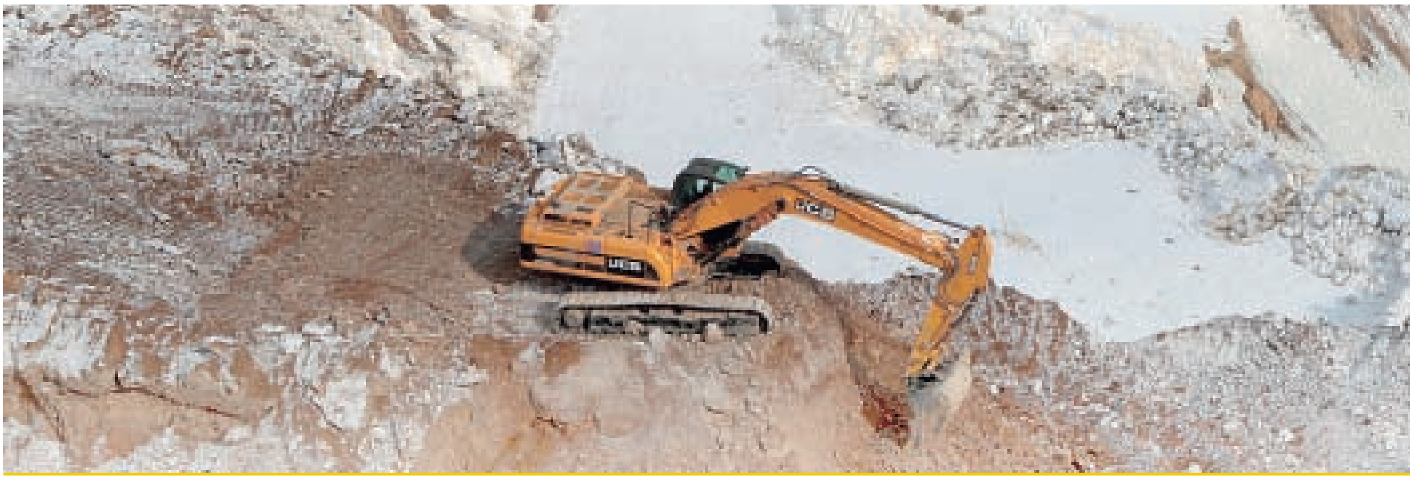
Cash operating costs in 2011 totalled US$707 per ounce, total cash costs amounted to US$834 per ounce and total production costs were US$1,182 per ounce.

CAPITAL COSTS

During 2011 US$19.9 million was invested at Belaya Gora. This included: capitalised expenditure and construction (US$13.6 million), purchase of equipment (US$3.5 million) and exploration (US$2.8 million).

OUTLOOK

The short-term objective is to construct and commission the stand-alone processing plant prior to year-end 2012, where a budget of approximately US$110 million has been earmarked this year for all necessary works through to commissioning. The mining of oxide ore will continue and is expected to account for approximately 4% of the total ore feed into MNV's processing plant during the first half of 2012. Whole grade ore will be stockpiled at Belaya Gora during the second half of the year in anticipation of the commissioning of the stand-alone facility.



DEVELOPMENT PROJECTS

TASEEVSKOYE, Zabaikalsky region, Russia

The Company continued to progress its infill drilling programme, introduced during H1 2011. This is expected to confirm the ore block characteristics contained in the existing model and provide fully representative samples from across all zones of the ore body to facilitate metallurgical test work. Drilling conditions slowed the programme and operations have been carried over into 2012. Following the conclusion of this drilling and sampling exercise in 2012 the Company will carry out the necessary test work and resource confirmation procedures prior to any decision to undertake a definitive feasibility study.

CAPITAL COSTS

In 2011 US$5.7 million was invested at Taseevskoye. This included: capitalised expenditure and construction (US$5.6 million) and purchase of equipment (US$0.1 million).

EXPLORATION

The Company embarked on an exceptional level of exploration activity during 2011, a course of action that reflected management's confidence in the potential of our portfolio of developments and commitment to achieving substantive organic resource growth. Appropriate project funding paved the way for significant work volumes and more than 75,000 metres of drilling were completed at our exploration projects, including more than 53,000 metres at Unkurtash alone. Positive overall results led to a substantial increase in the Company's resource base and served to identify new targets suitable for delineating. The Company's exploration expenditure in 2011, including Unkurtash, our most advanced project, and near-mine works at MNV, totalled US$24.8 million, an increase of 115.7% compared with a spend of US$11.5 million in 2010.

UNKURTASH, Kyrgyzstan

During 2011 a major exploration programme was successfully completed encompassing Unkurtash, the Company's flagship exploration project, and two adjoining prospects, Sarytube and Karatube. These prospects are located within an elongated gold mineralised zone, covered by our licences, which measures approximately 4,000 metres on strike, 250-500 metres in width and has a proven vertical extent of at least 350 metres. The scale of the exploration exercise involved more than 53,000 metres of reverse circulation drilling, 3,000 metres of diamond core drilling and 1,800 metres of exploratory underground development.

As the result of an independent resource audit in H2 at the Unkurtash and Karatube prospects and in support of the previous GKZ-registration of C1+C2 reserves in respect of both targets, an additional 1.8 Moz (Measured & Indicated: 1.73 Moz) of JORC compliant mineral resource has been added to the Company's portfolio thereby raising the total resource base by 23% to 9.71 Moz, as against 7.88 Moz as of 31 December 2010. At the Sarytube prospect, a resource audit scheduled for completion in Q2 2012 is expected to yield a further JORC compliant mineral resource of approximately 1 Moz.

The Company plans to proceed with engineering studies for the development of a conventional open pit mine and processing plant while, at the same time, continuing its exploration agenda. This will involve more than 11,000 metres of drilling and significant underground development during 2012 with the objective of significantly enlarging the mineral resource base both at depth and along strike.

The Company is aware that the Kyrgyz Republic has introduced a resolution to regulate subsoil use and will monitor any developments or changes which may affect mining operations in the country.

LYUBOV, Zabaikalsky region, Russia

Following the completion of a resource conversion drilling programme at Lyubov and the fulfillment of other technical requirements in H1 2011, the Company compiled and submitted to the regulatory authorities a pre-feasibility study in respect of the Evgraf target. Accordingly, at the Evgraf prospect alone, a C1+C2 category reserve of approximately 0.5 Moz contained in 8.35 million tonnes of ore at an average grade of 1.88 g/t, is to be considered for reserve registration by the State Committee on Reserves of the Russian Federation (GKZ). Approval is expected in Q3 2012. Completion of a JORC compliant resource estimate is anticipated in H2 2012.

In view of the fact that Lyubov is entering the development stage, engineering studies in relation to conventional processing options, including heap leaching, have been initiated.

MNOGOVERSHINNOYE (MNV), Khabarovsk region, Russia

The process of delineating additional resources at MNV in order to extend the life of the mine continued. Positive results were achieved from a systematic near-mine surface diamond core drilling programme which continues to support the potential for open pit exploitation. In 2011 approximately 8,000 metres of drilling were completed at three specific targets including the two kilometre long Quiet (Tikhoye) – Pebble (Valunistoye) zone hosting an in-house estimated resource of 190,000 oz of gold with ore grading more than 3.0 g/t. At the north-east flank of Pebble, drilling continued across a previously untested area and returned several near-surface high-grade intersects providing potential to increase the resource model at this prospect. At the Watershed (Vodorazdelnoye) target (immediately east of the Upper open pit) a trenching programme returned initial high-grade gold intersects warranting further drilling to delineate resource potential at depth and along strike. Underground resource conversion diamond core drilling completed 17,857 metres and exceeded the full-year drilling plan by 10%.

During 2012 the near-mine exploration efforts at MNV will include an 8,000 metre drilling programme focused on fully unlocking the respective resource potential of the Quiet and Watershed targets.

BLAGODATNOYE, Khabarovsk region, Russia

The positive exploration results that emerged during 2011 from Blagodatnoye, located close to the Belaya Gora mine, indicate that this property has the potential to host a significant near surface resource grading from 1.5 – 2.0 g/t. Exploration activity during the year encompassed 8,037 metres of diamond core drilling and 2,000 metres of trenching. Assay results to date outline a steeply dipping gold-mineralised zone 350 metres in strike length and up to 170 metres wide, intersected to a depth of 200 metres. Preliminary results from test work initiated in 2011 have indicated favourable metallurgy and gold recovery levels via conventional processing methods. A soil geochemical survey completed by the Company across a 1 kilometre square area surrounding the existing drilling operations revealed strong and distinct gold anomalies which warrant further testing.

In order to progress the development at Blagodatnoye, management has allocated more than 7,000 metres for drilling during 2012 accompanied by additional geochemical and geophysical surveys.

BELAYA GORA FLANKS, Khabarovsk region, Russia

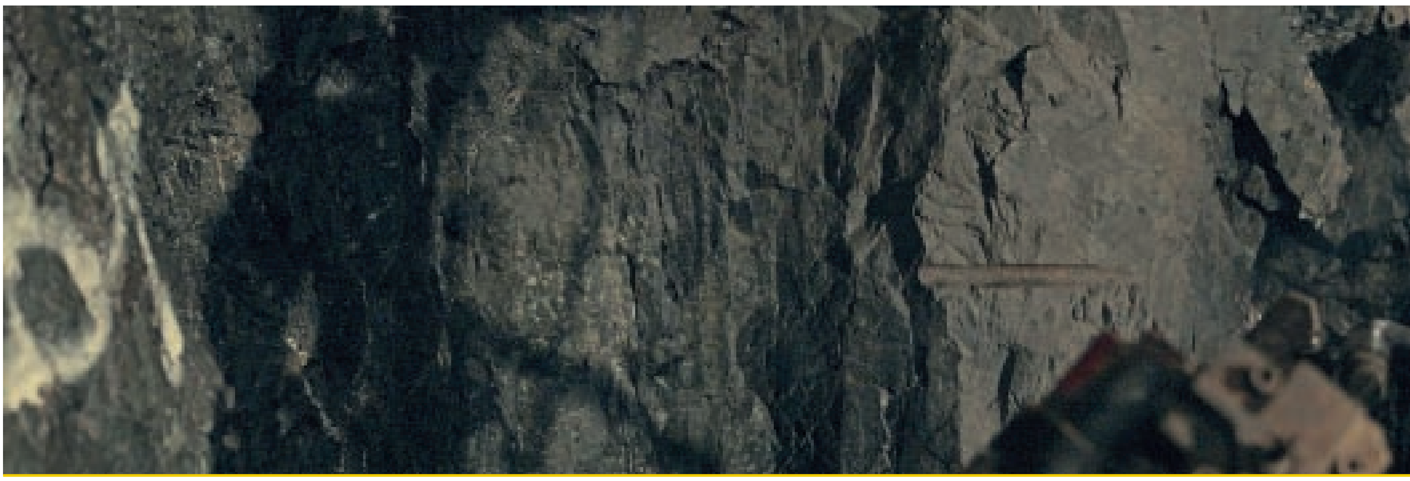
The licence in respect of Belaya Gora Flanks encompasses the Belaya Gora deposit and the near-mine area which has the potential, subject to further exploratory testing, to increase the open pit resource base for the Belaya Gora processing project. During H2 2011 the Company continued its trenching and diamond drilling programme at several historically acknowledged gold prospects within the licence area. By the year-end, 3,055 metres of diamond core drilling and 2,230 metres of exploration trenching had been completed. Preliminary assay results from initial drill testing and trenching at the Kolchanka prospect, situated 1.5 kilometres to the northwest of the Belaya Gora deposit, yielded several decametre long intersects grading between 1.2 – 1.9 g/t. Any prospective open pit mining operations would create a satellite feed source for the Belaya Gora project.

ISKA, Khabarovsk region, Russia

Iska possesses similar geological characteristics to Belaya Gora and the presence of several previously known gold prospects at the former property underlines the attraction of this grass roots site. The Company resampled a previously drilled alunite deposit on the property in 2010 but tests for gold yielded unsatisfactory results. Our analysis of the area is ongoing.

EXPLORATION

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 14 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

Management's essential task during 2012 will be to build upon the Company's foremost achievements of the preceding year, namely the enlargement of our operational production base accompanied by JORC compliant confirmation that our exploration and development properties represent a significant resource pipeline.

To this end we are focused on maximising the benefits of our enhanced 96.6% interest in Novo, an agenda that includes a detailed assessment of the scope for productivity improvements as we seek to optimise throughput by 2013. We are targeting a Q4 commissioning date for the Belaya Gora processing facility with the transportation of oxide ore to MNV's processing plant continuing into 2012.

The considerable success of our exploration undertakings in 2011 and the consequent impact on the Company's resource base serves to underwrite further extensive exploratory activity in 2012, particularly at Unkurtash and Blagodatnoye, as we work towards progressing our valuable assets towards production.

As such, approximately US$160 million of capex has been earmarked across the Group for mine construction, development and exploration activities in 2012. We are confident that attainment of these objectives will appreciably further the Company's inherent growth potential.

Valery Oyf
Chief Executive Officer

STRONG BALANCE SHEET SUPPORTED BY HEALTHY CASH GENERATION

Highland Gold Mining achieved a 29.4% increase in gross profit to US$154.5 million in 2011 compared with US$119.4 million in 2010. The increase reflected the higher average prices realised on gold sales, despite a slight decline in volume. Net profit after tax decreased to US$103.8 million compared with US$122.3 million in 2010, although it should be noted that the 2010 result benefited from the reversal of a US$52.8 million impairment loss at the Novo project.

Group revenue recorded a 23.2% increase to US$300.2 million in 2011 compared with US$243.6 million for the prior year. The increase reflected a 'no hedge' policy which enabled the Group to fully participate in stronger gold prices. The average price per ounce of gold sold by MNV and Belaya Gora was US$1,563 (2010: US$1,232 per oz) which represents a 26.8% increase versus 2010. The average price of gold equivalent sold by Novo was US$1,374 per oz: 20.5% higher than 2010's corresponding figure of US$1,140 per oz. The average Group price of gold and gold equivalents was US$1,530 per oz as against US$1,218 per oz in 2010.

The Group's cost of sales rose by 17.2%, or US$21.4 million, to US$145.7 million in 2011 compared with 2010, largely due to higher prices in respect of fuel and materials, the indexation of salaries and wages and an increase in sales volume at Belaya Gora.

Total Group cash costs increased from US$513 per oz in 2010 to US$594 per oz in 2011. This largely reflected the decrease in the average gold grade delivered for processing in the second half of the year at MNV and Novo, the impact of a 6.1% inflation rate on the costs of materials, labour and services, a 3.2% appreciation of the Russian Rouble versus the US dollar and higher royalty costs as a consequence of the increase in the spot gold price. It is important to note, however, that at a figure of less than US$600 per oz the Company's cash costs remain highly competitive in terms of peer group comparison.

Total cash costs at MNV rose from US$496 per oz to US$574 per oz reflecting a 14.3% decrease in the average gold grade and the aforementioned strengthening of the Russian Rouble against the US dollar. Lower grades encountered in development ore and underground stope blocks had a negative impact on the average head grades processed at Novo which served to raise the mine's total cash costs from US$597 per oz in 2010 to US$639 per oz. Total cash costs at Belaya Gora fell from US$931 per oz in 2010 to US$834 per oz, a high level that continued to reflect the allocation of fixed administrative costs to a low volume of gold during this ramp up stage.

Group EBITDA (defined as operating profit excluding depreciation, amortisation, impairment gain/(loss) and inventory provision) registered a 29.6% increase to US$157.1 million in 2011 compared with US$121.3 million in 2010. The strength of EBITDA reflected the higher revenue from gold sales.

EBITDA margin (defined as EBITDA divided by total revenue) improved from 49.8% to 52.3% and was in line with the sector's best ratios.

Total cash margin (defined as the average realised gold and gold equivalent sales price per oz less total group cash costs per oz) showed a 33.0% improvement from US$704 per oz in 2010 to US$936 per oz in 2011. This reflected the increase in the average realised gold price.

On 26 December 2011, the Group doubled its investment in Novo to 96.6% through the acquisition of an additional 48.3% interest in Novo-Shirokinskly Rudnik, the company that owns the mine, from joint venture partner LLP Kazzinc (Kazzinc). This transaction was designed to augment the Company's proven and probable reserves base and significantly expand the Company's production capacity. Profit for the year includes US$13.5 million of gain on the acquisition revaluation.

Net finance costs of US$5.6 million in 2011 recorded a decrease of 18.8% compared with US$6.9 million in 2010. This largely reflected higher interest earned on deposits.

A foreign exchange loss of US$5.5 million was incurred in 2011 (2010: loss US$1.8 million) following the settlement of foreign currency transactions and the transfer of monetary assets and liabilities denominated in currencies such as Russian Roubles and Pounds Sterling into US Dollars. The foreign exchange loss primarily reflected a 5.64% year-on-year devaluation of the Russian Rouble in 2011 (2010: 0.77% devaluation).

Income tax amounted to US$28.3 million in 2011 compared with US$22.0 million in 2010. The tax charge comprised US$25.9 million in respect of current tax expenses (MNV: US$25.3 million, RDM: US$0.5 million and Stanmix Investments: US$0.1 million) and US$2.4 million in respect of deferred tax. The effective tax rate in 2011 was 21.4% which is similar to the Russian income tax rate of 20%. The lower effective tax rate of 15.2% in 2010 reflected recognition of no deferred tax on the gain associated with the Novo impairment reversal.

The Group's cash inflow from operating activities, benefiting from higher revenues from sales of gold and concentrates, showed a 20.4% increase to US$116.9 million in 2011 compared with US$97.1 million in 2010. Group capital expenditure totalled US$65.6 million in 2011 compared with US$39.4 million in 2010. This encompassed US$19.0 million at MNV, US$19.9 million at Belaya Gora, US$4.8 million (48.3%) at Novo, US$21.7 million in respect of development and exploration projects and US$0.2 million in relation to other entities within the Group. The entirety of capital expenditure was funded through net cash flow and the Company's existing cash balances.

Under the terms of the aforementioned acquisition of an additional 48.3% interest in Novo, the Group paid US$38.5 million to Kazzinc in December 2011 with a contingent consideration of US$8.5 million, estimated at fair value on acquisition date, payable in January 2013. In addition, the Group paid a further US$62.5 million to Kazzinc in respect of the latter's share of intercompany debt.

Net financing cash outflows amounted to US$104.4 million in 2011 compared with US$72.9 million in 2010. Following the repayment of bank borrowings of US$4.7 million, the Company has no outstanding bank debt and is cash positive.

DIVIDENDS

Taking into account the Company's mid-year profit performance and the health of the balance sheet the Board declared an interim dividend of 2.5 pence per share and, in the light of the favourable impact of the gold price on revenues, also declared a special dividend of 2.5 pence per share, making a total interim dividend of 5.0 pence per share (2010: nil) in respect of 2011. The interim dividend, which represents an aggregate distribution of US$25.7 million, was paid on 21 October 2011.

The Board has decided not to pay a final dividend for the year.

CONCLUSION

Following upon a US$65.6 million capital expenditure programme, a US$25.7 million interim dividend distribution, and payments to Kazzinc of US$38.5 million in respect of the purchase of an additional 48.3% interest in Novo, and US$62.5 million in respect of the repayment of Novo debt under a loan assignment agreement, the Company remains in a strong financial position, supported by a healthy level of cash generation. Cash, short term deposits and bonds amounted to US$126.7 million as of 31 December 2011 compared with US$222.5 million as of 31 December 2010. Such funds remain available for the development of the Group's organic expansion and for utilisation in relation to M&A opportunities.

Alla Baranovskaya
Chief Financial Officer

DIRECTORS' REPORT

The Directors of Highland Gold Mining Limited are pleased to submit their Directors' Report together with the audited financial statements for the year ended 31 December 2011.

REVIEW OF ACTIVITIES

Highland Gold Mining Limited ("Highland Gold" or the "Company" or the "Group") was incorporated in Jersey on 23 May 2002 for the principal purpose of establishing a portfolio of gold mining operations within the Russian Federation. The Group's activities, structure and operating companies are described more fully on pages 82-83 of the Report. The Chairman's Statement and the Chief Executive Officer's Report highlight the Company's business developments during 2011 and future prospects. The Company's shares are quoted on the AIM market of the London Stock Exchange.

RESULTS AND DIVIDENDS

An overview of the Group's results for the financial year to 31 December 2011 appears in the Financial Review on pages 22-23 of the Report. The Group achieved a profit for the year of US$103.8 million (2010: profit of US$122.3 million).

An interim dividend of 5.0 pence per share, comprised of an ordinary dividend of 2.5 pence and a special dividend of 2.5 pence per share, was paid in October 2011.

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

Director	Ordinary shares At 31/12/2011	Ordinary shares At 31/12/2010	Available Options At 31/12/2011
Duncan Baxter	20,000	20,000	300,000
Eugene Shvidler	26,020,000	26,020,000	–

No other Directors have an interest in the share 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 any trading of the Company's shares.

CORPORATE GOVERNANCE

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

THE BOARD

The Board is currently comprised of five 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 were executives of Barrick Gold Corporation of Canada ("Barrick"), which has an interest of 20.4%. The Chairman is a Non-Executive Independent Director.

The Board meets on a regular basis to review the business and performance of the Group, to ensure that financing needs are appropriate and to consider development and acquisition opportunities. A total of 10 Board and Board Committee meetings were held during the year.

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

The Barrick appointees Jim Mavor and Jacques McMullen resigned on 27 January 2012 and 14 December 2011 respectively.

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

Terry Robinson is the Senior Independent Non-Executive Director who is available to meet with major shareholders. It is a requirement that all Directors retire by rotation at least every three years and new appointments be confirmed at the following Annual General Meeting. The Chairman Duncan Baxter and Olga Pokrovoskaya are due to retire by rotation and both will offer themselves for re-election at the Annual General Meeting to be held on 14 June 2012. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

The profiles of the non-executive Directors are to be found on pages 30-31 of this report.

AUDIT COMMITTEE

The Audit Committee consisted of three non-executive Directors and is chaired by Terry Robinson. The Audit Committee met three times during 2011 to consider the annual and interim financial statements and the audit programme. Management is invited to attend meetings as appropriate. There are defined Terms of Reference for the Audit Committee which are reviewed by the Board on an annual basis and will be available for inspection at the Annual General Meeting. The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies, meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit Committee also considers budgets and has agreed an authorisation and expenditure policy. The Audit Committee is responsible for monitoring key risks and has implemented, through the internal audit department, a process for reporting on and monitoring those risks. The other members of the Committee were Olga Pokrovskaya and Jim Mavor, the latter having resigned in January 2012. Audit Committee members meet with management and the auditors on a regular basis.

REMUNERATION AND NOMINATION COMMITTEE

The Committee consisted of four non-executive Directors, comprising Duncan Baxter, as Chairman, Eugene Tenenbaum, Jim Mavor, who resigned in January 2012, and Terry Robinson. The Committee is responsible for reviewing the performance of executive management and, where appropriate, other senior executives, and for determining their appropriate levels of remuneration. Recommendations are made with regard to appointments in respect of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies as and when appropriate; the composition of the Board is monitored on an ongoing basis. The Committee makes recommendations to the Board, within defined terms of reference, which the Board reviews at least annually. The Committee also examines fees in relation to non-executive remuneration and committee Chairmen. The Committee held three meetings during the year at which all members were present. Details of the Directors' remuneration are given on page 29. The Committee has considered and recommended to the Board the election and reappointment of Duncan Baxter and Olga Pokrovoskaya as Directors of the Company at the forthcoming AGM.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Board has established a Health, Safety and Environmental Committee which is chaired by Olga Pokrovskaya. The other members of the Committee were Terry Robinson and Jacques McMullen the latter having resigned in December 2011. 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 13.

OTHER COMMITTEES

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

INTERNAL CONTROLS

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

RELATIONS WITH SHAREHOLDERS

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

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

SUBSTANTIAL SHAREHOLDINGS

As of close of business on 17 April 2012, 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	32.57%
Barrick Gold Corporation of Canada	66,235,264	20.37%
J.P. Morgan Asset Management	18,018,916	5.54%
Ivan Koulakov	16,190,881	4.98%

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

GOING CONCERN

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

AUDITORS

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

ANNUAL GENERAL MEETING NOTICE

The Annual General Meeting will be held at 11.00 a.m. on Thursday 14 June 2012 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is set out on page 84 of the Report.

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

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

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

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

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

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

REPORT ON DIRECTORS' REMUNERATION

The Board was comprised entirely of non-executive Directors during the year, there being no Executive Directors. The remuneration of executive management currently comprises basic salary and bonus. Incentives available in relation to executive management and other key personnel include the Unapproved share option scheme, managed by the Remuneration and Nomination Committee, and other market related remuneration benefits.

No grants of options under the Unapproved share option scheme were made during 2011 and management and employees were incentivised through a bonus scheme, currently of a discretionary nature. All remaining options under the Unapproved share option scheme have vested and are exercisable up to the seventh anniversary from the date when the options were granted. The number of options outstanding, as of 31 December 2011, were 1,025,000 (2010: 1,050,000).

The Company does not operate a pension scheme for executive management or Directors.
The remuneration paid to the current Directors in the financial period to 31 December 2011 was as follows:

	US$ 2011	US$ 2010
Duncan Baxter	500,000	500,000
Eugene Shvidler	100,000	100,000
Eugene Tenenbaum	100,000	100,000
Olga Pokrovskaya	125,000	125,000
Terry Robinson	160,000	160,000
Jacques McMullen	100,000	100,000

The remuneration paid to the Directors who retired during the financial year to 31 December 2011 was as follows:

	US$ 2011	US$ 2010
Jim Mavor	100,000	28,888

The Group has entered into letters of appointment with the Directors, all of which are reviewed on an annual basis and none of which have an expiry date or notice period of more than one year. It is noted that Duncan Baxter's fees are comprised of non-executive fees and fees for consultancy work undertaken in terms of corporate governance, AIM rules, Nomad and market relations and Jersey requirements. The Remuneration and Nomination Committee and the Board had agreed not to increase remuneration or pay any ex-gratia payments for additional work undertaken during the year.

By Order of the Board
23 April 2012

EUGENE SHVIDLER

Non-Executive Chairman

Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a masters degree in applied mathematics. He also holds an MBA in finance and an MS in international tax from Fordham University. He became Senior Vice President of Sibneft in 1995 and served as President of the company from 1998 through 2005. Mr. Shvidler is currently head of Millhouse LLC. He joined the Board of Directors of Highland Gold Mining in January 2008.
(Non-Executive Chairman from 2 May 2012.)

DUNCAN BAXTER

Non-Executive Director

Duncan Baxter began his career in banking with Barclays in Zimbabwe before joining RAL in 1978. In 1985 he became a director of Commercial Bank (Jersey) Ltd, which was subsequently acquired by Swiss Bank Corporation. Since leaving Swiss Bank in 1998 he has carried out consultancy projects for international banks and investment management companies. He is a Fellow of the Institute of Chartered Secretaries, the Securities Institute and the Institute of Bankers. He joined the Company in November 2002.
(Non-Executive Chairman to 2 May 2012.)

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 Board of Directors of Highland Gold Mining in January 2008.

OLGA POKROVSKAYA

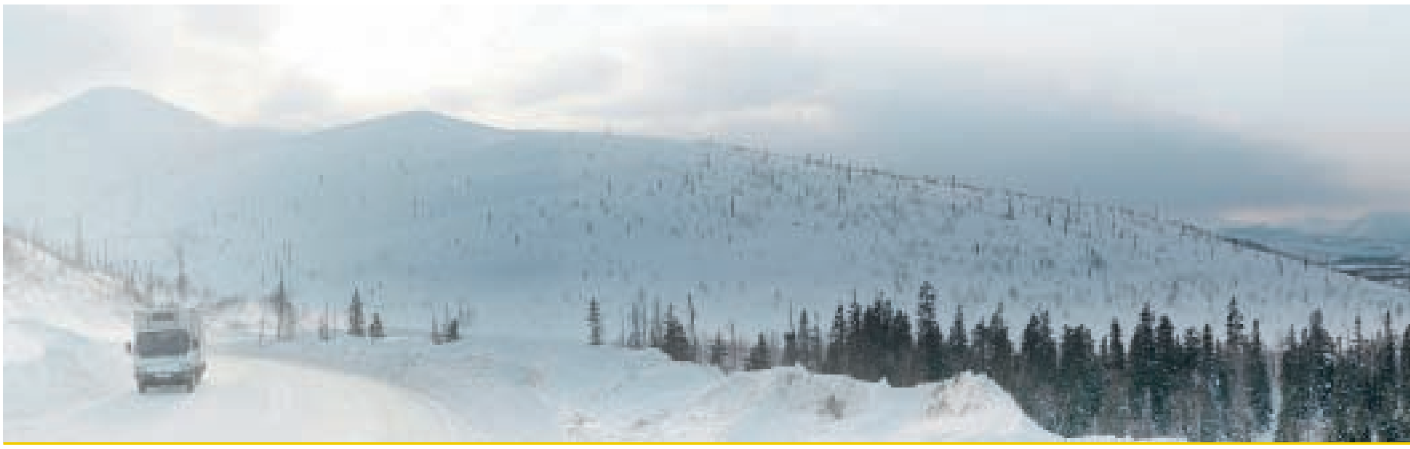
Non-Executive Director

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

TERRY ROBINSON

Non-Executive Director
Chairman of the Audit Committee

Terry Robinson has 40 years' experience in international business including 20 years at Lonrho PLC, the international mining and trading group. Since 1998 he has been variously occupied with international business operations including natural resources in the UK, Russia, the CIS and Brazil. He is a Non-Executive Director of the Evraz Group, Russia's largest steel producer, listed on the LSE and a constituent of the FTSE 100 Index. He is a Non-Executive Director of 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 the Board of Directors of Highland Gold Mining in April 2008.



ACCOUNTS 2011

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 2011 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 (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

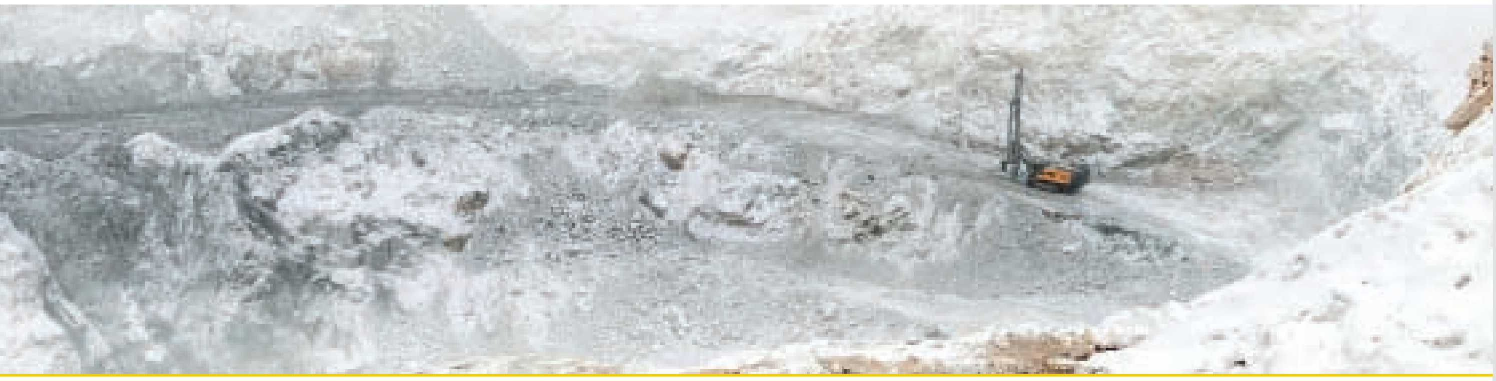
- give a true and fair view of the state of the group's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

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

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

Mirco Bardella
for and on behalf of Ernst & Young LLP
London
23 April 2012



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Notes	2011 US$000	2010 US$000
Continuing operations			
Revenue	9	**300,181**	243,629
Cost of sales	10	**(145,686)**	(124,264)
Gross profit		**154,495**	119,365
Administrative expenses	11	**(18,989)**	(13,092)
Other operating income		**796**	1,432
Other operating expenses	12	**(6,586)**	(7,453)
Impairment reversal	6	**–**	52,782
Operating profit		**129,716**	153,034
Gain on acquisition of subsidiary	5	**13,479**	–
Foreign exchange loss	13	**(5,527)**	(1,811)
Finance income	14.1	**11,479**	13,416
Finance costs	14.2	**(17,054)**	(20,308)
Profit before income tax		**132,093**	144,331
Income tax expense	15	**(28,270)**	(22,003)
Profit for the year		**103,823**	122,328
Total comprehensive income for the year		**103,823**	122,328
Attributable to:			
Equity holders of the parent		**103,823**	122,328
Earnings per share (US$ per share)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	16	**0.319**	0.376
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	16	**0.318**	0.374

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011

	Notes	As at 31 December 2011 US$000	As at 31 December 2010* US$000	As at 1 January 2010* US$000
ASSETS				
Non-current assets				
Exploration and evaluation assets	17	**52,197**	27,317	30,853
Mine properties	18	**282,461**	178,380	124,898
Property, plant and equipment	19	**118,259**	74,090	57,507
Intangible assets	20	**70,365**	65,231	65,231
Financial assets	22	**–**	30,738	40,424
Inventories	25	**5,362**	–	–
Other non-current assets	23	**13,623**	8,975	4,690
Deferred income tax asset	15	**–**	941	2,837
Total non-current assets		**542,267**	385,672	326,440
Current assets				
Inventories	25	**61,793**	46,753	42,857
Trade and other receivables	26	**28,605**	26,993	17,575
Income tax prepaid		**4,858**	214	2,719
Prepayments		**4,071**	2,649	2,335
Financial assets	22	**–**	4,022	2,973
Investments	35	**36,111**	54,902	46,274
Cash and cash equivalents	27	**90,635**	167,568	196,695
Total current assets		**226,073**	303,101	311,428
Total assets		**768,340**	688,773	637,868
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital	28	**585**	585	585
Share premium		**718,419**	718,370	718,370
Assets revaluation reserve	28	**832**	832	832
Accumulated losses	36	**(28,139)**	(106,231)	(227,152)
Total equity attributable to equity holders of the parent		**691,697**	613,556	492,635
Non-controlling interests	5	**3,391**	–	–
Total equity		**695,088**	613,556	492,635
Non-current liabilities				
Long-term interest payable		**–**	–	5,031
Interest-bearing loans and borrowings	29	**–**	29,210	52,120
Long-term accounts payable	30	**8,855**	96	164
Provisions	31	**23,196**	9,595	9,328
Deferred income tax liability	15	**23,090**	11,734	11,257
Total non-current liabilities		**55,141**	50,635	77,900
Current liabilities				
Trade and other payables	30	**18,083**	15,198	13,698
Interest-bearing loans and borrowings	29	**–**	8,524	52,842
Income tax payable		**7**	801	734
Provisions	31	**21**	59	59
Total current liabilities		**18,111**	24,582	67,333
Total liabilities		**73,252**	75,217	145,233
Total equity and liabilities		**768,340**	688,773	637,868

*Certain line items have been reclassified in the statement of financial position as at 31 December 2010 and 1 January 2010. Refer to Note 3 for further details.

The financial statements were approved by the Board of Directors on 23 April 2012 and signed on its behalf by: Duncan Baxter and Olga Pokrovskaya

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

		Attributable to the owners of the parent						
	Notes	Issued capital US$000	Share premium US$000	Asset revaluation reserve US$000	Accumulated losses US$000	Total US$000	Non-controlling interest US$000	Total equity US$000
At 1 January 2010		585	718,370	832	(227,152)	**492,635**	–	**492,635**
Profit for the year		–	–	–	122,328	**122,328**	–	**122,328**
Share-based payment	24	–	–	–	(1,407)	**(1,407)**	–	**(1,407)**
At 31 December 2010		585	718,370	832	(106,231)	**613,556**	–	**613,556**
Profit for the year		–	–	–	103,823	**103,823**	–	**103,823**
Dividends paid to equity holders of the parent	36	–	–	–	(25,719)	**(25,719)**	–	**(25,719)**
Issue of share capital		–	49	–	–	**49**	–	**49**
Exercise of share options	24	–	–	–	(12)	**(12)**	–	**(12)**
Acquisition of subsidiary	5	–	–	–	–	**–**	3,391	**3,391**
At 31 December 2011		585	718,419	832	(28,139)	**691,697**	3,391	**695,088**

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2011

	Notes	2011 US$000	2010 US$000
Operating activities		**132,093**	144,331
Profit before tax		**132,093**	144,331
Adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation of property, plant and equipment	10	**26,820**	20,041
Impairment reversal		**–**	(52,782)
Movement in inventory provision	12.1	**1,237**	1,878
Write-off of property, plant and equipment	12,18,19	**1,725**	2,176
Exploration costs write-off	12	**–**	1,066
Property, plant and equipment adjustments	18,19	**–**	952
Deferred stripping costs write-off	18	**4,818**	1,792
Share-based payments credit	24	**–**	(1,407)
Finance income	14	**(6,767)**	(5,614)
Bonds and shares fair value movement	14,35	**9,661**	8,739
Finance expense	14	**2,914**	3,394
Net foreign exchange loss	13	**5,527**	1,811
Accounts payable write-off		**–**	(47)
Fair value (gain)/expense related to loans given to jointly controlled entity	14.1,14.2	**(4,712)**	8,175
Fair value expense/(gain) related to receipts from Kazzinc to finance joint venture	14.1,14.2	**4,479**	(7,802)
Gain on acquisition of subsidiary	5	**(13,479)**	–
Other non-cash income and expenses		**–**	(128)
Working capital adjustments:			
Increase in trade and other receivables and prepayments		**(11,821)**	(12,570)
Increase in inventories		**(17,849)**	(5,881)
Increase in trade and other payables		**3,433**	4,099
Income tax paid		**(21,149)**	(15,143)
Net cash flows from operating activities		**116,930**	**97,080**
Investing activities			
Proceeds from sale of property, plant and equipment		**84**	170
Purchase of property, plant and equipment		**(65,611)**	(39,404)
Increase in deferred stripping costs	18	**(5,469)**	(118)
Loans given to jointly controlled entity	33	**–**	(2,068)
Repayment of loans given to jointly controlled entity	33	**5,775**	–
Acquisition of subsidiary	5	**(38,524)**	–
Interest received		**10,668**	7,062
Interest received from jointly controlled entity	33	**6,383**	5,466
Sale of investments – bonds	35	**23,427**	17,401
Purchase of investments – bonds	35	**(19,765)**	(40,137)
Net cash flows used in investing activities		**(83,032)**	**(51,628)**
Financing activities			
Issue of ordinary share capital		**37**	–
Dividends paid to equity holders of the parent	36	**(25,719)**	–
Repayment of borrowings		**(4,710)**	(66,243)
Interest paid		**(19)**	(2,861)
Interest paid to Kazzinc	33	**(6,184)**	(5,181)
Receipts from Kazzinc to finance joint venture	33	**–**	1,843
Repayment to Kazzinc	33	**(5,350)**	–
Repayment to Kazzinc under assignment agreement	5	**(62,476)**	–
Lease payments		**–**	(505)
Net cash flows used in financing activities		**(104,421)**	**(72,947)**
Net decrease in cash and cash equivalents		**(70,523)**	(27,495)
Effects of exchange rate changes		**(6,410)**	(1,632)
Cash and cash equivalents at 1 January	27	**167,568**	196,695
Cash and cash equivalents at 31 December	27	**90,635**	167,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Directors on 23 April 2012. Highland Gold Mining Limited, is a public company incorporated and domiciled in Jersey. Its ordinary shares are traded on the Alternative Investment Market ("AIM").

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

2. BASIS OF PREPARATION

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

Statement of compliance

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

Basis of consolidation

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

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

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

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

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

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

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

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

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

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

FOREIGN CURRENCY TRANSLATION

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

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

	31 December 2011	31 December 2010
Average		
RUR	29.395	30.377
GBP	0.624	0.647
Closing		
RUR	32.196	30.477
GBP	0.647	0.646

INTEREST IN A JOINT VENTURE

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

Where an item of property, plant and equipment is disposed of, it is derecognised and the difference between its carrying value and net sales proceeds is disclosed as a profit or loss on disposal in the statement of comprehensive income. Any items of property, plant or equipment that cease to have future economic benefits expected to arise from their continued use or disposal are derecognised with any gain or loss included in the statement of comprehensive income in the financial year in which the item is derecognised.

DEPRECIATION

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

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

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

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).

Depreciation of mineral properties at Novo in 2011 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2025 (2010: up to 2025). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2025).

Depreciation of mineral properties at Belaya Gora in 2011 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2019 (2010: up to 2019). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2019).

The expected useful lives are as follows:

Buildings	6 – 15 years
Plant and Equipment	1 – 15 years

EXPLORATION AND EVALUATION EXPENDITURE

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

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

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

An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial period in which this is determined. Exploration assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met.
Expenditure is transferred to mine 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 tonnes 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. An impairment loss on goodwill cannot be reversed under any circumstances.

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the statement of comprehensive income. Further information is contained in Note 20.

FINANCIAL 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.

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

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

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

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

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

INVENTORIES

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

The inventories are segregated by the following:

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

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

SHARE CAPITAL

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

VALUE ADDED TAX

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

BORROWINGS

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

TRADE AND OTHER PAYABLES

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

PROVISIONS FOR LIABILITIES AND CHARGES

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

ENVIRONMENTAL PROTECTION, REHABILITATION AND CLOSURE COSTS

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

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

REVENUE RECOGNITION

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

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

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

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

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

EMPLOYEE BENEFITS

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

PENSION PLAN

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

SHARE BASED PAYMENTS

Equity-settled transactions

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

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

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the statement of comprehensive income, with a corresponding entry in equity.
Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the statement of comprehensive income for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the statement of comprehensive income.

Cash-settled transactions

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

EARNINGS PER SHARE

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

INCOME TAXES

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

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

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

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

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

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

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

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

RECLASSIFICATIONS

Some reclassifications were made in the statement of financial position items as at 31 December 2010 and 1 January 2010 to keep the presentation form consistent with 2011 presentation. As a result of the reclassifications related to non-current VAT, other non-current assets were increased by US$4.7 million (1 January 2010: US$3.3 million) and trade and other receivables were decreased by US$4.7 million (1 January 2010: US$3.3 million). Long-term accounts payable were increased by US$0.1 million (1 January 2010: US$0.2 million) and provisions were decreased by US$0.1 million (1 January 2010: US$0.2 million).

NEW STANDARDS

The accounting policies adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

IAS 24 RELATED PARTY TRANSACTIONS (AMENDMENT)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IFRIC 19 EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS

The IASB issued IFRIC 19 which clarified the treatment required when an entity renegotiates the terms of a financial liability with its creditor, and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The adoption of the interpretation did not have any impact on the financial position or performance of the Group.

IMPROVEMENTS TO IFRSS

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

NEW STANDARDS AND INTERPRETATIONS NOT APPLIED

The IASB and IFRIC have issued the following standards and interpretations with effective dates that are subsequent to 1 January 2011. Consequently, these pronouncements will impact the Group's financial statements in future periods.

	Effective date
IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements	1 January 2012
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2013*
IFRS 10 Consolidated Financial Statements	1 January 2013*
IFRS 11 Joint Arrangements	1 January 2013*
IFRS 12 Disclosure of Involvement with Other Entities	1 January 2013*
IFRS 13 Fair Value Measurement	1 January 2013*
IAS 27 Separate Financial Statements	1 January 2013*
IAS 28 Investments in Associates and Joint Ventures	1 January 2013*
IAS 19 Employee Benefits – Amendments to Recognition Criteria	1 January 2013*
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013*
IAS 32 Financial Instruments: Presentation – Additional Application Guidance	1 January 2014*

*Subject to EU endorsement

With the exception of amendments to IFRS 7, IAS 19 and IAS 32, the Directors anticipate that the adoption of these standards and interpretations on their effective dates will have a material impact on the Group's presentation of financial statements in the period of initial application. The Group will quantify the effect of IFRS 9 to 13, IAS 27 and 28 and IFRIC 20 as part of initial application of the new standards once the full extent of the impact can be determined.

The Group has not adopted on an early basis, 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:

BUSINESS COMBINATIONS

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. The determination of the fair value is based on discounted cash flows. The key assumptions taken into consideration are the probability of meeting each performance target and the discount factor (Note 5). Financial instruments and assets and liabilities acquired in business combination are measured at fair value. An independent valuator (BDO) was engaged to assess the fair value of the identifiable assets and liabilities of Novo. As a result, the value of Novo's property, plant and equipment increased by US$39.8 million. The carrying values of other assets and liabilities were considered to equal their fair value (Note 5).

IMPAIRMENT OF GOODWILL

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

TAX LEGISLATION

Russian tax, currency and customs legislation is subject to varying interpretations. Please refer to Note 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, in 2019 at BG and in 2025 at Novo), expected site restoration activities (removal of waste, restoration of mine sites), and current prices for similar activities.

DISCOUNT RATES AFFECTING IMPAIRMENT CALCULATIONS

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

INVENTORY OBSOLESCENCE

The Group entities perform a detailed analysis of old items of stock and create a specific provision for them once determined recovery of value is 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 in the statement of financial position. The movement in the obsolescence provision is recognised in the statement of comprehensive income.

GOING CONCERN

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

The Group meets its day to day working capital requirements through its positive cash balance. 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.

DEFERRED STRIPPING COSTS

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

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

DETERMINATION OF ORE RESERVES AND RESOURCES

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

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. BUSINESS COMBINATIONS

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

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

From total consideration the amount allocated to loan was US$58,790 based on the fair value of the loan. US$42,210 plus contingent consideration of US$8,531 were allocated to the acquisition of the 48.3% of shares of Novo amounting to a total consideration for the shares of US$50,741. The additional cash payment to Kazzinc of US$9.0 million, payable in January 2013, was recognised at the fair value of US$8.5 million as a contingent consideration. A 5.5% discount factor was applied.

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

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

ASSETS ACQUIRED AND LIABILITIES ASSUMED

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

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

The Group has elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets amounting to US$3.4 million which is 3.4% of US$99.7 million.

Goodwill of US$5.1 million comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the polymetallic concentrate production segment. None of the goodwill recognised is expected to be deductable for income tax purposes.

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

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

6. INTEREST IN A JOINT VENTURE

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

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

The share of the assets, liabilities, income and expenses of the jointly controlled entity at 31 December 2010 and for the year then ended and the share of the income and expenses of the jointly controlled entity for the year ended 31 December 2011, which are included in the consolidated financial statements, are as follows:

	2011 US$000	2010 US$000
Current assets	–	11,912
Non-current assets	–	97,760
	–	**109,672**
Current liabilities	–	(10,331)
Non-current liabilities*	–	(31,733)
	–	**(42,064)**
Net assets	–	**67,608**
Revenue	46,162	34,190
Cost of sales	(29,116)	(20,711)
Administrative expenses	(24)	(418)
Impairment reversal	–	52,782
Obsolescence provision charge	(57)	(340)
Foreign exchange (loss)/gain	(224)	25
Finance costs	(2,427)	(2,792)
(Loss)/gain on modification of terms of loan*	(4,479)	7,802
Other income	121	298
Other operating expenses	(661)	(371)
Profit before tax	9,295	70,465
Income tax charge	(2,720)	(2,498)
Profit after tax	**6,575**	**67,967**

*The share of non-current liabilities of the jointly controlled entity includes receipts from Kazzinc to finance the joint venture in 2010. Gain on modification of terms of loan in 2010 (US$7.8 million) and loss on modification of terms of loan in 2011 (US$4.5 million) relate 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 into investments and other financial assets in 2010. Interest income related to loans given to the jointly controlled entity (2011:US$2.6 million, 2010:US$2.9 million) and fair value gain related to loans given to jointly controlled entity (2011:US$4.7 million) are shown as part of finance income (Note 14.1). Fair value expense related to loans given to jointly controlled entity (2010:US$8.2 million) is shown as part of finance costs (Note 14.2).

The increased fair value of Novo mine indicated an impairment reversal in the amount of US$52.8 million recognised as income in 2010.

In 2011 lead and zinc concentrates as well as the stock-piled low grade ore were tested for impairment and no additional WIP write-down was recognised in 2011 (2010: Nil).

7. 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 (MNV) and Belaya Gora, for the purpose of making decisions about resource allocation and evaluating the effectiveness of its activity.

The polymetallic concentrate production segment, namely Novo, 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. On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc, which resulted in the Company's stake in Novo increasing to 96.6%. The Group ceased to have joint control over the joint venture, and as at 31 December 2011 Novo is a subsidiary undertaking.

The development and exploration segment contains the holders of the licences 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 movement in WIP provision). The development and exploration segment is evaluated based on the life of mine models in connection with the capital expenditure spent during the reporting period.

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

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

In 2010 non-current financial assets include long-term loans given to a jointly controlled entity that are not allocated to operating segments. In 2011 there are no such long-term loans.

Revenue from several customers was greater than 10% of total revenues. The gold and silver revenue was received from sales to Gazprombank (US$104.6 million), MDM Bank (US$93.8 million) and VTB Bank (US$49.3 million). The concentrate revenue was received from sales to Kazzinc (US$45.8 million) – refer to Note 33.

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

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

**Current assets include corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash and cash equivalents of US$90.6 million (2010: US$167.6 million), investments of US$36.1 million (2010: US$54.9 million), inventories of US$61.8 million (2010: US$46.8 million), trade and other receivables of US$28.6 million (2010: US$27.0 million), and other assets of US$9.0 million (2010: US$6.8 million).

***Cash capital expenditure include additions to property, plant and equipment of US$64.0 million (2010: US$36.9 million) and prepayments given for property, plant and equipment of US$1.6 million (2010: US$2.5 million).

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	–	52,782	–	–	–	52,782
Movement in WIP provision	(978)	–	–	–	–	(978)
Net finance expenses including foreign exchange						(8,703)
Profit before income tax						**144,331**
Income tax						(22,003)
Profit for the year						**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**						9,916
Current assets**						303,101
Total assets						**688,773**
Capital expenditure – addition in 2010, including:	**22,365**	**3,026**	**12,902**	**4,074**	**–**	**42,367**
Deferred stripping costs	118	–	–	–	–	118
Capitalised interest	603	–	2,153	–	–	2,756
Capitalised expenses	89	–	–	–	–	89
Cash capital expenditure***	21,555	3,026	10,749	4,074	–	39,404

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

**As a result of the reclassifications, as at 31 December 2010 other non-current assets were increased by US$4.7 million and trade and other receivables were decreased by US$4.7 million.

All revenue and assets for both 2011 and 2010 are located in the Commonwealth of Independent States.

8. 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	
	2011 US$000	2010 US$000	2011 US$000	2010 US$000
Audit of the Group financial statements	1,007	965	–	–
Other fees to auditors:				
– Local statutory audits for subsidiaries	32	55	54	64
– Fees in relation to previous year Group audit	15	10	–	–
	1,054	**1,030**	**54**	**64**

9. REVENUE

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

	2011 US$000	2010 US$000
Gold sales	245,827	202,905
Concentrate sales	45,824	33,983
Silver sales	1,900	1,437
Other sales	6,630	5,304
	300,181	**243,629**

10. COST OF SALES

	2011 US$000	2010 US$000
Operating costs	25,699	23,362
Employee benefits expense	36,519	30,192
Depreciation, depletion and amortisation	26,820	20,041
Raw materials and consumables used	38,677	35,407
Taxes other than income tax	17,971	15,262
	145,686	**124,264**
Depreciation of owned assets	26,820	17,696
Depreciation of leased assets	–	2,345
	26,820	**20,041**

11. ADMINISTRATIVE EXPENSES

	2011 US$000	2010 US$000
Selling and distribution expenses	3,262	2,047
Minimum lease payments recognised as an operating lease expense (Note 32)	979	985
Auditors' fee	1,108	1,094
Salaries and wages of parent company	1,188	1,216
Management company administrative expenses	9,207	7,417
Legal and professional fees	1,994	754
Travel expenses	424	322
Bank charges	234	249
Other administrative expenses	593	415
Share-based payments credit	–	(1,407)
Total administrative expenses	**18,989**	**13,092**

12. OTHER OPERATING EXPENSES

	Notes	2011 US$000	2010 US$000
Movement in WIP provision	12.1	582	978
Exploration licenses write-off		–	1,066
Property, plant and equipment write-off	12.2	1,725	2,176
Property, plant and equipment adjustments		–	952
Donations		1,971	353
Movements in inventory obsolescence provision		655	900
Other		1,653	1,028
Total other operating expenses		**6,586**	**7,453**

12.1 Movement in WIP provision

In 2011 stock-piled low grade ore has been tested for impairment at Belaya Gora. Loss relating to the increase in WIP provision in the amount of US$0.6 million was recognised in 2011 (2010: US$1.0 million).

12.2 Property, plant and equipment write-off

In 2011 US$1.7 million (2010: US$2.2 million) write-off relates to retirement of old inefficient equipment.

13. FOREIGN EXCHANGE GAINS AND LOSSES

The total amount of foreign exchange loss for the year ended 31 December 2011 was US$5.5 million (2010: US$1.8 million) resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies such as Russian Roubles and British pounds into the functional currency.

14. FINANCE INCOME AND COSTS

14.1. Finance income

	2011 US$000	2010 US$000
Interest from joint venture (Note 33)	2,552	2,936
Gain on modification of terms of loans to jointly controlled entity (Note 33)	4,712	–
Gain on modification of terms of loan from Kazzinc (Note 33)	–	7,802
Bank interest	4,215	2,678
Total finance income	**11,479**	**13,416**

14.2. Finance costs

	2011 US$000	2010 US$000
Write-off of deferred financing costs	–	59
Interest expense – related party (Note 33)	2,427	2,792
Finance charges payable under finance leases and hire purchase contracts	–	33
Loss on modification of terms of loan from Kazzinc (Note 33)	4,479	–
Loss on modification of terms of loans to jointly controlled entity (Note 33)	–	8,175
Bonds and shares fair value movement (Note 35)	9,661	8,739
Accretion expense on site restoration provision (Note 31)	487	510
Total finance costs	**17,054**	**20,308**

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

The carrying amount of financial assets and liabilities was adjusted to the present values of all future cash receipts and repayments under new terms using market rate of 8.5%. In 2011 this resulted in an increase of Kazzinc loans received by US$4.5 million (48.3%) and an increase of loans issued by the Group to Novo by US$4.7 million (51.7%). In 2010 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 2011 and 2010 are:

	2011 US$000	2010 US$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	25,906	19,727
Adjustments in respect of prior year current tax	(71)	(97)
	25,835	**19,630**
Deferred income tax:		
Relating to origination and reversal of temporary differences	2,435	2,373
Income tax expense reported in the statement of comprehensive income	**28,270**	**22,003**

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 2011 and 2010 is as follows:

	2011 US$000	2010 US$000
Accounting profit before tax	132,093	144,331
Accounting profit before income tax	**132,093**	**144,331**
At Russian statutory income tax rate of 20%	26,419	28,866
Non-deductible expenses	3,385	1,607
Gain on impairment reversal at Novo	–	(10,556)
Fair value adjustment at Novo	(2,678)	–
Lower tax rates on overseas earnings and disposals	1,635	1,016
Unrecognised losses/(recognised losses)	(929)	1,171
Movements in other unrecognised temporary differences	509	(4)
Adjustments in respect of prior year current tax	(71)	(97)
Income tax expense	**28,270**	**22,003**
Income tax expense reported in the consolidated statement of comprehensive income	**28,270**	**22,003**

DEFERRED INCOME TAX

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		Novo acquisition	
	2011 US$000	2010 US$000	2011 US$000	2010 US$000	2011 US$000	2010 US$000
Deferred income tax liability						
Property, plant and equipment	(35,992)	(21,611)	891	6,003	(13,490)	–
Inventory	(4,761)	(3,174)	1,587	1,251	–	–
Accounts receivable and other debtors	(132)	(600)	(468)	526	–	–
Finance lease obligations	–	–	–	(16)	–	–
Deferred financing costs	–	–	–	(12)	–	–
	(40,885)	**(25,385)**	**2,010**	**7,752**	**(13,490)**	**–**
Deferred income tax assets						
Accounts receivable and other debtors	446	–	(216)	–	230	–
Inventory	231	113	(83)	65	35	–
Trade accounts and notes payable	942	786	(29)	(73)	127	–
Tax losses	16,176	13,693	753	(5,371)	3,236	–
	17,795	**14,592**	**425**	**(5,379)**	**3,628**	**–**
Net deferred income tax liabilities	**(23,090)**	**(10,793)**	**2,435**	**2,373**	**(9,862)**	**–**

	2011 US$000	2010 US$000
Deferred income tax assets	–	941
Deferred income tax liabilities	(23,090)	(11,734)
Deferred tax liabilities net	**(23,090)**	**(10,793)**

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 2011 is US$10.1 million (31 December 2010: US$7.5 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 2011 is US$12.0 million (31 December 2010: US$9.4 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 2011 is US$17.8 million (31 December 2010: US$21.8 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

According to Russian tax legislation, tax losses expire if not utilised within 10 years of accruing, in Kyrgyzstan – within five years.

The deferred tax asset in the amount of US$3.2 million (31 December 2010: US$2.5 million) can possibly be derecognised.

The temporary differences associated with investments in subsidiaries, for which deferred tax liability has not been recognised aggregate to US$306.4 million (2010: US$188.1 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences should be between US$0 and US$30.6 million (2010: US$0 and US$28.2 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2011 and 2010 years of assessment will be subject to tax at the standard rate of 0%.

16. EARNINGS PER SHARE

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

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

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

	2011 US$000	2010 US$000
Net profit attributable to ordinary equity holders of the parent from continuing operations	103,823	122,328
Net profit attributable to ordinary equity holders of the parent	**103,823**	**122,328**
	Thousands	**Thousands**
Weighted average number of ordinary shares for basic earnings per share	325,216	325,197
Effect of dilution:		
Share options	1,031	1,448
Weighted average number of ordinary shares adjusted for the effect of dilution	**326,247**	**326,645**

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

17. EXPLORATION AND EVALUATION ASSETS

	US$000
Cost as at 1 January 2010	**30,853**
Additions	11,527
Unsuccessful exploration expenditure derecognised	(1,066)
Transfer to development (Belaya Gora)	(13,997)
Cost as at 31 December 2010	**27,317**
Additions	24,849
Other adjustments	21
Capitalised depreciation	10
Cost as at 31 December 2011	**52,197**
Net book value as at 31 December 2010	**27,317**
Net book value as at 31 December 2011	**52,197**

18. MINE PROPERTIES

	Mining assets US$000	Deferred stripping costs US$000	Total US$000
Cost as at 1 January 2010	**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**
Additions	14,966	5,469	20,435
Transfers	(172)	–	(172)
Write-off	(3)	–	(3)
Deferred stripping write-off	–	(4,818)	(4,818)
Capitalised depreciation	186	–	186
Change in estimation – site restoration asset*	9,962	–	9,962
Other adjustments	(564)	–	(564)
Novo acquisition	95,779	–	95,779
Cost as at 31 December 2011	**353,028**	**769**	**353,797**
Depreciation and impairment as at 1 January 2010	**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**
Provided during the year	16,259	–	16,259
Write-off	(2)	–	(2)
Other adjustments	565	–	565
Novo acquisition	(98)	–	(98)
Depreciation and impairment as at 31 December 2011	**71,336**	**–**	**71,336**
Net book value as at 31 December 2010	**178,262**	**118**	**178,380**
Net book value as at 31 December 2011	**281,692**	**769**	**282,461**

*During 2011 there was a change in the rehabilitation estimate mainly due to a change in the method of waste removal at MNV. The net present value of the increase in the cost estimate is US$10.0 million (US$7.8 million at MNV, US$1.9 million at Belaya Gora, US$0.3 million at Novo) which was booked as an increase to mining assets and non-current provisions.

19. 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 2010	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**
Additions	–	252	23,990	24,242
Transfers	1,535	12,248	(13,611)	172
Reclass to inventory	–	–	(84)	(84)
Other adjustments	288	(139)	217	366
Write-off	(29)	(3,604)	(916)	(4,549)
Disposals	–	(73)	–	(73)
Novo acquisition	17,806	8,473	687	26,966
At 31 December 2011	**45,806**	**91,683**	**17,103**	**154,592**
Depreciation				
At 1 January 2010	**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**
Provided during the year	2,116	9,255	–	11,371
Write-off	–	(2,263)	(562)	(2,825)
Disposals	–	(11)	–	(11)
Other adjustments	–	(218)	–	(218)
Capitalised depreciation	46	150	–	196
Novo acquisition	(2,282)	(3,219)	(141)	(5,642)
At 31 December 2011	**6,099**	**30,234**	**–**	**36,333**
Net book value:				
At 31 December 2010	**19,987**	**47,986**	**6,117**	**74,090**
At 31 December 2011	**39,707**	**61,449**	**17,103**	**118,259**

No plant and equipment has been pledged as security for bank loans (2010: Nil).

20. INTANGIBLE ASSETS

	Goodwill US$000
Cost	
At 1 January 2010	**65,231**
Additions	–
At 31 December 2010	**65,231**
Business combination – acquisition of subsidiary (Note 5)	5,134
At 31 December 2011	**70,365**
Impairment	
At 1 January 2010	**–**
Provided during the year	–
At 31 December 2010	**–**
Provided during the year	–
At 31 December 2011	**–**
Net book value:	
At 31 December 2010	**65,231**
At 31 December 2011	**70,365**

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

	2011 US$000	2010 US$000
Goodwill allocated to gold production segment	22,253	22,253
Goodwill allocated to polymetallic concentrate production segment	5,134	–
Goodwill allocated to development and exploration segment	42,978	42,978
Balance at 31 December	**70,365**	**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. 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.

Goodwill amounting to US$5.1 million arose during Novo acquisition in December 2011. It has been allocated to polymetallic concentrate production segment.

21. IMPAIRMENT TESTING OF NON-CURRENT ASSETS

The carrying amount of non-current assets including goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. Management has determined the recoverable amounts in 2011 and 2010 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:

- MNV till 2016;
- Novo – 2025;
- Belaya Gora – 2019;
- Taseevskoye – 2023.

No 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 2011 and 2010.

	2011	2010
Pre-tax discount rate for cash flows in the operating gold mining company (MNV), %	26.20	23.30
Pre-tax discount rate for cash flows in the polymetallic mining company (Novo), %	13.00	13.00
Pre-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye), %	11.10	12.10
Pre-tax discount rate for cash flows in the operating gold mining company (Belaya Gora), %	14.70	15.40
Gold price, US$ per ounce in the next year	1,600	1,100
Gold price, US$ per ounce after the next year*	1,600	1,100
Silver price, US$ per ounce in the next year	30	18
Lead price, US$ per tonne in the next year	2,100	2,000
Zinc price, US$ per tonne in the next year	2,100	2,000

*Gold price for 2014-2016 used in the 2011 impairment testing is US$1,400 per oz, for 2017 and beyond is US$1,100 per oz.

In management's view, no reasonable change in the key assumptions would trigger an impairment charge at 31 December 2011.

22. FINANCIAL ASSETS

Non-current	2011 US$000	2010 US$000
Loan and interest receivable from Novo	–	30,738
	–	**30,738**

Current	2011 US$000	2010 US$000
Loan and interest receivable from Novo	–	4,022
	–	**4,022**

On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc. According to the terms of the acquisition, Kazzinc loan was assigned to Stanmix Investments Limited and eliminated as an intercompany loan.

23. OTHER NON-CURRENT ASSETS

	2011 US$000	2010 US$000
Non-current VAT	6,372	4,670
Non-current prepayments	6,798	4,290
Other non-current assets	453	15
Total other non-current assets	**13,623**	**8,975**

24. SHARE-BASED PAYMENT PLANS

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

	2011 US$000	2010 US$000
Credit arising from equity-settled share-based payment transaction	–	1,407
Total credit arising from share-based payment transaction	**–**	**1,407**

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 Nomination Committee.

During the 12 months ended 31 December 2011 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 25,000 shares have been exercised in 2011. No share options have been forfeited.

Currently there are 17 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.

	2011 No.	2011 WAEP	2010 No.	2010 WAEP
Outstanding as at 1 January	1,050,000	£1.45	2,022,500	£2.04
Exercised during the year	(25,000)	£0.96	–	–
Forfeited during the year	–	–	(972,500)	£2.68
Outstanding as at 31 December	1,025,000	£1.46	1,050,000	£1.45
Exercisable at 31 December	1,025,000	£1.46	1,050,000	£1.45

For the share options outstanding as at 31 December 2011, the weighted average remaining contractual life is 1.87 years (2010: 2.89 years).

The range of exercise prices for options outstanding at the end of the year was £0.96 – £2.11 (2010: £0.96 – £2.11).

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

25. INVENTORIES

Non-current	2011 US$000	2010 US$000
Ore stockpiles	6,922	–
	6,922	**–**
Ore stockpile obsolescence provision	(1,560)	–
Total inventories	**5,362**	–

Current	2011 US$000	2010 US$000
Raw materials and consumables	54,836	45,195
Ore stockpiles	17,042	4,014
Gold in progress	–	4,988
Finished goods	352	2,891
	72,230	**57,088**
Ore stockpile obsolescence provision	–	(978)
Raw materials and consumables obsolescence provision	(10,437)	(9,357)
Total inventories	**61,793**	**46,753**

No inventory has been pledged as security.

26. TRADE AND OTHER RECEIVABLES

	2011 US$000	2010 US$000
VAT receivable	20,799	17,686
Other taxes receivable	115	120
Receivables from joint venture (Note 33)	–	1
Related party receivables (Note 33)*	17	6,104
Trade receivables*	5,477	98
Other receivables	2,197	2,984
	28,605	**26,993**

*As at 31 December 2011, a negative prices and volume adjustment was booked to trade receivables in the amount of US$1.8 million (2010: a positive adjustment in the amount of US$2.9 million booked to related party receivables – 48.3%).

As a result of the reclassifications, VAT receivable as at 31 December 2010 was decreased by US$4.7 million.

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:

	2011 US$000	2010 US$000
At 1 January	397	507
Utilisation	(184)	(110)
At 31 December	**213**	**397**

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

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.

	2011 US$000	2010 US$000
Cash in hand and at bank	3,546	2,609
Short-term deposits	87,089	164,959
	90,635	**167,568**

28. ISSUED CAPITAL AND RESERVES

a) Issued share capital

Authorised	2011	2010
	Shares	Shares
Ordinary shares of £0.001 each	750,000,000	750,000,000

Ordinary shares issued and fully paid

	Shares	Amount US$000
At 1 January 2010	325,197,098	585
Ordinary shares issued	–	–
At 31 December 2010	325,197,098	585
Ordinary shares issued	25,000	–
At 31 December 2011	325,222,098	585

b) Nature and purpose of other reserves

Asset revaluation reserve

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

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	2011	2010
Current				
Other loans:				
Kazzinc (Note 14)	8.50	September 2023	–	3,814
$20 million bank loan	7.50	November 2011	–	4,710
			–	**8,524**
Non-current				
Other loans:				
Kazzinc (Note 14)	8.50	September 2023	–	29,210
			–	**29,210**

In January 2011 the Group made an early repayment of US$4.7 million to MDM bank. After this repayment the Group has no outstanding bank debt. On 26 December 2011, under the terms of acquisition of an additional 48.3% share in Novo, the Group completely repaid outstanding debt to its joint venture partner Kazzinc.

30. TRADE AND OTHER PAYABLES

Non-current

	2011 US$000	2010 US$000
Contingent consideration liability (Note 5)	8,531	–
Other non-current payables	324	96
	8,855	**96**

Current

	2011 US$000	2010 US$000
Trade payables	5,906	3,460
Other current payables	1,245	921
Salaries payable	6,338	5,239
Other taxes payable	4,408	5,341
Other related parties (Note 33)	186	233
Interest payable	–	4
	18,083	**15,198**

Terms and conditions of current financial liabilities included above:

- Salaries payable are non-interest bearing and are normally settled on 30-day terms. Outstanding vacations are also included in this line.
- Trade and other payables are non-interest bearing and are normally settled on 30-60 day terms.
- Other taxes payable include mineral extraction tax, property tax, social taxes and VAT. These are non-interest bearing and are normally settled within 30-60 days.
- For terms and conditions with regard to related parties, refer to Note 33.

31. PROVISIONS

	Site restoration provision US$000	Legal provision US$000	Total US$000
At 1 January 2010	**9,328**	**59**	**9,387**
Accretion	510	–	510
Change in estimation	(243)	–	(243)
At 31 December 2010	**9,595**	**59**	**9,654**
Accretion	487	–	487
Disposal	–	(57)	(57)
Novo acquisition	3,137	–	3,137
Change in estimation	9,977	19	9,996
At 31 December 2011	**23,196**	**21**	**23,217**
Current 2011	–	21	21
Non-current 2011	23,196	–	23,196
	23,196	**21**	**23,217**
Current 2010	–	59	59
Non-current 2010	9,595	–	9,595
	9,595	**59**	**9,654**

Site restoration provision

In 2011 the Group performed a re-assessment of the site restoration provision at Mnogovershinnoye. The assessments were based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life of mine (which is assumed to close in 2016), expected site restoration activities (removal of waste, restoration of mine sites), current prices for similar activities and a risk-free discount rate of 3.3% (2010: 5.2%).

A risk-free discount rate of 5.9% (2010: 5.9%) has been used to calculate the site restoration liability at Novo assuming its closure in 2025. The changes in the liability associated with the change in discount rate have been added to the cost of the related asset.

A risk-free discount rate of 4.2% (2010: no site restoration liability) has been used to calculate the site restoration liability at Belaya Gora assuming its closure in 2019.

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 2011 was US$1.0 million (2010: US$1.0 million)
Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2011 US$000	2010 US$000
Within one year	1,009	979
After one year but not more than five years	2,293	3,303
	3,302	**4,282**

Capital commitments

At 31 December 2011, the Group had commitments of US$35.0 million (2010: US$2.2 million) principally relating to development assets and US$11.1 million (2010: US$2.7 million) for the acquisition of new machinery.

Finance lease and hire purchase commitments

As at 31 December 2011 the Group has no current finance leases and hire purchase contracts.

Contingent Liabilities

Management has identified possible tax claims within the various jurisdictions in which it operates totalling US$4.2 million as at 31 December 2011 (at 31 December 2010: 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 subsidiaries		
Auberon Limited	Cyprus	100
ZAO Mnogovershinnoye (MNV)	Russia	100
OAO Novo-Shirokinsky Rudnik (Novo) – since 26 December 2011	Russia	96.6
OOO Belaya Gora	Russia	100
OOO Lyubavinskoye	Russia	100
OOO Taseevskoye	Russia	100
OOO Russdragmet (RDM)	Russia	100
OOO RDM-Logistika	Russia	100
ZAO TH Mnogovershinnoye	Russia	100
OOO Zabaykalzolotoproyekt (ZZP)	Russia	100
OOO RDM-Resources	Russia	100
Jointly controlled entity		
OAO Novo-Shirokinsky Rudnik (Novo) – till 26 December 2011	Russia	48.3

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at 31 December 2010, refer to Notes 22, 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	2011	–	–	17	–
	2010	–	–	18	–
Barrick Gold Services	2011	–	–	–	186
	2010	–	–	–	197
Joint venture in which the parent is the venturer:					
Novo	2011	26	–	–	–
	2010	10	–	1	8
Partner in the joint venture:					
Kazzinc	2011	45,824	346	–	–
	2010	33,983	781	6,086	28

Had no share increase in Novo occurred in 2011, the outstanding balances at 31 December 2011 would have been as follows:

	Amounts owed by related parties US$000	Amounts owed to related parties US$000
Joint venture in which the parent is the venturer: Novo	8	1
Partner in the joint venture: Kazzinc	2,524	–

		Loans given to related parties US$000	Interest on the loan given to the related party US$000	Loan and interest paid by related parties US$000	Fair value adjustment due to modification of terms US$000	Reclassification to intercompany loan US$000	Amounts owed by related parties US$000
Joint venture in which the parent is the venturer:							
Novo	2011	–	2,552	(12,158)	4,712	(29,866)	–
	2010	2,068	2,936	(5,466)	(8,175)	–	34,760

		Loans received from related parties US$000	Interest on the loan received from the related party US$000	Loan and interest paid to related parties US$000	Fair value adjustment due to modification of terms US$000	Loan assignment US$000	Amounts owed to related parties US$000
Partner in the joint venture:							
Kazzinc	2011	–	2,427	(11,534)	4,479	(28,396)	–
	2010	1,843	2,792	(5,180)	(7,802)	–	33,024

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 2011.

Persons connected with Eugene Shvidler, a Non-Executive Director of the Company, 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 Novo-Shirokinsky Rudnik (Novo)

The Group had a 48.3% interest in Novo (2010: 48.3%). On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc.

PARTNERS IN THE JOINT VENTURE

Kazzinc

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

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 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: 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

	2011 US$000	2010 US$000
Short-term employee benefits*	4,259	3,998
Total compensation paid to key management personnel	**4,259**	**3,998**

*Including US$1.2 million (2010: US$1.2 million) paid to the Directors. 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 2011	Number 2010
2005	2012	£2.11	200,000	200,000
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 trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

Gold price risk

In year 2011 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
2010	5%	(5)	5%	2,115	5%	2,791
	-5%	5	-5%	(2,115)	-5%	(2,791)
2011	6%	154	6%	4,690	6%	2,112
	-6%	(154)	-6%	(4,690)	-6%	(2,112)

There is no other foreign currency impact on equity.

Credit risk

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

Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted payments.

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**

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

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.

As at 31 December 2011 the Group has no outstanding debt obligations.

35. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, investments, cash, deposits 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	
	2011 US$000	2010 US$000	2011 US$000	2010 US$000
Financial assets				
Cash and cash equivalents	90,635	167,568	90,635	167,568
Financial instruments at fair value through profit or loss (coupon bonds)	36,111	54,902	36,111	54,902
Trade and other receivables	7,691	9,187	7,691	9,187
Loan to Novo including accrued interest	–	34,760	–	34,760
Financial liabilities				
Interest-bearing loans and borrowings:				
Fixed rate borrowings	–	4,710	–	4,710
Fixed rate borrowings – Kazzinc including accrued interest	–	33,024	–	33,024
Trade and other payables	13,675	9,860	13,675	9,860
Contingent consideration	8,531	–	8,531	–

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 invested US$40.1 million and received US$17.4 million as a result of selling bonds purchased in 2009. During 2011 the Group additionally invested US$19.8 million and received US$23.4 million as a result of selling bonds purchased in 2009-2011. In August 2011 coupon bonds of Bank of Ireland were converted into euro denominated ordinary shares. The bonds and shares 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 and shares was determined based on quoted bid prices (source: Bloomberg). The table below contains fair value movement from acquisition till reporting date.

	2011 US$000	2010 US$000
At 1 January	**54,902**	**46,274**
Fair value loss	(15,027)	(11,655)
Foreign exchange gain/(loss)	162	(1,731)
Coupon interest income accrued	5,204	4,647
Bonds and shares fair value movement	(9,661)	(8,739)
Coupon interest income received	(5,468)	(5,369)
Bonds sold	(23,427)	(17,401)
Bonds acquired	19,765	40,137
Bonds converted into shares	(3,190)	–
Shares	3,190	–
At 31 December	**36,111**	**54,902**

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 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 and shares	54,902	54,902	–	–

	31 Dec 2011 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	36,111	36,111	–	–

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

36. DIVIDENDS

The Group paid an interim dividend of GBP0.025 per share and a special dividend of GBP0.025 per share, making a total interim dividend of GBP0.05 per share (2010: GBP nil per share) which resulted in an aggregate dividend payment of US$25.7 million. The interim dividend was paid on 21 October 2011.

37. EVENTS AFTER THE REPORTING PERIOD

No events occurred after the reporting date that had a material impact on the financial position or financial performance of the Group.

GKZ RESERVES AS AT 31 DECEMBER, 2011

Project Name	Classi-fication	Ore, tonnes	Gold, g/t	Contained gold, ounces	Silver, g/t	Contained silver, ounces	Highland's interest (%)	Gold ounces attributable to Highland	SIlver ounces attributable to Highland
MNOGOVERSHINNOYE	**B**	111,000	7.86	28,068			100%	28,068	
	C1	1,456,000	18.67	874,018	19.16	897,006	100%	874,018	
	C2	1,916,000	11.31	696,675	16.86	1,038,469	100%	696,675	
	Total	3,483,000	14.28	1,598,760	17.85	1,935,475	100%	1,598,760	1,935,475
BELAYA GORA	**C1**	4,006,000	3.54	456,283			100%	456,283	
	C2	2,977,000	3.51	335,718	6.26	1,404,988	100%	335,718	
	Total	6,983,000	3.53	792,001		1,404,988	100%	792,001	1,404,988
NOVOSHIROKINSKOYE	**B**	563,000	7.79	140,981	85.10	1,540,342	100%	140,981	
	C1	4,658,500	3.45	516,759	98.59	14,766,838	100%	516,759	
	C2	3,482,000	2.13	238,944	70.33	7,873,718	100%	238,944	
	Total	8,703,500	3.20	896,684	86.41	24,180,898	100%	896,684	24,180,898
UNKURTASH	**C1**	4,998,886	2.40	385,955			100%	385,955	
	C2	12,002,236	2.58	993,927	1.64	896,363	100%	993,927	
	Total	17,001,122	2.52	1,379,882	1.64	896,363	100%	1,379,882	896,363
TASEEVSKOYE	**C1**	4,743,000	4.61	702,558	8.96	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	5,996,114	100%	3,396,148	5,996,114
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	6.25	128,603	100%	320,800	128,603
TOTAL	**B**	680,000	7.87	172,103	85.10	1,540,342		172,103	
	C1	20,327,386	4.87	3,185,449	47.01	17,094,552		3,185,449	
	C2	44,294,236	3.74	5,326,272	10.98	15,907,546		5,326,272	
	Total	65,301,622	4.14	8,683,824	18.87	34,542,441		8,683,824	34,542,441

1. MNV, BG, Novo, TAS, ZIF-1, SG reported reserves are approved by the Russian State Committee for Reserves (GKZ). Unkurtash reported reserves are approved by the Kyrgyz Republic State Committee for Reserves.
2. Unkurtash report includes reserves for Unkurtash and Karatube.
3. Reserves are mineable, and do not include dilution or recovery.
4. Belaya Gora's silver balance reserve estimated in C2 category corresponds to the balance reserves of C1+C2 category.
5. Unkurtash's silver balance reserve estimated in C2 category is contained within the calculated gold reserve blocks. The average grade 1.64 g/t is defined as a result of the combined sample assays.
6. Novoshirokinskoye is a poly-metallic deposit and contains additionally B+C1+C2 Reserves of 157.6 Kt of zinc and 328.7 Kt of lead.
7. Ounces mean "troy ounces".
8. The reserve values stated for MNV, Belaya Gora and Novoshirokinskoe have been depleted for 2011 production.

MINERAL RESOURCES AS AT 31 DECEMBER, 2011 REPORTED IN ACCORDANCE WITH JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Measured	3,931,226	4.4	550,502	100%	550,502
	Indicated	1,093,421	4.3	151,422	100%	151,422
	Measured + Indicated	5,024,647	4.3	701,925	100%	701,925
	Inferred	3,294,000	4.4	465,575	100%	465,575
	Total	8,318,647	4.4	1,167,500	100%	1,167,500
TASEEVSKOYE	Indicated	25,785,000	4.9	4,057,587	100%	4,057,587
	Inferred	5,278,000	6.1	1,030,766	100%	1,030,766
	Total	31,063,000	5.1	5,088,353	100%	5,088,353
UNKURTASH	Measured	15,945,670	1.8	944,956	100%	944,956
	Indicated	14,494,540	1.7	788,066	100%	788,066
	Measured + Indicated	30,440,210	1.8	1,733,022	100%	1,733,022
	Inferred	2,406,530	1.3	104,231	100%	104,231
	Total	32,895,330	1.7	1,838,526	100%	1,837,253
NOVOSHIROKINSKOYE	Measured	2,307,375	8.3	616,719	96.60%	595,751
	Indicated	4,411,722	8.0	1,132,516	96.60%	1,094,011
	Measured + Indicated	6,719,097	8.1	1,749,236	96.60%	1,689,762
	Inferred	1,510,303	5.1	246,981	96.60%	238,584
	Total	8,229,400	7.5	1,996,217	96.60%	1,928,345
BELAYA GORA	Measured	6,091,747	2.2	436,058	100%	436,058
	Indicated	4,884,373	2.3	362,583	100%	362,583
	Measured + Indicated	10,976,120	2.3	798,641	100%	798,641
	Inferred	4,028,000	2.3	291,707	100%	291,707
	Total	15,004,120	2.3	1,090,348	100%	1,090,348
TOTAL	Measured	28,276,018	2.8	2,548,235		2,527,267
	Indicated	50,669,056	4.0	6,492,174		6,453,669
	Measured + Indicated	78,945,074	3.6	9,040,409		8,980,936
	Inferred	16,516,833	4.0	2,139,260		2,130,863
	Total	95,461,907	3.6	11,179,669		11,111,799

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

RESERVES AS AT 31 DECEMBER, 2011 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	**2,320,816**	**4.75**	**354,547**	**100%**	**354,547**
	Probable	**567,881**	**5.02**	**91,715**	**100%**	**91,715**
	Proven + Probable	**2,888,697**	**4.81**	**446,262**	**100%**	**446,262**
NOVOSHIROKINSKOYE	Proven	**2,281,965**	**8.0**	**587,207**	**96.60%**	**567,242**
	Probable	**4,143,667**	**7.9**	**1,052,197**	**96.60%**	**1,016,423**
	Proven + Probable	**6,425,632**	**7.9**	**1,639,404**	**96.60%**	**1,583,665**
BELAYA GORA	Proven	**3,584,793**	**2.8**	**317,245**	**100%**	**317,245**
	Probable	**2,771,223**	**2.8**	**253,339**	**100%**	**253,339**
	Proven + Probable	**6,356,016**	**2.8**	**570,584**	**100%**	**570,584**
TOTAL	Proven	**8,187,574**	**4.8**	**1,258,999**		**1,239,034**
	Probable	**7,482,771**	**5.8**	**1,397,251**		**1,361,477**
	Proven + Probable	**15,670,345**	**5.2**	**2,656,250**		**2,600,511**

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

CURRENT DIRECTORS

Eugene Shvidler
Non-Executive Chairman
(Non-Executive Chairman from 2 May 2012)

Duncan Baxter
Non-Executive Director*
(Non-Executive Chairman to 2 May 2012)

Terry Robinson
Non-Executive Director***

Olga Pokrovskaya
Non-Executive Director**

Eugene Tenenbaum
Non-Executive Director

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

PAST DIRECTORS

Jacques McMullen
Non-Executive Director
resigned 14 December 2011

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

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

HEAD OFFICE AND REGISTERED OFFICE

26 New Street
St Helier
Jersey JE2 3RA

COMPANY SECRETARY

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

NOMINATED ADVISER AND BROKER

(Appointed 7 November 2011)
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

(Resigned 6 November 2011)
Matrix Corporate Capital LLP
1 Vine Street
London
W1J 0AH

AUDITORS TO THE COMPANY AND GROUP

Ernst & Young LLP
1 More London Place
London SE1 2AF

REGISTRARS

Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey
JE2 3RT

SOLICITORS TO THE COMPANY

as to English Law
Cobbets
Ship Canal House
King Street
Manchester M2 4WD

as to Russian Law
PricewaterhouseCoopers
Kosmodamianskaya Nab. 52 Bld. 5,
115054 Moscow, Russia

as to Jersey Law
Bedell Cristin
PO Box 75
26 New Street
St Helier
Jersey JE4 8PP

BANKERS

Royal Bank of Canada
(Channel Islands) Limited
19-21 Broad Street
St Helier
Jersey JE4 8RR

TRANSFER AGENT

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

FINANCIAL CALENDAR

Mail 2011 Annual Report
18 May 2012

Annual General Meeting
14 June 2012

Interim Announcement
and Interim Report
September 2012

SHARE DATA

As at 30 April 2012

Listing sector/ticker Reuters – HGM.L

Number of Shares in issue –
325,222,098

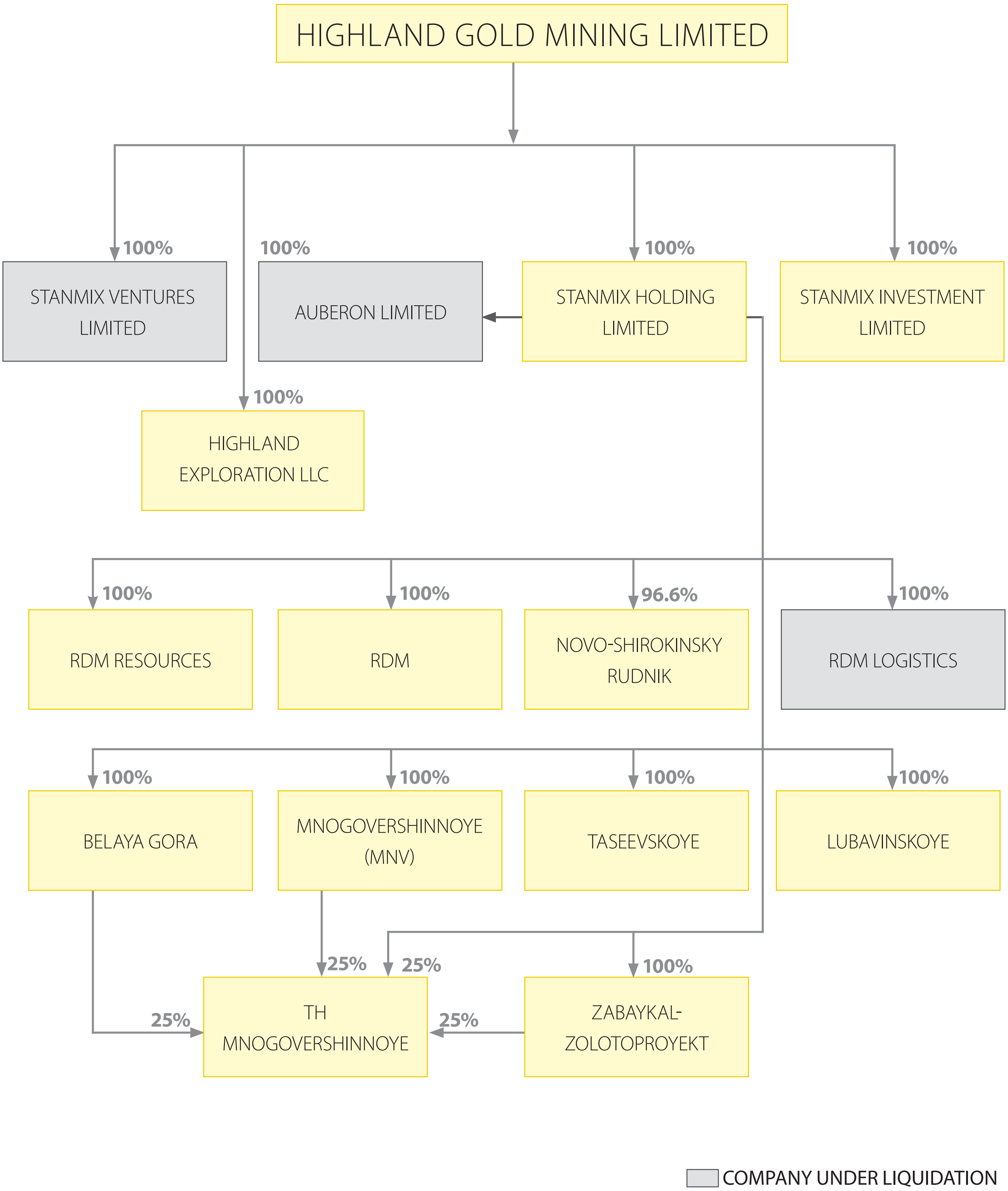
Share Price: £1.2525 per share

Market cap: £407,340,677 –
US$661,928,601

2011-12 'High': £2.12 per share –
8 September 2011

2011-12 'Low': £1.24 per share –
30 April 2012

Average daily volume: 623,287


HIGHLAND GOLD MINING LIMITED
100%
STANMIX VENTURES LIMITED
100%
AUBERON LIMITED
100%
STANMIX HOLDING LIMITED
100%
STANMIX INVESTMENT LIMITED
100%
HIGHLAND EXPLORATION LLC
100%
RDM RESOURCES
100%
RDM
96.6%
NOVO-SHIROKINSKY RUDNIK
100%
RDM LOGISTICS
100%
BELAYA GORA
100%
MNOGOVERSHINNOYE (MNV)
100%
TASEEVSKOYE
100%
LUBAVINSKOYE
25%
25%
100%
25%
TH MNOGOVERSHINNOYE
25%
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	Dormant
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	Dormant
Russdragmet (RDM) (OOO)	100	Russia	Management company
RDM Logistics (OOO)	100	Russia	Logistics, Russia
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)	96.6	Russia	Holder of Novo licence
RDM Resources (OOO)	100	Russia	Holder of Maya, Inikan, Lubov, Sovinoye and Iska licences
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 14 June, 2012 at 26 New Street, St Helier, Jersey JE2 3RA at 11.00 a.m. to consider and if thought fit, pass the following ordinary resolutions:

ORDINARY BUSINESS

1. To receive and adopt the Report of the Directors, the Audited Financial Statements and Auditors' report for the year ended 31 December 2011

2. That Duncan Baxter who retires by rotation as a Director of the Company be re-elected

3. That Olga Pokrovskaya who retires by rotation as a Director of the Company be re-elected

4. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting

5. That the Directors be authorised to fix the Auditors' remuneration.

By Order of the Board
18 May 2012

NOTES

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

HIGHLAND GOLD MINING Ltd.

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