HIGHLAND GOLD MINING Ltd.

HIGHLAND GOLD MINING LIMITED ANNUAL REPORT & ACCOUNTS 2014

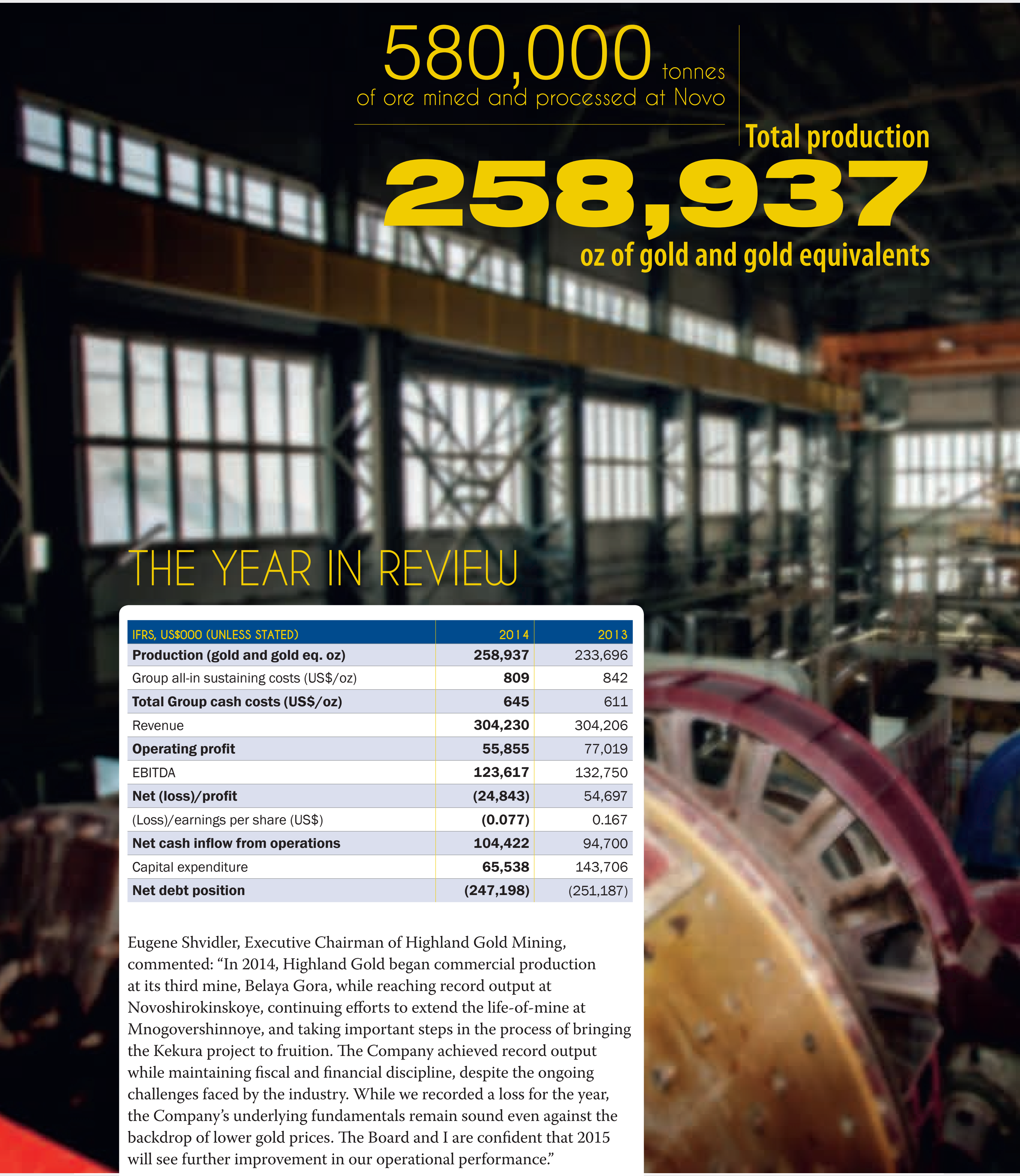
HIGHLAND GOLD MINING LIMITED

ANNUAL REPORT & ACCOUNTS 2014

A YEAR OF ORGANIC GROWTH

HIGHLAND GOLD MINING LIMITED

CONTENTS



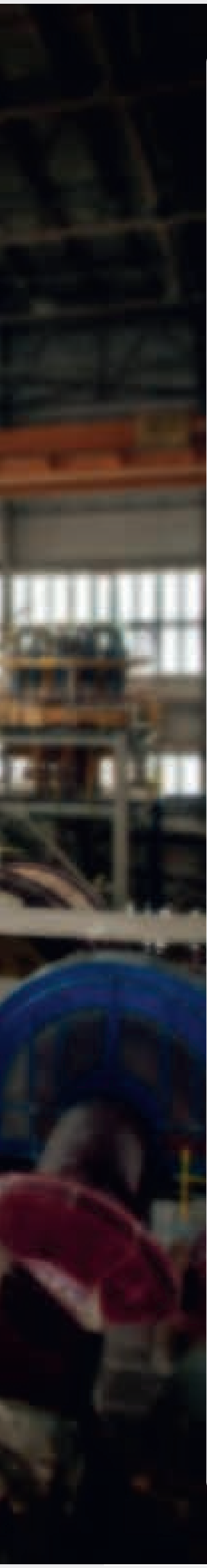
580,000 tonnes
of ore mined and processed at Novo

Total production
258,937
oz of gold and gold equivalents

THE YEAR IN REVIEW

IFRS, US$000 (UNLESS STATED)	2014	2013
Production (gold and gold eq. oz)	**258,937**	233,696
Group all-in sustaining costs (US$/oz)	**809**	842
Total Group cash costs (US$/oz)	**645**	611
Revenue	**304,230**	304,206
Operating profit	**55,855**	77,019
EBITDA	**123,617**	132,750
Net (loss)/profit	**(24,843)**	54,697
(Loss)/earnings per share (US$)	**(0.077)**	0.167
Net cash inflow from operations	**104,422**	94,700
Capital expenditure	**65,538**	143,706
Net debt position	**(247,198)**	(251,187)

Eugene Shvidler, Executive Chairman of Highland Gold Mining, commented: “In 2014, Highland Gold began commercial production at its third mine, Belaya Gora, while reaching record output at Novoshirokinskoye, continuing efforts to extend the life-of-mine at Mnogovershinnoye, and taking important steps in the process of bringing the Kekura project to fruition. The Company achieved record output while maintaining fiscal and financial discipline, despite the ongoing challenges faced by the industry. While we recorded a loss for the year, the Company’s underlying fundamentals remain sound even against the backdrop of lower gold prices. The Board and I are confident that 2015 will see further improvement in our operational performance.”



2014 KEY EVENTS

- Total production at Mnogovershinnoye (MNV), Novoshirokinskoye (Novo) and Belaya Gora rose 10.8% to a record 258,937 oz of gold and gold equivalents (2013: 233,696 oz)
- A 5.7% increase in total cash costs to US$645 per oz (2013: US$611 per oz) and a 3.8% fall in all-in sustaining cash costs to US$809 per oz (2013: US$842 per oz)
- Acquisition of licences for the North-Western Flank and Lower Horizon areas at MNV
- Mined and processed ore at Novo rose more than 15% to record levels in excess of 580,000 tonnes driven by improved efficiencies
- Completion at Belaya Gora of the second stage gravity circuit (to improve recovery rates) and on-site state-of-the-art assay laboratory
- Conclusion of advanced exploration programme at Kekura, and delivery of scoping study undertaken by consultants Hatch
- Design documentation for the Klen deposit development project received approval from the Main State Review Board
- Impairment of Klen goodwill and other long-term assets of US$11.4 million due to postponement of project development
- Net loss of US$24.8 million also influenced by US$9.6 million foreign exchange loss and US$49.4 million non-cash deferred tax charge. Adjusted net profit (free of impairment and abnormal foreign exchange, and applying a 33.3% effective income tax rate) was US$51.3 million (2013: US$54.7 million).
- Average realised price for gold and gold equivalents in 2014 of US$1,175 per oz (2013: US$1,291 per oz)
- Interim dividend of £0.025 per share paid in October 2014 (2013: Interim dividend of £0.025 per share)
- New US$50 million reserve credit facility arranged with UniCredit in September
- Net debt to EBITDA ratio maintained at 2.0 (2013: 1.9) in line with Board's policy
- Lost Time Incident (LTI) rate reduced to all time low of 0.27 in 2014 (2013: 0.28)

POST YEAR EVENTS

- Final dividend of £0.020 per share recommended, making a total distribution of £0.045 per share for the year to 31 December 2014 (2013: £0.050 per share)
- Documents for registration of Kekura reserves submitted to regulatory authorities
- Financing agreement with Alfa-Bank for US$60.0 million and Gazprombank for US$80.0 in April 2015

2015 TARGETS

- Expand production in 2015 to between 270,000–285,000 oz of gold and gold equivalents (sourced from MNV, Novo and Belaya Gora)
- MNV – Maintain stable levels of production while continuing to optimise cost controls
- Novo – Drive further increases in output through greater efficiencies
- Belaya Gora – Double output from 2014's 38,000 oz through further improvements in mining and processing operations
- Chukotka – Ongoing development of the Kekura project
- Exploration – Prioritise MNV's near mine exploration programme

CHAIRMAN'S STATEMENT

I am pleased to report that the quality of our Company's asset base together with the rigorous cost disciplines that are integral to our business culture, underwrote a generally solid performance in 2014, a year characterised by a distinctly challenging trading climate.

Our cost control endeavours in this regard, combined with the beneficial effect on costs of the weakness of the Rouble against the US Dollar, particularly during the second half of the year, are reflected in a decrease in 'all-in sustaining cash costs' by 3.8% to US$809. Total cash costs rose by 5.7%, influenced chiefly by the ramp-up of Belaya Gora and lower grades at MNV.

Despite the uptick in total cash costs, the Company remains near the median of our Russian and international peers in this indicator, and leads the pack in all-in sustaining costs. Management draws considerable encouragement from this achievement, which underlines the Company's 'low cost producer' status and our competitive standing.

Total production from our three mines in Russia – Mnogovershinnoye (MNV), Novoshirokinskoye (Novo) and Belaya Gora – in 2014 reached a record 258,937 oz of gold and gold equivalents. While somewhat lower than our projections at the beginning of the year, the figure still represents a substantial 10.8% increase from 2013.

Technical teething problems were encountered at Belaya Gora's mine and new processing plant during ramp up procedures and these, together with challenges caused by severe weather conditions in the Khabarovsk region, were the primary reasons for the less than anticipated growth in production.

The implementation of a series of measures designed to improve throughput and recoveries at Belaya Gora brought their rewards during the second half of 2014 when average monthly processing throughput amounted to 127,000 tonnes of ore: fully compatible with the plant's annual nameplate capacity of 1.5 million tonnes. In the event, gold output from Belaya Gora increased more than fivefold to some 38,000 oz and a doubling of this is targeted for the current year.

The contribution from MNV, although below the levels achieved in 2013, was once again substantial with gold production of more than 122,000 oz accounting for approximately 47% of total output.

Near mine exploration at MNV, designed to extend the life of the Company's oldest mine, was one of our operational priorities in 2014 and will remain so throughout 2015. In order to sustain such activity we acquired a licence for exploration and mining rights at the North-Western Flank of the MNV ore body in July, followed in October by the purchase of a similar licence for the Lower Horizon of the MNV deposit. We believe that both properties possess good potential for the delivery of additional resources.

Last but far from least, the Novo complex achieved an exceptional operating performance with above budget throughput translating into record production levels, details of which are set out in the Operations Report. Management is intent on fully capitalising on Novo's potential and, to this end, underground expansion is underway in order to gain access to new, lower horizons.

In the space of five years, Highland Gold's annual gold production has risen almost 60% from 163,000 oz in 2009 to 259,000 oz in the year under review. Consequent to this consistent expansion, the Company has emerged as the sixth largest gold producer in Russia which, in turn, is the world's second largest gold province and, supported by the effective devaluation of the Rouble against the US Dollar, the world's lowest cost producer of the metal.

Our JORC compliant resource base stands at 17.14 Moz, alongside a 2.04 Moz reserve base, while our reserve grade, at 6.2 g/t, is one of the highest among our Russian peers.

In 2015 we are budgeting for a further increase in production to between 270,000 and 285,000 oz of gold and gold equivalents which, in broad-brush terms, we expect to achieve through maintaining stable production at MNV, driving throughput at Novo and further refining mining and processing operations at Belaya Gora. Optimisation of cost controls will be common to all operations.

Once again our development activity was firmly focused on the progression of our Kekura project, located in the challenging but investor-friendly region of Chukotka. The second half of the year witnessed the completion of an advanced exploration programme which provided the data necessary for the registration of reserves and a submission to this effect was made to regulatory authorities in Q1 2015.

The target date for commercial production at Kekura, which enjoys a JORC compliant resource of 2.9 Moz with an exceptionally high average grade of 8.7 g/t, is 2018 and, to this end, a draft scoping study carried out by the consultancy firm Hatch was delivered towards the end of the year.

In the light of these results, the Board is pleased to recommend a final dividend of £0.020 per share (2013: £0.025 per share) which, subject to approval at the forthcoming Annual General Meeting on 26 May 2015, will make a total distribution of £0.045 per share for the year to 31 December 2014 (2013: £0.050 per share).

The health and safety of our employees will always be of paramount importance and a new initiative in 2014 led to the establishment of mine rescue teams at Novo, MNV and BG, each of which were certified by a special committee. Our Lost Time Incident (LTI) rate (defined as the number of lost time incidents for every 200,000 man hours worked) declined from 0.28 in 2013 to a new low of 0.27. In pursuit of our zero incident rate target, we continue to place considerable emphasis on the importance of safety education, particularly with regard to engendering a sense of personal responsibility among employees, and a series of specialised training courses were well attended. Meanwhile, it is with deep regret that I have to record one fatality during the year.

Looking to the future, from a currently challenging market place, the Directors are committed to achieving measured increases in production, hand in hand with the ongoing implementation of rigid cost disciplines designed to maintain or extend our cost advantage. The Board remains equally committed to ensuring that the rewards of such strategies find reflection in a continuation of regular dividend distributions.

I now take much pleasure, on behalf of the Board, in thanking all our employees for the hard work and commitment that was responsible for our achievements during 2014.

Eugene Shvidler
Executive Chairman

MINE LOCATIONS

Kekura
Klen
Verkhne-Krichalskaya
Chita
Novoshirokinskoye
Taseevskoye
Lyubov
Mnogovershinnoye
Belaya Gora
Blagodatnoye
Khabarovsk
Vladivostok
Operating Mine
Development Project
Exploration Project

OPERATIONS REVIEW

The 10.8% increase in overall production to a record 258,937 oz of gold and gold equivalents in 2014 reflected further significant output from MNV, an above budget performance from Novo and, following initial ramp up challenges, a second half recovery in throughput at Belaya Gora's new processing plant. Cost optimisation, primarily comprised of disciplined capital allocation and the implementation of operating efficiencies, was prioritised Group-wide. The shortfall in production, compared to expectations at the beginning of the year, largely reflected the problems encountered at Belaya Gora.

In 2015 we are budgeting for a further increase in production to between 270,000–285,000 oz of gold while, at the same time, continuing to focus on our development of the Kekura project, where commercial production is targeted for 2018, and our near mine exploratory activity at MNV. The latter will be sustained by the acquisitions, in 2014, of the North Western Flank and Lower Horizon licences.

MNOGOVERSHINNOYE (MNV) – Khabarovsk region, Russia

Process plant throughput in 2014 totalled 1,366,458 tonnes of ore which yielded 122,320 oz of gold. The recovery rate amounted to 91.8%.

Open-pit and underground ore production totalled 1,159,495 tonnes, while underground development increased from 7,996 metres in 2013 to 9,166 metres.

The average ore grade of 3.19 g/t was 13.8% below the level achieved in 2013. The decrease reflected a combination of mining complications and adverse geological conditions at the open pit of the Flank ore body, factors which led to a switch of mining operations to lower grade areas.

MNV	UNIT	H1 2013	H2 2013	H1 2014	H2 2014	2013	2014
Waste stripping	m^3	1,914,210	2,429,865	**1,194,036**	1,310,227	4,344,075	**2,504,263**
Underground development	m	3,833	4,163	**5,151**	4,015	7,996	**9,166**
Open-pit ore mined	t	241,292	459,349	**300,569**	249,270	700,641	**549,839**
Open-pit ore grade	g/t	3.8	3.7	**3.71**	3.2	3.8	**3.5**
Underground ore mined	t	368,518	352,462	**292,877**	316,779	720,980	**609,656**
Underground ore grade	g/t	3.5	3.6	**3.11**	2.7	3.6	**2.91**
Total ore mined	t	609,810	811,811	**593,446**	566,049	1,421,621	**1,159,495**
Average grade	g/t	3.6	3.7	**3.42**	2.94	3.7	**3.19**
Ore processed	t	670,654	657,527	**629,854**	736,604	1,328,181	**1,366,458**
Average grade in processed ore	g/t	3.5	3.9	**3.31**	2.81	3.7	**3.04**
Recovery rate	%	91.9	92.1	**92.5**	91.1	91.99	**91.8**
Gold produced	oz	68,996	76,263	**61,761**	60,559	145,259	**122,320**

PRODUCTION COSTS

Total cash costs amounted to US$722 per ounce (2013: US$647 per ounce) and all-in sustaining costs were US$835 per ounce (2013: US$783 per ounce).

CAPITAL COSTS

A total of US$12.2 million was invested at MNV in 2014. This included: capitalised expenditures and construction (US$5.8 million), purchase of equipment (US$5.0 million) and exploration (US$1.4 million).

OUTLOOK

An independent JORC compliant audit of MNV's resources as of 1 January 2013 (completed in H1 2014 and reflected in the updated resource/reserve statement released with the 2013 Annual Report & Accounts) indicated a near 80% increase in resources, effectively supporting the life of the mine to 2017. Near mine exploration, following 2014's new licence acquisitions, will remain a priority throughout 2015 in parallel with the implementation of further operational efficiencies designed to maintain stable production volumes.

NOVOSHIROKINSKOYE (NOVO) – Zabaikalsky region, Russia

Ore mining and processing at Novo continued to meet or exceed expectations in 2014 with mine output achieving a 15.8% increase versus 2013 to a record 583,472 tonnes of ore. A notable second half performance attained 110% of target. The average ore grade was 6.2 g/t (2013: 6.0 g/t), the recovery rate was 84.9% (2013: 83.8%) and the aforementioned volumes resulted in a rise of more than 20% in the production of gold and gold equivalents to 97,775 oz compared with 81,361 oz in 2013.

Underground development increased by almost 22% to 10,317 metres (2013: 8,478 metres).

The installation of additional flotation facilities enabled existing crushing and grinding capacity to be fully utilised, a development that resulted in mill throughputs and recoveries increasing by 16% and 1.3% respectively in H2 2014 compared with H2 2013.

NOVO**	UNIT	H1 2013	H2 2013	H1 2014	H2 2014	2013	2014
Underground development	m	4,485	3,993	**5,162**	5,155	8,478	**10,317**
Ore mined	t	245,775	258,151	**280,987**	302,485	503,926	**583,472**
Average grade*	g/t	5.5	6.4	**5.6**	6.6	6.0	**6.2**
Ore processed	t	244, 907	260,178	**281,137**	301,685	505,085	**582,822**
Average grade*	g/t	5.5	6.4	**5.6**	6.6	6.0	**6.2**
Recovery rate*	%	84.3	83.8	**84.3**	85.3	83.8	**84.9**
Gold produced (100%)*	oz	36,634	44,727	**42,949**	54,826	81,361	**97,775**

*Approximate Au equivalent (metal content in the mined ore = Au 3.53 g/t, Ag 75.81 g/t, Pb 2.54%, Zn 1.12%).

**Figures represent 100% of Novo output. Highland Gold's share is 97.7%.

PRODUCTION COSTS

Total cash costs amounted to US$429 per ounce (2013: US$542 per ounce) and all-in sustaining costs were US$517 per ounce (2013: US$667 per ounce).

CAPITAL COSTS

A total of US$8.0 million was invested at Novo in 2014. This included: capitalised expenditures and construction (US$3.4 million) and purchase of equipment (US$4.6 million).

OUTLOOK

In line with the mine's long-term development plan, the Company has commenced an underground expansion project designed to facilitate access to new, lower horizons. The Central Commission of Reserves has approved an intermediate mining stage related to annual ore output of some 600,000 tonnes.

BELAYA GORA – Khabarovsk region, Russia

The Company continued the process of ramping up production at Belaya Gora with activity in H2 2014 focused on improving throughputs and recoveries, including the commissioning of a second gravity stage.

As a result of these measures, average monthly processing throughput expanded to 127,000 tonnes in H2 2014, versus 77,000 tonnes in H1 2014, a level which is fully compatible with the plant's designed annual capacity of 1,500,000 tonnes. Mining operations were hindered by extreme weather conditions towards the end of the year which led to downtime. Despite this, total gold production increased from 7,077 oz in 2013 to 38,842 oz in FY 2014. The average grade of ore mined in 2H 2014 was 1.52 g/t, representing a 15.1% improvement over H1 2014 and an 11% improvement over the corresponding period of 2013.

A state-of-the-art on-site assay laboratory was commissioned at Belaya Gora during the second half of 2014, while work was also carried out on the CIL and elution circuits, which were completed in early 2015.

BELAYA GORA	UNIT	H1 2013	H2 2013*	H1 2014	H2 2014	2013	2014
Waste stripping	m^3	963,278	672,562	**767,690**	1,137,601	1,635,840	**1,905,291**
Ore mined	t	815,585	1,011,095	**465,610**	611,457	1,826,680	**1,077,067**
Average grade mined	g/t	1.4	1.4	**1.32**	1.52	1.4	**1.43**
Ore processed	t	–	291,962	**462,333**	764,972	*291,962	**1,227,305**
Average grade processed	g/t	–	1.2	**1.81**	1.45	1.2	**1.58**
Recovery rate	%	–	64.0	**62.79**	61.62	64.21	**61.7**
Gold produced	oz	–	7,077	**15,411**	23,431	7,077	**38,842**

*ore processed at MNV

PRODUCTION COSTS

Total cash costs amounted to US$926 per ounce (2013: US$1,426 per ounce) and all-in sustaining costs were US$1,038 per ounce (2013: not applicable).

CAPITAL COSTS

During 2014 a total of US$21.1 million was invested at Belaya Gora. This included: capitalised expenditures and construction (US$14.5 million) and purchase of equipment (US$6.6 million).

OUTLOOK

Following upon the improved second half performance, a doubling of 2014's gold production of 38,842 oz is targeted for 2015. The Company has reviewed options with regard to advanced exploration at Belaya Gora. This process will continue in 2015 with the implementation of reverse circulation (RC) grade control drilling.

DEVELOPMENT PROJECTS

KEKURA – Chukotka region, Russia

A major facet of the work undertaken at Kekura in H2 2014 was the development of a scoping study, drafted by consultants Hatch. This involved estimates for the prospective development of open-pit and underground excavation operations and the evaluation of options for the positioning of facilities. Topographical and geotechnical surveys were carried out prior to the drafting of an environmental impact assessment.

The Hatch study, delivered in December 2014, was subsequently updated internally and finalised in early 2015.

Based on key figures from the scoping study, a technical design assignment was generated, a general design contractor appointed, and tenders carried out to select subcontractors for various infrastructure facilities. In November 2014, the general design contractor began work on a design study.

CAPITAL COSTS

A total of US$12.2 million was invested at Kekura in 2014.

KLEN – Chukotka region, Russia

In H2 2014, the Company received a positive conclusion from the Main State Review Board regarding design documentation for the Klen deposit development project.

CAPITAL COSTS

In 2014, a total of US$6.7 million was invested at Klen.

TASEEVSKOYE AND SREDNIY GOLGOTAY – Zabaikalsky region, Russia

The Company is conducting pilot tests on processing ore from the Sredniy Golgotay deposit at the Novoshirokinskoye mill. Ore samples are being transported from the site and testing will be monitored by Irgiredmet, which will also be responsible for drafting the flow sheet. This work will be completed in H1 2015.

CAPITAL COSTS

During 2014 a total of US$1.8 million was invested at Taseevskoye.

EXPLORATION

The Company completed a total of more than 28,500 metres of drilling in 2014, primarily at MNV, Kekura, Verkhne-Krichalskaya and Unkurtash. The Company's overall expenditure on exploration projects totalled US$18.0 million for the year, compared with US$16.0 million in 2013.

MNOGOVERSHINNOYE – Khabarovsk region, Russia

Near-mine exploration at MNV continued throughout 2014 as an operational priority, targeting additional resources in order to extend the life of the mine. In Q4, the Company acquired a licence in respect of exploration and mining rights for the Lower Horizon of the Mnogovershinnoye deposit, thereby extending the Company's current licence for MNV to depths beyond the lower levels of existing state-approved reserves. The Lower Horizon of MNV represents untapped mineral potential within the mine's immediate vicinity which may deliver new resources at MNV in the medium-term, utilising existing and extended underground infrastructure. The MNV North Western Flank licence, acquired in Q3, includes a large section of the Medvezhya zone which, with reported prognostic resources (P1 + P2) of circa 35 tonnes of gold, may also have the potential to deliver new resources.

Diamond core drilling activity for underground resource conversion in H2 2014 totalled 5,533 metres, following on 5,500 metres in H1.

At the MNV Western Flank licence, immediately adjacent to mining operations, the Company completed a detailed geochemical survey across the entire licence revealing an area with significantly elevated gold grades. This area, potentially marking a near surface resource, has been earmarked for follow-up exploration including trenching and drilling.

BLAGODATNOYE – Khabarovsk region, Russia

The Blagodatnoye site, located 30 kilometres to the southwest of Belaya Gora, is targeting a near-surface bulk mineable gold resource for a potential open-pit mining operation. In H1 2014, regulatory authorities approved the Company's report on exploration results to date, including a calculation of prognostic resources and C2 category reserves with C2 of 18.6 tonnes at ca. 2.0 g/t. In H2 2014, the Company compiled and received regulatory approval for a new exploration project outlining follow-up work and technical requirements for future C1+C2 reserve registration with regulatory authorities.

KEKURA – Chukotka region, Russia

Exploration work in 2014 was focused on fulfilling all technical requirements for an updated pre-feasibility study, including a C1+C2 category reserve calculation, which the Company submitted to regulatory authorities (GKZ) for review in Q1 2015. By year-end 2014, all required technical studies were completed including more than 5,000 metres of infill drilling, metallurgical test work on multi-tonne composite ore samples and development of an optimal processing flow sheet. A response from GKZ is expected in April 2015.

The Company also concluded an exploratory prospecting programme across the greater licence area which included geochemical surveys, mapping, and grab sampling at selected targets. Preliminary results indicate areas with significant gold mineralisation in the immediate vicinity of the Kekura deposit, highlighting near-mine upside potential and warranting follow-up exploration.

VERKHNE-KRICHALSKAYA – Chukotka region, Russia

The Verkhne-Krichalskaya (VK) exploration and mining licence incorporates the Klen licence and could hold upside potential for the Klen project. In 2014, the Company completed more than 11,000 metres of exploration drilling at several targets including deeper levels of the Klen deposit and several gold prospects at VK identified during previous exploration programmes. Drilling results indicate limited potential at greater depths of the Klen deposit, while a preliminary resource calculation in relation to gold-mineralised vein structures at the VK prospects suggests additional resource potential for Klen.

UNKURTASH – Kyrgyzstan

The Unkurtash project holds a total JORC-compliant resource of 3.7 Moz of gold within three distinct prospects, Unkurtash, Sarytube and Karatube, located within the Company's single Kassan licence (36 km^2). In consideration of registering C1+C2 category reserves for the entire Unkurtash project, the Company compiled a pre-feasibility study and reserve calculation which will be submitted to GKZ in the medium-term.

In H2 2014, the Company completed a geochemical survey and 1,441 metres of exploratory drilling to test the resource potential of the Baikonur prospect, a possible extension of the Unkurtash prospect. Drilling returned intersects, several metres in length, with grading up to 3.1 g/t, while results from the survey indicate a geochemical gold anomaly which warrants further testing.

Qualified Persons Statement: Mr. Werner Klemens, Head of Exploration at Highland Gold, has reviewed and verified the information contained in this report with respect to reserve and resource matters. Mr. Klemens holds a Ph.D. in Geology from the University of Toronto. He has more than 17 years' experience in mineral exploration and is a fellow of the Geological Association of Canada. A rigorous quality assurance programme complying with international standards is in effect at all exploration projects and includes duplicate sampling, insertion of standards, and check assaying at external laboratories.

HEALTH, SAFETY & ENVIRONMENT

The Company's focus on occupational safety and site risk management, supported by educational courses designed to encourage a sense of personal responsibility among employees with regard to workplace safety, continued throughout 2014.

One of the most important developments was the creation of auxiliary mine rescue teams, each of which was certified by a special committee at the Novo and MNV/Belaya Gora mining areas. This proactive measure has, in turn, served to raise risk awareness.

The Lost Time Incident ("LTI") rate (defined as the number of lost time incidents for every 200,000 man hours worked) showed a reduction from 0.28 in 2013 to a new low of 0.27, one of the features being a year-on-year decrease in Novo's LTIs from four to one.

Despite this decline, nine accidents were recorded Group-wide, one of which involved an employee of a contractor while another, regrettably, resulted in a fatality. The latter incident was fully investigated and reported to the Board, and the Company continues to improve and expand its safety training efforts to prevent future accidents.

Some 1,105 employees received a safety induction course (1 day), 424 employees received work safety training in respect of hazardous production risks (3–5 day courses) and 499 employees were trained and tested with regard to industrial safety (7–30 day programmes).

In September 2014, the Company's management division and the MNV unit underwent successful audits, carried out by international consultants DNV, to check compliance of the current environmental management systems with the ISO 14001 standard. Novo and Belaya Gora successfully completed similar audits in December 2014.

A total of 52 employees received specialised training in internal environmental audit, while environmental safety training was provided for 120 employees at MNV, Belaya Gora and Novo.

CONCLUSION

Our principal objectives in 2015, taking into account the current weakness of the marketplace, are to expand production in line with our forecast, significantly progress our Kekura development towards the targeted start-up date of 2018 and continue to prioritise our near-mine exploratory activities at MNV. The retention of our 'low cost' advantage is of paramount importance and a disciplined approach will continue to be brought to bear with regard to capital allocation.

New near-mine licences acquired at MNV

All-In Sustaining Costs

US$809 per oz

FINANCIAL REVIEW

The Group demonstrated solid financial performance in 2014 despite continued weakness in prices for precious metals, exemplified by a 12% decrease in the price of gold. An 11% increase in gold produced, the devaluation of the Russian Rouble versus the US Dollar, and ongoing efforts at cost control allowed us to deliver strong operational results.

The Group's key financial parameters, including total cash costs*, all-in sustaining costs** and EBITDA, for 2014 were competitive on a worldwide basis and demonstrate management's ability to accept challenges and mitigate external risks. They also indicate the Group's competitiveness in a volatile market.

Overall Group revenue was US$304.23 million in 2014 compared to US$304.21 million in 2013, basically remaining level despite a 12% decrease in gold prices. Stable revenue was not a result of hedging activity in 2014, but of higher sales volumes of gold and gold equivalents. The Group sold 259,027 ounces of gold and gold equivalents in 2014 compared to 237,271 ounces in 2013. MNV's share of sales at 127,734 oz showed a 13.6% decrease versus 2013, while Novo's share at 92,885 eq. oz registered a significant 13.1% advance. Belaya Gora sold 38,408 ounces in 2014 however revenue from the sale of 1,916 oz from Belaya Gora in Q1 2014 was netted off with costs of sales and capitalised into the cost of the plant as part of start-up work.

The average price of gold realised by MNV and Belaya Gora (net of commission) decreased by 10.1% to US$1,263 per ounce in 2014 compared to US$1,405 per ounce in 2013. The average price of gold equivalents realised by Novo in 2014 was US$1,018 per eq. oz, 5.4% below the level achieved in 2013. The average price at Novo is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver) and net of the fixed processing and refining costs at the Kazzinc plant. The Group's average realised price of gold and gold equivalents was US$1,175 per oz in 2014 compared to US$1,291 per oz in 2013, a decline of 9.0%.

The completion of start-up work at Belaya Gora led to the first-time recognition of its costs within the Group's cost of sales starting the second quarter of 2014. Despite commencing a new plant, the increase in the Group's cost of sales was limited to 12.2%, or US$24.9 million, at US$228.5 million in 2014 (2013: US$203.6 million).

Total cash costs (TCC) amounted to US$645 per oz in 2014, compared to US$611 per oz in 2013. In spite of a significant decrease in average grade (minus 17.8% in comparison with 2013) and mining at remote ore zones, the increase in TCC at MNV was limited to 11.6%, reaching US$722 per oz (2013: US$647 per oz). At Novo, the rise in production volumes by 15.4%, overall improvement in equipment efficiency, a reduction in the consumption of inputs, and a decrease in tariffs for transportation allowed us to reduce TCC by 20.9% to US$429 per eq. oz versus US$542 per eq. oz in 2013. In its first year of operation, BG had TCC at the level of US$926 per oz.

All-in sustaining costs (AISC) per ounce sold decreased from US$842 per ounce in 2013 to US$809 per ounce in 2014 and were among the lowest in the gold mining sector in the world.

The Group's EBITDA (defined as operating profit excluding depreciation and amortisation, impairment loss, movement in ore stockpile obsolescence provision, movement in raw materials and consumables obsolescence provision, result of disposal of a non-core entity and gain on settlement of contingent consideration) decreased by 6.9% to US$123.6 million in 2014 compared with US$132.8 million in 2013, chiefly due to lower gold prices. The EBITDA margin (defined as EBITDA divided by total revenue) decreased from 43.6% to 40.6%, within range of the most efficient gold miners. EBITDA margin was 41.9% at MNV and 53.4% at Novo. The EBITDA margin at BG was 21.3% due to its early stage of production.

In July 2014, management finalised the Kekura acquisition and settled the Group's outstanding contingent consideration for US$5.6 million less than the previously-provided amount. This figure was recognised as a gain on settlement of contingent consideration in the consolidated statement of comprehensive income.

Management has analysed any potential impairments as of 31 December 2014, and determined that the postponement of development activity at Klen indicated an impairment of goodwill and the assets. Goodwill at Klen was impaired in full by US$10.2 million and other assets were impaired by US$1.2 million.

In 2014, the Group recorded a net finance loss of US$0.8 million compared with net finance income of US$7.8 million in 2013. This was primarily due to recognition of unwinding costs totaling US$2.4 million (2013: US$1.4 million) and interest expense on bank loans in the amount of US$1.9 million in 2014. In 2013, interest expense was capitalised into the cost of development assets at BG and Kekura in full. In addition, there was a positive reassessment of fair value on coupon bonds of US$3.3 million in 2014 versus US$9.2 million in 2013.

A foreign exchange loss of US$9.6 million (2013: loss of US$2.8 million) resulted from the settlement of foreign currency transactions and the translation of monetary assets and liabilities denominated in currencies such as Russian Roubles and Pounds Sterling into US Dollars. The foreign exchange loss primarily reflected a 71.9% devaluation of the Russian Rouble during 2014 and a 5.8% devaluation of Pounds Sterling against US Dollars.

The income tax charge amounted to US$70.3 million in 2014 compared to US$27.4 million in 2013. The tax charge included US$20.7 million for current tax expenses (MNV: US$20.6 million, other: US$0.1 million), US$0.2 million of prior year tax adjustment and US$49.4 million in respect of deferred tax. The deferred tax charge is a non-cash item which resulted from the translation of the tax base denominated in foreign currency into US Dollars. The effective tax rate increased from 33.3% in 2013 to 154.6% in 2014, mainly due to foreign exchange movements and differences in the Russian tax and IFRS depreciation charges.

In 2014, the Group recorded a net loss after tax of US$24.8 million (2013: net profit after tax of US$54.7 million) and a loss per share of US$0.077 (2013: earnings per share of US$0.167), mainly caused by non-cash deferred tax expense, foreign exchange and impairment losses. Adjusted net profit (free of impairment losses and abnormal foreign exchange, and applying a 33.3% of effective income tax rate) amounted to US$51.3 million (2013: US$54.7 million).

The Group's cash inflow from operating activities in 2014 rose by US$9.7 million to US$104.4 million, compared with to US$94.7 million in 2013.

During the year to 31 December 2014, the Group invested US$65.5 million in capital expenditures, versus US$143.7 million in 2013. Capital expenditures in 2014 included US$12.2 million at MNV, US$8.0 million at Novo, US$21.1 million at Belaya Gora, US$6.7 million at Klen and the adjacent Verchne-Krichalskaya area, US$12.2 million at Kekura, and US$5.3 million related to other entities within the Group. The required capital expenditures were funded by operating cash flow and debt.

The Group's net debt position as of 31 December 2014 amounted to US$247.2 million compared to a net debt position on 31 December 2013 of US$251.2 million. Net debt is defined as cash at bank, deposits and bonds, decreased by any bank borrowings. The present ratio of net debt to EBITDA is 2.0, which is in line with the Board's policy.

EVENTS AFTER THE REPORTING PERIOD

In April 2015, the Group signed a financing agreement with Alfa-Bank for a US$60.0 million facility, with the draw period set until 31 December 2016. This facility will be used to finance the Group's development and operating activities.

Also in April, the Group signed a financing agreement with Gazprombank for a US$80.0 million facility with a draw period set until 31 December 2018. This facility will be used to refinance the existing debt of the Group.

DIVIDENDS

The final dividend for the year ending 31 December 2013 in the amount of US$13.7 million was paid on 30 May 2014.

The Group paid an interim dividend of GBP 0.025 per share (2013: an interim dividend of GBP 0.025 per share) which resulted in an aggregate interim dividend payment of US$13.1 million (2013: US$13.0 million). The interim dividend was paid on 24 October 2014.

The Board has recommended a final dividend of GBP 0.020 per share which, taking into account the interim dividend paid in October 2014, makes for a total dividend of GBP 0.045 per share for the year (2013: GBP 0.050 per share). The final dividend will be paid on 29 May 2015 to shareholders on the register as of the close of business on 1 May 2015 (the record date). The ex-dividend date will be 30 April 2015.

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

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

Rounding of figures may result in computational discrepancies

PRINCIPAL RISKS AND UNCERTAINTIES

The Group acknowledges there are many risks inherent to a mining business that will always exist, and the challenge is to manage them effectively. The Group recognises that dealing with risks is an integral part of managing its operations and is fundamental to the Group's business success.

The Group's risk management system is designed to be a consistent and clear framework for managing and reporting the most significant operational risks to the Board of Directors. The Board is responsible for maintaining the Group's risk management system, defining risk appetite, and monitoring the most significant risks.

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

Executive management performs the risk identification, assessment and mitigation throughout various areas of the Group's business, ranging from detailed assessment of environmental risk at the operational level of each mine, to the monitoring of delivery risks with respect to each major capital project and the assessment and mitigation of risks at executive management and Board levels through the internal control system and specific risk management actions.

The Group's principal risks are set out below and, for the most part, are typical of the risks associated with other companies in the gold mining industry. We consider that, in general, the Group was affected by the same risks as in prior periods, although the precise implications of certain risks may have changed together with our remedial actions.

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

MARKET AND FINANCIAL RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Commodity prices	The Group's product prices are subject to international supply and demand and can be volatile. A significant and/or prolonged fall in the commodity prices of the metals produced by the Group (primarily Au and to a lesser extent Pb, Zn and Ag) could have an adverse impact on sales and profits. The Group did not use hedging in 2014 and prior periods and price fluctuations had an effect on the Group's profits. Furthermore, the financial viability of the Group's exploration, development projects and production operations is sensitive to price levels and may become questionable in an environment of decreasing prices. Management may have to reassess the economic model and recognise impairment losses.	The Group constantly monitors price trends and forecast reports, implements measures to reduce costs to appropriate levels, checks the viability of the exploration and development projects and, if necessary, revises specific investment plans and schedules. The Group regularly reviews possibilities for hedging against commodity price changes.
Financial risks	Adverse economic conditions or uncertainties that affect global and Russian finance markets can give rise to risks which may negatively impact the Group's operations and results. Please refer to Note 31 to the Consolidated Financial Statements for further details explaining the implications and management of financial risks.	
	Currency risk Adverse fluctuations in Russian Rouble/USD and GBP/USD exchange rates. The Group collects most revenues in US Dollars and also obtains financing in US Dollars. The majority of costs are also linked to US Dollars although a significant portion is incurred in Russian Roubles. In 2014, the Group benefited from the devaluation of the Russian Rouble. The negative side of Rouble depreciation is that the Group's assets denominated in Roubles lost value and these losses were recognised, and the rate of Rouble inflation is expected to be higher in future periods.	The Group uses natural hedging and matches revenue and debt denominated in US Dollars, and reviews other possible ways to hedge exchange rate fluctuations if appropriate. The Group did not use currency hedges in 2014 nor in prior periods.
	Credit risk Risk of loss related to a counterparty's failure to perform its obligations under contracts or transactions in a certain timeframe, and as a result certain financial assets (including assets with high liquidity) may be impaired.	The Group places cash in reputable and highly rated financial institutions and constantly monitors the financial/economic situation. The Group sells commodities to creditworthy and reliable customers.
	Interest rate risk An increase in interest rates may adversely affect the Group's financial results and its ability to demonstrate the economic viability of certain assets.	The majority of the Group's loans and borrowings have fixed rates at the date of debt drawdown.
	Liquidity risk Failure to accurately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss. An event such as a significant operational incident or geopolitical events may potentially increase financing costs and limit access to financing that could put pressure on the Group's liquidity.	The Group uses a short-term, medium-term cash planning system and long-term cash flow forecasts are prepared in line with strategic planning. The Group has a centralised treasury function which ensures that there is enough liquidity for day-to-day operations at each location and reviews the need to attract additional external financing. Possibilities to secure loans at appropriate rates are constantly monitored by the Group.

OPERATING RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
The Group is subject to extensive environmental, health and safety laws and regulations	Group companies are controlled and guided by various safety and health regulations and regulatory agencies. For its operations, the Group is required to keep various licences such as licences to use industrial explosives and for the operation of flammable, explosive and chemically aggressive production facilities of hazard class I, II and III. Stricter regulations could cause the Group to incur additional costs in order to comply with the new regulations. State environmental agencies supervise and regulate the Group's operations in accordance with applicable laws and regulations regarding the use of such contaminants as cyanide-containing reagents. The Group monitors compliance with environmental requirements and incurs costs to achieve compliance, but if environmental regulations change, Group companies may face heavy fines and waste removal claims, which may become a significant burden on the Group and result in demands to cease operational activity. The absence of a final product would lead to a decrease in profitability.	The Group has a separate HSE Committee where all key HSE risks are considered and monitored The Group's policies with regard to the environment and health and safety are based on the applicable legislation. Changes in legislation are monitored. The Group purchases the necessary equipment to prevent fires, flooding or other accidents and for the prevention of pollution. The Group organises training and assessment programmes for all staff and regularly checks their compliance with HSE rules and regulations. An external provider of rescue services is contracted in accordance with legislation. The Group implements best practices and in 2014 completed the certification of all major production sites under ISO 14001:2004 and regular internal and external environment audits are performed and remediation actions are implemented.
Risks associated with exploration activities	The Group's estimates of ore reserves and mineral resources are subject to a number of assumptions and variables, including geological, metallurgical and technical factors, future commodity prices and production costs. Fluctuations in any of these variables could result in lower than expected revenues, higher costs, and lower operating profits and could lead to reduction in reserves and resources estimation. The Group makes significant investments in exploration performed at greenfield sites to develop the business and at brownfield sites to extend the life of mines. However, the exploration activities may not be successful due to many factors including either geological or economic and may not result in an increase in Group resources. Also there is a risk that any invalidation of geological models of the developed deposits may have a negative effect on the ability to meet production plans and lead to a general increase in production costs and a decrease in performance of particular assets.	The Group conducts detailed exploration and considers various production methods before proceeding with the best commercial and economic options. The Group employs in-house experts who have a proven track record of successful exploration work and a history of moving exploration projects to the next stage (i.e. mine development). External consultants (including internationally recognised consultants for a JORC-compliant resource audit) are contracted when appropriate. The Board reviews exploration projects on a regular basis and approves all exploration activities and costs based on indicative economic probabilities. A review of the Group's exploration activities is presented in the Exploration section on pages 12 to 13. Information regarding the Group's mineral resources and reserves, reported in accordance with JORC, is presented on pages 79 to 80. In the process of production the Group regularly takes a set of measures to update 3D deposit models and adjust mining operation plans based on the latest available information. The Group undertakes development exploration during the production stage to define the ongoing nature of reserves and geological conditions. The Group has a system in place to monitor the quality of ore and has facilities to blend the ore for optimal processing.

The Group's deposits are subject to exploration and mining licences	Group companies must comply with mineral exploration and mining licence requirements. Non-compliance with licence requirements or major licence changes may result in a loss of licence and mineral rights, or significant costs to ensure compliance with new requirements.	Compliance with licence requirements is monitored monthly at management level, and a licence compliance report is drafted. The report serves as a basis to develop measures to meet the terms and conditions of agreements. The Group's management and the Board are regularly informed as to compliance with licence agreements.
Production risks	The Group's mining operations are affected by numerous risk factors not wholly within the Group's control, including flooding, pit slope and rim slide, unexpected/unusual geological variations or technical issues, extreme weather conditions and natural disasters, which could adversely affect production volumes and costs, damage electricity supply facilities or damage other major equipment or infrastructure. Group companies, in both open-pit and underground operations, may encounter unusual geological formations, including overly thin ore bodies, incidental deterioration in ore quality (lower grade), and dilution. Unexpected interruptions in processing and technological characteristics of the ore may result in lower recovery rates than expected. As a result of these factors, end-product unit costs may turn out to be considerably above budget. This might hinder the implementation of production plans, and cause major losses in the form of impairment of various assets and goodwill.	The Group employs in-house planning experts who specialise in mine engineering and design and are responsible for developing optimal safe and commercially-viable mine plans. In turn, the in-house mine plans are reviewed by external consultants and state authorities. The mine plans include consideration of safe open-pit and underground mining operations, including smoke warning systems, personal protection kits: gas masks, self-rescue systems, etc., and mine dewatering equipment. The Group implemented a number of processes to ensure that production is provided by the necessary machinery and equipment, and that there is relevant standby equipment available. Regular maintenance is performed by qualified Group employees and contractors to ensure reliable machinery and equipment operations. Stocks of spares parts for urgent repairs are maintained. Details of the operational performance of each of the Group's operations are included in the Operations section on pages 9 to 14.
New construction projects	The Group faces challenges in developing major projects, particularly in geographically remote locations and in technically challenging areas. The cost of new construction projects is usually significant and may differ from initial investment plans. The economics of a project are dependent upon the macroeconomic situation, product prices, the geological and technological conditions of a particular deposit, construction costs, logistics, regulatory issues, and the availability of skilled operating personnel. Incorrect decisions to allocate the capital between projects and poor project management may result in a decrease in the profitability of a particular project and affect the Group's results.	The Group initiates new projects, mine extensions, etc., based on detailed investment plans and a review of management resources. Major projects are subject to external consultants' reports and JORC evaluation. Control is exercised over investment projects at all stages of their implementation and widely recognised project management techniques are employed. Management and the Board closely monitor the status of new projects, costs incurred and project issues. Corrective actions are taken if required.

HUMAN RESOURCES RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Skilled workforce shortage	The Group competes with other companies for the retention and engagement of mining and production staff, including geologists, mining engineers, processing and other specialists, and workers. Skilled workforce shortage is a common issue in the mining industry; this is evident in Russia and impacts the Group’s activities. In view of the workforce shortage, the Group’s ability to recruit and fill vacancies on a timely basis may have a negative impact on its operations and prospects.	The Group monitors the labour and salary market to provide acceptable and competitive packages to attract and retain skilled specialists. One of the responsibilities of the Group’s Remuneration Committee is to consider and approve remuneration for senior management.

STRATEGIC RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
An adequate resource base needs to be maintained for future operations and replacement of depleted mines	Due to the fact that the life of a mine is limited, the Group has to strategically seek to replenish its resource base through the development of own projects or through M&A activity. Mine development from exploration to production is a prolonged process. There can be no guarantee that current or prospective exploration will lead to sustainable production in the future.	The Group has development plans for the future and new acquisitions are subject to Board approval. The Group undertakes exploration projects to sustain and increase the resource base. Project feasibility studies are carried out regularly.
Potential government actions	Risks related to changes in the political and economic situation and legislative regulation in the Russian Federation and Kyrgyzstan are significant for the Group as the Group’s major operations are located in these jurisdictions. The Group’s operations in these jurisdictions are regulated by numerous laws, standards and guides in various areas. The Group’s approach is to strive to comply with all applicable laws and regulations. There is a risk that government and government agencies could perform actions, adopt new laws, taxes, regulations, rules, or other requirements which could have a negative impact on the Group’s business and operations. Recent developments in Ukraine and Crimea resulted in international economic sanctions on certain Russian government officials, other individuals and certain Russian companies which, accompanied by the decrease in oil prices on the international market, may continue to adversely affect the Russian economy. Specifically, there is uncertainty regarding the reliability of supply chain, and the availability and cost of capital.	The Group monitors political developments and new legislation, and assesses possible implications for the Group. In addition, the Group has established lines of communication with various governmental authorities in order to contribute to the thinking of such bodies and, when appropriate, to participate in relevant discussions with political and regulatory authorities. The Group monitors and assesses the effect of sanctions imposed and further developments on an on-going basis.

Advanced exploration programme with

5,000

metres of infill drilling completed at Kekura

EBITDA US$ 123,617 million

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 2014.

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 and 83 of the Annual Report. The Chairman's Statement and the Operations Review highlight the Company's business developments during 2014 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 2014 appears in the Financial Review on page 16 of the Report. The Group recorded a loss for the year of US$ 24.8 million (2013: profit of US$54.7 million).

The Directors recommend the payment of a final dividend on Ordinary shares of £0.020 (2013: £0.025) per share payable on 29 May 2015. This continues to reflect the Board's confidence in Highland Gold's growth projections.

ACCOUNTING POLICIES

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

DIRECTORS AND THEIR INTERESTS

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

DIRECTOR	ORDINARY SHARES AT 31/12/2014	ORDINARY SHARES AT 31/12/2013	AVAILABLE OPTIONS AT 31/12/2014
Duncan Baxter	20,000	20,000	–
Eugene Shvidler	36,916,144	36,916,144	–

Primerod International Limited is the holding vehicle through which certain individual persons, managers and connected parties of Millhouse LLC, including Valery Oyf, the Chief Executive Officer of RDM, hold a combined 32% interest in the Company.

No other Directors have an interest in the share capital of the Company. All available options expired on 22 September 2014.

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

CORPORATE GOVERNANCE

The Directors have implemented many of the main principles of good governance under the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012 having regard to the size and nature of the Company's activities. The Board is assisted by a number of Committees with delegated authority to review key business risks, in addition to the financial risks applicable to the Group in operating its business. In 2013, the Board adopted an Anti-Corruption policy and an Internal Code of Business Conduct and Ethics details of which can be seen on the website at www.highlandgold.com.

THE BOARD

The Board is currently comprised of seven Directors, four of whom are non-executives. Three Non-Executive Directors, comprising Duncan Baxter, Colin Belshaw and Terry Robinson, bring an element of independence to the Board and provide a balance to those Directors who cannot be regarded as independent. Eugene Shvidler, Olga Pokrovskaya and John Mann are affiliated with Millhouse LLC which, together with persons connected with it, owns 32% of the issued share capital of the Company via Primerod, in addition to Mr Shvidler's interest of 11.35%.

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 six 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.

In April 2015, the Board appointed Non-Executive Chairman Eugene Shvidler as Executive Chairman of Highland Gold, allowing him to take a more hands-on role in shaping corporate strategy. Other changes to the Board in April 2015 included the appointment of John Mann as Executive Director, Head of Communications, responsible for IR and PR and the resignations of Alla Baranovskaya Chief Financial Officer and Sergey Mineev, Head of Exploration & Capital Projects Development, both of whom remain with the Company. Eugene Tenenbaum has also resigned from the Board. The reasons for these changes were partly to trim the Board, to comply with new Russian external investment requirements, and to increase the influence of independent directors.

The Board undertook a self assessment review in early 2014 from which no material issues arose. The Board will continue to undertake such a review on a biennial basis provided there are no major changes to the Board that would render such a review ineffective. We anticipate the next review will take place during 2016.

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. John Mann will retire and offer himself for election, and Duncan Baxter, Olga Pokrovskaya and Valery Oyf who retire by rotation will offer themselves for re-election at the Annual General Meeting to be held on 26 May 2015. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

Profiles of the Directors are to be found on page 30 of this Report.

AUDIT COMMITTEE

The Audit Committee in 2014 consisted of four Directors, of which three are non-executive and is chaired by Terry Robinson. The Audit Committee met three times during 2014 to consider the annual and interim financial statements, and the corporate 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 are available for inspection at the Annual General Meeting and can been seen on the website at www.highlandgold.com. The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies, meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit 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 during 2014 were Olga Pokrovskaya Eugene Tenenbaum and Alla Baranovskaya. Audit Committee members meet with management and the auditors on a regular basis.

REMUNERATION AND NOMINATION COMMITTEE

During 2014, the Committee consisted of four Directors, of which three are non-executive, comprising Duncan Baxter, as Chairman, Eugene Tenenbaum, Valery Oyf 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, as and when appropriate, with regard to appointments in respect of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies. The composition of the Board is monitored on an ongoing basis. The 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 one meeting during the year. Details of the Directors' remuneration are given on page 29. The Committee has considered and recommended to the Board the election and re-election of John Mann, Duncan Baxter, Olga Pokrovskaya and Valery Oyf respectively 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 during 2014 were Terry Robinson, Colin Belshaw and Sergey Mineev. The Committee considers, in conjunction with management, development and training requirements and regulatory compliance matters related to health, safety and environmental issues. The Committee makes recommendations to the Board, within agreed terms of reference, which the Board reviews at least annually. The Committee met twice during the year. Details of the progress and performance of the Company in respect of health, safety and the environment are given in the Operations Report on pages 8 to 15.

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. There is an Internal Audit Charter, which can be seen on the website at www.highlandgold.com.

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, webinars and road shows through brokers and the Nomad.

Shareholders passed a special resolution at the Annual General Meeting on 27 May 2014 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 2017.

SUBSTANTIAL SHAREHOLDINGS

As at close of business on 30 March 2015, the Company had been notified of the following interests, other than Directors' interests, which amounted to three per cent or more of the issued share capital of the Company:

NAME OF HOLDER	NUMBER	PERCENTAGE
Primerod International Limited*	104,080,000	32.00%
Prosperity Capital management	54,685,994	16.81%
J. P. Morgan Asset Management	19,448,593	5.98%
Ivan Koulakov	13,500,000	4.15%

*Primerod International Limited is the holding vehicle through which certain individual persons, managers and connected parties of Millhouse LLC, including Valery Oyf, the Chief Executive Officer of RDM, and with others hold a combined 32% 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 1:00 pm on Tuesday 26 May 2015 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;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

REPORT ON DIRECTORS' REMUNERATION

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

No grants of options under the Unapproved share option scheme were made during 2014 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. There were no options outstanding as of 31 December 2014 (2013: 450,000). For the remaining options the exercise period lapsed on 22 September 2014.

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

The remuneration paid to the Directors in the financial period to 31 December 2014 was as follows:

	US$ 2013	US$ 2014	US$ 2013	US$ 2014
	FEES AND REMUNERATION		BONUS	
Eugene Shvidler	500,000	500,000		
Duncan Baxter	160,000	160,000		
Eugene Tenenbaum	100,000	100,000		
Olga Pokrovskaya	125,000	125,000		
Terry Robinson	160,000	160,000		
Colin Belshaw	30,832	100,000		
Valery Oyf	982,897	1,020,165		
Alla Baranovskaya	603,690	626,893	103,242	114,256
Sergey Mineev	303,313	288,701	10,324	–

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

By Order of the Board
21 April 2015

BOARD OF DIRECTORS

EUGENE SHVIDLER
Executive Chairman
Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a masters degree in applied mathematics, while also holding an MBA in finance and a MS in international tax from Fordham University. He worked as Senior Vice President of Sibneft beginning in 1995 and served as President of the company from 1998 through 2005. Mr. Shvidler is currently Chairman of Millhouse LLC, and a Non-Executive Director of the Evraz Group since 2006. He joined the Highland Gold Board of Directors in January 2008 and was appointed Executive Chairman in April 2015.

DUNCAN BAXTER
Independent Non-Executive Director
Duncan Baxter began his career in banking with Barclays in Zimbabwe before joining RAL in 1978. In 1985 he became a Director of Commercial Bank (Jersey) Ltd, which was subsequently acquired by Swiss Bank Corporation. Since leaving Swiss Bank in 1998 he has undertaken 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.

COLIN BELSHAW
Independent Non-Executive Director
Colin Belshaw gained a Dip.CSM (1st Class) in 1979 from the Camborne School of Mines, Cornwall, UK and is a Fellow of the Institute of Materials, Minerals and Mining (FIMMM), and registered as an Incorporated Engineer (I. Eng) with the Engineering Council of the United Kingdom. He has held numerous operating and corporate positions, including responsibility for Kinross Gold's Kubaka and Birkachan mining operations in Russia. His most recent executive role was as DRC based COO of Banro Corporation of Toronto, from which he resigned in March 2013.

JOHN MANN
Executive Director
Head of Communications
John Mann studied political science at Harvard University with a focus on Soviet history and politics. He is a professional of 20 years in the fields of public relations, public affairs and investor relations, 18 of which were spent in the CIS region. Mr Mann acted as a consultant to some of the world's largest natural resources, energy, and consumer products corporations before joining Russian listed oil major Sibneft in 2002 as Head of International Public Relations. From 2006, he has served as Head of Communications for Millhouse LLC, joining Highland in autumn 2014. He joined the Board of Directors in April 2015.

VALERY OYF

Executive Director
CEO

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

OLGA POKROVSKAYA

Non-Executive Director

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

TERRY ROBINSON

Non-Executive Director
Chairman of the Audit Committee

Terry Robinson is a qualified chartered accountant and has 40 years' international business experience. He spent 20 years at Lonrho PLC, the international mining and trading group, the last 10 years of which he served as a main board director. Since 1998 he has been variously occupied with international business recovery engagements and investment projects including natural resources in the UK, Russia, the CIS and Brazil. Mr. Robinson is a Non-Executive Director of the Evraz Group, a major steel producer. He was elected to the Board of OJSC Raspadskaya, a subsidiary of Evraz, in 2013, and currently serves as Chairman. He is an Independent Director and Deputy Chairman of Katanga Mining Limited and is also a Fellow of the Institute of Chartered Accountants of England and Wales. He joined the Highland Gold Board of Directors in April 2008.

HIGHLAND GOLD MINING LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2014

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 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement, 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Ken Williamson

for and on behalf of Ernst & Young LLP

London

21 April 2015

Notes

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2014 US$000	2013 US$000
Revenue	8	304,230	304,206
Cost of sales	9	(228,518)	(203,609)
Gross profit		**75,712**	**100,597**
Administrative expenses	10	(15,464)	(18,646)
Other operating income	11.1	8,634	2,757
Other operating expenses	11.2	(7,248)	(7,689)
Impairment losses	6, 18	(11,401)	–
Gain on settlement of contingent consideration	5	5,622	–
Operating profit		**55,855**	**77,019**
Foreign exchange loss	12	(9,599)	(2,767)
Finance income	13.1	3,457	9,429
Finance costs	13.2	(4,226)	(1,620)
Profit before income tax		**45,487**	**82,061**
Current income tax expense	14	(20,677)	(26,755)
Adjustments in respect of prior year income tax	14	(249)	(59)
Deferred income tax expense	14	(49,404)	(550)
Total income tax expense	**14**	**(70,330)**	**(27,364)**
(Loss)/profit for the year		**(24,843)**	**54,697**
Total comprehensive (loss)/income for the year		**(24,843)**	**54,697**
Attributable to:			
Equity holders of the parent		(24,942)	54,463
Non-controlling interests		99	234
(Loss)/earnings per share (US$ per share)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	15	(0.077)	0.167
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	15	(0.077)	0.167

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT

	NOTES	31 DECEMBER 2014 US$000	31 DECEMBER 2013* US$000
ASSETS			
Non-current assets			
Exploration and evaluation assets	16	296,739	270,287
Mine properties	16	321,407	338,007
Property, plant and equipment	16	359,466	367,486
Intangible assets	5,17	87,119	97,324
Inventories	21	6,664	14,623
Other non-current assets	19	3,580	13,272
Deferred income tax asset	14	82	826
Total non-current assets		**1,075,057**	**1,101,825**
Current assets			
Inventories	21	77,337	70,678
Trade and other receivables	22	28,889	53,111
Income tax prepaid		3,711	1,811
Prepayments	23	2,000	6,389
Financial assets	32	42,957	50,199
Cash and cash equivalents	24	12,946	7,938
Other current assets		899	805
Total current assets		**168,739**	**190,931**
Total assets		**1,243,796**	**1,292,756**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	25	585	585
Share premium		718,419	718,419
Assets revaluation reserve	25	832	832
Retained earnings		47,698	99,444
Total equity attributable to equity holders of the parent		**767,534**	**819,280**
Non-controlling interests		2,570	2,471
Total equity		**770,104**	**821,751**
Non-current liabilities			
Interest-bearing loans and borrowings	26	145,443	185,309
Long-term accounts payable	27	305	441
Provisions	28	15,699	34,402
Deferred income tax liability	14	129,035	80,375
Total non-current liabilities		**290,482**	**300,527**
Current liabilities			
Trade and other payables	27	25,552	46,445
Interest-bearing loans and borrowings	26	157,658	124,015
Provisions	28	–	18
Total current liabilities		**183,210**	**170,478**
Total liabilities		**473,692**	**471,005**
Total equity and liabilities		**1,243,796**	**1,292,756**

The financial statements were approved by the Board of Directors on 21 April 2015 and signed on its behalf by: Valery Oyf and Olga Pokrovskaya.

* Certain line items have been reclassified in the consolidated statement of financial position as at 31 December 2013. Refer to Note 3 for further details.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER

		ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
	NOTES	ISSUED CAPITAL US$000	SHARE PREMIUM US$000	ASSET REVALUATION RESERVE US$000	RETAINED EARNINGS US$000	TOTAL US$000	NON-CONTROLLING NTEREST US$000	TOTAL EQUITY US$000
At 1 January 2013		**585**	**718,419**	**832**	**73,122**	**792,958**	**2,237**	**795,195**
Total comprehensive income for the year		–	–	–	54,463	54,463	234	54,697
Dividends paid to equity holders of the parent	33	–	–	–	(28,141)	(28,141)	–	(28,141)
At 31 December 2013		**585**	**718,419**	**832**	**99,444**	**819,280**	**2,471**	**821,751**
Total comprehensive (loss)/ income for the year		–	–	–	(24,942)	(24,942)	99	(24,843)
Dividends paid to equity holders of the parent	33	–	–	–	(26,804)	(26,804)	–	(26,804)
At 31 December 2014		**585**	**718,419**	**832**	**47,698**	**767,534**	**2,570**	**770,104**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	NOTES	2014 US$000	2013 US$000
Operating activities			
Profit before income tax		**45,487**	**82,061**
Adjustments to reconcile profit before income tax to net cash flows from operating activities:			
Depreciation of mine properties and property, plant and equipment	9	59,392	54,645
Impairment losses	6, 18	11,401	–
Movement in ore stockpiles obsolescence provision	11.2.1	664	2,386
Movement in raw materials and consumables obsolescence provision	11.2	509	1
Write-off of mine properties and property, plant and equipment	11.2, 16	393	619
Impairment of construction in progress	11.2	500	–
Loss/(gain) on disposal of property, plant and equipment	11.1, 11.2	781	(38)
Bank interest receivable	13.1	(160)	(253)
Bonds and shares fair value movement	13.1, 32	(3,265)	(9,176)
Interest expense on bank loans	13.2	1,871	–
Accretion expense on site restoration provision	13.2	2,355	1,386
Gain on change in estimation – site restoration asset	11.1	(7,535)	–
Gain on settlement of contingent consideration	5	(5,622)	–
Unwinding of contingent consideration liability	13.2	–	180
Net foreign exchange loss	12	9,599	2,767
Movement in provisions		(149)	326
Loss/(income) from disposal of an entity	11.2.2	918	(1,301)
Other non-cash (income)/expenses		(32)	127
Working capital adjustments:			
Decrease/(increase) in trade and other receivables and prepayments		7,671	(3,117)
Decrease/(increase) in inventories		950	(10,968)
Decrease in trade and other payables		(2,241)	(754)
Income tax paid		(19,065)	(24,191)
Net cash flows from operating activities		**104,422**	**94,700**
Investing activities			
Proceeds from sale of property, plant and equipment		330	306
Proceeds from disposal of an entity		–	304
Purchase of property, plant and equipment	6	(65,538)	(143,706)
Capitalised interest paid	6, 16	(10,995)	(9,277)
Increase in deferred stripping costs	16	(5,554)	(11,826)
Acquisition of subsidiaries	5	–	(195,394)
Interest received from deposits		159	253
Interest received from bonds	32	4,058	4,176
Sale of investments – bonds	32	6,449	5,252
Sale of investments – shares	32	–	3,644
Net cash flows used in investing activities		**(71,091)**	**(346,268)**
Financing activities			
Proceeds from borrowings	26	136,560	325,799
Dividends paid to equity holders of the parent	33	(26,804)	(28,141)
Repayment of borrowings		(140,896)	(24,766)
Interest paid		(1,502)	(399)
Repayment under assignment agreements	5	–	(17,099)
Net cash flows (used in)/from financing activities		**(32,642)**	**255,394**
Net decrease in cash and cash equivalents		689	3,826
Effects of exchange rate changes		4,319	(3,139)
Cash and cash equivalents at 1 January	24	7,938	7,251
Cash and cash equivalents at 31 December	**24**	**12,946**	**7,938**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2014 were authorised for issue in accordance with a resolution of the Directors on 21 April 2015.

Highland Gold Mining Limited is a public company incorporated and domiciled in Jersey. The registered office is located at 26 New Street, St Helier, Jersey JE2 3RA. Its ordinary shares are traded on the Alternative Investment Market (AIM).

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

2. BASIS OF PREPARATION

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

Statement of compliance

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

Basis of consolidation

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

When the Group acquires a business, it assesses the assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. 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. An impairment loss on goodwill cannot be reversed under any circumstances. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units 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.

Further information is contained in Note 18.

Foreign currency and 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.

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

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

	31 DECEMBER 2014	31 DECEMBER 2013
Average		
RUR	39.038	31.906
GBP	0.607	0.639
Closing		
RUR	56.258	32.729
GBP	0.644	0.607

Property, plant and equipment

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

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

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

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

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

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

Depreciation and depletion

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

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

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

Depreciation of mineral properties at Mnogovershinnoye (MNV) in 2014 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2017 (2013: up to 2017). All other assets at MNV were depreciated using the straight-line method based on management's best estimate (up to 2017).

Depreciation of mineral properties at Novo in 2014 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2024 (2013: up to 2025). All other assets at Novo were depreciated using the straight-line method based on management's best estimate (up to 2024).

Depreciation of mineral properties at Belaya Gora (BG) in 2014 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2022 (2013: up to 2019). All other assets at BG were depreciated using the straight-line method based on management's best estimate (up to 2022).

The expected residual useful lives at the Group's entities are as follows:

Buildings	4–16 years
Plant and Equipment	1–16 years

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

Exploration and evaluation expenditure

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

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

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

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

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

Mine development expenditure

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

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

Mine properties

The development costs are transferred to the mine properties category when the asset is available for use; this is when commercial levels of production are achieved. The restoration provision cost is capitalised within mine assets. The cost of acquiring mine assets after the start of production is capitalised on the statement of financial position as incurred and included in the mine properties category. The cost of acquiring rights on mineral reserves and mineral resources including directly attributable expenses is capitalised on the statement of financial position as incurred and included in the mine properties category. The initial cost of a mine property comprises its construction cost, any costs directly attributable to bringing the mining property into operation, the initial estimate of the provision for mine closure cost, and, for qualifying assets, borrowing costs. Mine assets and mineral rights are amortised using the units-of-production method based on estimated proven and probable mineral reserves.

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

Stripping costs

The Group incurs waste removal costs (stripping costs) during the production phase of surface mining operations.

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

Construction 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.

Incidental and non-incidental income

During the construction of an asset, the Group may earn some income.

Income and related expenses of incidental operations that are not, in themselves, necessary to bring the asset itself to the location and condition necessary for it to be capable of operating in the manner intended by management, are recognised in profit or loss and included in their respective classifications of income and expenses. Such incidental income is not offset against the cost of the asset.

Income generated wholly and necessarily as a result of the process of bringing the asset into the location and condition for its intended use is credited to the cost of asset.

Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 32.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in Note 32.

Impairment

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

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

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.

Financial assets and liabilities

Financial instruments classification and recognition

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

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

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

Financial assets at fair value through profit or loss

Financial assets at initial recognition are designated at fair value through profit and loss. When a group of financial assets is managed on it 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. 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 through cash, against income tax and other taxes. 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. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use (a qualifying asset) are capitalised as part of the cost of the respective asset, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables

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

Provisions for liabilities and charges

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

Environmental protection, rehabilitation and closure costs

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

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

Revenue recognition

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

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

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

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

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

Employee benefits

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

Pension plan

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

Share Based Payments

Equity-settled transactions

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

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

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

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

Cash-settled transactions

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

Earnings per share

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

Dividend distribution

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

Income taxes

Current tax for each taxable entity in the Group is based on the local taxable income at the local statutory tax rate enacted at the reporting date and includes adjustments to tax payable or recoverable in respect of previous periods. The income tax charge/(credit) comprises current tax 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

Certain line items have been reclassified in the consolidated statement of financial position as at 31 December 2013 to keep the presentation form consistent with 2014 presentation. As a result of the reclassifications, as at 31 December 2013 inventories were decreased by US$0.3 million, trade and other receivables were decreased by US$0.5 million and other current assets were increased by US$0.8 million.

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2014 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new amendments and improvements to IFRSs effective as of 1 January 2014, noted below.

Standards and interpretations adopted with no effect on reported results, financial position or disclosures

IFRS 10 Consolidated financial statements

The new standard provides additional guidance to assist in the determination of which entities are controlled and are required to be consolidated. This standard replaces the portion of IAS 27 Consolidated and separate financial statements that addresses the accounting for consolidated financial statements. The new standard became mandatory in the EU for financial years beginning on or after 1 January 2014. The new standard did not have an impact on the financial position or performance of the Group.

IFRS 11 Joint arrangements

The new standard replaces IAS 31 Interests in joint ventures and SIC 13 Jointly-controlled entities – non-monetary contributions by ventures. The standard defines contractually agreed sharing of control of an arrangement and the accounting for joint operations and joint ventures. The new standard became mandatory in the EU for annual periods beginning on or after 1 January 2014. The new standard did not have an impact on the financial position or performance of the Group.

IFRS 12 Disclosure of involvement with other entities

The new standard covers the disclosures that were previously required in consolidated financial statements under IAS 27 Consolidated and separate financial statements as well as those included in IAS 31 Interests in joint ventures and IAS 28 Investments in associates. The new standard became mandatory in the EU for financial years beginning on or after 1 January 2014.

IAS 32 Financial instruments: presentation – offsetting financial assets and financial liabilities

The amendment clarifies existing application issues relating to the offset of financial assets and financial liabilities requirements. The amendment became effective for financial years beginning on or after 1 January 2014 with retrospective application.

IAS 36 Impairment of assets – recoverable amount disclosures

The amendment to the standard was issued in May 2013 and became effective for financial years beginning on or after 1 January 2014. The amendment removes the requirement to disclose recoverable amounts when there has been no impairment or reversal of impairment. Further to that, the disclosure requirements have been aligned with those under US GAAP for impaired assets. Further information is contained in Note 18.

IAS 39 Financial instruments: recognition and measurement – novation of derivatives and continuation hedge accounting

The amendment to the standard was issued in June 2013 and provides guidance in respect of the continuation of hedge accounting if a hedging derivative was novated. The amendment became effective for the financial years beginning on or after 1 January 2014.

New standards and interpretations not yet adopted

The Group has elected not to early adopt the following revised and amended standards, which are not yet mandatory in the EU. The list below includes only standards and interpretations that could have an impact on the consolidated financial statements of the Group.

IFRS 9 Financial instruments

The complete standard has been issued in July 2014 including the requirements previously issued and additional amendments. The new standard replaces IAS 39 and includes a new expected loss impairment model, changes to the classification and measurement requirements of financial assets as well as to hedge accounting. The new standard becomes effective for financial years beginning on or after 1 January 2018. The Group will assess the impact on its consolidated financial statements.

IFRS 15 Revenue from contracts with customers

The new standard was issued in May 2014 and establishes the principles for the disclosure of useful information in the financial statements in respect of contracts with customers. The new standard becomes mandatory for financial years beginning on or after 1 January 2017. The effect from the additional disclosure requirements will be assessed and disclosure will be made once the Group has fully assessed the impact of applying IFRS 15.

IFRS 11 Joint arrangements – acquisition of interests in joint operations

The amendment was issued in May 2014 and provides guidance in respect of the accounting for acquisitions in interests of joint operations. The amendment becomes mandatory for financial years beginning on or after 1 January 2016. The Group does not expect an impact on its consolidated financial statements from this amendment.

IAS 1 Presentation of Financial Statements – disclosure initiative

The amendment was issued in December 2014 and includes a number of smaller projects aiming to improve the presentation and disclosure principles and requirements in existing standards. The amendment becomes mandatory for financial years beginning on or after 1 January 2016. The Group does not expect a significant impact on its consolidated financial statements arising from the application of this amendment.

IAS 16 Property, plant and equipment and IAS 38 Intangible assets – clarification of acceptable methods of depreciation and amortisation

The amendment to the two standards was issued in November 2013 and becomes effective for financial years beginning on or after 1 January 2016. The amendment clarifies the pattern to be applied in case of revenue-based amortisation methods for tangible and intangible assets. The Group does not apply revenue-based amortisation methods and does thus not expect an impact on its consolidated financial statements.

IAS 19 Employee benefits – defined benefit plans: employee contributions

The amendment to the standard was issued in November 2013. Whilst the IAS B implementation date is for financial years beginning on or after 1 July 2014, the amendment becomes mandatory in the EU at the latest for annual periods beginning on or after 1 February 2015. The amendment provides guidance in respect of the accounting for employee contributions set out in the formal terms of a defined benefit plan. The Group does not expect a significant impact on its consolidated financial statements from this amendment.

IAS 27 Separate financial statements – equity method

The amendment to the standard was issued in August 2014 and becomes effective for financial years beginning on or after 1 January 2016. The amendment allows the use of the equity method to account for investments in subsidiaries, associates and joint ventures in an entity's separate IFRS financial statements if local regulation requires using the equity method.

This amendment applies only to the separate financial statements of the parent entity and is irrelevant for the consolidated financial statements of the Group.

IFRIC 21 Levies

The new interpretation clarifies when to recognise a liability for a levy imposed by governments (including government agencies and similar bodies) in accordance with laws and regulations. The IAS B implementation date is for periods beginning on or after 1 January 2014 whereas the interpretation becomes mandatory in the EU at the latest for annual periods beginning on or after 17 June 2014. Income taxes in accordance with IAS 12, fines and other penalties and liabilities arising from trading schemes are not covered by this interpretation. The Group does not expect a significant impact on its consolidated financial statements from this new interpretation.

The Group has not early adopted any 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. 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:

Judgements

Deferred stripping costs

The Group accounts for stripping costs incurred during the production stage of its open-pit operations on the basis of the relevant production measure calculated for every identified component of every ore body (volume of waste to volume of ore extracted).

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

probable future economic benefits associated with the stripping activity will flow to the Group;
- costs can be measured reliably; and
- the Group can identify the component of the ore body for which access has been improved.
- During the production phase, stripping costs (production stripping costs) can be incurred both in relation to the production of inventory in that period and the creation of improved access and mining flexibility in relation to ore to be mined in the future. The former are included as part of the costs of inventory, while the latter are capitalised as a stripping activity asset, where certain criteria are met.

Significant judgement is required to distinguish between development stripping and production stripping and to distinguish between the production stripping that relates to the extraction of inventory and what relates to the creation of a stripping activity asset.

Once the Group has identified its production stripping for each surface mining operation, it identifies the separate components of the ore bodies for each of its mining operations. An identifiable component is a specific volume of the ore body that is made more accessible by the stripping activity. Significant judgement is required to identify and define these components, and also to determine the expected volumes of waste to be stripped and ore to be mined in each of these components. These assessments are undertaken for each individual mining operation based on the information available in the mine plan.

The mine plans and, therefore, the identification of components, will vary between mines for a number of reasons. These include, but are not limited to, the type of commodity, the geological characteristics of the ore body, the geographical location and/or financial considerations.

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

Furthermore, judgements and estimates are also used to apply the units of production method in determining the depreciable lives of the stripping activity asset (s).

Going concern

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

In assessing the going concern status, the Directors have taken account of the Group's financial position, expected future trading performance, its borrowings, available credit facilities and capital expenditure commitments, considerations of the gold price, currency exchange rates, and other risks facing the Group. After making appropriate enquiries, the Directors consider that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of signing these consolidated financial statements and that it is appropriate to adopt the going concern basis in preparing these consolidated financial statements. Having examined all scenarios, the Group also concluded that no covenants are breached in any of these adverse pricing scenarios.

Write-off of assets

A fixed asset is written off when it is determined that there is no further use for the asset: it is obsolete or no longer in use, and there is no resale market for it. Old inefficient equipment that is not expected to provide future economic benefits to the Group is written off.

Disposal of an entity

The Group determined that the sale of ZAO Trade House Mnogovershinnoye (TH MNV) does not constitute a discontinued operation as the disposal did not lead to the Group abandoning any geographical area of operation or any product line (Note 11).

Non-incidental income

In the course of start-up works in the first quarter of 2014 BG produced and sold 1,916 ounces of gold (in the second, third and fourth quarters of 2013: 7,060 ounces of gold). The revenue from sale of the gold was generated wholly and necessarily as a result of the process of bringing the plant into the condition for its intended use. Therefore the revenues of US$2.5 million and the related costs of US$5.5 million (in the second, third and fourth quarters of 2013: the revenues of US$8.5 million and the related costs of US$9.3 million) were capitalised into the cost of the plant.

Financial assets at fair value through profit or loss

The Group classifies financial assets as "financial assets at fair value through profit or loss" when this group of assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about them is provided internally on that basis to the Group's key management personnel. The Group's financial assets held at fair value through profit or loss comprise coupon bonds, which have a carrying value at 31 December 2014 of US$43.0 million (2013: US$50.2 million). The Group uses quoted market prices to determine fair value for financial assets. The fair value adjustment on financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

Inventories

If the ore stockpile is not expected to be processed in 12 months after the reporting date, it is included in non-current assets. Physical volumes of such ore stockpiles are taken from technical reports, approved annual mine plans and life-of-mine models.

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. USD is the functional currency of all entities both in 2013 and 2014.

Estimations and assumptions

Impairment of non-current assets

Non-financial assets (excluding goodwill)

The Group assesses, at each reporting date, whether there is an indication that an asset (or CGU) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and its value in use (VIU). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of a larger CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. Management has assessed its CGUs as being an individual mine, which is the lowest level for which cash inflows are largely independent of those of other assets.

In calculating the recoverable amount, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining the recoverable amount, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Further details on how FVLCD is calculated are outlined in Note 18.

The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated, based on the life-of-mine plans. The estimated cash flows are based on expected future production, metal selling prices, operating costs and forecast capital expenditure.

Impairment losses are recognised in the statement of profit or loss and other comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets/CGUs excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's/CGU's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset/CGU does not exceed either its recoverable amount, or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset/CGU in prior years. Such a reversal is recognised in the statement of profit or loss. The Group has made a judgement in determining that an indicator of impairment existed in the instance where the carrying value of the Klen asset exceeded its recoverable value. Refer to Note 18 for further details.

Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount including goodwill, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. Note 18 outlines the significant judgements and estimations made when preparing impairment tests of non-current assets, including post-tax discount rates.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Please refer to Note 29 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 14.

Site restoration provision

A provision is recognised for expected close down, restoration and environmental clean-up costs based on the estimated future costs of such activities. It is expected that most of these costs will be incurred at the end of life of the operating mine. Assumptions used to calculate the provision for site restoration were based on the government requirements applicable to sites closure, and assumptions regarding the life of mine (which is assumed to close in 2017 at MNV, in 2022 at BG, in 2024 at Novo, in 2029 at Klen and in 2028 at Kekura), expected site restoration activities (removal of waste, restoration of mine sites), and current prices for similar activities.

Inventory obsolescence

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

Determination of ore reserves and resources

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

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

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

Exploration and evaluation expenditure

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

5. BUSINESS COMBINATIONS

Prior year acquisition of ZAO Bazovye Metally

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

The Group determined that this transaction represents a business combination.

PURCHASE CONSIDERATION	US$000
Cash paid	189,323
Fair value of loan assigned	17,677
Fair value of contingent consideration	15,820
Total consideration transferred	**222,820**

From total consideration of US$222.8 million, US$189.3 million was paid in cash and US$17.7 million represented the fair value of the loan payable assigned to the Group. This amount of US$207.0 million was funded via a new debt facility with Gazprombank.

The amount of US$17.1 million, representing the carrying value of the loan assigned at the date of acquisition, was paid on 29 March 2013.

The additional payment of US$5.0 million is the amount of contingent consideration payable in December 2013 as long as there are no third-parties' claims. It was recognised at the fair value of US$4.9 million, a 2.6% discount factor was applied. This part of contingent consideration was settled in full in 2013.

In addition, at the acquisition date up to US$11.0 million of contingent consideration was payable upon the completion of various contractual terms. At the acquisition date the contingent consideration was recognised at the fair value of US$10.9 million applying a 2.2% discount factor. As at 31 December 2013 US$0.5 million was paid in advance and up to US$10.5 million remained outstanding and was expected to be paid in 2014.

In June 2014 management became aware that several contractual terms agreed as part of the acquisition were not met. Therefore, US$5.6 million of the contingent consideration would no longer be payable. This was subsequently formalised in an agreement in July 2014. The release of this provision was recognised as a gain on settlement of contingent consideration in the 2014 consolidated statement of comprehensive income. US$3.8 million was paid in July 2014 with the remaining US$0.4 million to be paid in 2015.

Assets acquired and liabilities assumed

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

	FAIR VALUE RECOGNISED ON ACQUISITION US$000
Assets	
Exploration and evaluation assets	161,357
Property, plant and equipment	79,756
Accounts receivable and other debtors	3,415
Total assets acquired	**244,528**
Liabilities	
Borrowings	(17,677)
Deferred tax liabilities	(37,673)
Trade accounts and notes payable	(789)
Total liabilities assumed	**(56,139)**
Total identifiable net assets at fair value	**188,389**
Goodwill arising on acquisition	**16,754**
Purchase price	205,143
Plus: fair value of loan	17,677
Total consideration transferred	**222,820**

The goodwill balance of US$16.8 million is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases. Goodwill is allocated entirely to the development and exploration company (Kekura). None of the goodwill recognised is expected to be deductable for income tax purposes.

From the date of acquisition, Kekura has contributed US$0.0 million to revenue and loss of US$0.4 million to the profit before income tax of the Group in 2013. If the combination had taken place at the beginning of the year 2013, revenue of the Group in 2013 would have been US$304.2 million and profit before income tax of the Group would have been US$54.7 million.

6. SEGMENT INFORMATION

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

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

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

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

The development and exploration segment contains entities which hold the licences being in the development and exploration stage: Kekura, Klen, Taseevskoye, Unkurtash, Lubov, and related service entities: Zabaykalzolotoproyekt (ZZP) and BSC. In the consolidated financial statements as at 31 December 2013 ZZP was shown in the 'other' segment. In the consolidated financial statements as at 31 December 2014 ZZP has been reclassified from the 'other' segment to the development and exploration segment due to the nature of its activities (construction supervision and research) in the comparative segment information for 2013 to keep the presentation form consistent with 2014 presentation.

The "other" segment includes head office, management company and other non-operating companies which have been aggregated to form the reportable segment.

Segment performance is evaluated based on EBITDA (defined as operating profit/(loss) excluding depreciation and amortisation, impairment losses, movement in ore stockpiles obsolescence provision, movement in raw materials and consumables obsolescence provision, result of disposal of a non-core entity and gain on settlement of contingent consideration). 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 assets information for the Group's reportable segments.
The segment information is reconciled to the Group's profit/(loss) for the year.

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

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

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 3 of the financial statements.

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

In 2014 the gold revenue of US$207.3 million reported in the gold production segment was received from sales to Gazprombank (2013: US$209.5 million) and the silver revenue of US$1.6 million reported in the gold production segment was received from sales to MDM Bank (2013: US$1.8 million) in the territory of the Russian Federation.

In 2014 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US$94.5 million was received from sales to Kazzinc (2013: US$88.3 million) in the territory of the Republic of Kazakhstan.

Other third-party revenues in both 2014 and 2013 were received in the territory of the Russian Federation.

Inter-segment revenues mostly represent management services.

YEAR ENDED 31 DECEMBER 2014	GOLD PRODUCTION SEGMENT US$000	POLYMETALLIC CONCENTRATE PRODUCTION SEGMENT US$000	DEVELOPMENT & EXPLORATION US$000	OTHER US$000	ELIMINATIONS US$000	TOTAL US$000
Revenue						
Gold revenue	207,326	–	–	–	–	207,326
Silver revenue	1,571	–	–	–	–	1,571
Concentrate revenue	–	94,521	–	–	–	94,521
Other third-party	314	265	233	–	–	812
Inter-segment	107	–	673	13,032	(13,812)	–
Total revenue	**209,318**	**94,786**	**906**	**13,032**	**(13,812)**	**304,230**
Cost of sales	166,925	60,338	1,172	83	–	228,518
EBITDA	78,291	50,661	(2,396)	(2,939)	–	123,617
Other segment information						
Depreciation	(39,024)	(20,246)	(47)	(75)	–	(59,392)
Movement in ore stockpiles obsolescence provision	(664)	–	–	–	–	(664)
Movement in raw materials and consumables obsolescence provision	(605)	96	–	–	–	(509)
Impairment losses	–	–	(11,401)	–	–	(11,401)
Impairment of construction in progress	–	–	(500)	–	–	(500)
Gain on settlement of contingent consideration						5,622
Loss from disposal of an entity						(918)
Finance income						3,457
Finance costs						(4,226)
Foreign exchange loss						(9,599)
Profit before income tax						**45,487**
Income tax						(70,330)
Loss for the year						**(24,843)**
Segment assets at 31 December 2014						
Non-current assets						
Capital expenditure*	231,553	185,696	559,811	552	–	977,612
Goodwill	22,253	5,134	59,732	–	–	87,119
Other non-current assets	8,060	357	1,446	463	–	10,326
Current assets**	111,555	35,225	7,216	50,327	(35,584)	168,739
Total assets						**1,243,796**

CAPITAL EXPENDITURE – ADDITIONS IN 2014***, INCLUDING:	38,368	7,829	25,256	106	–	71,559
Stripping activity assets	5,554	–	–	–	–	5,554
Capitalised bank interest	1,714	–	9,281	–	–	10,995
Settled accounts payable	(2,161)	(132)	(8,197)	(38)	–	(10,528)
Cash capital expenditure	33,261	7,961	24,172	144	–	65,538

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

** Current assets include corporate cash and cash equivalents of US$12.9 million, investments of US$43.0 million, inventories of US$77.3 million, trade and other receivables of US$28.9 million and other assets of US$6.6 million. Eliminations relate to intercompany accounts receivable.

*** Capital expenditure – additions in 2014 – includes additions to property, plant and equipment of US$67.7 million (Note 16) and capitalised interest of US$11.0 million (Note 16) less prepayments previously made for property, plant and equipment of US$7.1 million.

Non-current assets for 2014 are located in the Russian Federation (US$1,032.4 million) and in the Kyrgyz Republic (US$42.7 million). Current assets for 2014 are located in the Russian Federation.

YEAR ENDED 31 DECEMBER 2013	GOLD PRODUCTION SEGMENT US$000	POLYMETALLIC CONCENTRATE PRODUCTION SEGMENT US$000	DEVELOPMENT & EXPLORATION US$000	OTHER US$000	ELIMINATIONS US$000	TOTAL US$000
Revenue						
Gold revenue	209,500	–	–	–	–	209,500
Silver revenue	1,819	–	–	–	–	1,819
Concentrate revenue	–	88,333	–	–	–	88,333
Other third-party	366	300	744	3,144	–	4,554
Inter-segment	193	–	684	15,078	(15,955)	–
Total revenue	**211,878**	**88,633**	**1,428**	**18,222**	**(15,955)**	**304,206**
Cost of sales	136,200	63,882	1,235	2,292	–	203,609
EBITDA	97,961	38,499	(679)	(3,031)	–	132,750
Other segment information						
Depreciation	(35,190)	(19,061)	(49)	(345)	–	(54,645)
Movement in ore stockpiles obsolescence provision	(2,386)	–	–	–	–	(2,386)
Movement in raw materials and consumables obsolescence provision	(1)	–	–	–	–	(1)
Income from disposal of an entity						1,301
Finance income						9,429
Finance costs						(1,620)
Foreign exchange loss						(2,767)
Profit before income tax						**82,061**
Income tax						(27,364)
Profit for the year						**54,697**
Segment assets at 31 December 2013						
Non-current assets						
Capital expenditure*	232,674	204,934	537,652	520	–	975,780
Goodwill	22,253	5,134	69,937	–	–	97,324
Other non-current assets	25,814	198	2,217	492	–	28,721
Current assets**	114,928	29,552	16,833	57,797	(28,179)	190,931
Total assets						**1,292,756**

CAPITAL EXPENDITURE – ADDITIONS IN 2013***, INCLUDING:	89,549	9,361	75,324	187	–	174,421
Stripping activity assets	11,826	–	–	–	–	11,826
Capitalised bank interest	1,514	–	7,763	–	–	9,277
Non-cash capital expenditure****	1,022	–	8,590	–	–	9,612
Cash capital expenditure	75,187	9,361	58,971	187	–	143,706

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

** Current assets include corporate cash and cash equivalents of US$7.9 million, investments of US$50.2 million, inventories of US$70.7 million, trade and other receivables of US$53.1 million and other assets of US$9.0 million. Eliminations relate to intercompany accounts receivable.

*** Capital expenditure – additions in 2013 – includes additions to property, plant and equipment of US$195.8 million (Note 16) and capitalised interest of US$9.3 million (Note 16), less prepayments previously made for property, plant and equipment of US$30.7 million.

**** Non-cash capital expenditure includes unpaid accounts payable of US$8.6 million and inventories of US$1.0 million sold to contractor.

Non-current assets for 2013 are located in the Russian Federation (US$1,060.2 million) and in the Kyrgyz Republic (US$41.7 million). Current assets for 2013 are located in the Russian Federation.

7. AUDITORS' REMUNERATION

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

	Ernst & Young		Others		Total	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Audit of the Group financial statements	673	701	–	–	673	701
Local statutory audits for subsidiaries	19	18	94	244	113	262
	692	**719**	**94**	**244**	**786**	**963**

8. REVENUE

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

	2014 US$000	2013 US$000
Gold sales	207,326	209,500
Concentrate sales*	94,521	88,333
Silver sales	1,571	1,819
Other sales	812	4,554
Total revenue	**304,230**	**304,206**

* Concentrate sales include the negative fair value movement of an embedded derivative in the amount of US$0.4 million (2013: a positive fair value movement of US$0.2 million).

9. COST OF SALES

	2014 US$000	2013 US$000
Operating costs	42,990	45,564
Movement in ore stockpiles	14,808	(8,486)
Movement in finished goods	(1,543)	689
Capitalised to stripping activity assets	(6,084)	(11,130)
Employee benefits expense	52,101	55,412
Depreciation, depletion and amortisation	59,392	54,645
Raw materials and consumables used	47,403	47,920
Taxes other than income tax*	19,451	18,995
Total cost of sales	**228,518**	**203,609**

* Other taxes include mineral extraction tax, property tax, transport tax etc.

10. ADMINISTRATIVE EXPENSES

	2014 US$000	2013 US$000
Management company administrative expenses	11,203	12,296
TH MNV administrative expenses (Note 11.2.2)	–	1,262
Minimum lease payments recognised as an operating lease expense	1,131	1,098
Salaries and wages of parent company	1,145	1,078
Auditors' remuneration (Note 7)	786	963
Legal and professional fees	726	818
Bank charges	265	406
Travel expenses of parent company	192	298
Allowance for doubtful debts	–	146
Other administrative expenses	16	281
Total administrative expenses	**15,464**	**18,646**

11. OTHER OPERATING INCOME AND EXPENSES

11.1. Other operating income

		2014 US$000	2013 US$000
Other income		831	1,218
Income from disposal of an entity	11.2.2	–	1,301
Gain on disposal of property, plant and equipment		–	38
Reversal of allowance for doubtful debts		146	–
Accounts payable write-off		122	200
Change in estimation – site restoration asset	16	7,535	–
Total other operating income		**8,634**	**2,757**

11.2. Other operating expenses

		2014 US$000	2013 US$000
Movement in ore stockpiles obsolescence provision	11.2.1	664	2,386
Write-off of mine properties and property, plant and equipment		393	619
Impairment of construction in progress	11.2.3	500	–
Donations		1,239	2,564
Loss on disposal of property, plant and equipment		781	–
Loss on disposal of inventory		–	454
Movement in raw materials and consumables obsolescence provision		509	1
Loss on disposal of an entity	11.2.2	918	–
Other taxes relating to prior periods		617	–
Other expenses		1,627	1,665
Total other operating expenses		**7,248**	**7,689**

11.2.1. Movement in ore stockpiles obsolescence provision

Stock-piled low grade ore at BG is tested for impairment annually. The balance of ore stockpiles in the amount of US$0.7 million was written down in 2014 (2013: US$2.4 million).

11.2.2. Disposal of an entity

In 2013 the Group sold Trade House Mnogovershinnoye (TH MNV) to a non-related party. TH MNV was involved in non-core activities of the Group, providing trading, hotel-type and catering services to other companies. It formed part of the “other” reporting segment. Gain on disposal of TH MNV of US$1.3 million was recognised in 2013 (net liabilities of US$1.0 million and proceeds of US$0.3 million). Loss on disposal of TH MNV of US$0.9 million in 2014 represents the allowance made for doubtful accounts related to the sale.

11.2.3. Impairment of construction in progress

The recoverable amount of a construction in progress item determined as at 31 December 2014 was lower than its carrying amount because the Group does not expect to derive future cash flows from the asset. The asset was considered impaired and was written down to its recoverable amount (Nil).

12. FOREIGN EXCHANGE GAINS AND LOSSES

The total amount of foreign exchange loss for the year ended 31 December 2014 was US$9.6 million (2013: loss of US$2.8 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.

13. FINANCE INCOME AND COSTS

13.1. Finance income

	2014 US$000	2013 US$000
Bonds and shares fair value movement (Note 32)	3,265	9,176
Bank interest	160	253
Other finance income	32	–
Total finance income	**3,457**	**9,429**

13.2. Finance costs

	2014 US$000	2013 US$000
Accretion expense on site restoration provision (Note 28)	2,355	1,386
Interest expense on bank loans*	1,871	–
Unwinding of contingent consideration liability	–	180
Other finance costs	–	54
Total finance costs	**4,226**	**1,620**

* Interest on bank loans was capitalised in full in 2013.

14. INCOME TAX

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	2014 US$000	2013 US$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	20,677	26,755
Adjustments in respect of prior year current tax	249	59
	20,926	26,814
Deferred income tax:		
Relating to origination of temporary differences	49,404	550
Income tax expense reported in the statement of comprehensive income	**70,330**	**27,364**

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 2014 and 2013 is as follows:

	2014 US$000	2013 US$000
Accounting profit before income tax	**45,487**	**82,061**
At Russian statutory income tax rate of 20%	9,097	16,412
Non-deductible expenses	2,143	3,480
Effect of translation of tax base denominated in foreign currency	52,204	6,474
Adjustments in respect of prior year tax	249	59
Loss arising from disposal of an entity	–	(334)
Lower tax rates on overseas losses/(earnings)	2,293	(863)
Unrecognised losses	4,874	625
(Gain)/loss from other unrecognised temporary differences	(530)	1,511
Income tax expense at the effective tax rate of 155% (2013: 33%)	**70,330**	**27,364**
Income tax expense reported in the consolidated statement of comprehensive income	**70,330**	**27,364**

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		Acquisitions	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Deferred income tax liability						
Property, plant and equipment	(142,271)	(105,632)	36,639	6,265	–	(39,346)
Inventory	(9,880)	(3,239)	6,641	178	–	–
Accounts receivable and other debtors	(803)	(159)	644	139	–	–
Deferred financing costs	(58)	(92)	(34)	92	–	–
	(153,012)	**(109,122)**	**43,890**	**6,674**	**–**	**(39,346)**
Deferred income tax assets						
Accounts receivable and other debtors	664	1,040	376	(339)	–	–
Inventory	–	–	–	107	–	–
Provisions for liabilities and charges	–	–	–	20	–	–
Trade accounts and notes payable	1,093	842	(251)	(486)	–	–
Tax losses	22,302	27,691	5,389	(5,426)	–	1,673
	24,059	**29,573**	**5,514**	**(6,124)**	**–**	**1,673**
Net deferred income tax liabilities	**(128,953)**	**(79,549)**	**49,404**	**550**	**–**	**(37,673)**

Entity-specific deferred tax positions are presented below:

	2014 US$000	2013 US$000
Deferred income tax assets	82	826
Deferred income tax liabilities	(129,035)	(80,375)
Deferred tax liabilities net	**(128,953)**	**(79,549)**

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 2014 is US$14.9 million (31 December 2013: US$18.6 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 2014 is US$15.3 million (31 December 2013: US$14.1 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 2014 is US$32.2 million (31 December 2013: US$7.9 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

According to Russian tax legislation, tax losses expire if not utilised within 10 years of accruing. In 2012 the income tax in Kyrgyzstan was decreased to 0% for entities engaged in gold mining and gold selling.

The temporary differences associated with investments in subsidiaries, for which deferred tax liability in respect of withholding tax on dividends has not been recognised aggregate to US$321.8 million (2013: US$456.5 million). 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$16.1 million (2013: US$0 and US$22.8 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2014 and 2013 years of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

15. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued, for no consideration, on the exercise of share options into ordinary shares.

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

	2014 US$000	2013 US$000
Net (loss)/profit attributable to ordinary equity holders of the parent	(24,843)	54,697
Net (loss)/profit attributable to ordinary equity holders of the parent	**(24,843)**	**54,697**
	Thousands	**Thousands**
Weighted average number of ordinary shares for basic earnings per share	325,222	325,222
Effect of dilution:		
Share options	–	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**325,222**	**325,222**

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.

16. MINE PROPERTIES, EXPLORATION AND EVALUATION ASSETS, AND PROPERTY, PLANT AND EQUIPMENT

Reconciliation of fixed assets on period-by-period basis for the period ending 31 December 2014

	EXPLORATION AND EVALUATION ASSETS US$000	MINE PROPERTIES US$000	STRIPPING ACTIVITY ASSETS US$000	FREEHOLD BUILDING US$000	PLANT AND EQUIPMENT US$000	CONSTRUCTION IN PROGRESS US$000	TOTAL US$000
Cost							
At 1 January 2014	**270,287**	**443,270**	**28,701**	**99,736**	**154,777**	**197,608**	**1,194,379**
Reclassification	(2,202)	–	–	2,060	(2,290)	857	(1,575)
Additions	14,742	10,199	5,554	–	1,308	35,893	67,696
Transfers	(1,188)	5,133	–	101,179	53,406	(161,333)	(2,803)
Write-off*	–	(383)	–	–	(2,175)	(192)	(2,750)
Disposals	–	–	–	(94)	(481)	(896)	(1,471)
Capitalised depreciation	5,819	1,370	1,777	–	–	5,898	14,864
Capitalised interest**	9,281	1,714	–	–	–	–	10,995
Change in estimation – site restoration asset***	–	(22,918)	–	–	–	–	(22,918)
At 31 December 2014	**296,739**	**438,385**	**36,032**	**202,881**	**204,545**	**77,835**	**1,256,417**
Depreciation and impairment							
At 1 January 2014	**–**	**110,516**	**23,448**	**25,171**	**59,391**	**73**	**218,599**
Reclassification	–	–	–	(777)	(798)	–	(1,575)
Provided during the year	–	22,945	4,881	12,066	19,500	–	59,392
Transfers	–	(1,095)	–	(479)	(1,229)	–	(2,803)
Write-off*	–	(368)	–	–	(1,989)	–	(2,357)
Impairment of construction in progress	–	–	–	–	–	500	500
Disposals	–	–	–	(8)	(352)	–	(360)
Capitalised depreciation	–	654	309	7,236	6,665	–	14,864
Change in estimation – site restoration asset***	–	(9,476)	–	–	–	–	(9,476)
Impairment	–	1,196	–	–	–	–	1,196
Capitalised to inventory	–	–	–	–	825	–	825
At 31 December 2014	**–**	**124,372**	**28,638**	**43,209**	**82,013**	**573**	**278,805**
Net book value:							
At 1 January 2014	**270,287**	**332,754**	**5,253**	**74,565**	**95,386**	**197,535**	**975,780**
At 31 December 2014	**296,739**	**314,013**	**7,394**	**159,672**	**122,532**	**77,262**	**977,612**

* Write-off for 2014 in the amount of US$0.4 million relates to retirement of old inefficient equipment.

** Capitalised interest for 2014 includes US$9.3 million of borrowing costs capitalised at Kekura and US$1.7 million of borrowing costs capitalised at BG at interest rates between 4.2% and 5.0%.

*** During 2014 there was a reduction in the rehabilitation estimate (Note 28) of US$21.0 million which exceeded the corresponding net book value in fixed assets by US$7.5 million. This excess was recognised in other operating income.

No plant and equipment has been pledged as security for bank loans in 2014.

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

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

Reconciliation of fixed assets on period-by-period basis for the period ending 31 December 2013

	EXPLORATION AND EVALUATION ASSETS US$000	MINE PROPERTIES US$000	STRIPPING ACTIVITY ASSETS US$000	FREEHOLD BUILDING US$000	PLANT AND EQUIPMENT US$000	CONSTRUCTION IN PROGRESS US$000	TOTAL US$000
Cost							
At 1 January 2013	**72,903**	**447,077**	**16,875**	**49,075**	**113,890**	**45,584**	**745,404**
Additions	20,740	10,753	11,826	–	1,706	150,777	195,802
Transfers	842	(15,031)	–	12,832	30,373	(29,190)	(174)
Write-off*	–	(19)	–	(15)	(4,859)	(40)	(4,933)
Disposals**	–	–	–	(429)	(902)	(3)	(1,334)
Capitalised depreciation	6,682	3,182	–	–	–	3,600	13,464
Capitalised interest***	7,763	1,514	–	–	–	–	9,277
Change in estimation – site restoration asset****	–	(4,206)	–	–	–	–	(4,206)
Reclass to inventory	–	–	–	–	–	(34)	(34)
Kekura acquisition	161,357	–	–	38,273	14,569	26,914	241,113
At 31 December 2013	**270,287**	**443,270**	**28,701**	**99,736**	**154,777**	**197,608**	**1,194,379**
Depreciation and impairment							
At 1 January 2013	**–**	**91,869**	**12,890**	**8,605**	**41,198**	**–**	**154,562**
Provided during the year	–	26,306	10,558	4,525	13,256	–	54,645
Transfers	–	(10,018)	–	8,843	1,001	–	(174)
Write-off*	–	(18)	–	(12)	(4,284)	–	(4,314)
Disposals**	–	–	–	(127)	(477)	–	(604)
Capitalised depreciation	–	2,377	–	3,337	7,750	–	13,464
Capitalised to inventory	–	–	–	–	947	–	947
Other adjustments	–	–	–	–	–	73	73
At 31 December 2013	**–**	**110,516**	**23,448**	**25,171**	**59,391**	**73**	**218,599**
Net book value:							
At 1 January 2013	**72,903**	**355,208**	**3,985**	**40,470**	**72,692**	**45,584**	**590,842**
At 31 December 2013	**270,287**	**332,754**	**5,253**	**74,565**	**95,386**	**197,535**	**975,780**

* Write-off for 2013 in the amount of US$0.6 million relates to retirement of old inefficient equipment.

** Disposals for 2013 include cost of US$0.7 million and depreciation of US$0.2 million related to disposal of an entity.

*** Capitalised interest for 2013 includes US$7.8 million of borrowing costs capitalised at Kekura and US$1.5 million of borrowing costs capitalised at BG at interest rates between 4.2% and 5.6%.

**** During 2013 a reduction in the rehabilitation estimate (Note 28) of US$5.4 million which was booked as a decrease to mining assets and non-current provisions.

No plant and equipment has been pledged as security for bank loans in 2013.

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

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

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

	2014 US$000	2013 US$000
Operating expenses	(328)	(401)
Net cash from operating activities	–	–
Net cash used in investing activities	19,738	29,176

17. INTANGIBLE ASSETS

	GOODWILL US$000
Cost	
At 1 January 2013	**80,570**
Business combination – acquisition of subsidiary (Note 5)	16,754
At 31 December 2013	**97,324**
Additions	–
At 31 December 2014	**97,324**
Impairment	
At 1 January 2013	**–**
Provided during the year	–
At 31 December 2013	**–**
Provided during the year	10,205
At 31 December 2014	**10,205**
Net book value:	
At 31 December 2013	**97,324**
At 31 December 2014	**87,119**

Goodwill arises principally because of the following factors:

- The ability to capture unique synergies that can be realised from managing a portfolio of both acquired and existing mines in our regional business units, and
- The requirement to recognise deferred tax assets and liabilities for the difference between the assigned values and the tax bases of assets acquired and liabilities assumed in a business combination at amounts that do not reflect fair value

At 31 December 2014 intangible assets represented goodwill arising from the Barrick transaction (US$65.2 million), from acquisition of Novo (US$5.1 million) and from acquisition of Kekura (US$16.8 million). Goodwill allocated to Klen in the amount of US$10.2 million was impaired in full in 2014.

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

	2014 US$000	2013 US$000
Goodwill allocated to the operating gold mining company (MNV)	9,690	9,690
Goodwill allocated to the operating gold mining company (BG)	12,563	12,563
Goodwill allocated to the polymetallic mining company (Novo)	5,134	5,134
Goodwill allocated to the group of development and exploration assets (excluding Klen and Kekura)	42,978	42,978
Goodwill allocated to development and exploration company (Klen)	–	10,205
Goodwill allocated to development and exploration company (Kekura)	16,754	16,754
Balance at 31 December	**87,119**	**97,324**

18. IMPAIRMENT TESTING OF NON-CURRENT ASSETS

In accordance with the accounting policies and processes, each asset or CGU is evaluated annually at 31 December, to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed.

Management has determined the recoverable amounts in 2014 and 2013 using fair value less costs of disposal (FVLCD) calculations. FVLCD is determined at the cash-generating unit level, in this case being the separate gold production and development and exploration assets, by discounting the expected cash flows estimated by management over the life of the mine:

- MNV till 2017;
- BG – 2022;
- Novo – 2024;
- Klen – 2029;
- Kekura – 2028;
- Taseevskoye – 2028;
- Unkurtash – 2035;
- Lubov – 2032.

The calculation of the FVLCD is sensitive to the following assumptions:
- Recoverable reserves and resources;
- Production volumes;
- Real 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.

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.

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

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

Discount rates represent the current market assessment of the risks specific to each project, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

The table below shows the key assumptions used in the fair value calculation at 31 December 2014 and 2013.

	2014	2013
Post-tax discount rate for cash flows in the operating gold mining company (MNV),%	9.35	6.11
Post-tax discount rate for cash flows in the operating gold mining company (BG),%	10.35	7.11
Post-tax discount rate for cash flows in the polymetallic mining company (Novo),%	10.35	7.11
Post-tax discount rate for cash flows in the gold mining company being at development stage (Klen),%	11.35	7.11
Post-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye),%	11.35	7.11
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Kekura),%	11.35	7.11
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Unkurtash)*,%	11.35	8.11
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Lubov),%	11.35	7.11
Gold price, US$ per ounce in the future periods	1,200	1,200
Silver price, US$ per ounce in the future periods	16	22
Lead price, US$ per tonne in the future periods	2,200	2,100
Zinc price, US$ per tonne in the future periods	2,200	1,850

* No income tax in Kyrgyzstan since 2012.

As a result of the recoverable amount analysis performed during the year, the following impairment losses were recognised:

	2014 US$000	2013 US$000
Goodwill	10,205	–
Mine properties	1,196	–
Total impairment losses	**11,401**	**–**

The impairment loss was recognised in relation to the Klen project. The triggers for the impairment test were primarily the effect of changes to the mine plan which resulted in postponing the development activities at Klen. As part of the Group's annual impairment assessment, it was determined that due to the changes in estimates of the mine plan, the carrying amount of goodwill and mine properties exceeded their recoverable amounts. The carrying amount of goodwill allocated to Klen and representing a deferred tax liability has been reduced to Nil via the recognition of an impairment loss of US$10.2 million during the year ended 31 December 2014. Another US$1.2 million was recognised as an impairment loss in respect of mine properties at Klen.

Any rise in the post-tax discount rate, any decrease in gold prices below 1,200 per ounce or any increase in operating or capital costs at Klen would result in a further impairment of mine properties and equipment.

For impairment of property, plant and equipment and intangible assets, fair value less costs of disposal are determined by discounting the post-tax cash flows expected to be generated from future gold production net of selling costs taking into account assumptions that market participants would typically use in estimating fair values. These estimates are categorised within Level 3 of the fair value hierarchy. Post-tax cash flows are derived from projected production profiles for each asset taking into account forward market commodity prices over the relevant period and where external forward prices are not available the Group's Board approved life-of-mine model assumptions are used. As each asset has different reserve and resource characteristics and contractual terms, the post-tax cash flows for each asset are calculated using individual economic models which include assumptions around the amount of recoverable reserves, production costs, life of mine/licence period and the selling price of the gold produced. Refer to Note 32 for fair value disclosures in respect of assets carried at fair value.

19. OTHER NON-CURRENT ASSETS

	2014 US$000	2013 US$000
Non-current prepayments*	3,177	11,354
Non-current portion of accounts receivable*	–	1,447
Other non-current assets	403	471
Total other non-current assets	**3,580**	**13,272**

* The portion of prepayments and accounts receivable that will be realised in a period greater than 12 months from the reporting date is classified as non-current assets. Non-current prepayments include advances given to suppliers for equipment and construction works. Non-current accounts in 2013 receivable relate to the disposal of an entity.

20. SHARE-BASED PAYMENT PLANS

Employee share option plan

Options for 75,000 shares were forfeited in 2013 due to the retirement of certain participants. Options for 450,000 shares expired in 2014. Currently there are no participants of the scheme.

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

	2014 NO.	2014 WAEP	2013 NO.	2013 WAEP
Outstanding as at 1 January	450,000	£0.96	525,000	£0.96
Expired during the year	(450,000)	£0.96	–	–
Forfeited during the year	–	–	(75,000)	£0.96
Outstanding as at 31 December	**–**	**–**	**450,000**	**£0.96**
Exercisable at 31 December			**450,000**	**£0.96**

For the share options outstanding as at 31 December 2013, the weighted average remaining contractual life was 0.73 years. The exercise price for options outstanding at the end of 2013 was £0.96.

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.

21. INVENTORIES

Non-current*

	2014 US$000	2013 US$000
Ore stockpiles	11,273	18,569
	11,273	**18,569**
Ore stockpile obsolescence provision	(4,609)	(3,946)
Total inventories	**6,664**	**14,623**

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

Current

	2014 US$000	2013 US$000
Raw materials and consumables	68,771	58,441
Ore stockpiles	12,821	15,424
Gold in progress	4,704	6,799
Finished goods	1,709	173
	88,005	**80,837**
Raw materials and consumables obsolescence provision	(10,668)	(10,159)
Total inventories	**77,337**	**70,678**

No inventory has been pledged as security.

22. TRADE AND OTHER RECEIVABLES

	2014 US$000	2013 US$000
VAT receivable	18,548	39,589
Other taxes receivable	94	1
Related party receivables (Note 30)	104	459
Trade receivables*	7,895	9,798
Other receivables	2,248	3,264
	28,889	**53,111**

* As at 31 December 2014, a negative price and volume adjustment was booked to trade receivables in the amount of US$2.4 million (2013: a negative adjustment in the amount of US$0.9 million).

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

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

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

	2014 US$000	2013 US$000
At 1 January	**242**	**45**
Additions	–	197
Utilisation	(197)	–
At 31 December	**45**	**242**

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.

All trade and other receivables are not past due and are not impaired. The Group does not expect any problems with recovering this amount.

23. PREPAYMENTS

	2014 US$000	2013 US$000
Prepayments	2,000	6,389
	2,000	**6,389**

Prepayments include advances given to suppliers for raw materials and consumables.

24. CASH AND CASH EQUIVALENTS

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

	2014 US$000	2013 US$000
Cash in hand and at bank	12,759	5,979
Short-term deposits	187	1,959
	12,946	**7,938**

25. ISSUED CAPITAL AND RESERVES

A) Issued share capital

AUTHORISED	2014 SHARES	2013 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 2013	**325,222,098**	**585**
Ordinary shares issued	–	–
At 31 December 2013	**325,222,098**	**585**
Ordinary shares issued	–	–
At 31 December 2014	**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.

26. INTEREST-BEARING LOANS AND BORROWINGS

	EFFECTIVE INTEREST RATE%	MATURITY	2014 US$000	2013 US$000
Current				
Gazprombank loan*	5.6, 5.0 from 30 April 2013	March 2014	–	6,875
Gazprombank loan**	5.17, 5.0 from 30 April 2013, 4.0 from 28 October 2013	March 2016	88,714	88,714
Gazprombank loan***	5.0	May 2016	19,111	15,926
Sberbank loan*****	4.2	September 2016	49,833	12,500
			157,658	**124,015**
Non-current				
Gazprombank loan**	5.17, 5.0 from 30 April 2013, 4.0 from 28 October 2013	March 2016	22,179	110,893
Gazprombank loan****	5.4	March 2017	77,926	–
Gazprombank loan***	5.0	May 2016	7,963	27,074
Sberbank loan*****	4.2	September 2016	37,375	47,342
			145,443	**185,309**
Total			**303,101**	**309,324**

* In October 2012 the Group raised financing with Gazprombank at a 5.6% interest rate with the draw period set till 23 January 2013. In April 2013 the rate was changed to 5.0%. The loan was repaid in March 2014.

** In March 2013 the Group raised financing with Gazprombank at a 5.17% interest rate with the draw period set till 21 June 2013. In April 2013 the rate was changed to 5.0%. In October 2013 the rate was changed to 4.0%. The loan is repayable in monthly instalments between December 2013 and March 2016. The loan is secured by future gold sales at market prices at a time of sale. The outstanding amount of funds obtained under the agreement at 31 December 2014 is US$110.9 million (2013: US$199.6 million). The outstanding bank debt is subject to the following covenant: the ratio of total debt to EBITDA should be equal to or lower than 4.0.

*** In June 2013 the Group raised financing with Gazprombank at a 5.0% interest rate with the draw period set till 20 October 2013. The loan is repayable in monthly instalments between March 2014 and May 2016. The loan is secured by future gold sales at market prices at a time of sale. The outstanding amount of funds obtained under the agreement at 31 December 2014 is US$27.1 million (2013: US$43.0 million). The outstanding bank debt is subject to the following covenant: the ratio of total debt to EBITDA should be equal to or lower than 4.0.

**** In March 2014 the Group secured a revolving facility with Gazprombank with the draw period set till 31 March 2016. The interest rate is set for every instalment separately, with the maximum of 15.0% in USD and 20.0% in RUR. Every instalment is repayable in one year, with the final repayment in March 2017. The loan is secured by future gold sales at market prices at the time of sale. The outstanding amount of funds obtained under the agreement at 31 December 2014 is US$77.9 million (2013: Nil). The outstanding bank debt is subject to the following covenant: the ratio of total debt to EBITDA should be equal to or lower than 4.0.

***** In September 2013 the Group signed a new financing agreement with Sberbank for a US$100.0 million facility at a 3.8% interest rate with the draw period set till 2 September 2016. The loan is repayable in instalments between December 2014 and September 2016. The outstanding amount of funds obtained under the agreement at 31 December 2014 is US$87.2 million (2013: US$59.8 million). The outstanding bank debt is subject to the following covenant: the ratio of net debt to EBITDA should be equal to or lower than 4.0.

The total outstanding bank debt of the Group at 31 December 2014 is US$303.1 million (2013: US$309.3 million).

27. TRADE AND OTHER PAYABLES

Non-current

	2014 US$000	2013 US$000
Non-current portion of pension liabilities	305	441
	305	**441**

Current

	2014 US$000	2013 US$000
Contingent consideration liability (Note 5)	400	10,504
Trade payables	10,220	19,491
Salaries payable	6,735	10,182
Income tax payable	3,418	–
Other taxes payable	4,367	5,198
Other current payables	412	1,070
	25,552	**46,445**

Terms and conditions of current financial liabilities included above:

- Salaries payable are non-interest bearing and are normally settled on 30-day terms. Outstanding vacations are also included in this line.
- Trade and other payables are non-interest bearing and are normally settled on 30–60 day terms.
- Other taxes payable include mineral extraction tax, property tax, social taxes and VAT. These are non-interest bearing and are normally settled within 30–60 days.
- For terms and conditions in regards of contingent consideration, refer to Note 5.

28. PROVISIONS

	SITE RESTORATION PROVISION US$000	LEGAL PROVISION US$000	TOTAL US$000
At 1 January 2013	**37,272**	**123**	**37,395**
Accretion	1,386	18	1,404
Disposal	–	(123)	(123)
Utilisation of provision	(50)	–	(50)
Additions	1,163	–	1,163
Effect of changes in the discount and inflation rates	(8,040)	–	(8,040)
Effect of changes in estimated costs	5,415	–	5,415
Effect of exchange rate changes	(2,744)	–	(2,744)
At 31 December 2013	**34,402**	**18**	**34,420**
Accretion	2,355	–	2,355
Disposal	–	(18)	(18)
Utilisation of provision	(81)	–	(81)
Effect of changes in the discount and inflation rates	(4,362)	–	(4,362)
Effect of changes in estimated costs	1,307	–	1,307
Effect of exchange rate changes	(17,922)	–	(17,922)
At 31 December 2014	**15,699**	**–**	**15,699**
Current 2013	–	18	18
Non-current 2013	34,402	–	34,402
	34,402	**18**	**34,420**
Current 2014	–	–	–
Non-current 2014	15,699	–	15,699
	15,699	**–**	**15,699**

Site restoration provision

In 2014 the Group performed a re-assessment of the site restoration provision at MNV. The assessments were based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life of mine (which is assumed to close in 2017), site restoration activities expected to be carried out in 2016 and 2017 (removal of waste, restoration of mine sites), current prices for similar activities and risk-free RUR-denominated government bonds discount rates of 13.4% for 2016 and 15.4% for 2017 (2013: RUR-denominated government bonds rate of 6.8%).

A risk-free RUR-denominated government bonds discount rate of 14.9% (2013: RUR-denominated government bonds rate of 6.1%) has been used to calculate the site restoration liability at Novo assuming its closure in 2024.

A risk-free RUR-denominated government bonds discount rate of 14.4% (2013: RUR-denominated government bonds rate of 7.2%) has been used to calculate the site restoration liability at BG assuming its closure in 2022.

A risk-free RUR-denominated government bonds discount rate of 13.3% (2013: RUR-denominated government bonds rate of 7.4%) has been used to calculate the site restoration liability at Klen and Kekura assuming site closure in 2028.

The decrease in site restoration liability in the amount of US$17.9 million was due to devaluation of RUR against USD in 2014 (2013: decrease of US$2.7 million).

The total change in estimation of site restoration liability amounts to US$21.0 million in 2014 (2013: US$5.4 million).

Legal provision

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

29. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has renewed a commercial lease on its office premises in March 2015. This lease has a life of 3 years. There are no restrictions placed upon the Group by entering into this lease. The operating lease charge for the year ended 31 December 2014 was US$1.1 million (2013: US$1.1 million).

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

	2014 US$000	2013 US$000
Within one year	815	1,073
After one year but not more than five years	2,144	180
	2,959	**1,253**

Capital commitments

At 31 December 2013, the Group had commitments of US$9.8 million (2013: US$21.8 million) principally relating to development assets and US$1.6 million (2013: US$1.0 million) for the acquisition of new machinery.

Finance lease and hire purchase commitments

As at 31 December 2014 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$3.1 million as at 31 December 2014 (at 31 December 2013: US$1.3 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.

30. RELATED PARTY DISCLOSURES

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

NAME	COUNTRY OF INCORPORATION	SHAREHOLDING %
Subsidiary undertakings		
Held by the ultimate parent		
Stanmix Investments Limited	Cyprus	100
Stanmix Holding Limited	Cyprus	100
Highland Exploration Kyrgyzstan LLC (Unkurtash)	Kyrgyzstan	100
Held indirectly via subsidiaries		
AO Mnogovershinnoye (MNV)	Russia	100
OAO Novo-Shirokinsky Rudnik (Novo)	Russia	97.9*
OOO Belaya Gora (BG)	Russia	100
OOO Lubavinskoye (Lubov)	Russia	100
OOO Taseevskoye	Russia	100
OOO Klen	Russia	100
ZAO Bazovye Metally (Kekura)	Russia	100
OOO Russdragmet (RDM)	Russia	100
OOO BSC	Russia	100
OOO Zabaykalzolotoproyekt (ZZP)	Russia	100
ZAO TH Mnogovershinnoye – till 5 August 2013	Russia	100
OOO RDM-Resources – till 11 November 2014	Russia	100

* There are no restrictions imposed by non-controlling interest on our ability to use assets and settle liabilities of Novo.

Entity with significant influence over the Group

Following the Second Subscription on new ordinary shares in Highland Gold Mining Limited on 15 January 2008 by Primerod International Limited, Primerod held 32% of Highland Gold at 31 December 2014.

Persons connected with Eugene Shvidler, Non-executive Director of the Company, have acquired 26,020,000 ordinary shares of £0.001 per share in the capital of the Company on 7 May 2008 at a price of US$3.048 per share. Eugene Shvidler, together with the persons connected with him, own 36,916,144 ordinary shares of £0.001 per share in the capital of the Company representing 11.35% of the total issued share capital of the Company.

Prosperity Capital Management held 17.29% of Highland Gold at 31 December 2014.

Terms and conditions of transactions with related parties

There were no related party transactions in 2014. The sales to and purchases from related parties are made at normal market prices and arm's length terms. There are no outstanding balances at 31 December 2014 (2013: Nil). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2014, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2013: 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

	2014 US$000	2013 US$000
Short-term employee benefits	5,131	4,117
Total compensation paid to key management personnel	**5,131**	**4,117**

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

Loan issued to management of the Group

In 2013 the Group issued an interest-free RUR-denominated loan to a Director of the Group in the amount of US$0.4 million (2014: no loans issued to Directors of the Group). The loan is repayable in equal monthly instalments between May 2013 and May 2018. The outstanding amount of loan at the date of authorising these financial statements is US$0.1 million.

Directors' interests in an employee share incentive plan

Share options held by members of the Board of Directors to purchase ordinary shares expired in 2014.

31. 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 2014 as well as in prior years, the Group continued its no hedge policy in relation to the gold price.

Embedded derivative

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

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

Foreign currency risk

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

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

	INCREASE/DECREASE IN RUR RATE	EFFECT ON PROFIT BEFORE TAX US$000	INCREASE/DECREASE IN GBP RATE	EFFECT ON PROFIT BEFORE TAX US$000
2013	6%	891	6%	3,054
	-6%	(891)	-6%	(3,054)
2014	17%	(447)	6%	2,714
	-17%	447	-6%	(2,714)

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.

With respect to credit risk arising from the other financial assets of the Group, which comprises bank coupon bonds, the Group's exposure to credit risk arises from default of the counterparty, with a minimum exposure equal to the carrying amount of these instruments. The Group limits its counterparty credit risk on these assets by dealing only with financial institutions with credit ratings at least BBB/A-2 (Standard & Poor's) or higher.

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.

Please refer to Note 26 for the information on the financial covenants the Group is bound by.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 and 31 December 2015 based on contractual undiscounted payments.

YEAR ENDED 31 DECEMBER 2013	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	–	134,368	160,437	30,721	–	325,526
Trade and other payables	–	30,591	–	–	–	30,591
Contingent consideration liability	–	10,504	–	–	–	10,504
	–	**175,463**	**160,437**	**30,721**	**–**	**366,621**

YEAR ENDED 31 DECEMBER 2014	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	–	245,182	68,587	–	–	313,769
Trade and other payables	–	17,265	–	–	–	17,265
Contingent consideration liability	–	400	–	–	–	400
	–	**262,847**	**68,587**	**–**	**–**	**331,434**

Interest bearing loans and borrowings for the year ended 31 December 2014 with maturity of less than 1 year include a revolving facility secured with Gazprombank: the amount of US$77.9 million outstanding at 31 December 2014 has been presented as non-current liabilities in the consolidated statement of financial position. Refer to Note 26 for further details.

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 26. 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 exposure to the risk of changes in market interest rates relates primarily to long-term debt obligations with floating interest rates. The Group mitigates this risk through signing financing arrangements at fixed rates.

As at 31 December 2014 the Group has outstanding bank debt at fixed rates in the amount of US$303.1 million.

Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market price risk include the Group's investments in bonds and shares and embedded derivatives.

The following table demonstrates the sensitivity of investments in bonds and shares to a reasonably possible change in market prices:

		Effect on profit before tax	
	INCREASE/DECREASE IN PRICES,%	2014 US$000	2013 US$000
Bonds	5%	2,240	2,330
Bonds	-5%	(2,240)	(2,330)

The following table demonstrates the sensitivity of the embedded derivative to a reasonably possible change in metal prices:

		Effect on derivative	
	INCREASE/DECREASE IN PRICES,%	2014 US$000	2013 US$000
Lead	5%	91	74
	-5%	(91)	(74)
Zinc	5%	35	29
	-5%	(35)	(29)
Gold	5%	253	231
	-5%	(253)	(231)
Silver	5%	85	76
	-5%	(85)	(76)

32. FINANCIAL ASSETS AND LIABILITIES

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

FAIR VALUES

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

	CARRYING AMOUNT		FAIR VALUE	
	2014 US$000	2013 US$000	2014 US$000	2013 US$000
Financial assets				
Cash and cash equivalents	12,946	7,938	12,946	7,938
Financial instruments at fair value through profit or loss (coupon bonds)	42,957	50,199	42,957	50,199
Trade and other receivables	2,388	5,945	2,388	5,708
Trade receivables (including embedded derivative)	7,895	9,798	7,895	9,798
Financial liabilities				
Interest-bearing loans and borrowings	303,393	309,782	303,101	309,324
Trade and other payables	17,367	30,743	17,367	30,743
Contingent consideration	400	10,504	400	10,504

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

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

COUPON BONDS AND SHARES

During 2014 the Group received US$6.5 million as a result of selling some bonds (2013: US$5.3 million) and US$4.1 million of coupon interest (2013: US$4.2 million).

The bonds and shares are treated as financial assets at fair value through profit or loss. Fair value of those bonds and shares was determined based on quoted bid prices (source: Bloomberg).

The table below contains bonds and shares fair value movement.

	2014 US$000	2013 US$000
At 1 January	**50,199**	**54,095**
Fair value gain	2,013	4,178
Foreign exchange (loss)/gain	(2,512)	1,104
Coupon interest income accrued	3,764	3,894
Bonds and shares fair value movement	**3,265**	**9,176**
Coupon interest income received	(4,058)	(4,176)
Bonds sold	(6,449)	(5,252)
Shares sold	–	(3,644)
At 31 December	**42,957**	**50,199**

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 2013 US$000	LEVEL 1 US$000	LEVEL 2 US$000
Coupon bonds	50,199	50,199	–
Trade receivables (embedded derivative)	204	–	204

	31 DEC 2014 US$000	LEVEL 1 US$000	LEVEL 2 US$000
Coupon bonds	42,957	42,957	–
Trade receivables (embedded derivative)	(383)	–	(383)

Liabilities measured at amortised cost

	31 DEC 2013 US$000	LEVEL 3 US$000
Interest-bearing loans and borrowings	309,324	309,324

	31 DEC 2014 US$000	LEVEL 3 US$000
Interest-bearing loans and borrowings	303,101	303,101

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

33. DIVIDENDS

The Group paid an interim dividend of GBP 0.025 per share (2013: an interim dividend of GBP 0.025 per share) which resulted in an aggregate interim dividend payment of US$13.1 million (2013: US$13.0 million). The interim dividend was paid on 24 October 2014.

The final dividend for the year ending 31 December 2013 in the amount of US$13.7 million was paid on 30 May 2014.

The Board has recommended a final dividend of GBP 0.020 per share which, taking into account the interim dividend paid in October 2014, gives a total dividend of GBP 0.045 per share for the year (2013: GBP 0.050 per share). The final dividend will be paid on 29 May 2015 to shareholders on the register at the close of business on 1 May 2015 (the record date). The ex-dividend date will be 30 April 2015.

34. EVENTS AFTER THE REPORTING PERIOD

In April 2015 the Group signed a financing agreement with Alfa-bank for a US$60.0 million facility with the draw period set till 31 December 2016. This facility will be used to finance development and operating activities of the Group.

In April 2015 the Group signed a financing agreement with Gazprombank for a US$80.0 million facility with the draw period set till 31 December 2018. This facility will be used to refinance the existing debt of the Group.

MINERAL RESOURCES

AS AT 31 DECEMBER, 2014 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	5,936,640	3.8	730,462	100%	730,462
	Indicated	3,640,124	2.9	340,383	100%	340,383
	Measured +Indicated	**9,576,764**	3.5	**1,070,845**	100%	**1,070,845**
	Inferred	6,354,000	3.4	691,983	100%	691,983
	Total	**15,930,764**	3.4	**1,762,829**	100%	**1,762,829**
TASEEVSKOYE	Indicated	25,785,000	4.9	4,057,587	100%	4,057,587
	Inferred	5,278,000	6.1	1,030,766	100%	1,030,766
	Total	**31,063,000**	5.1	**5,088,353**	100%	**5,088,353**
UNKURTASH	Measured	21,024,000	1.7	1,179,836	100%	1,179,836
	Indicated	32,870,000	1.8	1,860,917	100%	1,860,917
	Measured +Indicated	**53,894,000**	1.8	**3,040,753**	100%	**3,040,753**
	Inferred	12,291,000	1.7	656,004	100%	656,004
	Total	**66,185,000**	1.7	**3,696,757**	100%	**3,696,757**
NOVOSHIROKINSKOYE	Measured	1,855,488	8.5	505,586	97.9%	494,969
	Indicated	3,547,709	8.1	928,436	97.9%	908,939
	Measured +Indicated	**5,403,197**	8.3	**1,434,022**	97.9%	**1,403,907**
	Inferred	1,510,303	5.1	246,981	97.9%	241,794
	Total	**6,913,500**	7.6	**1,681,003**	97.9%	**1,645,701**
BELAYA GORA	Measured	4,549,776	2.4	357,042	100%	357,042
	Indicated	3,648,019	2.5	296,881	100%	296,881
	Measured +Indicated	**8,197,795**	2.5	**653,923**	100%	**653,923**
	Inferred	4,028,000	2.3	291,707	100%	291,707
	Total	**12,225,795**	2.4	**945,630**	100%	**945,630**
KLEN	Indicated	2,850,000	5.8	530,809	100%	530,809
	Inferred	1,020,000	2.9	96,452	100%	96,452
	Total	**3,870,000**	5.0	**627,261**	100%	**627,261**
KEKURA	Indicated	5,000,000	9.6	1,540,664	100%	1,540,664
	Inferred	5,350,000	7.9	1,351,103	100%	1,351,103
	Total	**10,350,000**	8.7	**2,891,767**	100%	**2,891,767**
LYUBAVINSKOYE	Measured	1,304,990	1.5	62,758	100%	62,758
	Indicated	9,802,700	1.3	413,330	100%	413,330
	Measured +Indicated	**11,107,690**	1.3	**476,088**	100%	**476,088**
	Inferred	139,540	1.8	8,198	100%	8,198
	Total	**11,247,230**	1.3	**484,287**	100%	**484,287**
TOTAL	Measured	34,670,894	2.5	2,835,684		2,825,067
	Indicated	87,143,552	3.6	9,969,007		9,949,510
	Measured +Indicated	**121,814,446**	**3.3**	**12,804,691**		**12,774,577**
	Inferred	35,970,843	3.8	4,373,195		4,368,008
	Total	**157,785,289**	**3.4**	**17,177,886**		**17,142,585**

1. MNV, Taseevskoye, Belaya Gora, Unkurtash, Klen and Lyubavinskoye 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$1,200 per ounce. Resources were evaluated with specific cutoff grade > 1.0 g/t.
   MNV Mineral Resources for Deep are undiluted and based upon a gold price of US$1,100 per ounce. Resources were evaluated with specific cutoff grade > 1.5 g/t.
   Taseevskoe Mineral Resources are undiluted and based upon a gold price of US$ 1,000 per ounce. Resources were evaluated with specific cutoff grade > 1.8 g/t.
   Unkurtash Mineral Resources are undiluted and based upon a gold price of US$1,600 per ounce. Resources were evaluated with specific cutoff grade > 0.8 g/t.
   Belaya Gora Mineral Resources are undiluted and based upon a gold price of US$850 per ounce. Resources were evaluated with specific cutoff grade > 0.7 g/t.
   Klen Mineral Resources were evaluated with specific cutoff grade > 1.0 g/t.
   Kekura Mineral Resources were evaluated with specific cutoff grade > 0.8 g/t.
   Lyubavinskoye Mineral Resources were evaluated with specific cutoff grade > 0.5 g/t.
4. Resource estimates for MNV (Deep), Taseevskoye, and Belaya Gora deposits were confirmed by Micromine Consulting, 2010 - 2011.
   Resource estimates for MNV were confirmed by CSA Global Pty., 2012
   Resource estimate for Novoshirokinskoye was confirmed by Wardell Armstrong International (WAI), 2011.
   Resource estimate for Lyubavinskoye was confirmed by IMC Montan, 2012.
   Resource estimate for Unkurtash was reconfirmed by IMC Montan, 2013.
   Resource estimate for Klen and Kekura was confirmed by Micon International, 2012.
5. 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, 2014 REPORTED IN ACCORDANCE WITH JORC

PROJECT NAME	CLASSIFICATION	ORE, TONNES	GOLD, G/T	CONTAINED GOLD, OUNCES	HIGHLAND'S INTEREST (%)	GOLD OUNCES ATTRIBUTABLE TO HIGHLAND
MNOGOVERSHINNOYE	Proven	1,719,762	3.73	206,203	100%	206,203
	Probable	683,755	4.09	89,997	100%	89,997
	Proven + Probable	**2,403,517**	3.83	**296,200**	100%	**296,200**
NOVOSHIROKINSKOYE	Proven	1,723,840	8.7	481,292	97.9%	471,185
	Probable	3,130,205	8.6	862,411	97.9%	844,301
	Proven + Probable	**4,854,045**	8.6	**1,343,703**	97.9%	**1,315,485**
BELAYA GORA	Proven	1,790,793	4.1	237,345	100%	237,345
	Probable	1,384,372	4.3	189,534	100%	189,534
	Proven + Probable	**3,175,165**	4.2	**426,879**	100%	**426,879**
TOTAL	Proven	5,234,395	5.5	924,840		914,733
	Probable	5,198,332	6.8	1,141,942		1,123,832
	Proven + Probable	**10,432,727**	6.2	**2,066,782**		**2,038,565**

1. MNV, TAS and BG reserve estimate does not include a silver assessment.
2. MNV Mineable Reserves are undiluted and based upon a gold price of US$ 1,200 per ounce and marginal cut-off 1.45 g/t.
3. MNV Mineable Reserves for Deep are undiluted and based upon a gold price of US$ 1,100 per ounce and marginal cut-off > 1.5 g/t.
4. The Belaya Gora values shown are based upon a gold price of $ 850 per ounce.
5. Mineral reserves at MNV, Novo and Belaya Gora have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the reserves with annual production.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

CURRENT DIRECTORS

Eugene Shvidler
Executive Chairman
(appointed Executive Chairman on 22 April 2015)

Duncan Baxter
Non-Executive Director*

Colin Belshaw
Non-Executive Director

John Mann
Head of Communications
(appointed on 9 April 2015)

Terry Robinson
Non-Executive Director***

Olga Pokrovskaya
Non-Executive Director**

Valery Oyf
Chief Executive Officer

PAST DIRECTORS

Sergey Mineev
Head of Exploration & Capital Projects Development
(resigned on 9 April 2015)

Alla Baranovskaya
Chief Financial Officer
(resigned on 9 April 2015)

Eugene Tenenbaum
Non-Executive Director
(resigned on 9 April 2015)

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

* Chairman of the Nomination and Remuneration Committee;
** Chairman of the Health, Safety and Environment 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
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

JOINT BROKER
Peat & Co
118 Piccadilly
London
W1J 7NW

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 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
Ex Dividend Date: 30 April 2015

Record date: 1 May 2015

Post 2014 Annual report: 8 May 2015

Annual General Meeting: 26 May 2015

Dividend Payment Date: 29 May 2015

2015 Interim Announcement and Interim Report: September 2015

Listing sector/ticker Reuters: HGM.L

Number of shares in issue: 325,222,098

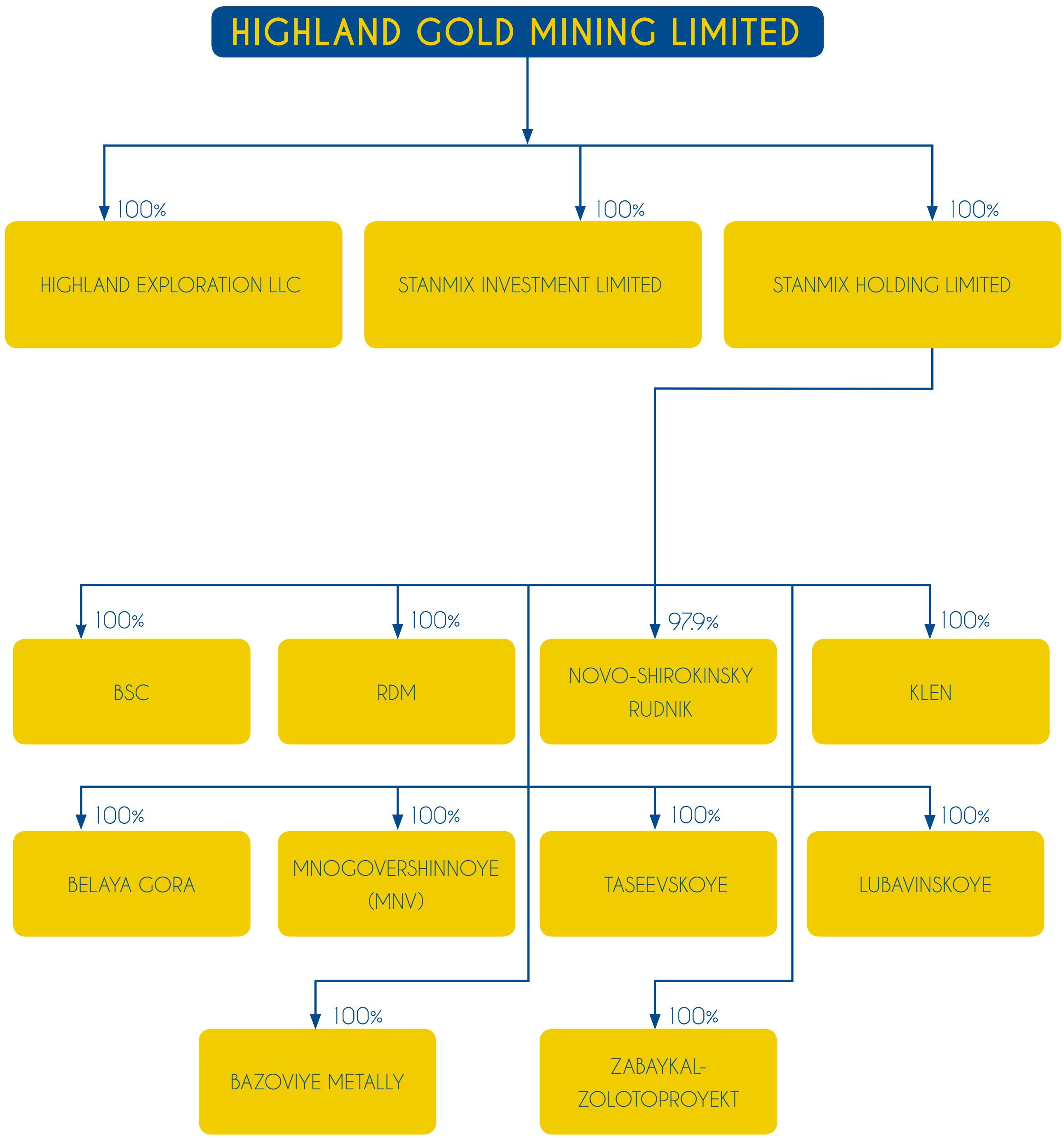
PRINCIPAL GROUP COMPANIES AS OF 31.12.2014

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
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
Russdragmet (RDM) (OOO)	100	Russia	Management company
Mnogovershinnoye (MNV) (ZAO)	100	Russia	Holder of MNV and Blagodatnoye licences
Taseevskoye (OOO)	100	Russia	Holder of Taseevskoye, ZIF-1 and Sredne-Golgotayskoye licences
Zabaykalzolotoproyekt (OOO)	100	Russia	Project engineering, Russia
Novo-Shirokinsky Rudnik (Novo) (OAO)	97.9	Russia	Holder of Novo licence
Belaya Gora (OOO)	100	Russia	Holder of Belaya Gora licence
Lubavinskoye (OOO)	100	Russia	Holder of Lubavinskoye licence
Klen (OOO)	100	Russia	Holder of Klen licence
BSC (OOO)	100	Russia	Service company, Russia, ChAO
Bazovye Metally (ZAO)	100	Russia	Holder of Stadukhinsky Area licence


HIGHLAND GOLD MINING LIMITED
100%
HIGHLAND EXPLORATION LLC
100%
STANMIX INVESTMENT LIMITED
100%
STANMIX HOLDING LIMITED
100%
BSC
100%
RDM
97.9%
NOVO-SHIROKINSKY RUDNIK
100%
KLEN
100%
BELAYA GORA
100%
MNOGOVERSHINNOYE (MNV)
100%
TASEEVSKOYE
100%
LUBAVINSKOYE
100%
BAZOVIYE METALLY
100%
ZABAYKAL-ZOLOTOPROYEKT

NOTICE OF ANNUAL GENERAL MEETING

HIGHLAND GOLD MINING LIMITED (the "Company") (Incorporated and Registered in Jersey under the Companies (Jersey) Law 1991, as amended, with registered number 83208)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Highland Gold Mining Limited (the Company) will be held on Tuesday 26 May, 2015 at 26 New Street, St Helier, Jersey JE2 3RA at 1:00 pm to consider and, if thought fit, pass the following ordinary resolutions;

Ordinary Business (ordinary resolutions)

1. To receive and adopt the Report of the Directors, the Audited Financial Statements and Auditors' Report for the year ended 31 December 2014.
2. That a final dividend of £0.02 for each Ordinary share of £0.001 in the Company be declared.
3. That John Mann who retires as a Director of the Company be elected.
4. That Valery Oyf who retires by rotation as a Director of the Company be re-elected.
5. That Olga Pokrovskaya who retires by rotation as a Director of the Company be re-elected.
6. That Duncan Baxter who retires by rotation as a Director of the Company be re-elected.
7. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
8. That the Directors be authorised to fix the Auditors' remuneration.

By Order of the Board

08 May 2015

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 Asset Services, PXS, 34 Beckenham Road, Beckenham, BR34TU not less than 24 hours before the time fixed for the meeting (or any adjournment of such meeting).
3. Completion and return of a form of proxy does not preclude a member from attending and voting in person.
4. Only those shareholders registered in the register of members of the Company as at 24 hours prior to the time fixed for the meeting (or, in the cause of an adjournment, as at 24 hours before the time of the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Pursuant to Article 40 (2) of the Companies (Uncertificated Securities Jersey) Order 1999, changes to entries on the register of members after such time shall be disregarded in determining the rights of any person to attend and vote.
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