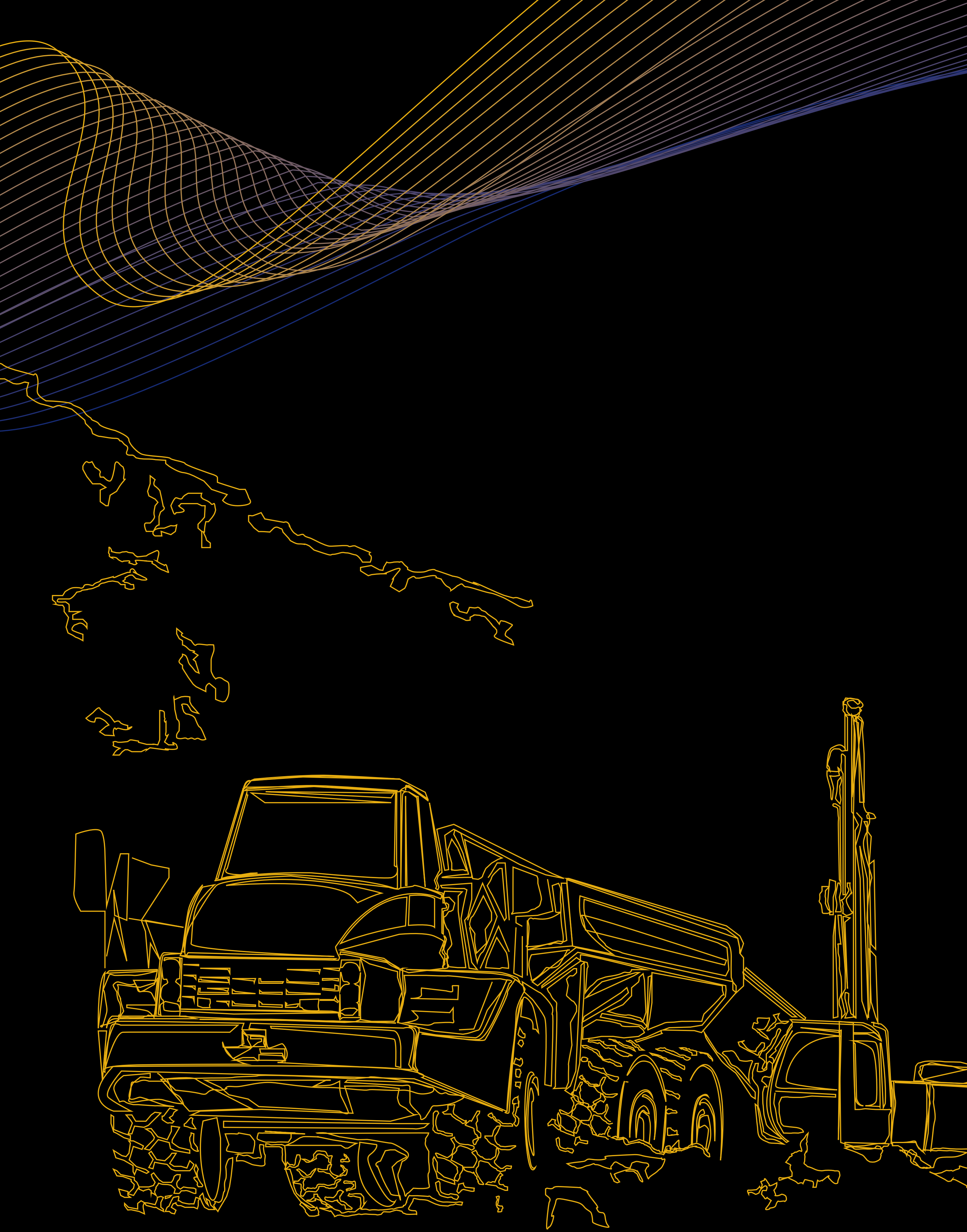
HIGHLAND GOLD MINING Ltd.

ANNUAL REPORT & ACCOUNTS 2015

HIGHLAND GOLD MINING LIMITED



HIGHLAND GOLD MINING LIMITED

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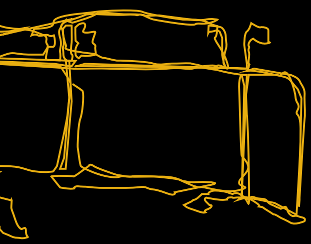


FINANCIAL HIGHLIGHTS

IFRS, US$000 (unless stated)	2015	2014
Production (gold and gold eq. oz)	**262,485**	258,937
Group all-in sustaining costs (US$/oz)	**640**	809
Total Group cash costs (US$/oz)	**480**	645
Revenue	**276,175**	304,230
Operating profit	**22,413**	55,855
EBITDA	**133,317**	123,617
Net loss	**(10,019)**	(24,843)
Loss per share (US$)	**(0.032)**	(0.077)
Adjusted net profit*	**49,570**	51,340
Net cash inflow from operations	**105,603**	104,422
Capital expenditure	**42,195**	65,538
Net debt position	**(229,167)**	(247,198)

** Free of impairment and exchange rate losses and with a normalised tax rate (please see page 16)*

THE YEAR IN REVIEW

KEY EVENTS

- Total production at Mnogovershinnoye (MNV), Novoshirokinskoye (Novo) and Belaya Gora for the full year 2015 of 262,485 oz of gold and gold equivalents, an increase of 1.4% compared with 258,937 oz in 2014.

- Average realised price for gold and gold equivalents in 2015 was US$1,062 per oz (2014: US$1,175 per oz).

- Total Cash Costs reduced by 25.6% to US$480 per oz and All-In Sustaining Cash Costs lowered by 20.9% to US$640 per oz.

- Despite lower prices, strong cost performance facilitated a 7.8% increase in EBITDA to US$133.3 million (2014: US$123.6 million), while EBITDA margin reached 48.3% versus 40.6% in 2014.

- Net loss of US$10.0 million compared to net loss of US$24.8 million in 2014, primarily due to impairment of Kekura due to delayed project development and non-cash deferred tax charges related to currency fluctuations.

- Adjusted net profit, free of impairment and exchange rate loss and with a normalised tax rate, amounted to US$49.6 million (2014: US$51.3 million).

- Project development activity focused on advancement of the Kekura project including the completion of geotechnical studies, pre-design surveys, and data calculation for selection of a processing flowsheet, together with the commencement of design work for the processing plant. A scoping study for the Baley Ore Cluster projects (Taseevskoye, Sredny Golgotay and ZIF-1) was also initiated.

- Exploration efforts focused on promising near-mine targets at MNV designed to extend life of mine.

- New US$50 million three-year pre-export loan agreement concluded between Novo and UniCredit Bank: to be used to refinance existing debt.

- Net debt to EBITDA ratio reduced to 1.7 as of 31 December 2015 from 2.0 a year earlier.

- Interim dividend of £0.020 per share paid for H1 2015 (2014: Interim dividend of £0.025 per share).

- Lost Time Incident Rate (LTI) rate edged up slightly from 2014's all-time low of 0.27 to 0.30.

POST YEAR EVENTS

- Denis Alexandrov appointed Chief Executive Officer of Highland Gold's Moscow-based management company, Russdragmet LLC, effective January 18. Outgoing CEO Valery Oyf remains with the Company as Non-Executive Director.

- Updated registration of Russian category reserves for 12 ore bodies within the MNV licence with regulatory authorities is underway and is expected to result in an extension of the life of the mine.

- Final dividend of £0.025 per share recommended, making a total distribution of £0.045 per share for the year to 31 December 2015 (2014: £0.045 per share).

TARGETS FOR 2016

- Maintain stable total production of gold and gold equivalents in the range of 255,000-265,000 oz, as the natural decline at MNV, as it approaches the end of mine life, is offset by improvements at Belaya Gora in the second half.

- MNV – Continue efforts to expand the resource base in order to keep the mill in operation for years to come.

- Belaya Gora – Further increase gold output by seeking improvements in mining operations and processing recovery rates.

- Novo – Complete studies for expansion of the mine and processing plant under plans to boost throughput to 1.3 mtpa.

- Ongoing development of the flagship Kekura project alongside steps to advance other development projects currently in the pipeline.

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to report that 2015 witnessed significant progress across all the key elements of Highland's production and resource base which, in view of a challenging trading backdrop, were prioritised during the latter part of the preceding year.

The importance of Highland's low cost producer status, in relation to the gold price dynamic, cannot be overstated and a 25.6% reduction in our Total Cash Costs to US$480 per oz, accompanied by a 20.9% fall in All-In Sustaining Cash Costs to US$640 per oz, underlines our acknowledged credentials as one of the lowest cost producers of gold in Russia which, in turn, is the lowest cost producer of the metal in the world.

The drivers of these key performance indicators were: (i) management's dual focus on optimising costs and maximising throughput across the Company's operations; and (ii) the devaluation of the Russian Rouble against the US$.

The average gold and gold equivalents price realised during 2015 amounted to US$1,062 per oz (2014: US$1,175 per oz) and should be seen against our All-In Sustaining Cash Costs measurement.

These factors were also reflected in a 7.8% increase in 2015's EBITDA to US$133.3 million, a performance which translates into an EBITDA margin of 48.3% (2014: 40.6%): a comforting litmus test of operating profitability.

Overall production from our three mines in Russia – Mnogovershinnoye (MNV), Novoshirokinskoye (Novo) and Belaya Goya – recorded a modest year-on-year increase from 258,937 oz of gold and gold equivalents in 2014 to a record 262,485 oz, albeit less than our original expectations. This means that, in the space of six years, management has expanded output by more than 60% compared to the 163,208 oz recorded in 2009: a compound annual growth rate of 7%.

Although the output of MNV, our original flagship mine, is in natural decline the old workhorse, so to speak, still accounted for some 36.0% of total output with a contribution of 94,558 oz of gold.

Management continues to focus on extending the life of MNV and further near-mine exploratory activity was pursued during the year with a view to enhancing both the underground and open-pit operations. A reassessment of reserves is under way, the outcome of which is expected to indicate an extension of MNV's life expectancy beyond the JORC-compliant resource estimate of 2017.

Completion of the second stage of the processing plant at Belaya Gora, our youngest mine, enabled the facility to process 1,551,288 tonnes of ore, a 26.4% improvement versus 2014, thereby achieving its annual nameplate capacity of 1.5 million tonnes. Lower than expected grades at Belaya Gora and related issues with below-forecast recovery rates during the latter part of 2015 were chiefly responsible for the shortfall against our overall production estimate of 270,000 oz but, despite this, the higher throughput led to a 57.8% increase in the mine's gold production to 61,306 oz.

Novo proved the star performer with a record 691,284 tonnes of processed ore, representing a 18.6% increase over 2014's throughput, yielding a record 106,621 oz of gold and gold equivalents. We are intent on driving our ambitious long-term optimisation model for Novo and underground expansion, designed to access new horizons, is under way, hand in hand with plans to almost double annual processing capacity to 1.3 million tonnes by the end of 2018.

The advancement of our Kekura development, situated in the Chukotka region of North East Russia, gathered momentum. Pre-design studies and surveys were completed in respect of the mining complex and design work commenced on the processing plant.

Kekura's favourable metallurgy, combined with the utilisation of open-pit and underground mining techniques, could form the basis for a 'low cost' operation. We remain positive about the project, despite having to take an impairment charge on the asset for 2015.

In the Zabaikalsky region, where Novo is located, management has initiated a scoping study on the joint development of our Baley Ore Cluster projects which comprise the Taseevskoye and Sredny Golgotay deposits and ZIF-1 tailings. This is being conducted by Amec Foster Wheeler and is scheduled for completion during 2016. Meanwhile, a pilot programme is under way to mine ore at Sredny Golgotay for processing at Novo.

Your Board has constantly emphasised its commitment, subject to all prudent provisions, to the return of profits to shareholders by way of dividend payments. Accordingly, the Board is pleased to recommend the payment of a final dividend of £0.025 per share (2014: £0.020 per share) which, subject to approval at the Annual General Meeting on 25 May 2016, will make a total distribution of £0.045 per share (2014: £0.045 per share) for the financial year to 31 December 2015.

The health and safety of our employees is paramount and management is ever-conscious of the risks and hazards associated with the mining industry as we endeavour to achieve a zero incident rate. Education has always been central to our approach and considerable emphasis is placed on the need for employees to develop a sense of responsibility for the safety of themselves and others. To this end, a series of specialised training courses were once again well attended. The mine rescue teams, established at MNV, Novo and Belaya Gora in 2014, remain on call in the event of an emergency. Despite such measures, our Lost Time Incident Rate (LTI) rate (defined as the number of lost time incidents for every 200,000 man hours worked) edged up slightly from 2014's all time low of 0.27 to 0.30.

With regard to Highland's environmental responsibilities, the Company is committed to minimising the impact of its operations. In keeping with this, management continued to meet all applicable environmental laws and implement all relevant recommendations from the supervisory authorities throughout 2015.

The composition of the Board and management team has undergone considerable change since my last statement, the most significant aspect of which occurred in January 2016, post the period under review, with the appointment of Denis Alexandrov as Chief Executive Officer of Highland's Moscow-based management company, Russdragmet LLC, in succession to Valery Oyf who remains on the Board as a Non-Executive Director. Mr Alexandrov was the former CEO of Auriant Mining AB, a Swedish company engaged in gold exploration and production in Russia, and is also a former Finance Director of Highland. It gives me much pleasure to welcome Mr Alexandrov back to Highland.

I also wish to record the Board's thanks to Mr Oyf for his excellent stewardship of Highland during an eight-year tenure that witnessed the establishment of Novo and Belaya Gora, substantial growth and an ultra-competitive cost base.

Directors Alla Baranovskaya and Sergey Mineev, together with Non-Executive Director Eugene Tenenbaum, stepped down from the Board in the spring of 2015, although Ms Baranovskaya and Mr Mineev continue to play key roles as part of the Company's executive management team. I would like to thank them all, on behalf of the Board, for their valuable contributions to Highland's development.

At the same time, John Mann, the Company's Head of Communications, was appointed an Executive Director. John is widely versed in public relations, public affairs and investor relations and his experience leaves him admirably qualified to liaise directly with the investment community on behalf of the Board.

Our approach to output levels in 2016, taking into account the run down at MNV, will focus on 'stability' with an approximate target of 255,000 to 265,000 oz of gold and gold equivalents. We are intent on progressing the achievements of 2015 and, to this end, our priorities will be to: pursue our near-mine exploration programme at MNV; accelerate the expansion of Novo; refine Belaya Gora's mining and processing operations; and advance our Kekura and Taseevskoye/Baley projects. Your Board remains confident that Highland is well positioned to achieve these value creating objectives.

It now gives me much pleasure, on behalf of the Board, to thank all our employees for the hard work and commitment that brought about the achievements of 2015.

Eugene Shvidler
Executive Chairman

MINE LOCATIONS


Klen
Kekura
Novoshirokinskoye
Taseevskoye
Belaya Gora
MNV
Sr.Golgotay
Blagodatnoye
Lyubov
Operating Mine
Development Project
Exploration Project

OPERATIONAL REVIEW

Management's focus on minimising costs and maximising operational throughput, together with the weak Rouble, brought considerable rewards during 2015, the most important of which was an extension of the advantage Highland enjoys as one of the lowest cost gold producers in the world.

The priorities in 2016 will be to build on the successes of the year under review – particularly the above-budget performance of Novo and the attainment of nameplate processing capacity at Belaya Gora – and embark on the next stage of our flagship development project, Kekura.

The near-mine exploratory activity at MNV will continue during 2016 as the Company pursues its stated objective of extending the life of the mine beyond 2017: a prospect that waits on a current reassessment of reserves.

Output totals will represent something of a balancing act between the run down at MNV – which still accounted for more than a third of 2015's peak production of 262,485 oz of gold and gold equivalents – and envisaged output from the two sister mines. Against this backdrop, management is looking to achieve a stable production outcome of between 255,000 and 265,000 oz of gold and gold equivalents in 2016.

We will also endeavour to further extend our cost advantage over our international and domestic peers, primarily through judicious capital allocation, the utilisation of rigorous cost disciplines and the implementation of innovative operating efficiencies.

MNOGOVERSHINNOYE (MNV), KHABAROVSK REGION, RUSSIA

Process plant throughput at MNV totalled 1,412,819 tonnes of ore to yield 94,558 oz of gold in 2015 compared with 122,320 oz in 2014. A decline in the recovery rate from 2014's 91.8% to 90.4% reflected changes in mineral composition and lower gold grades.

Open-pit and underground ore production registered a near 30% increase to 1,503,187 tonnes year-on-year, while underground development increased from 2014's 9,166 metres to 10,450 metres following a 53.5% increase in second half activity to 6,163 metres versus H2 2014.

The average grade of mined ore at 2.17 g/t was 32.0% below the level achieved in 2014. This reflected open-pit mining complications at the Flank ore body which led to the redeployment of operations to lower grade-bearing areas.

MNV	Units	H1 2014	H2 2014	H1 2015	H2 2015	2014	2015
Waste stripping	m3	1,194,036	1,310,227	**1,780,663**	1,573,547	2,504,263	**3,354,210**
Underground development	m	5,151	4,015	**4,287**	6,163	9,166	**10,450**
Open-pit ore mined	t	300,569	249,270	**289,420**	448,548	549,839	**737,968**
Open-pit ore grade	g/t	3.71	3.2	**2.08**	1.85	3.5	**1.94**
Underground ore mined	t	292,877	316,779	**330,329**	434,890	609,656	**765,219**
Underground ore grade	g/t	3.11	2.7	**2.21**	2.52	2.91	**2.38**
Total ore mined	t	593,446	566,049	**619,749**	883,438	1,159,495	**1,503,187**
Average grade	g/t	3.42	2.94	**2.15**	2.18	3.19	**2.17**
Ore processed	t	629,854	736,604	**705,493**	707,326	1,366,458	**1,412,819**
Average grade	g/t	3.31	2.81	**2.08**	2.49	3.04	**2.29**
Recovery rate	%	92.5	91.1	**89.0**	91.5	91.8	**90.4**
Gold produced	oz	61,761	60,559	**42,451**	52,107	122,320	**94,558**

PRODUCTION COSTS

Total cash costs amounted to US$691 per ounce (2014: US$722 per ounce) while all-in sustaining costs were US$881 per ounce (2014: US$835 per ounce).

CAPITAL COSTS

A total of US$10.3 million was invested at MNV in 2015. This included capitalised expenditures and construction (US$3.1 million), purchase of equipment (US$6.2 million) and exploration (US$1.0 million).

OUTLOOK

The acquisitions of the North Western Flank and Lower Horizon licences in 2014 were specifically designed to supplement MNV's resource base, thereby extending the life of the mine. To further this objective, the near-mine exploration activity of 2015 continues in 2016. Targeted resources encompass both the underground and open-pit operations and the anticipated reassessment of reserves has the potential to extend the life of the mine well beyond the current JORC-compliant resource estimate of 2017.

NOVOSHIROKINSKOYE (NOVO), ZABAIKALSKY REGION, RUSSIA

The optimisation of mining and processing technology at Novo led to an above budget performance for the year which ultimately resulted in a 9.0% increase in production to a record 106,621 oz of gold and gold equivalents. Mine output achieved a year-on-year increase of 20.2% to 701,419 tonnes, while processed ore recorded a 18.6% advance to 691,284 tonnes: record levels in both instances.

In order to facilitate immediate and prospective increases in throughput, new inter-circuit flotation equipment was installed during H2 2015 with Zn flotation capacity ramped up. This benefited the recovery rate which improved to 86.6% in H2 2015 compared with 85.3% for the corresponding period of 2014.

Onsite production of granulated explosives commenced in H2 2015: a development designed to reduce costs.

Novo	Units	H1 2014	H2 2014	H1 2015	H2 2015	2014	2015
Underground development	m	5,162	5,155	**5,312**	5,625	10,317	**10,937**
Ore mined	t	280,987	302,485	**327,629**	373,790	583,472	**701,419**
Average grade *	g/t	5.6	6.6	**5.4**	5.7	6.2	**5.6**
Ore processed	t	281,137	301,685	**331,551**	359,733	582,822	**691,284**
Average grade *	g/t	5.6	6.6	**5.4**	5.8	6.2	**5.6**
Recovery rate *	%	84.3	85.3	**85.3**	86.6	84.9	**86.0**
Gold produced *	oz	42,949	54,826	**48,634**	57,987	97,775	**106,621**

* *In gold equivalents at actual prices (metal grade of mined ore = Au 2.85 g/t, Ag 90.40 g/t, Pb 2.77%, Zn 0.75%).*

PRODUCTION COSTS

Total cash costs amounted to US$302 per ounce (2014: US$429 per ounce) while all-in sustaining costs were US$353 per ounce (2014: US$517 per ounce).

CAPITAL COSTS

A total of US$4.9 million was invested at Novo in 2015. This included capitalised expenditures and construction (US$2.2 million) and purchase of equipment (US$2.7 million).

OUTLOOK

Significant expansion is planned at Novo in accordance with our long-term model and the extension of underground mining operations, designed to access new horizons, will continue during 2016. In the wake of studies initiated in H2 2015, plans have been approved for a near-doubling of processing capacity to 1.3 million tonnes per annum by the end of 2018.

BELAYA GORA, KHABAROVSK REGION, RUSSIA

Total production of gold and gold equivalents at Belaya Gora recorded a 57.8% increase to 61,306 oz in 2015 compared with 38,842 oz in 2014. The scale of increase in activity is reflected in the quantity of ore mined which more than doubled to 2,223,104 tonnes in 2015 following a second half increase of 118.8% to 1,337,790 tonnes versus H2 2014.

The commissioning of the second stage gravity circuit of the Belaya Gora processing plant enabled the facility to attain its nameplate capacity of 1.5 million tonnes. Processed ore totalled 1,551,288 tonnes: a 26.4% increase compared with 2014's 1,227,305 tonnes. The year-on-year recovery rate showed a 22.2% improvement to 75.4%.

Partial flooding of the open-pit in Q4 2015, due to severe weather conditions, disrupted the mining plan and was partly responsible for a significant decline in the average grade of mined ore to 1.32 g/t in H2 2015 compared with 1.63 g/t in the first half. This, in turn, contributed to the shortfall against the Company's overall production target of 270,000 oz of gold and gold equivalents in respect of 2015.

Design work on plant automation systems made good progress and installation is currently underway, aimed at maintaining steady state operations and optimising reagent consumption. Additional test and design work is underway for further modifications to the circuit in order to improve overall plant recoveries.

Preliminary work has commenced on the construction of a solid waste storage facility near Chlya, located some 12 kilometres to the west of the plant. The land has been cleared, site grading has begun and completion is expected in 2016.

Belaya Gora	Units	H1 2014	H2 2014	H1 2015	H2 2015	2014	2015
Waste stripping	m3	767,690	1,137,601	**1,557,257**	2,160,512	1,905,291	**3,717,769**
Ore mined	t	465,610	611,457	**885,314**	1,337,790	1,077,067	**2,223,104**
Average grade	g/t	1.32	1.52	**1.63**	1.32	1.43	**1.45**
Ore processed	t	462,333	764,972	**674,985**	876,303	1,227,305	**1,551,288**
Average grade	g/t	1.81	1.45	**1.87**	1.47	1.58	**1.64**
Recovery rate	%	62.79	61.6	**75.89**	74.9	61.7	**75.4**
Gold produced	oz	15,411	23,431	**30,157**	31,149	38,842	**61,306**

PRODUCTION COSTS

Total cash costs amounted to US$465 per ounce (2014: US$926 per ounce) while all-in sustaining costs were US$551 per ounce (2014: US$1,038 per ounce).

CAPITAL COSTS

A total of US$11.5 million was invested at Belaya Gora in 2015. This included capitalised expenditures and construction (US$9.2 million) and purchase of equipment (US$2.3 million).

OUTLOOK

Following the increased throughput figures recorded at Belaya Gora in the year under review the focus in 2016 will be on improving grade control and achieving a further increase in recovery rates. The installation of a new crushing unit in Q4 2015 is expected to facilitate a more stable mill operation.

SREDNY GOLGOTAY, ZABAIKALSKY REGION, RUSSIA

Preparatory mining operations commenced on the Kaftanovsky zone of the Sredny Golgotay deposit, part of the Taseevskoye group of licences, during the second half of 2015. Initial activity included re-entering and refurbishing the audit access, development of the site infrastructure and gaining regulatory approval for 2016's mining plan.

CAPITAL COSTS

A total of US$0.7 million was invested at Sredny Golgotay in 2015. This included capitalised expenditures and construction.

OUTLOOK

The aforementioned mining plan calls for the extraction of 40,000 tonnes of ore in 2016 to be processed at Novo for the purpose of producing flotation concentrate.

DEVELOPMENT PROJECTS

KEKURA, Chukotka region, Russia

More than 6,000 tonnes of material and equipment were delivered to the Kekura site during H1 2015 to facilitate ongoing activities and pave the way for construction.

The first half of the year also brought approval from the State Committee on Reserves (GKZ) in respect of 62.1 tonnes (1.99 million oz) of compliant (C1+C2 category) gold reserves at the project.

The principal focus during the second half of 2015 was the development of design documentation in respect of the mine and the processing plant.

Progress on the respective designs was as follows:

- Mining complex and infrastructure – Pre-design studies and surveys were completed and public hearings held regarding the design documentation.
- Processing plant and auxiliary facilities – Process studies were completed and calculations made for the selection of a processing flowsheet. The process flowsheet, selected in early 2016, consists of single stage crushing, SAG and ball mill, single stage gravity recovery, with CIL.

A draft report relating to an independent estimate of JORC reserves, conducted by Wardell Armstrong, was received during H2 2015. The proposed parameters in the draft are currently being adjusted and developed in further detail to the level of a Mining Feasibility Study. Publication of the report is expected in mid-2016.

The priorities at Kekura during 2016 will be: (i) to receive approval of first-stage mining design and documentation from the relevant state mining and environmental agencies; (ii) obtain a construction permit; (iii) complete design documentation for the second stage of project development and apply for regulatory approval; and (iv) prepare for the onset of construction work.

TASEEVSKOYE, Zabaikalsky region, Russia

During the second half of 2015 we initiated a Scoping Study for the Baley Ore Cluster projects comprised of: Taseevskoye, Sredny Golgotay and ZIF-1 Tailings. This work is expected to be completed by mid-2016.

KLEN, Chukotka region, Russia

With Kekura the priority in the Chukotka region, the Klen site is on care and maintenance.

EXPLORATION

The Company completed more than 28,800 metres of exploration drilling in 2015, primarily at MNV. Overall expenditure on exploration projects totalled US$8.5 million for the year, compared with US$18.0 million in 2014.

MNOGOVERSHINNOYE – KHABAROVSK REGION, RUSSIA

The Company's focus on near-mine exploration at MNV, designed to extend the life of the mine's underground and open-pit operations, continued throughout 2015 and encompassed the upgrading of existing resources and targeting of additional resources.

In late Q2 2015, at the Lower Horizon MNV licence, management initiated an underground exploration drilling programme at the lower horizons of the Severnoye ore body to delineate additional resources in the vicinity of existing underground infrastructure. By the end of 2015, approximately 9,300 metres of drilling had been completed which intersected ore grade gold mineralisation. Results warranted a follow-up programme with more than 10,000 metres of drilling scheduled for completion in 2016.

Diamond core drilling activity in respect of all underground resource conversion in 2015 totalled 17,961 metres.

At the Western Flank MNV licence, immediately adjacent to the mine's operations (Chaynoye prospect), management compiled and submitted to the regulator a report on the exploration results to date. A follow-up trenching and drilling programme is planned for 2016, targeting a potential open-pit resource at the site of a prominent gold anomaly identified during 2014's exploration activities.

KEKURA – CHUKOTKA REGION, RUSSIA

The Company, in line with its ongoing development studies at Kekura, advanced an updated JORC-compliant resource/reserve evaluation by an international consultancy, with final results released in Q2 2016.

A substantial resource conversion drilling programme is planned in 2016 for sections of the deposit designated for underground mining.

A multi-year exploration programme targeting near-mine upside potential at identified prospects adjacent to the Kekura deposit has been devised and awaits regulatory approval.

A modest exploration programme for alluvial gold, carried out at selected prospects in the vicinity of the Kekura deposit, was completed in H2 2015.

OTHER PROJECTS

Reflecting the prioritisation of other projects, no field work was conducted at the Belaya Gora Flanks, Blagodatnoye, Verkhne-Krichalskaya and Unkurtash projects during 2015.

HEALTH, SAFETY & ENVIRONMENT

The Company continued to focus on occupational safety and risk management on site throughout 2015 as we strived towards our goal of zero workplace incidents. Various staff training courses were properly attended and, as is customary, employees were encouraged to assume a sense of personal responsibility for their safety and for the safety of their colleagues.

A total of 12 incidents (2014: nine) were recorded across the Group during the year: three were attributable to MNV (one of which was serious); five to Novo; and four to BG (one of which involved a contractor). Regrettably, our Lost Time Incident (LTI) rate (defined as the number of lost time incidents for every 200,000 man-hours worked) increased slightly from 2014's all-time low of 0.27 to 0.30.

A total of 1,546 employees attended an induction safety course (1 day), 1,176 received training in safe operating methods at hazardous facilities (3-5 day course), and 380 received a 7-30 day training course in industrial safety with subsequent certification. We have retained the auxiliary mine rescue crews, formed in 2014, as an additional resource in the event of an emergency.

During H2 2015, MNV received a licence for the safe operation of explosive, fire and chemically-hazardous production substances. Novo was granted a licence for the production of industrial-grade explosives.

The Company is totally committed to meeting all applicable environmental laws and implementing all relevant recommendations from the supervising authorities. In November 2015, MNV and Russdragmet (Moscow office) successfully completed recertification audits for the adherence of in-situ environmental management systems to the ISO 14001 standard. The audits confirmed compliance with environmental regulations.

In addition, the Company successfully implemented a certified ISO 14001 standard environmental management system at Belaya Gora and Novo.

Environmental protection courses were provided to 530 employees, while 625 employees received training with regard to the safe handling of industrial waste.

Public hearings were successfully held in Bilibino, Chukotka region, during October, to discuss the design of the Kekura mining complex and infrastructure, together with the materials involved, in order to assess the impact on the environment.

FINANCIAL REVIEW

In an environment of lower prices for precious and base metals in 2015, the Company succeeded in maintaining a stable level of production while keeping costs under control, reducing debt, and paying competitive dividends.

Overall Group revenue was US$276.2 million in 2015 compared to US$304.2 million in 2014. The negative impact of lower metals prices resulted in a 9.2% decrease in revenue. Over the reporting period, the Company sold 258,292 ounces of gold and gold equivalents compared to 257,111 ounces in 2014. Novo and BG considerably increased their share in the Group's total sales volume, with Novo's sales growing to 105,299 eq. oz (up 13.4% y-o-y) and accounting for 40.8% of the total, while Belaya Gora sold 59,971 ounces in 2015 for a 23.2% share. MNV, with its share of 36.0%, remained a significant contributor to total sales volume with 93,022 ounces.

The Group continued to practice a "no hedge" policy in 2015. The average price of gold realised by MNV and Belaya Gora (net of commission) was US$1,154 per oz, in line with the average market price (average 2015 LBMA price was US$1,160 per oz) and down by 8.6% y-o-y. The average price of gold equivalents realised by Novo was US$927 per eq. oz in 2015, compared to US$1,018 per eq. oz in 2014. The average price at Novo is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver), net of fixed processing and refining costs at the KazZinc plant. The Company's average realised price of gold and gold equivalents amounted to US$1,062 per oz in 2015, compared with US$1,175 per oz in 2014, a decline of 9.6%.

The Company's cost of sales net of depreciation decreased by 25.0% to US$126.8 million in 2015 (2014: US$169.1 million). The positive effect of the Russian Rouble's devaluation enabled the Company to offset the negative impact of the overall inflation (12.9%) and an increase in prices for energy and some major consumables. Depreciation was US$72.6 million, up 22.2% y-o-y, largely resulting from the BG plant launch.

Cash Operating Costs

	2015 US$000	2014 US$000	y-o-y change, %
Cost of sales	199,365	228,518	(12.8%)
– depreciation, depletion and amortisation	(72,583)	(59,392)	22.2%
Cost of sales, net of depreciation, depletion and amortisation	**126,782**	**169,126**	**(25.0%)**
Breakdown per item:			
Labour	40,448	52,101	(22.4%)
Consumables and spares	48,127	47,403	1.5%
Power	8,736	11,785	(25.9%)
Movement in ore stockpiles, finished goods and stripping assets	(12,745)	7,181	(277.5%)
Maintenance and repairs	26,286	31,205	(15.8%)
Taxes other than income tax	15,930	19,451	(18.1%)

Total cash costs (TCC)[1] decreased by a significant 25.6% to US$480 per oz, some 20.0% below the industry average. Breaking it down by business unit, total cash costs at Belaya Gora halved from US$926 per oz to US$465 per oz y-o-y as a result of economies of scale, improved grades and recovery rates. Total cash costs at Novo were US$302 per eq. oz, falling by 29.5% from the previous year, largely reflecting the rise in production volumes. MNV, our oldest mine, also saw decreased total cash costs of US$691 per oz (2014: US$722 per oz) despite a considerable 24.7% reduction in average grade.

All-in sustaining costs (AISC)[2] per ounce dropped by 20.9% to US$640 per oz in 2015 from US$809 per oz in 2014.

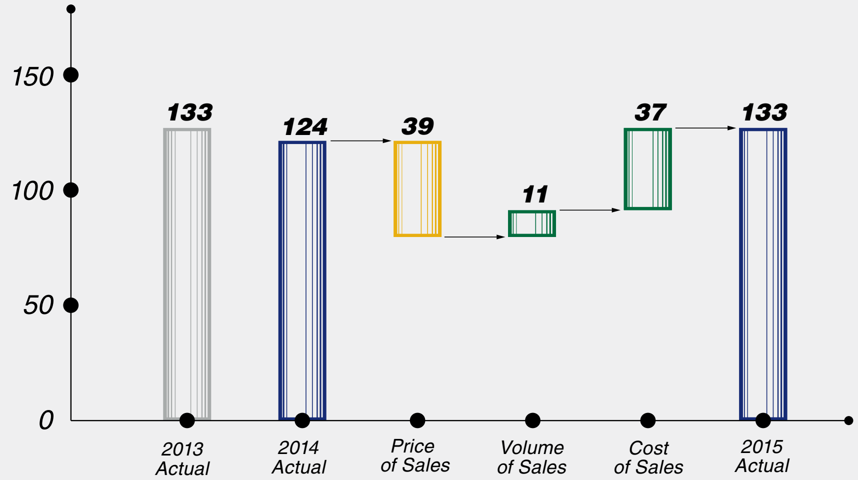
TCC and AISC Calculations

	2015 US$000	2014 US$000	y-o-y change, %
Cost of sales, net of depreciation, depletion and amortisation	126,782	169,126	(25.0%)
– cost of by-products and other sales	(2,374)	(2,962)	(19.9%)
– taxes other than income tax at other entities	(392)	(307)	27.7%
Total cash costs (TCC)	**124 016**	**165 857**	**(25.2%)**
+ administrative expenses	13,127	15,464	(15.1%)
+ accretion and amortisation on site restoration provision	2,541	3,704	(31.4%)
+ movement in ore stockpiles obsolescence provision	120	664	(81.9%)
+ sustaining capital expenditure	25,561	22,324	14.5%
Total all-in sustaining costs (AISC)	**165,365**	**208,013**	**(20.5%)**
Gold sold (gold and gold eq.oz)	258,292	257,111	0.5%
TCC (US$/oz)	480	645	(25.6%)
AISC (US$/oz)	640	809	(20.9%)

The Group's administrative expenses fell by 15.1% y-o-y to $13.1 million, owing to the weaker Rouble and expense optimisation measures.

The Group's EBITDA[3] increased by 7.8% in 2015 to US$133.3 million, compared to US$123.6 million in 2014. The EBITDA margin[4] increased from 40.6% to 48.3%, within range of the most efficient gold miners. Broken down by business unit, EBITDA margin was 34.1% at MNV (2014: 41.9%) and 64.2% at Novo (2014: 53.4%). The EBITDA margin at BG showed significant growth from 21.5% to 57.7% due to increased production volume.

EBITDA Bridge, US$ million



The Company analysed any potential impairments as of 31 December 2015 and determined that there were, in fact, indicators of impairment loss at Kekura, namely the effect of lower gold price assumptions and changes to the mine plan. Kekura's goodwill was impaired by US$16.8 million, its exploration and evaluation assets were impaired by US$14.0 million and its property, plant and equipment were impaired by US$5.2 million.

In 2015, the Group recorded a net finance loss of US$4.2 million compared to a loss of US$0.8 million in 2014. During the period, the fair value of bonds increased by US$1.2 million whereas in 2014 the gain was higher (US$3.3 million). Interest expense on bank loans was recorded in the amount of US$3.3 million in 2015 versus US$1.9 million in 2014. This increase resulted from zero capitalisation of BG interest due to the launch of the plant, while US$1.7 million of interest expense was capitalised at this business unit in 2014.

A foreign exchange loss of US$4.3 million (2014: loss of US$9.6 million) resulted from the settlement of foreign currency transactions and the transfer of monetary assets and liabilities denominated in currencies such as Russian Roubles and Pounds Sterling into US Dollars.

Income tax charges totalled US$23.9 million in 2015 compared to US$70.3 million in 2014. The tax figure is comprised of US$15.9 million of current tax expenses (US$9.7 million at MNV, US$6.1 million at Novo and other US$0.1 million), US$1.5 million of prior year tax adjustment and US$6.5 million of deferred tax. The reduction of income tax was primarily a result of decreased foreign exchange movement.

A lower net loss of US$10.0 million for the year, compared to a net loss of US$24.8 million in 2014, reflects a substantial reduction in foreign exchange fluctuations compared to 2014, which in that year resulted in a large deferred tax charge, but were somewhat offset by higher impairment charges. Loss per share amounted to US$0.032 (2014: US$0.077).

Adjusted Net Profit[5] Calculation

	2015 US$000	2014 US$000	y-o-y change, %
Loss for the year	(10,019)	(24,843)	(59.7%)
- impairment losses	35,982	11,401	215.6%
+ foreign exchange loss	4,321	9,599	(55.0%)
+ normalisation of income tax	19,286	55,183	(65.1%)
Adjusted net profit	**49,570**	**51,340**	**(3.4%)**

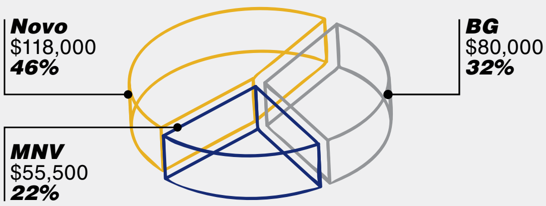
The Group's cash inflow from operating activities totalled US$105.6 million (2014: US$104.4 million) despite falling metal prices.

The Company invested US$42.2 million in capital expenditures over the course of 2015, compared to US$65.5 million in the prior year. This decline was a result of lower spending on BG, strict controls on capital allocation, and the Russian Rouble devaluation. Capital expenditures included US$10.3 million at MNV, US$4.9 million at Novo, US$11.5 million at Belaya Gora, US$11.8 million at Kekura, US$2.8 million at Taseevskoye and US$0.9 million related to other exploration and development projects within the Group. Capital expenditures were funded by operating cash flow.

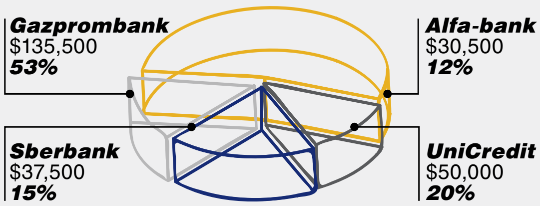
Debt decreased by 16.4% to US$253.4 million as of 31 December 2015. The Company's debt is denominated in USD with an effective annual interest rate of 5.49%. The interest rate increased by 1.0% due to a lack of bank liquidity and overall higher borrowing costs in Russia.

Capitalised interest for 2015 includes US$12.4 million of borrowing costs capitalised at Kekura at interest rates between 4.0% and 7.0%.

GROSS DEBT BREAKDOWN BY BUSINESS UNITS, US$ thousand



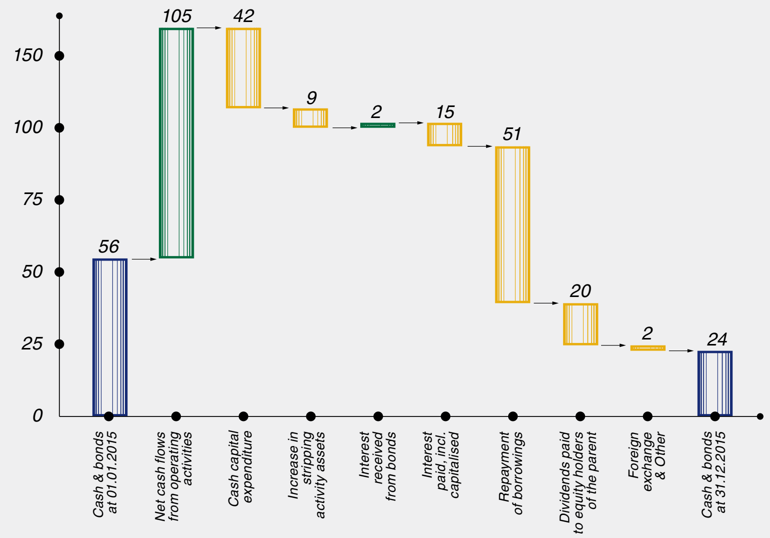
GROSS DEBT BREAKDOWN BY BANKS, US$ thousand



The Group's net debt position[6] as of 31 December 2015 was US$229.2 million, compared to US$247.2 million as of 31 December 2014. Cash and GBP-denominated bonds as of 31 December 2015 amounted to US$24.2 million, compared to US$55.9 million as of 31 December 2014.

The present ratio of net debt to EBITDA is 1.7, which is in line with the Board's policy.

Cash Position Bridge, US$ million



Management demonstrated its ability to deliver stable financial results despite exacting market trends during the reporting year.

PAYMENT OF DIVIDENDS

A final dividend for the year ending 31 December 2014 in the amount of US$10.1 million was paid on 21 May 2015.

The Group paid an interim dividend of GBP 0.020 per share (2014: an interim dividend of GBP 0.025 per share), which resulted in an aggregate interim dividend payment of US$10.0 million (2014: US$13.1 million). The interim dividend was paid on 12 October 2015.

The Board has recommended a final dividend for 2015 of GBP 0.025 per share which, taking into account the interim dividend paid in October 2015, makes a total dividend of GBP 0.045 per share for the year (2014: GBP 0.045 per share). The final dividend will be paid on 27 May 2016 to shareholders on the register at the close of business on 29 April 2016 (the record date). The ex-dividend date will be 28 April 2016.

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1. *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.*
2. *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.*
3. *EBITDA is 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.*
4. *EBITDA margin is defined as EBITDA divided by total revenue.*
5. *Adjusted net profit is defined as net profit/(loss) free of impairment losses and foreign exchange, and applying a 33.3% effective income tax rate (consistent with prior years in order to remove the foreign exchange effect related to deferred tax)*
6. *Net debt is defined as cash at bank, deposits and bonds, decreased by any bank borrowings.*

Rounding of figures may result in computational discrepancies.

PRINCIPAL RISKS AND UNCERTAINTIES

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

The Group's risk management system is designed to 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. At an operational level, all mines identify, prioritise and directly engage stakeholder groups that have the potential to affect their operational, sustainability or financial performance.

The Group's principal risks are set out below 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 2015 or prior periods and price fluctuations had an effect on the Group's profits. The capability to invest in growth projects is limited during periods of low commodity prices – which may, in turn, affect future performance. Furthermore, the financial viability of the Group's exploration, development projects and production operations is sensitive to price levels and may become questionable in an environment of decreasing prices. Management may have to reassess the economic model and recognise impairment losses.	The Group constantly monitors price trends and forecasts, maintains a cost-cutting programme, checks the viability of exploration and development projects based on the current and projected price levels and, if necessary, revises specific investment plans and schedules. 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 30 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 the majority of revenues in US Dollars and also obtains financing in US Dollars. The majority of costs are linked to US Dollars although a significant portion is incurred in Russian Roubles. In 2015 and 2014, the Group benefited from the devaluation of the Russian Rouble. The negative aspect of Rouble depreciation was that the Group's net monetary assets denominated in Roubles lost value and these losses were recognised.	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 2015 and 2014 nor in prior periods.
	Credit risks Risk of loss related to a counterparty's failure to perform its contractual obligations or transactions in a certain 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 Interest rates are affected by geopolitical and macroeconomic events. An increase in interest rates may adversely affect the Group's financial results and its ability to demonstrate the economic viability of certain assets.	The majority of the Group's loans and borrowings have fixed rates at the date of debt drawdown.

Financial risks (continued)	***Liquidity risk*** Failure to accurately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss. An event such as a significant operational incident or geopolitical events may potentially increase financing costs and limit access to financing that could put pressure on the Group's liquidity.	The Group uses a short-term, medium-term cash planning system and long-term cash flow forecasts are prepared in line with strategic planning. The Group's centralised treasury function ensures that there is sufficient liquidity for day-to-day operations at each location and reviews the need to attract additional external financing. Opportunities to secure loans at appropriate rates are constantly monitored by the Group.

OPERATING RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Risks associated with exploration activities	The Group's estimates of ore reserves and mineral resources are subject to a number of assumptions and approximations, including geological, metallurgical and technical factors, future commodity prices and production costs. Fluctuations in any of these variables could result in lower than expected revenues, higher costs and lower operating profits and could lead to reductions in estimated reserves and resources. The Group makes significant investments in exploration activities performed at greenfield sites to develop the business and at brownfield sites to extend the life of mines. For various reasons, including geological and economic factors, such activities may prove unsuccessful and may not result in an increase in Group resources. The failure to discover new resources could adversely affect the Group's future performance.	The Group conducts detailed exploration and assesses results in accordance with widely recognised methods of resources/reserves evaluation. In-house geologists have a proven track record of successful exploration work and a history of exploration projects moved to the next stage (i.e. mine development and production). The Group engages internationally recognised external consultants to confirm its resources and reserves estimates (information regarding the Group's mineral resources and reserves, reported in accordance with JORC, is presented on pages 78-79). 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 page 12.
The Group's deposits are subject to exploration and mining licences	Group companies must comply with mineral exploration and mining licence requirements. Non-compliance with licence requirements or major licence changes may result in a loss of licence and mineral rights or significant costs to ensure compliance with new requirements.	Compliance with licence requirements is constantly monitored at management level. To diminish risks, measures are developed to meet or renegotiate the terms and conditions of licence agreements. The Group's senior management and the Board are regularly informed as to compliance with licence agreements.

RISK NAME	RISK DESCRIPTION	MITIGATION
Production risks and failure to deliver production plans	The Group's mining operations are affected by numerous risk factors not wholly within the Group's control, including flooding, pit slope and rim slide, unexpected/unusual geological variations or technical issues, extreme weather conditions and natural disasters. Such factors could adversely affect production volumes and costs or damage electricity supply facilities and/or other necessary items of equipment or infrastructure. Group companies, in both open-pit and underground operations, may encounter unusual geological formations, including overly thin ore bodies, incidental deterioration in ore quality (lower grade) and dilution. Unexpected interruptions in processing and technological characteristics of the ore may result in lower recovery rates than expected. As a result of these factors, end-product unit costs may turn out to be considerably above budget and this might hinder the implementation of production plans and cause major losses in the form of impairment of various assets and goodwill.	The Group employs in-house planning experts who specialise in mine engineering and design and are responsible for developing optimal safe and commercially-viable mine plans. In turn, the in-house mine plans are reviewed by external consultants and state authorities. The mine plans include consideration of safe open-pit and underground mining operations, including smoke warning systems, personal protection kits: gas masks, self-rescue systems, etc., and mine dewatering equipment. The Group implemented a number of processes to ensure that production is facilitated by the necessary machinery and equipment, and that relevant standby equipment is available. Regular maintenance is performed by qualified Group employees and contractors to ensure reliable machinery and equipment operations. Stocks of spare parts are maintained for urgent repairs. Details of the operational performance of each of the Group's operations are included in the Operations section on pages 8-13.
New construction projects	The Group faces challenges in developing major projects, particularly in geographically remote locations and in technically challenging areas. Construction projects require significant resources and should be executed in accordance with planned costs and within defined terms. Cost overruns and timely execution in projects directly impact the capital, productivity and commercial performance of assets across the Group. Incorrect capital allocation and poor project management may result in a decrease in the profitability of a particular project and affect the Group's results.	The Group initiates new projects, mine extensions, etc., based on detailed investment plans and a review of management resources. Major projects are subject to external consultants' reports and JORC evaluation. Capital expenditure disciplines and controls are implemented to deliver on-budget performance for construction projects. Widely recognised project management techniques are employed. The Group applied a stage-gate process to ensure the cash generation potential of future growth projects. Management and the Board closely monitor the status of new projects, costs incurred and project issues.
Skilled workforce shortage	The Group experiences intense competition with other companies for the retention and engagement of mining and production staff, including geologists, engineers, production process managers and other mining specialists. The loss of key personnel or a failure to attract, retain and motivate qualified personnel, could have a materially adverse effect on the Group's business, financial state and operational results.	The Group monitors the labour and salary markets and develops motivation systems to attract qualified personnel and retain key employees. One of the responsibilities of the Group's Remuneration Committee is to consider and approve remuneration for senior management.

RISK NAME	RISK DESCRIPTION	MITIGATION
The Group is subject to extensive environmental, health and safety laws and regulations	Group companies are subject to various environmental, health and safety regulations stipulated by the relevant regulatory agencies. The Group's operations require various licences/permissions with regard to the use of industrial explosives, the operation of flammable, explosive and chemically aggressive production facilities and the use of hazardous structures. Stricter regulations could cause the Group to incur additional costs in order to comply with the new 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. Inability to deliver appropriate levels of safety and environmental protection may result in loss of life, workplace injuries, pollution and lead to a stoppage of operations, significant fines and a threat to the Group's licence to operate.	The Group is focused on health and safety issues and environmental protection, both of which are prioritised. Safety and environmental policies are based on the applicable legislation. Changes in legislation are monitored. The Group purchases the necessary equipment to prevent fires, flooding, other accidents and pollution. The Group organises training and assessment programmes for all staff and regularly checks their compliance with HSE rules and regulations. An external provider of rescue services is contracted in accordance with legislation. The Group strives to implement international best practices, conducts regular internal and external environmental audits, and implements remedial actions where required. In 2014, it completed the certification of all major production sites under ISO 14001:2004, and in 2015 successfully completed ISO 14001 recertification audits. At Board level the Group's HSE Committee considers and monitors all key HSE risks.

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 organic projects or through M&A activity. Mine development from exploration to production is a prolonged process. There can be no guarantee that current or prospective exploration will lead to sustainable production in the future.	The Group undertakes exploration projects to sustain and increase the resource base. Comprehensive near-mine exploration plans are developed for all sites. The Group is actively looking for opportunities around its existing operational assets to create competitive advantages through synergies within the Group and with regard to competitors' projects.
Regulatory changes and government	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. 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 in respect of certain Russian government officials, other individuals and certain Russian companies which, together with the decrease in oil prices on the international market, adversely affected the Russian economy. Specifically, there is uncertainty regarding the reliability of supply chain and the availability and cost of capital. The geopolitical situation may have an adverse effect on the Group's market value.	Senior management monitors political developments and new legislation and assesses possible implications for the Group. In addition, the Group has established lines of communication with various governmental authorities in order to contribute to the thinking of such bodies and, when appropriate, to participate in relevant discussions with political and regulatory authorities. In 2014 and 2015, the Group was not directly affected by any sanctions, although the macroeconomic situation in Russia resulted in an increase in the cost of capital for the Group. The Group monitors further developments on an ongoing basis.

Change in residual risk level assessment as compared to the similar risk in 2014:		
Increased	**Decreased**	**No change**

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 2015.

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 80-81 of the Annual Report. The Chairman's Statement and the Operational Review highlight the Company's business developments during 2015 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 2015 appears in the Financial Review on page 14 of the Report. The Group achieved a loss for the year of US$10.0 million (2014: loss of US$24.8 million).

The Directors recommend the payment of a final dividend on the Ordinary shares of GBP 0.025 (2014: GBP 0.020) per share payable on 27 May 2016. 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 31/12/2015	Ordinary shares At 31/12/2014	Available options At 31/12/2015
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, 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 2014 having regard to the size and nature of the Company's activities. The Board is assisted by a number of Committees with delegated authority to review key business risks, in addition to the financial risks applicable to the Group in operating its business. The Board has 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, five of whom are Non-Executives. Eugene Shvidler, Executive Chairman, and John Mann, Head of Communications, are Executive Directors. Three Non-Executive Directors – 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. The Board considers them as independent in character and judgement and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement, in compliance with the UK Corporate Governance Code. Valery Oyf and Olga Pokrovskaya are affiliated with Millhouse LLC which, together with persons connected to 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. Other changes to the Board during the year included the appointment of John Mann in April as an Executive Director, Head of Communications, responsible for IR and PR and the resignation 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. In January 2016, Valery Oyf was appointed a Non-Executive Director having stepped down from CEO on the appointment of Denis Alexandrov as CEO.

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. Eugene Shvidler, Terry Robinson and Colin Belshaw who retire by rotation will offer themselves for re-election at the Annual General Meeting to be held on 25 May 2016. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

The profiles of the Directors are to be found on page 30 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee in 2015 consisted of two Non-Executive Directors and is chaired by Terry Robinson. The other members of the Committee during 2015 were Olga Pokrovskaya and Eugene Tenenbaum who resigned from the Committee in April 2015. Audit Committee members meet with management and the auditors on a regular basis.

The Audit Committee met three times during 2015 to consider the annual and interim financial statements and the internal and external audit programme. In April 2016, the Audit Committee considered and reviewed the 2015 Financial Statements and the Annual Report statements as to the Company's Principal Risks and Uncertainties, the Directors' Report and the Operational and Financial Review.

Management and external auditors are invited to attend Committee 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; details can also be found on the Company's website at www.highlandgold.com. The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies, meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit 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 Audit Committee reviews the annual Internal Audit Plan and Internal Audit's recommendations in response to their audit findings. Subsequently, Internal Audit reports to the Audit Committee on management's delivery of such audit recommendations. Internal Audit also reviews and reports on the measurement and completeness of the Risk Register including the detailed management remedial actions. Reports and action on whistleblowing events to the Audit Committee are also within the remit of Internal Audit.

With regard to the Financial Statements, the Audit Committee's key considerations were in respect of the consistency and appropriateness of the inputs for the Impairment review. These inputs: Life of Mine (LOM), Gold price, annual volumes, cash cost of production and CAPEX, together with the proposed WACC, are the drivers of the separate mine forward financial models and value in use calculation.

A further consideration of the Audit Committee was the Company's decision to include in the Company's UOP/depletion calculation an element of the Measured and Indicated (M&I) resources that the Company expects to be converted to reserves, in addition to the previous practice of using only the Proven and Probable reserves in UOP/depletion calculations. After receiving management's assurances as evidenced by the increased LOM and determining the increased CAPEX to bring M&I resources into the LOM calculations, the Audit Committee was comfortable with the amended UOP/depletion calculations.

The Audit Committee recommended the Interim Half-Year Financial Statements and the 2015 full year audited Financial Statements to the Board for approval and, with some amendments, the Annual Report segments, as detailed above, for Board approval.

Finally, the Audit Committee undertook a self-assessment of its own performance, and that of Internal Audit and an extensive assessment of the external auditors which included input from management's assessment.

Following the consideration of this assessment the Audit Committee recommended to the Board the reappointment of Ernst and Young LLP as the Company's auditors.

REMUNERATION AND NOMINATION COMMITTEE

During 2015, the Committee consisted of three Directors, all of which are non-executive, comprising Duncan Baxter, as Chairman, Valery Oyf and Terry Robinson. Eugene Tenenbaum resigned from the Committee in April 2015. 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 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 re-election of Eugene Shvidler, Terry Robinson and Colin Belshaw respectively as Directors of the Company at the forthcoming AGM. The Committee also discussed and recommended to the Board the appointment of Denis Alexandrov as CEO with effect from January 2016.

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 2015 were Terry Robinson, Colin Belshaw and Sergey Mineev, who resigned in April 2015. 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 Review on page 13.

OTHER COMMITTEES

In addition, the Group management company in Russia, OOO Russdragmet ('RDM'), has established a risk and control platform through regular meetings. The members of the Executive Committee, which meets weekly, include management from RDM's functional departments and the General Directors of the mine sites. The 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 controls 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 31 March 2016, the Company had been notified of the following interests, other than Directors' interests, which amounted to 3% 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, 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 11.00 am on Wednesday 25 May 2016 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is set out on page 83 of the Annual 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 REMUNERATION POLICY

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

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

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

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

Discretionary bonuses, currently paid in cash although they could include a share element, are solely dependent on an overall assessment of the individual's performance, with both financial and non-financial options available.

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

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

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

REPORT ON REMUNERATION

The remuneration paid to the Directors in the financial period to 31 December 2015 was as follows:

	Fees and remuneration		Bonus	
US$	2015	2014	2015	2014
Eugene Shvidler	500,000	500,000	–	–
Duncan Baxter	160,000	160,000	–	–
Olga Pokrovskaya	125,000	125,000	–	–
Terry Robinson	160,000	160,000	–	–
Colin Belshaw	100,000	100,000	–	–
Valery Oyf	1,239,081	1,020,165	–	–
John Mann	80,000	–	–	–
Eugene Tenenbaum*	33,333	100,000	–	–
Alla Baranovskaya*	177,689	626,893	36,496	114,256
Sergey Mineev*	101,554	288,701	3,318	–

* *Eugene Tenenbaum, Alla Baranovskya and Sergey Mineev resigned in April 2015. As Company executives, Ms Baranovskaya and Mr Mineev continued to receive a salary after their resignation from the Board.*

No grants of options under the unapproved share option scheme were made during 2015 and management and employees were incentivised through a bonus scheme, currently of a discretionary nature. There were no options outstanding as of 31 December 2015 (2014: Nil).

The Group has entered into letters of appointment with both the Executive and Non-Executive Directors. The latter are reviewed on an annual basis and none of the letters of appointment have an expiry date or notice period of more than one year. The Executive Directors, other than the Chairman, 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.

Further information on the Remuneration and Nomination Committee can be found on page 26 of this Annual Report.

By Order of the Board
19 April 2016

EUGENE SHVIDLER

EXECUTIVE CHAIRMAN

Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a master's degree in applied mathematics, while also holding an MBA in 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 is a retired banker with over 25 years' experience in international banking, latterly as managing director of Swiss Bank Corporation. Since leaving Swiss Bank in 1998 he has undertaken consultancy projects for international banks and investment management companies. He is a Jersey resident and holds a number of other non-executive directorships. He is a Fellow of the Institute of Chartered Secretaries, the Securities Institute and the Institute of Bankers. He was a member of the Highland Gold Board of Directors from 2002 until early 2008 and rejoined the Board in autumn 2008.

COLIN BELSHAW

INDEPENDENT NON-EXECUTIVE DIRECTOR

Colin Belshaw gained a Dip.CSM (1st Class) in 1979 from the Camborne School of Mines, Cornwall, UK, he is a Fellow of the Institute of Materials, Minerals and Mining (FIMMM), registered as an Incorporated Engineer (I.Eng) with the Engineering Council of the United Kingdom, and holds the Mine Managers Certificate of Ghana. He has held numerous operating and corporate positions, including responsibility for Kinross Gold's Kubaka and Birkachan mining operations in Russia, Vice President Operations of Golden Star Resources in Ghana, and his most recent executive role was as DRC-based COO of Banro Corporation.

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 consulted some of the world's largest natural resources, energy and consumer products corporations before joining Russian listed oil major Sibneft in 2002 as head of international public relations. From 2006, he has served as head of communications for Millhouse LLC, joining Highland in autumn 2014. He joined the Board of Directors in April 2015.

VALERY OYF

NON-EXECUTIVE DIRECTOR

Valery Oyf is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas and worked as Vice President of Sibneft from 1997 through to 2004. From 2004 until June 2008 Mr Oyf served as a senator representing the Omsk region, a Siberian constituency, in Russia's Federation Council, and later as General Director of Millhouse LLC. He was Chief Executive Officer of Highland Gold from 2008 until 2016.

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

SENIOR INDEPENDENT DIRECTOR

CHAIRMAN OF THE AUDIT COMMITTEE, MEMBER OF THE REMCO, NOMINATION AND HSE COMMITTEES

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. He was elected to the Board of OJSC Raspadskaya, a subsidiary of Evraz plc, 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.

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 2015 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 33. 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 2015 and of its net 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
19 April 2016

NOTES:

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

2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

	Notes	2015 US$000	2014 US$000
Revenue	7	276,175	304,230
Cost of sales	8	(199 365)	(228,518)
Gross profit		**76,810**	**75,712**
Administrative expenses	9	(13,127)	(15,464)
Other operating income	10.1	2,882	8,634
Other operating expenses	10.2	(8,170)	(7,248)
Impairment losses	5, 17	(35,982)	(11,401)
Gain on settlement of contingent consideration	4	–	5,622
Operating profit		**22,413**	**55,855**
Foreign exchange loss	11	(4,321)	(9,599)
Finance income	12.1	1,331	3,457
Finance costs	12.2	(5,529)	(4,226)
Profit before income tax		**13,894**	**45,487**
Current income tax expense	13	(15,867)	(20,677)
Adjustments in respect of prior year income tax	13	(1,542)	(249)
Deferred income tax expense	13	(6,504)	(49,404)
Total income tax expense	**13**	**(23,913)**	**(70,330)**
Loss for the year		**(10,019)**	**(24,843)**
Total comprehensive loss for the year		**(10,019)**	**(24,843)**
Attributable to:			
Equity holders of the parent		(10,316)	(24,942)
Non-controlling interests		297	99
Loss per share (US$ per share)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	14	(0.032)	(0.077)
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	14	(0.032)	(0.077)

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 2015 US$000	31 December 2014 US$000
ASSETS			
Non-current assets			
Exploration and evaluation assets	15	309,101	296,739
Mine properties	15	318,068	321,407
Property, plant and equipment	15	320,986	359,466
Intangible assets	16	70,365	87,119
Inventories	20	16,372	6,664
Other non-current assets	18	3,845	3,580
Deferred income tax asset	13	–	82
Total non-current assets		**1,038,737**	**1,075,057**
Current assets			
Inventories	20	67,758	77,337
Trade and other receivables	21	31,188	28,889
Income tax prepaid		3,770	3,711
Prepayments	22	888	2,000
Financial assets	31	21,150	42,957
Cash and cash equivalents	23	3,058	12,946
Other current assets		602	899
Total current assets		**128,414**	**168,739**
Total assets		**1,167,151**	**1,243,796**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	24	585	585
Share premium		718,419	718,419
Assets revaluation reserve	24	832	832
Retained earnings		18,176	47,698
Total equity attributable to equity holders of the parent		**738,012**	**767,534**
Non-controlling interests		1,566	2,570
Total equity		**739,578**	**770,104**
Non-current liabilities			
Interest-bearing loans and borrowings	25	183,000	145,443
Liability under finance lease		1,526	–
Long-term accounts payable	26	223	305
Provisions	27	16,026	15,699
Deferred income tax liability	13	135,457	129,035
Total non-current liabilities		**336,232**	**290,482**
Current liabilities			
Trade and other payables	26	20,201	22,134
Interest-bearing loans and borrowings	25	70,375	157,658
Income tax payable		16	3,418
Liability under finance lease		749	–
Total current liabilities		**91,341**	**183,210**
Total liabilities		**427,573**	**473,692**
Total equity and liabilities		**1,167,151**	**1,243,796**

The financial statements were approved by the Board of Directors on 19 April 2016 and signed on its behalf by: Denis Alexandrov and Alla Baranovskaya.

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 interest US$000	Total equity US$000
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	32	–	–	–	(26,804)	(26,804)	–	(26,804)
At 31 December 2014		**585**	**718,419**	**832**	**47,698**	**767,534**	**2,570**	**770,104**
Total comprehensive (loss)/income for the year		–	–	–	(10,316)	(10,316)	297	(10,019)
Novo share purchase	29	–	–	–	869	869	(1,301)	(432)
Dividends paid to equity holders of the parent	32	–	–	–	(20,075)	(20,075)	–	(20,075)
At 31 December 2015		**585**	**718,419**	**832**	**18,176**	**738,012**	**1,566**	**739,578**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December

	Notes	2015 US$000	2014 US$000
OPERATING ACTIVITIES			
Profit before income tax		**13,894**	**45,487**
Adjustments to reconcile profit before income tax to net cash flows from operating activities:			
Depreciation of mine properties and property, plant and equipment	8	72,583	59,392
Impairment losses related to cash-generating units	5, 17	35,982	11,401
Movement in ore stockpiles obsolescence provision	10.2.1	120	664
Movement in raw materials and consumables obsolescence provision	10.2	521	509
Write-off of mine properties and property, plant and equipment	10.2, 15	1,916	393
Individual impairment of property, plant and equipment	10.2.2	1,698	500
Loss on disposal of property, plant and equipment	10.2	172	781
Bank interest receivable	12.1	(75)	(160)
Bonds fair value movement	12.1, 31	(1,246)	(3,265)
Interest expense on bank loans	12.2	3,297	1,871
Accretion expense on site restoration provision	12.2	2,117	2,355
Gain on change in estimation – site restoration asset	10.1	(2,104)	(7,535)
Gain on settlement of contingent consideration	4	–	(5,622)
Net foreign exchange loss	11	4,321	9,599
Movement in provisions		177	(149)
Loss from disposal of an entity	10.2.3	–	918
Other non-cash expenses/(income)		983	(32)
Working capital adjustments:			
(Increase)/decrease in trade and other receivables and prepayments		(8,295)	7,671
Decrease in inventories		147	950
Increase/(decrease) in trade and other payables		839	(2,241)
Income tax paid		(21,444)	(19,065)
Net cash flows from operating activities		**105,603**	**104,422**
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		98	330
Purchase of property, plant and equipment	5	(42,195)	(65,538)
Capitalised interest paid	5, 15	(12,359)	(10,995)
Increase in stripping activity assets	15	(9,399)	(5,554)
Interest received from deposits		75	159
Interest received from bonds	31	2,534	4,058
Purchase of investments – bonds	31	(3,818)	–
Novo shares purchase	29	(432)	–
Sale of investments – bonds	31	24,337	6,449
Net cash flows used in investing activities		**(41,159)**	**(71,091)**
FINANCING ACTIVITIES			
Proceeds from borrowings	25	673,924	136,560
Repayment of borrowings		(724,472)	(140,896)
Dividends paid to equity holders of the parent	32	(20,075)	(26,804)
Payment under finance lease, including interest		(827)	–
Interest paid		(3,087)	(1,502)
Net cash flows used in financing activities		**(74,537)**	**(32,642)**
Net (decrease)/increase in cash and cash equivalents		(10,093)	689
Effects of exchange rate changes		205	4,319
Cash and cash equivalents at 1 January	23	12,946	7,938
Cash and cash equivalents at 31 December	**23**	**3,058**	**12,946**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Directors on 19 April 2016.

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 16.

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 2015	31 December 2014
Average		
RUR	61.319	39.038
GBP	0.6542	0.607
Closing		
RUR	72.883	56.258
GBP	0.6755	0.644

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 the depleted estimated proven and probable reserves and a portion of resources expected to be converted into 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.

Exploration and evaluation expenditure

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

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

Exploration and evaluation assets contain a mixture of tangible and intangible assets. Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Exploration and evaluation assets are not depreciated. General and administrative and overhead costs directly attributable to the exploration and evaluation activities are included in exploration and evaluation assets' cost. The restoration provision cost does not form part of exploration and evaluation assets.

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

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

Mine development expenditure

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

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

The depreciation on items of properties, plant and equipment used in 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.

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. Mine properties contain a mixture of tangible and intangible 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.

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. These criteria are disclosed in Note 4.

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 31.

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 31.

Impairment

At each reporting date, management assesses whether there is any indication of impairment within the categories of property, plant and equipment (annual impairment test is performed on cash-generating units to which goodwill has been allocated irrespective of whether any indications exist). 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 other than goodwill in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal and if there is an indication that the impairment loss may no longer exist or may have decreased.

Leases

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

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

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; and
- 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 a semi-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. A portion of the provisional invoice is settled within a few days (85% from January to August 2015, 80% since September 2015). The remaining amount (15% from January to August 2015, 20% since September 2015), 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 volume adjustments resulting from the final assay, is settled in four months after the date of the delivery.

Pricing adjustment features that are based on quoted market prices for a date subsequent to the date of shipment or delivery of the commodity represent an embedded derivative financial instrument closely related to the host sales contract and therefore not separated. 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.

Any adjustments to pricing resulting from the embedded derivative as well as volume adjustments are recognised in revenue from concentrate sales and accounts receivable when incurred, based on quoted market prices.

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.

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.

New standards, interpretations and amendments adopted by the Group

In the preparation of consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2015.

The Group has applied the improvements effective for annual periods beginning on or after 1 January 2015 for the first time in these consolidated financial statements. These amendments issued in course of Annual Improvements to IFRSs 2010-2012 and Annual Improvements to IFRSs 2011-2013 mostly related to IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement, IFRS 2 Share-based Payment, IFRS 8 Operating Segments and did not have an impact on the financial position or performance of the Group.

Revised standard with effect on disclosures – IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has applied the aggregation criteria in IFRS 8.12. Please refer to Note 5 for details. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 5 in these financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

New standards and interpretations not yet adopted

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective. The list below includes only standards and interpretations that could have an impact on the consolidated financial statements of the Group:

Standards not yet effective for the financial statements for the year ended 31 December 2015	Effective for annual periods beginning on or after
Amendments to IAS 1 – Disclosure Initiative	1 January 2016
Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 7 – Disclosure Initiative	1 January 2017*
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017*
IFRS 9 Financial Instruments	1 January 2018*
IFRS 15 Revenue from Contracts with Customers	1 January 2018*
IFRS 16 Leases	1 January 2019*

** Subject to EU endorsement.*

IFRS 9 Financial Instruments

The application of IFRS 9 may change the measurement and presentation of many financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The new hedging model may lead to more economic hedging strategies meeting the requirements for hedge accounting. The Group will monitor the discussions of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG).

The Group is currently estimating the potential effect of IFRS 9 on its financial statements for the reporting periods on and after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is more prescriptive than the current IFRS requirements for revenue recognition and provides more application guidance. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The disclosure requirements are also more extensive. This standard is applied using either a full retrospective approach, with some limited relief provided, or a modified retrospective approach.

The Group is currently estimating the potential effect of IFRS 15 on its financial statements for the reporting periods on and after 1 January 2018.

IFRS 16 Leases

Under the new standard, a lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To be a lease, a contract must convey the right to control the use of an identified asset, which could be a physically distinct portion of an asset such as a floor of a building.

A contract conveys the right to control the use of an identified asset if, throughout the period of use, the customer has the right to:

- obtain substantially all of the economic benefits from the use of the identified asset; and
- direct the use of the identified asset (i.e., direct how and for what purpose the asset is used).

The lessor accounting is substantially unchanged. The lessees will recognise most leases on their balance sheets. The new standard permits lessees to use either a full retrospective or a modified retrospective approach on transition for leases existing at the date of transition, with options to use certain transition reliefs.

The Group is currently estimating the potential effect of IFRS 16 on its financial statements for the reporting periods on and after 1 January 2017.

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 reasonably possible scenarios, the Group also concluded that no covenants are breached in any 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.

Gain on settlement of contingent consideration

In 2013, the Group acquired a 100% share in ZAO Bazovye Metally (Kekura). Part of contingent consideration recognised in this business combination was payable upon the completion of various contractual terms. In July 2014 an agreement was signed stating that several contractual terms had not been met.

Therefore, US$5.6 million of the contingent consideration would no longer be payable and 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 2016.

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 2015 of US$21.2 million (2014: US$43.0 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. US Dollar is the functional currency of all entities both in 2014 and 2015.

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 cash-generating unit (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 17.

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.

Please refer to Note 17 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 17 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 28 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 are 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 13.

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 2018 at MNV, in 2023 at BG, in 2029 at Novo, in 2030 at Klen and in 2029 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 and a portion of resources expected to be converted into reserves (as indicated in the detailed life-of-mine plans) have been used in the units of production calculation for depreciation since October 2015, as management believes they represent a more accurate approximation of the reserves that will ultimately be recovered (proven and probable reserves were previously used in the units of production calculation for depreciation). Had no change in estimate occurred, depreciation provided during 2015 would have been US$2.4 million higher. The amount of the effect in future periods is not disclosed because estimating it is impracticable.

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

Mine development expenditure

Mine development costs are, upon commencement of production, depreciated using a unit of production method based on the estimated proven and probable reserves and a portion of resources expected to be converted into reserves to which they relate or are written off if the property is abandoned.

Mine properties

Mine assets and mineral rights are amortised using the units-of-production method based on estimated proven and probable reserves and a portion of resources expected to be converted into reserves.

Note 17 contains information on the life of mines that is in line with the present assessment of the economically recoverable reserves.

Please refer to the Resources and Reserves section for the detailed information on the mineral resources and reserves.

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

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 licenses in the development and exploration stage: Kekura, Klen, Taseevskoye, Unkurtash, Lubov and related service entities: Zabaykalzolotoproyekt (ZZP) and BSC.

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 loss after tax for the year.

The finance costs, finance income, income taxes, foreign exchange 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 2015 the gold and silver revenue reported in the gold production segment was received from sales to Gazprombank (US$178.1 million) in the territory of the Russian Federation.

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

In 2015 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US$97.6 million was received from sales to Kazzinc (2014: US$94.5 million) in the territory of the Republic of Kazakhstan.

Other third-party revenues in both 2015 and 2014 were received in the territory of the Russian Federation.

Inter-segment revenues mostly represent management services.

Year ended 31 December 2015	Gold production segment	Polymetallic concentrate production segment	Development & exploration	Other	Eliminations	Total
	US$000	US$000	US$000	US$000	US$000	US$000
Revenue						
Gold revenue	176,625	–	–	–	–	176,625
Silver revenue	1,519	–	–	–	–	1,519
Concentrate revenue	–	97,602	–	–	–	97,602
Other third-party	221	186	22	–	–	429
Inter-segment	76	–	5	11,639	(11,720)	–
Total revenue	**178,441**	**97,788**	**27**	**11,639**	**(11,720)**	**276,175**
Cost of sales	145,201	53,202	873	89	–	199,365
EBITDA	77,285	62,816	(4,558)	(2,226)	–	133,317
Other segment information						
Depreciation	(51,276)	(21,185)	(37)	(85)	–	(72,583)
Movement in ore stockpiles obsolescence provision	(120)	–	–	–	–	(120)
Movement in raw materials and consumables obsolescence provision	(518)	(3)	–	–	–	(521)
Impairment losses related to cash-generating units	–	–	(35,982)	–	–	(35,982)
Individual impairment of property, plant and equipment	–	–	(1,698)	–	–	(1,698)
Finance income						1,331
Finance costs						(5,529)
Foreign exchange loss						(4,321)
Profit before income tax						**13,894**
Income tax						(23,913)
Loss for the year						**(10,019)**
Segment assets at 31 December 2015						
Non-current assets						
Capital expenditure*	210,489	170,688	566,426	552	–	948,155
Goodwill	22,253	5,134	42,978	–	–	70,365
Other non-current assets	18,959	387	544	327	–	20,217
Current assets**	83,545	26,101	4,098	28,656	(13,986)	128,414
Total assets						**1,167,151**

Capital expenditure – additions in 2015*, including:**	**31,907**	**6,801**	**28,309**	**86**	**–**	**67,103**
Stripping activity assets	9,399	–	–	–	–	9,399
Capitalised bank interest	–	–	12,359	–	–	12,359
Unpaid/(settled) accounts payable	733	1,924	557	(64)	–	3,150
Cash capital expenditure	21,775	4,877	15,393	150	–	42,195

* *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$3.1 million, investments of US$21.2 million, inventories of US$67.8 million, trade and other receivables of US$31.2 million and other assets of US$5.1 million. Eliminations relate to inter-company accounts receivable.*

*** *Capital expenditure – additions in 2015 – includes additions to property, plant and equipment of US$54.5 million (Note 15), capitalised interest of US$12.4 million (Note 15) and prepayments made for property, plant and equipment of US$0.2 million. Non-current assets for 2015 are located in the Russian Federation (US$995.7 million) and in the Kyrgyz Republic (US$43.0 million). Current assets for 2015 are located in the Russian Federation.*

Year ended 31 December 2014	Gold production segment	Polymetallic concentrate production segment	Development & exploration	Other	Eliminations	Total
	US$000	US$000	US$000	US$000	US$000	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 related to cash-generating units	–	–	(11,401)	–	–	(11,401)
Individual 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 inter-company accounts receivable.*

*** *Capital expenditure – additions in 2014 – includes additions to property, plant and equipment of US$67.7 million (Note 15) and capitalised interest of US$11.0 million (Note 15) 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.*

6. 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	
	2015 US$000	2014 US$000	2015 US$000	2014 US$000	2015 US$000	2014 US$000
Audit of the Group financial statements	575	673	–	–	575	673
Local statutory audits for subsidiaries	18	19	75	94	93	113
	593	**692**	**75**	**94**	**668**	**786**

7. REVENUE

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

	2015 US$000	2014 US$000
Gold sales	176,625	207,326
Concentrate sales*	97,602	94,521
Silver sales	1,519	1,571
Other sales	429	812
Total revenue	**276,175**	**304,230**

* *Concentrate sales include the positive fair value movement of an embedded derivative in the amount of US$1.3 million (2014: a negative fair value movement of US$0.4 million).*

8. COST OF SALES

	2015 US$000	2014 US$000
Operating costs	35,022	42,990
Movement in ore stockpiles and gold in progress	(4,159)	14,808
Movement in finished goods	813	(1,543)
Capitalised to stripping activity assets	(9,399)	(6,084)
Employee benefits expense	40,448	52,101
Depreciation, depletion and amortisation	72,583	59,392
Raw materials and consumables used	48,127	47,403
Taxes other than income tax*	15,930	19,451
Total cost of sales	**199,365**	**228,518**

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

9. ADMINISTRATIVE EXPENSES

	2015 US$000	2014 US$000
Management company administrative expenses	8,716	11,203
Minimum lease payments recognised as an operating lease expense	819	1,131
Salaries and wages of parent company	1,158	1,145
Auditors' remuneration (Note 6)	668	786
Legal and professional fees	842	726
Bank charges	374	265
Travel expenses of parent company	359	192
Allowance for doubtful receivables	177	–
Other administrative expenses	14	16
Total administrative expenses	**13,127**	**15,464**

10. OTHER OPERATING INCOME AND EXPENSES

10.1 Other operating income

	2015 US$000	2014 US$000
Other operating income	762	831
Reversal of allowance for doubtful debts	–	146
Accounts payable write-off	16	122
Change in estimation – site restoration asset (Note 15)	2,104	7,535
Total other operating income	**2,882**	**8,634**

10.2 Other operating expenses

		2015 US$000	2014 US$000
Movement in ore stockpiles obsolescence provision (Note 20)	10.2.1	120	664
Mine properties and property, plant and equipment write-off		1,916	393
Individual impairment of property, plant and equipment	10.2.2	1,698	500
Donations to local communities		832	1,239
Loss on disposal of property, plant and equipment		172	781
Loss on disposal of inventory		397	–
Movement in raw materials and consumables obsolescence provision		521	509
Loss on disposal of an entity	10.2.3	–	918
Other taxes relating to prior periods		–	617
Other operating expenses		2,514	1,627
Total other operating expenses		**8,170**	**7,248**

10.2.1 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$0.1 million was written down in 2015 (2014: US$0.7 million).

10.2.2 Individual impairment of property, plant and equipment

The recoverable amount of several property, plant and equipment items determined as at 31 December 2015 was lower than their carrying amount because the Group does not expect to derive future cash flows from the assets. The assets were considered impaired and were written down to their recoverable amount.

10.2.3 Disposal of an entity

In 2013 the Group sold Trade House Mnogovershinnoye (TH MNV) to a non-related party. 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. FOREIGN EXCHANGE GAINS AND LOSSES

The total amount of foreign exchange loss for the year ended 31 December 2015 was US$4.3 million (2014: loss of US$9.6 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.

12. FINANCE INCOME AND COSTS

Finance income

	2015 US$000	2014 US$000
Bonds fair value movement (Note 31)	1,246	3,265
Bank interest	75	160
Other finance income	10	32
Total finance income	**1,331**	**3,457**

Finance costs

	2015 US$000	2014 US$000
Accretion expense on site restoration provision (Note 27)	2,117	2,355
Interest expense on bank loans	3,297	1,871
Interest expense on finance lease	115	–
Total finance costs	**5,529**	**4,226**

13. INCOME TAX

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	2015 US$000	2014 US$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	15,867	20,677
Adjustments in respect of prior year tax	804	249
Adjustments in respect of prior year withholding tax	738	–
	17,409	**20,926**
Deferred income tax:		
Relating to origination of temporary differences	6,504	49,404
Income tax expense reported in the statement of comprehensive income	**23,913**	**70,330**

The majority of the Group entities are Russian tax residents. 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 2015 and 2014 is as follows:

	2015 US$000	2014 US$000
Accounting profit before income tax	**13,894**	**45,487**
At Russian statutory income tax rate of 20%	2,779	9,097
Non-deductible expenses	2,748	2,143
Effect of translation of tax base denominated in foreign currency	8,758	52,204
Adjustments in respect of prior year tax	804	249
Adjustments in respect of prior year withholding tax	738	–
Lower tax rates on overseas losses	3,218	2,293
Unrecognised losses	1,305	4,874
Loss/(gain) from other unrecognised temporary differences	212	(530)
Losses arising from goodwill impairment	3,351	–
Income tax expense at the effective tax rate of 172% (2014: 155%)	**23,913**	**70,330**
Income tax expense reported in the consolidated statement of comprehensive income	**23,913**	**70,330**

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	2015 US$000	2014 US$000	2015 US$000	2014 US$000
Deferred income tax liability				
Property, plant and equipment	(146,570)	(142,271)	4,299	36,639
Inventory	(9,384)	(9,880)	(496)	6,641
Accounts receivable and other debtors	(710)	(803)	(93)	644
Deferred financing costs	(25)	(58)	(33)	(34)
	(156,689)	**(153,012)**	**3,677**	**43,890**
Deferred income tax assets				
Accounts receivable and other debtors	(60)	664	724	376
Finance lease obligations	212	–	(212)	–
Trade accounts and notes payable	772	1,093	321	(251)
Tax losses	20,308	22,302	1,994	5,389
	21,232	**24,059**	**2,827**	**5,514**
Net deferred income tax liabilities	**(135,457)**	**(128,953)**	**6,504**	**49,404**

Entity-specific deferred tax positions are presented below:

	2015 US$000	2014 US$000
Deferred income tax assets	–	82
Deferred income tax liabilities	(135,457)	(129,035)
Deferred tax liabilities net	**(135,457)**	**(128,953)**

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 2015 is US$15.3 million (31 December 2014: US$14.9 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 2015 is US$15.9 million (31 December 2014: US$15.3 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 2015 is US$32.5 million (31 December 2014: US$32.2 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 ten years of accruing.

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$298.2 million (2014: US$321.8 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences should be between US$0 and US$14.9 million (2014: US$0 and US$16.1 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2015 and 2014 years of assessment will be subject to the Jersey tax at the standard corporate income tax rate of 0%.

14. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued, for no consideration, on the exercise of share options into ordinary shares. There is no effect of dilution in 2015 (2014: none) as the remaining share options expired in 2014.

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

	2015 US$000	2014 US$000
Net loss attributable to ordinary equity holders of the parent	(10,316)	(24,942)
	Thousands	Thousands
Weighted average number of ordinary shares	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.

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

Reconciliation of fixed assets on a period-by-period basis

for the period ending 31 December 2015

	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 31 December 2014	**296,739**	**438,385**	**36,032**	**202,881**	**204,545**	**77,835**	**1,256,417**
Additions	9,526	6,892	9,399	–	4,004	24,638	54,459
Transfers	(833)	14,746	–	2,850	18,686	(36,897)	(1,448)
Write-off**	–	(140)	(28,206)	(406)	(8,427)	(709)	(37,888)
Disposals	–	(72)	–	(48)	(371)	(72)	(563)
Capitalised depreciation	5,326	732	–	–	–	2,548	8,606
Capitalised interest***	12,359	–	–	–	–	–	12,359
Change in estimation – site restoration asset****	–	160	–	–	–	–	160
At 31 December 2015	**323,117**	**460,703**	**17,225**	**205,277**	**218,437**	**67,343**	**1,292,102**
Depreciation and impairment							
At 31 December 2014	**–**	**124,372**	**28,638**	**43,209**	**82,013**	**573**	**278,805**
Provided during the year	–	25,068	8,300	14,891	24,324	–	72,583
Transfers	–	1,971	–	(441)	(2,978)	–	(1,448)
Write-off**	–	(117)	(28,206)	(112)	(7,037)	(500)	(35,972)
Impairment of property, plant and equipment	–	–	–	1,565	4	129	1,698
Disposals	–	(70)	–	(7)	(216)	–	(293)
Capitalised depreciation	–	76	–	3,953	4,577	–	8,606
Change in estimation – site restoration asset****	–	(172)	–	–	–	–	(172)
Kekura Impairment	14,016	–	–	2,572	1,271	1,369	19,228
Reclass to inventory	–	–	–	305	607	–	912
At 31 December 2015	**14,016**	**151,128**	**8,732**	**65,935**	**102,565**	**1,571**	**343,947**
Net book value:							
At 31 December 2014	**296,739**	**314,013**	**7,394**	**159,672**	**122,532**	**77,262**	**977,612**
At 31 December 2015	**309,101**	**309,575**	**8,493**	**139,342**	**115,872**	**65,772**	**948,155**

* *Net book value of plant and equipment in the amount of US$2.5 million at 31 December 2015 relates to assets under finance lease at MNV and Novo: cost of US$3.0 million less accumulated depreciation of US$0.5 million.*

** *Write-off for 2015 in the amount of US$1.9 million relates to retirement of old inefficient equipment.*

*** *Capitalised interest for 2015 includes US$12.4 million of borrowing costs capitalised at Kekura at interest rates between 4.0% and 7.0%.*

**** *During 2015 there was a reduction in the rehabilitation estimate (Note 27) which exceeded the corresponding net book value in fixed assets by US$2.1 million. This excess was recognised in other operating income.*

No plant and equipment has been pledged as security for bank loans in 2015.

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 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 31 December 2013	**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 31 December 2013	**–**	**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 31 December 2013	**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 27) 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.

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:

	2015 US$000	2014 US$000
Operating expenses	(1,113)	(328)
Net cash from operating activities	–	–
Net cash used in investing activities	15,107	19,738

16. INTANGIBLE ASSETS

	Goodwill US$000
Cost	
At 31 December 2013	**97,324**
Additions	–
At 31 December 2014	**97,324**
Additions	–
At 31 December 2015	**97,324**
Impairment	
At 31 December 2013	**–**
Provided during the year	10,205
At 31 December 2014	**10,205**
Provided during the year	16,754
At 31 December 2015	**26,959**
Net book value:	
At 31 December 2014	**87,119**
At 31 December 2015	**70,365**

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 2015 intangible assets represented goodwill arising from the Barrick transaction (US$65.2 million) and from acquisition of Novo (US$5.1 million). Goodwill from acquisition of Kekura in the amount of US$16.8 million was impaired in full in 2015. 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:

	2015 US$000	2014 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 (Kekura)	–	16,754
Balance at 31 December	**70,365**	**87,119**

17. 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 2015 and 2014 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 2018;
- BG – 2023;
- Novo – 2029;
- Klen – 2030;
- Kekura – 2029;
- Taseevskoye – 2029;
- Unkurtash – 2036; and
- Lubov – 2027.

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

- Recoverable reserves and resources;
- Production volumes;
- Real discount rates;
- Metal prices;
- Capital expenditure; and
- Operating costs.

Recoverable reserves and resources are based on the proven and probable reserves and a portion of resources expected to be converted into reserves in existence at the end of the year.

Estimated production volumes 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 2015 and 2014.

	2015	2014
Post-tax discount rate for cash flows in the operating gold mining company (MNV), %	7.54	9.35
Post-tax discount rate for cash flows in the operating gold mining company (BG), %	8.54	10.35
Post-tax discount rate for cash flows in the polymetallic mining company (Novo), %	7.54	10.35
Post-tax discount rate for cash flows in the gold mining company being at development stage (Klen), %	9.54	11.35
Post-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye), %	9.54	11.35
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Kekura), %	9.54	11.35
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Unkurtash)*, %	9.54	11.35
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Lubov), %	9.54	11.35
Gold price, US$ per ounce in the future year	1,050	1,200
Gold price, US$ per ounce in the year after the next	1,150	1,200
Silver price, US$ per ounce in the future periods	15	16
Lead price, US$ per tonne in the future periods	1,700	2,200
Zinc price, US$ per tonne in the future periods	1,700	2,200

** 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:

	2015 US$000	2014 US$000
Goodwill	16,754	10,205
Exploration and evaluation assets	14,016	–
Property, plant and equipment	5,212	–
Mine properties	–	1,196
Total impairment losses	**35,982**	**11,401**

An impairment loss was recognised in 2015 in relation to the Kekura project. The triggers for the impairment loss recognition were primarily the effect of lower gold price assumption and changes to the mine plan which resulted in postponing the development activities at Kekura. 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 exploration and evaluation assets exceeded their recoverable amounts. The carrying amount of goodwill allocated to Kekura has been reduced to Nil via the recognition of an impairment loss of US$16.8 million during the year ended 31 December 2015. US$14.0 million was recognised as an impairment loss in respect of exploration and evaluation assets at Kekura and US$5.2 million was recognised as an impairment loss in respect of property, plant and equipment at Kekura.

Any rise in the post-tax discount rate, any decrease in gold prices below US$1,150 per ounce or any increase in operating or capital costs at Kekura would result in a further impairment of mine properties and equipment.

An impairment loss was recognised in 2014 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 was 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.

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 31 for fair value disclosures in respect of assets carried at fair value.

18. OTHER NON-CURRENT ASSETS

	2015 US$000	2014 US$000
Non-current prepayments*	3,517	3,177
Other non-current assets	328	403
Total other non-current assets	**3,845**	**3,580**

* *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.*

19. SHARE-BASED PAYMENT PLANS

Employee share option plan

Options for 25,000 shares were forfeited in 2014 because of the retirement of certain participants. Options for 450,000 shares expired in 2014. Currently there are no participants of the scheme.

20. INVENTORIES

Non-current*

	2015 US$000	2014 US$000
Ore stockpiles	21,101	11,273
	21,101	**11,273**
Ore stockpile obsolescence provision	(4,729)	(4,609)
Total inventories	**16,372**	**6,664**

* *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.*

Stockpiled low-grade ore at BG is tested for impairment semi-annually. Movement in ore stockpile obsolescence provision amounted to US$0.1 million in 2015 (2014: US$0.7 million).

Current

	2015 US$000	2014 US$000
Raw materials and consumables	66,195	68,771
Ore stockpiles	6,661	12,821
Gold in progress	5,195	4,704
Finished goods	896	1,709
	78,947	**88,005**
Raw materials and consumables obsolescence provision	(11,189)	(10,668)
Total inventories	**67,758**	**77,337**

Movement in raw materials and consumables obsolescence provision amounted to US$0.5 million in 2015 (2014: US$0.5 million). No inventory has been pledged as security.

21. TRADE AND OTHER RECEIVABLES

	2015 US$000	2014 US$000
VAT receivable	15,563	18,548
Other taxes receivable	454	94
Related party receivables (Note 29)	35	104
Trade receivables*	13,480	7,895
Other receivables	1,656	2,248
	31,188	**28,889**

* *As at 31 December 2015, a positive price and volume adjustment was booked to trade receivables in the amount of US$1.5 million (2014: a negative adjustment in the amount of US$2.4 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:

	2015 US$000	2014 US$000
At 1 January	45	242
Utilisation	(25)	(197)
At 31 December	**20**	**45**

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.

22. PREPAYMENTS

	2015 US$000	2014 US$000
Prepayments	888	2,000
	888	**2,000**

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

23. CASH AND CASH EQUIVALENTS

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

	2015 US$000	2014 US$000
Cash in hand and at bank	3,058	12,759
Short-term deposits	–	187
	3,058	**12,946**

24. ISSUED CAPITAL AND RESERVES

a) Issued share capital

Authorised	2015 Shares	2014 Shares
Ordinary shares of £0.001 each	750,000,000	750,000,000

Ordinary shares issued and fully paid

	Shares	Amount US$000
At 31 December 2013	325,222,098	585
Ordinary shares issued	–	–
At 31 December 2014	325,222,098	585
Ordinary shares issued	–	–
At 31 December 2015	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.

25. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate %	Maturity	2015 US$000	2014 US$000
Current				
Gazprombank loan (1)	4.0, 7.0 from 18 March 2015	June 2015	–	88,714
Gazprombank loan (2)	5.0, 7.0 from 18 March 2015	August 2015	–	19,111
Gazprombank loan (3)	4.8	March 2017	33 000	–
Sberbank loan (4)	4.2	September 2016	37,375	49,833
			70,375	**157,658**
Non-current				
Gazprombank loan (1)	4.0, 7.0 from 18 March 2015	June 2015	–	22,179
Gazprombank loan (2)	5.0, 7.0 from 18 March 2015	August 2015	–	7,963
Gazprombank loan (3)	4.8	March 2017	22,500	77,926
Sberbank loan (4)	4.2	September 2016	–	37,375
Gazprombank loan (5)	6.5	December 2018	80,000	–
UniCredit loan (6)	5.4	December 2018	50,000	–
Alfa-bank loan (7)	5.9	December 2018	30,500	–
			183,000	**145,443**
Total			**253,375**	**303,101**

(1) In March 2015 the interest rate was changed to 7.0%. The loan was repaid in June 2015.

(2) In March 2015 the interest rate was changed to 7.0%. The loan was repaid in August 2015.

(3) 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. 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 drawn down payable balance obtained under the agreement at 31 December 2015 is US$55.5 million (2014: US$77.9 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.

(4) 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 (at a 4.2% effective interest rate) with the draw period set till 2 September 2016. The loan is repayable in instalments between December 2014 and September 2016. The drawn down payable balance under the agreement at 31 December 2015 is US$37.3 million (2014: US$87.2 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.

(5) In November 2015 the Group secured a revolving facility with Gazprombank at a 6.5% interest rate with the draw period set till 18 February 2016. The interest rate is set for every instalment separately. The loan is repayable in instalments between April 2017 and December 2018. The loan is secured by future gold sales at market prices at the time of sale. The drawn down payable balance obtained under the agreement at 31 December 2015 is US$80.0 million (2014: 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.

(6) In December 2015 the Group raised financing with UniCredit bank at a LIBOR USD 1M + 5.0% interest rate with the draw period set till 17 January 2016. The loan is repayable in instalments between July 2017 and December 2018. The drawn down payable balance obtained under the agreement at 31 December 2015 is US$50.0 million (2014: Nil). The outstanding bank debt is subject to the following covenant: the ratio of net debt to EBITDA should be equal to or lower than 3.5.

(7) In April 2015 the Group raised financing with Alfa-bank with the draw period set till 31 December 2018. The interest rate is set for every instalment separately. The loan is repayable in December 2018. The drawn down payable balance obtained under the agreement at 31 December 2015 is US$30.5 million (2014: 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.

The total outstanding bank debt of the Group at 31 December 2015 is US$253.4 million (2014: US$303.1 million). There were no covenant breaches as at 31 December 2015.

26. TRADE AND OTHER PAYABLES

Non-current

	2015 US$000	2014 US$000
Non-current portion of pension liabilities	223	305
	223	**305**

Current

	2015 US$000	2014 US$000
Contingent consideration liability	400	400
Trade payables	10,366	10,220
Salaries payable	5,814	6,735
Other taxes payable	3,166	4,367
Other current payables	455	412
	20,201	**22,134**

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 regarding contingent consideration, refer to Note 4.

27. PROVISIONS

	Site restoration provision US$000	Legal provision US$000	Total US$000
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**
Accretion	2,117	–	2,117
Utilisation of provision	(18)	–	(18)
Effect of changes in the discount and inflation rates	1,613	–	1,613
Effect of changes in estimated costs	2,599	–	2,599
Effect of exchange rate changes	(5,984)	–	(5,984)
At 31 December 2015	**16,026**	**–**	**16,026**
Current 2014	–	–	–
Non-current 2014	15,699	–	15,699
	15,699	**–**	**15,699**
Current 2015	–	–	–
Non-current 2015	16,026	–	16,026
	16,026	**–**	**16,026**

Site restoration provision

In 2015 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 2018), site restoration activities expected to be carried out in 2018 (removal of waste, restoration of mine sites), current prices for similar activities and risk-free Russian Rouble (RUR)-denominated government bonds discount rate of 10.2% (2014: RUR-denominated government bonds rate of 13.4% for 2016 and 15.4% for 2017).

A risk-free RUR-denominated government bonds discount rate of 11.5% (2014: RUR-denominated government bonds rate of 14.9%) has been used to calculate the site restoration liability at Novo assuming its closure in 2029.

A risk-free RUR-denominated government bonds discount rate of 9.7% (2014: RUR-denominated government bonds rate of 14.4%) has been used to calculate the site restoration liability at BG assuming its closure in 2023.

A risk-free RUR-denominated government bonds discount rate of 11.9% (2014: RUR-denominated government bonds rate of 13.3%) has been used to calculate the site restoration liability at Klen assuming site closure in 2030.

A risk-free RUR-denominated government bonds discount rate of 9.6% (2014: RUR-denominated government bonds rate of 13.3%) has been used to calculate the site restoration liability at Kekura assuming site closure in 2029.

The decrease in site restoration liability in the amount of US$6.0 million was due to devaluation of RUR against the US Dollar (USD) in 2015 (2014: decrease of US$17.9 million).

The total change in estimation of site restoration liability amounts to US$1.8 million in 2015 (2014: US$21.0 million).

Legal provision

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

28. 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 2015 was US$0.8 million (2014: US$1.1 million).

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

	2015 US$000	2014 US$000
Within one year	935	815
After one year but not more than five years	1,209	2,144
	2,144	**2,959**

Capital commitments

At 31 December 2015 the Group had commitments of US$5.8 million (2014: US$9.8 million) principally relating to development assets and US$1.9 million (2014: US$1.6 million) for the acquisition of new machinery.

Finance lease and hire purchase commitments

The Group has finance leases contracts for various items of plant and equipment at MNV and Novo at interest rates between 7.9% and 9.9%. Future minimum lease payments under finance lease and present value of the net minimum lease payments are presented below:

	Minimum payments		Present value of payments	
	2015 US$000	2014 US$000	2015 US$000	2014 US$000
Within one year	917	–	845	–
After one year but not more than five years	1,735	–	1,407	–
Total minimum lease payments	**2,652**	**–**	**2,252**	**–**
Less amounts representing finance charges	(400)	–	–	–
Present value of minimum lease payments	**2,252**	**–**	**2,252**	**–**

Contingent Liabilities

Management has identified possible tax claims within the various jurisdictions in which the Group operates totalling US$2.3 million as at 31 December 2015 (at 31 December 2014: US$3.1 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.

29. 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	Effective 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	98.85*
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
OOO RDM-Resources – till 11 November 2014	Russia	100

* *Direct shareholding in OJSC Novo-Shironkinsky Rudnik is 97.9%. In 2015 OJSC Novo-Shirokinsky Rudnik acquired treasury stock equal to 0.95% of outstanding shares for cash consideration of US$0.4 million, which resulted in a decrease in non-controlling interest of US$1.3 million. Effective control is therefore equivalent to a 98.85% shareholding in the enterprise. 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 2015.

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 16.28% of Highland Gold at 31 December 2015.

Terms and conditions of transactions with related parties

There were no related party transactions in 2015. The sales to and purchases from related parties are generally made at normal market prices and arm's length terms. There are no outstanding balances at 31 December 2015 (2014: Nil). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2015, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2014: 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

	2015 US$000	2014 US$000
Short-term employee benefits	5,537	5,131
Total compensation paid to key management personnel	**5,537**	**5,131**

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.

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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Gold price risk

In year 2015 as well as in prior years, the Group continued its no hedge policy in relation to the gold price.

Embedded derivative

Novo as a concentrate producer and seller 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. A portion of the provisional invoice is settled within a few days (85% from January to August 2015, 80% since September 2015). The remaining amount (15% from January to August 2015, 20% since September 2015), 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 volume adjustments resulting from the final assay, is settled in four months after the date of the delivery.

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

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 Euro (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
2014	17%	(447)	6%	2,714
	-17%	447	-6%	(2,714)
2015	10%	758	5%	1,106
	-10%	(758)	-5%	(1,106)

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 reputable financial institutions.

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 25 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 2014	On demand US$000	<1 year US$000	1-2years 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

Year ended 31 December 2015	On demand US$000	<1 year US$000	1-2years US$000	2-5 years US$000	>5 years US$000	Total US$000
Interest-bearing loans and borrowings	–	112,139	94,444	66,608	–	273,191
Trade and other payables	–	16,327	–	–	–	16,327
Liability under finance lease	–	917	852	883	–	2,652
Contingent consideration liability	–	400	–	–	–	400
	–	129,783	95,296	67,491	–	292,570

Interest-bearing loans and borrowings for the year ended 31 December 2015 with maturity of less than one year include revolving facilities secured with Gazprombank and Alfa-bank: the amount of US$29.5 million outstanding at 31 December 2015 has been presented as non-current liabilities in the consolidated statement of financial position. Refer to Note 25 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 25. In order to ensure an appropriate return for shareholders' capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board where applicable.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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 mostly at fixed rates. The Group's treasury function performs analysis of current interest rates and in case of changes in market fixed or floating interest rates management may consider the refinancing of a particular debt on more favourable terms. As at 31 December 2015 the Group has outstanding bank debt in the amount of US$253.4 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, %	2015 US$000	2014 US$000
Bonds	5%	1,084	2,240
Bonds	-5%	(1,084)	(2,240)

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, %	2015 US$000	2014 US$000
Lead	5%	133	91
	-5%	(133)	(91)
Zinc	5%	25	35
	-5%	(25)	(35)
Gold	5%	304	253
	-5%	(304)	(253)
Silver	5%	124	85
	-5%	(124)	(85)

31. 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	
	2015 US$000	2014 US$000	2015 US$000	2014 US$000
Financial assets				
Cash and cash equivalents	3,058	12,946	3,058	12,946
Financial instruments at fair value through profit or loss (coupon bonds)	21,150	42,957	21,150	42,957
Trade receivables (including embedded derivative)	13,480	7,895	13,480	7,895
Other receivables	1,691	2,352	1,691	2,352
Financial liabilities				
Interest-bearing loans and borrowings	253,375	303,101	253,375	303,101
Trade and other payables	16,635	17,367	16,635	17,367
Liability under finance lease	2,275	–	2,275	–
Contingent consideration	400	400	400	400

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, interest-bearing loans and borrowings and other current liabilities approximate their fair value.
- The fair value of the derivative is based on quoted market prices.

Coupon bonds

During 2015 the Group received US$24.3 million as a result of selling some bonds (2014: US$6.5 million) and US$2.5 million of coupon interest (2014: US$4.1 million).

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

The table below contains bonds fair value movement.

	2015 US$000	2014 US$000
At 1 January	**42,957**	**50,199**
Fair value gain	14	2,013
Foreign exchange loss	(1,271)	(2,512)
Coupon interest income accrued	2,503	3,764
Bonds fair value movement	1,246	3,265
Coupon interest income received	(2,534)	(4,058)
Bonds sold	(24,337)	(6,449)
Bonds purchased	3,818	–
At 31 December	**21,150**	**42,957**

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

	31 Dec 2015 US$000	Level 1 US$000	Level 2 US$000
Coupon bonds	21,150	21,150	–
Trade receivables (embedded derivative)	1.261	–	1.261

Liabilities measured at amortised cost	31 Dec 2014 US$000	Level 3 US$000
Interest-bearing loans and borrowings	303,101	303,101

	31 Dec 2015 US$000	Level 3 US$000
Interest-bearing loans and borrowings	253,375	253,375

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

32. DIVIDENDS

The Group paid an interim dividend of GBP0.020 per share (2014: an interim dividend of GBP0.025 per share) which resulted in an aggregate interim dividend payment of US$10.0 million (2014: US$13.1 million). The interim dividend was paid on 12 October 2015.

The final dividend for the year ending 31 December 2014 in the amount of US$10.1 million was paid on 21 May 2015.

The Board has recommended a final dividend of GBP0.020 per share which, taking into account the interim dividend paid in October 2015, gives a total dividend of GBP0.040 per share for the year (2014: GBP0.045 per share). The final dividend will be paid on 29 May 2016 to shareholders on the register at the close of business on 1 May 2016 (the record date). The ex-dividend date will be 30 April 2016.

33. EVENTS AFTER THE REPORTING PERIOD

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

MINERAL RESOURCES AS AT 31 DECEMBER 2015 REPORTED IN ACCORDANCE WITH JORC METHODOLOGY

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Total	15,082,032	3.4	1,653,989	100%	1,653,989
TASEEVSKOYE	Total	31,063,000	5.1	5,088,353	100%	5,088,353
UNKURTASH	Total	66,185,000	1.7	3,696,757	100%	3,696,757
NOVOSHIROKINSKOYE	Total	6,340,702	7.6	1,539,851	98.9%	1,522,143
BELAYA GORA	Total	10,587,941	2.3	783,369	100%	783,369
KLEN	Total	3,870,000	5.0	627,261	100%	627,261
KEKURA	Total	10,350,000	8.7	2,891,767	100%	2,891,767
LYUBAVINSKOYE	Total	11,247,230	1.3	484,287	100%	484,287
TOTAL	**Total**	**154,725,905**	**3.4**	**16,765,633**		**16,747,926**

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).*

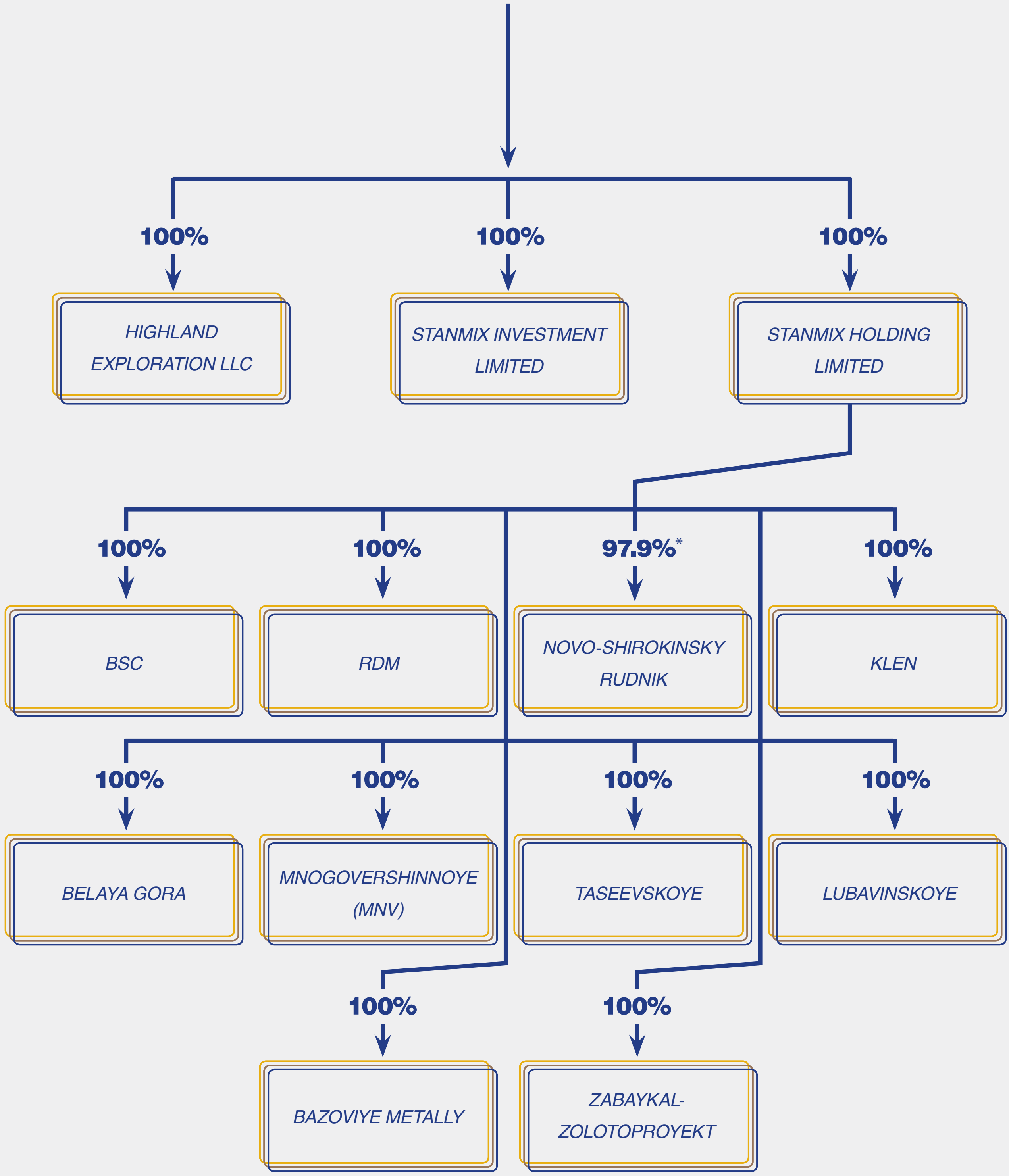
ORE RESERVES AS AT 31 DECEMBER 2015 REPORTED IN ACCORDANCE WITH JORC METHODOLOGY

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold Ounces attributable to Highland
MNOGOVERSHINNOYE*	Proven + Probable	2,306,779	4.00	296,848	100%	296,848
NOVOSHIROKINSKOYE	Proven + Probable	4,152,626	9.1	1,211,593	98.9%	1,197,660
BELAYA GORA	Proven + Probable	3,400,971	3.2	346,916	100%	346,916
TOTAL	**Proven + Probable**	**9,860,376**	**5.9**	**1,855,358**		**1,841,424**

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 US$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.*

   MNV JORC figures do not reflect ongoing reserve recalculations being conducted by the Company on all targets within the MNV licence area, based on updated geological information and recent exploration results. An updated JORC audit is planned for 2016 and is expected to confirm additional mineable reserves.

HIGHLAND GOLD MINING LIMITED



* *Direct shareholding in OJSC Novo-Shironkinsky Rudnik is 97.9%. In 2015 OJSC Novo-Shirokinsky Rudnik acquired treasury stock equal to 0.95% of outstanding shares for cash consideration of US$0.4 million, which resulted in a decrease in non-controlling interest of US$1.3 million. Effective control is therefore equivalent to a 98.85% shareholding in the enterprise. There are no restrictions imposed by non-controlling interest on our ability to use assets and settle liabilities of Novo.*

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) (AO)	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
Bazoviye metally (ZAO)	100	Russia	Holder of Stadukhinsky Area licence

DIRECTORS, COMPANY SECRETARY AND ADVISERS

CURRENT DIRECTORS

Eugene Shvidler
Executive Chairman
(appointed Executive Chairman on 22 April 2015) (previously Non-Executive Chairman)

Duncan Baxter
Non-Executive Director*

Colin Belshaw
Non-Executive Director

John Mann
Head of Communications
(appointed 9 April 2015)

Terry Robinson
Non-Executive Director***

Olga Pokrovskaya
Non-Executive Director**

Valery Oyf
Non-Executive Director
(appointed 15 January 2016)
(previously Chief Executive Officer and Director)

PAST DIRECTORS

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

Alla Baranovskaya
Chief Financial Officer
(resigned 9 April 2015)

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

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

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

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COMPANY SECRETARY
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FINANCIAL CALENDAR
Ex-Dividend Date:
28 April 2016

Record Date:
29 April 2016

Post 2015 Annual Report:
6 May 2016

Annual General Meeting:
25 May 2016

Dividend Payment Date:
27 May 2016

Listing Sector/Ticker Reuters:
HGM.L

Number of Shares in Issue:
325,222,098

HIGHLAND GOLD MINING LIMITED (THE "COMPANY")

(INCORPORATED AND REGISTERED IN JERSEY UNDER THE COMPANIES (JERSEY) LAW 1991, 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 Wednesday 25 May 2016 at 26 New Street, St Helier, Jersey JE2 3RA at 11.00 am to consider and if thought fit, pass the following ordinary resolutions;

ORDINARY BUSINESS (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 2015.

2. That a final dividend of £0.025 for each ordinary share of £0.001 in the Company be declared.

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

4. That Terry Robinson who retires by rotation as a Director of the Company be re-elected.

5. That Colin Belshaw who retires by rotation as a Director of the Company be re-elected.

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

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

By Order of the Board
06 May 2016

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 1, 34 Beckenham Road, Beckenham, BR3 4ZF 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.*

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

HIGHLAND GOLD MINING Ltd.