HIGHLAND GOLD MINING LIMITED

Annual Report
and Accounts 2016

HIGHLAND GOLD

HIGHLAND GOLD MINING IS A WELL-ESTABLISHED GOLD PRODUCER WITH A WORLD CLASS RUSSIAN ASSET BASE OF PRODUCING, DEVELOPMENT AND EXPLORATION PROJECTS. IT HAS STRONG MANAGEMENT AND OPERATIONAL TEAMS WITH LOCAL AND INTERNATIONAL EXPERTISE, AND AN EXCITING PORTFOLIO OF JORC AUDITED RESOURCES.

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THE YEAR IN REVIEW

KEY EVENTS

Total 2016 production of 261,159 oz of gold and gold equivalent, in the upper half of the guidance range for the year of 255-265k oz. (2015 production: 262,485 oz).

Average realised price for gold and gold equivalent in 2016 was US$1,136 per oz (2015: US$1,062 per oz).

Total Cash Costs lowered by 5.5% to US$454 per oz and All-In Sustaining Cash Costs up by 1.8% to US$652 per oz.

Cash inflow from operating activities rose 28.9% to US$136.2 million (2015: US$105.6 million).

Net debt to EBITDA ratio reduced to 1.26 as of 31 December 2016 from 1.74 in the previous year.

Interim dividend of £0.050 per share paid for H1 2016 (2015: Interim dividend of £0.020 per share).

Mnogovershinnoye (MNV) – An adjusted internal Life-of-Mine model for MNV, based on ongoing near-mine exploration and reserve recalculations, now provides for production through at least 2022 (versus 2018 previously).

Novo – Project for expansion to 1.3 mtpa ore mining and processing capacity underway and on track for completion in late 2018.

Blagodatnoye – Extensive exploration drilling carried out to confirm resources.

Baley Hub – De-watering programme initiated for existing Taseevskoye open-pit with a view to de-risking the project and allowing for further reserve confirmation. Exploration work also carried out on Sredny Golgotay along with a pilot mining project at the Kaftan site on the Sredny Golgotay licence.

FINANCIAL HIGHLIGHTS

US$ M (unless stated)

Production (gold and gold eq. oz)

261,159

2015: 262,485 oz

Total Cash Costs (US$/oz)

454

2015: 480 US$/oz

All-in Sustaining Costs (US$/oz)

652

2015: 640 US$/oz

Revenue (US$ M)

305.9

2015: 276.2

Operating Profit (US$ M)

69.4

2015: 22.4

EBITDA* (US$ M)

162.5

2015: 133.3

* 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

2017 TARGETS

Total production of gold and gold equivalent is expected to remain stable at 255,000-265,000 oz.

MNV – To continue extensive near-mine exploration programme throughout the year with a view towards further extending Life of Mine.

Novo – To proceed with design and construction work on mill expansion.

Belaya Gora – To complete a pre-feasibility study on processing plant upgrades and the inclusion of Blagodatnoye in Belaya Gora operations.

Kekura – To complete a definitive feasibility study and move forward with procurement, infrastructure and construction preparations.

Baley Hub – To continue de-risking Taseevskoye and to examine development options for the Baley Hub projects.

To complete updated JORC-compliant reserve estimations on key operating and development projects.

POST YEAR EVENTS

Final dividend of £0.054 per share recommended, making a total distribution of £0.104 per share for the year to 31 December 2016 (2015: £0.045 per share).

Net Cash Inflow from Operations (US$ M)

136.2

2015: 105.6

Net Profit/(Loss) (US$ M)

47.9

2015: (10.0)

Profit/(Loss) Per Share (US$)

0.145

2015: (0.032)

Capital Expenditure (US$ M)

59.3

2015: 42.2

Net Debt (US$ M)**

(205.5)

2015: (231.4)

Debt/EBITDA Ratio (31 Dec.)

1.26

2015: 1.74

**Net debt is defined as cash and cash equivalent, financial assets, decreased by interest-bearing loans and borrowings and by liability under finance lease

AT A GLANCE

OUR VISION

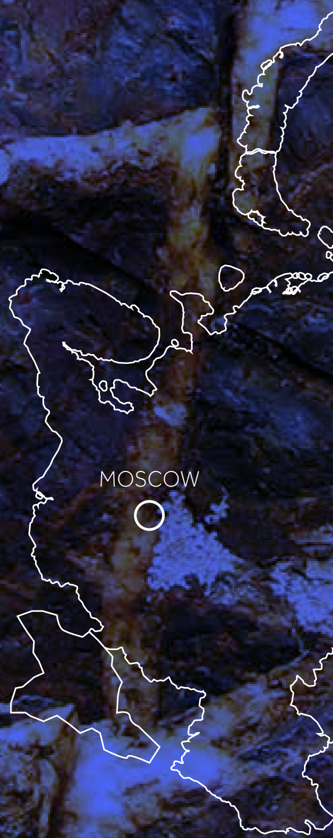
HIGHLAND'S VISION IS TO BECOME THE MOST PROFITABLE GOLD MINING COMPANY IN RUSSIA AND CENTRAL ASIA.

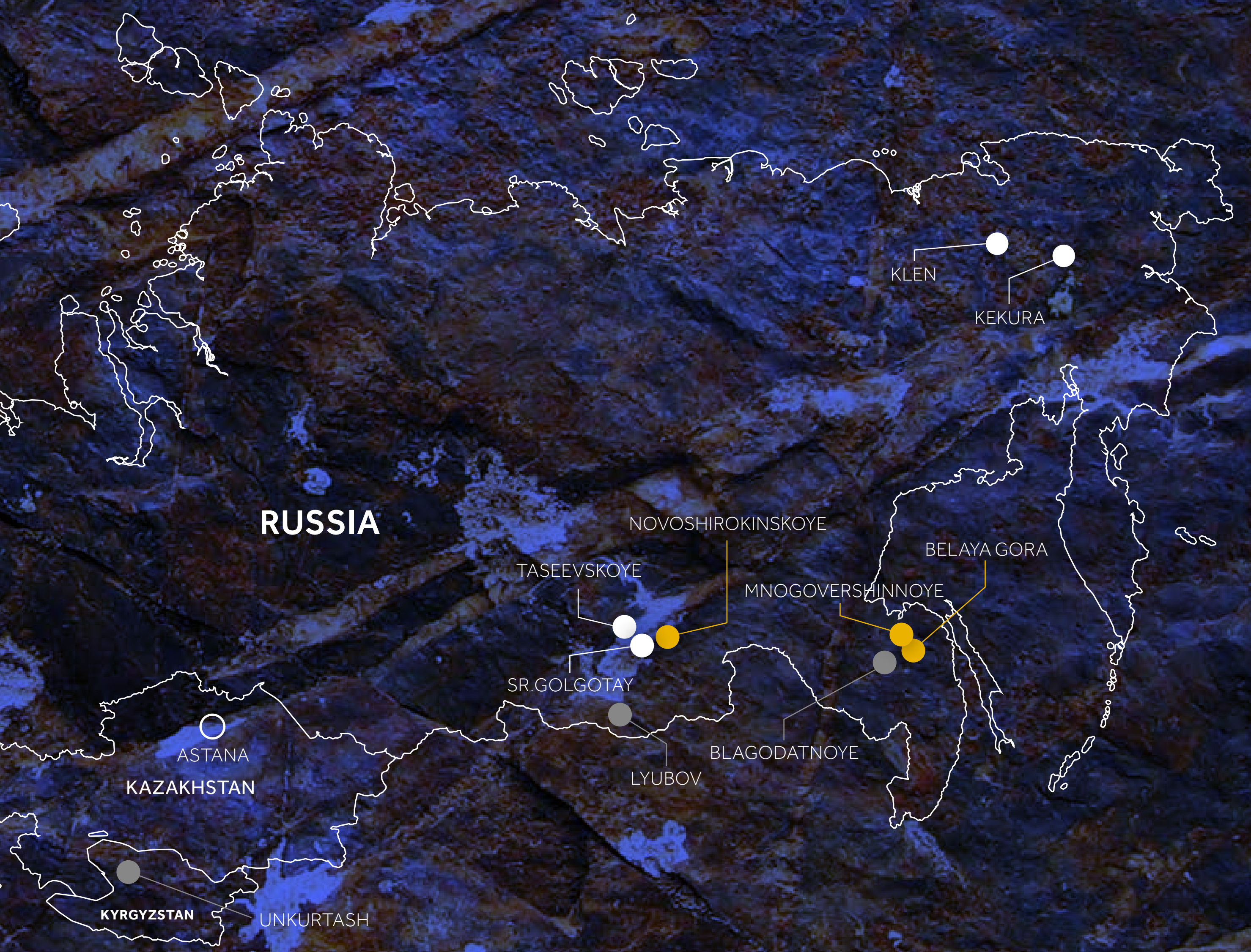
WITH A FIRM COMMITMENT TOWARDS SAFETY, HEALTH AND THE ENVIRONMENT, AND SOCIAL RESPONSIBILITY TOWARDS EMPLOYEES AND COMMUNITIES.

WHERE WE OPERATE

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

- Operating Mine
- Development Project
- Exploration Project




KLEN
KEKURA
RUSSIA
NOVOSHIROKINSKOYE
BELAYA GORA
TASEEVSKOYE
MNOGOVERSHINNOYE
SR.GOLGOTAY
ASTANA
KAZAKHSTAN
BLAGODATNOYE
LYUBOV
KYRGYZSTAN
UNKURTASH

CHAIRMAN'S STATEMENT
EUGENE SHVIDLER

STEADY PROGRESS

"THE SOUND ACHIEVEMENTS OF 2016 BEAR WITNESS TO MANAGEMENT'S ONGOING PURSUIT OF 'GOOD GROWTH POTENTIAL'..."

Dear Shareholder,
I am pleased to report that our key short-term objectives of stabilising production, furthering the unlocking of our extensive resource base and enhancing our cost competitiveness, as outlined a year ago, met with considerable success during 2016.

A solid operating performance resulted in the overall production of 261,159 oz of gold and gold equivalent. This nudges the record output of 262,485 oz achieved in 2015 and sits comfortably within our official estimate of between 255,000 and 265,000 oz. We are repeating this guidance range in respect of 2017 when, once again, our intention is to balance stable production with the progression of our principal development and exploration projects.

Such projects are integral to your Company's ongoing growth and, in line with this, activity at Kekura, our flagship development undertaking situated in the remote, mineral rich region of Chukotka, in the Far East of Russia, will gather further momentum during 2017 and beyond as we prepare for commercial production in 2020.

The importance of this premier project to our medium-term production targets, the respective performances of our three operating mines – MNV, Belaya Gora and Novo – and the scale of additional development and exploration activities, are covered in detail in the Chief Executive's Report and the subsequent Operational Review.

In view of this I will merely draw attention to the following:
- The life of MNV, our oldest mine, has been extended by four years to 2022 following a detailed reappraisal of each of the mine's 12 ore bodies and receipt of the regulatory approval of reserves under Russian (GKZ) classification;
- Plans to significantly increase the mining and milling capacity of Novo, our largest producer, from 700,000 tonnes per annum to 1.3 million tonnes per annum by 2018 are progressing well; and
- Mining and processing challenges at Belaya Gora, our youngest mine, are being addressed in conjunction with outside consultants.

I am pleased to record a 5.5% reduction in our Total Cash Costs to US$454 per oz in 2016, while our All-In-Sustaining Cash Costs remained basically flat at US$652 per ounce. Strict expenditure controls, a higher gold price, efficiency improvements and the weakness of the Russian Rouble versus the US$ all served to drive these key performance indicators which illustrate the competitive advantage we enjoy as a low-cost gold producer.

The average gold and gold equivalent price realised during 2016 amounted to US$1,136 (2015: US$1,062 per oz) and should be viewed alongside our All-In-Sustaining Cash Costs measurement.

These factors were duly reflected in a 21.9% increase in 2016's EBITDA to US$162.5 million and a consequential advance in our EBITDA margin to 53.1% (2015: 48.3%): a positive indication of operating profitability.

Strong cash flow has been utilised, in part, to further reduce gearing and our net debt to EBITDA ratio at the year-end stood at a conservative 1.26 compared with 1.74 as at 31 December 2015.

Your Directors have constantly voiced the Company's commitment to the return of profits to shareholders through dividend payments. Against the aforementioned background, the Board is pleased to recommend the payment of a final dividend of £0.054 per share (2015: £0.025 per share) which, subject to approval at the Annual General Meeting on 17 May 2017, will make a total distribution of £0.104 per share (2015: £0.045 per share) for the financial year to 31 December 2016.

Management has, during the year under review, communicated more actively with the investment community, largely in response to the revival of interest in natural resource stocks: a trend that has been accompanied by a marked improvement in the stock liquidity of your Company and a strong share price performance.

Shareholders may be interested to note that, on 23 May 2017, Highland Gold Mining will celebrate the 15th anniversary of its founding, having originally been incorporated in Jersey in 2002 'for the purpose of acquiring, consolidating and developing a portfolio of quality gold mining projects in the Russian Federation with good growth potential.'

The sound achievements of 2016 bear witness to management's ongoing pursuit of 'good growth potential' and, irrespective of the inevitable challenges, your Board has every confidence that the unlocking of Highland's valuable resource base over the ensuing years will yield further significant rewards for shareholders.

At the time of incorporation Highland also demonstrated 'a firm commitment towards safety, health and the environment and social responsibility towards employees and communities.' As the Chief Executive's Report and the Operational Review show, such perspectives are as much a part of Highland's corporate culture today as they were in 2002.

It is with deep regret that I have to record the occurrence of a fatality at our MNV mine on 10 September 2016. Additional safety measures have been implemented, details of which are to be found in the following sections.

Finally, it gives me great pleasure to thank all our employees, on behalf of the Board, for the hard work and commitment that underwrote our achievements during 2016.

Eugene Shvidler
Executive Chairman

CEO'S REPORT
DENIS ALEXANDROV

LONG-TERM FOCUS

"I HAVE EVERY CONFIDENCE THAT THE GROWTH POTENTIAL INHERENT IN OUR OPERATING ASSETS AND OUR HIGH GRADE DEVELOPMENT PROJECTS, TOGETHER WITH OUR COMPETITIVE COST DISCIPLINES, AUGUR WELL FOR THE FUTURE."

Dear Shareholder,
Highland Gold is in the midst of its 15th year as a publicly-quoted enterprise. While there have been many achievements over the years, our objective remains to constantly look for ways to realise the substantial potential of the Company's asset base. With that in mind, we undertook several initiatives during the year under review.

Among these is the 'cluster' initiative, designed to drive the Company's progress on multiple fronts by focusing our development around existing operations and milling capacity and maximising corporate synergies. As part of this effort, the Company appointed a Business Development Head for each of our key geographic regions:

- Khabarovsk Cluster (MNV, Belaya Gora and Blagodatnoye);
- Baikal Cluster (Novo, Lyubov and Baley Hub encompassing Taseevskoye, Sredny Golgotay and Baley ZIF-1 Tailings); and
- Chukotka Cluster (Kekura and Klen).

A key feature of 2016 was our extensive exploration activity designed to (i) provide additional resource for existing operations and (ii) advance identified development projects. The scale of such activity is reflected in more than 74,000 metres of exploration drilling across the Company's portfolio during 2016 and a commensurate exploration spend of US$8.2 million.

As detailed below, exploration activity encompassed MNV, Belaya Gora, the Blagodatnoye and Sredny Golgotay deposits and Kekura, our premier development project. This work has already helped us to extend MNV's life of mine and will help advance a Definitive Feasibility Study (DFS) for Kekura.

Alongside this with the aid of our 2016 drilling results, we have initiated new, updated JORC reserve audits for our key operating and development assets, namely MNV, Novo, Belaya Gora, Blagodatnoye and Kekura. We aim to publish the results of these audits over the next 6 months.

In 2016, we met our production guidance at a level of output that we are looking to maintain in 2017.

Novo proved the top performer with a 10% year-on-year increase in the production of gold and gold equivalent to a record 117,577 oz. This represented 45% of total production and 55% of EBITDA.

The average Au equivalent head grade was more than maintained at 5.61 g/t but the task ahead is to enhance throughput in order to offset the expected decline in average grade. To this end, plans to expand Novo's ore processing capacity from 700,000 tonnes per annum to an annual 1.3 million tonnes are well advanced and we expect to reach targeted capacity in late 2018.

MNV maintained stable output in 2016 and the four-year extension of the mine's life to 2022 is a valuable achievement. Management's aim, however, is to extend the life of the mine beyond this and the near mine exploratory activity of 2016 will continue in 2017 and subsequent years utilising a US$3-5 million annualised budget.

At Belaya Gora, outside consultants were engaged to assist in improving mine planning in order to address issues with dilution and irregular grade distribution. Work also continues on a project to expand cyanide leach (CIL) capacity to improve processing plant recovery rates.

The Kekura licence, which enjoys an average reserve Au grade of 10.73 g/t, represents a world class gold deposit. A combination of open-pit and underground mining is envisaged, with a processing plant capacity of 800,000 tonnes per annum and a life of mine tentatively put at eight years.

Engineering and construction specialists Fluor Canada are developing a DFS in this regard which will consolidate various specifics including SRK's new JORC resource estimation and mining schedule. Delivery of the DFS is anticipated in Q3 2017 and commercial production is set to begin in 2020.

The Kekura deposit sits on a very small part of our licence area, which encompasses approximately 1,500 sq km. We have identified several promising targets within this territory, providing significant upside potential for the Kekura operation.

Considerable activity was seen at our other development projects during the year. At Klen we initiated an updated PFS, which is scheduled for completion in the first half of 2017. At the Baley Hub deposits, we worked to de-risk these brownfield projects in order to facilitate further analysis of available development options.

In Kyrgyzstan, our fourth region, a scoping study was completed for our Unkurtash project and delivered in Q1 2017. We are now reviewing various development options, including the possibility of entering into a partnership arrangement with an appropriate investor.

Our primary objectives during 2017 will essentially mirror those for the year under review as we:

- Target stable levels of overall production from our three operating mines: MNV, Belaya Gora and Novo;
- Continue to implement rigorous cost disciplines and efficiencies in order to leverage our advantage as a low-cost producer;
- Progress Kekura, the expansion of Novo and the Belaya Gora upgrade; and
- Maintain our focus on exploration adjacent to MNV in order to further extend the life-of-mine.

Our Kekura investment, together with the Novo expansion, inevitably signals a significantly higher capex spend during the current financial year. With the comfort of a sound balance sheet, we would expect to fund the majority of 2017's capex through operating cash flow.

With the successful implementation of our key objectives – extending MNV's life of mine, expanding capacity at Novo, improving Belaya Gora's operations, and bringing Kekura online – we aim to achieve annualised production of 500,000 ounces.

I have every confidence that the growth potential inherent in our operating assets and our high grade development projects, together with our competitive cost disciplines, augur well for the future.

All of these objectives are, of course, dependent upon the skills and expertise of our employees. We are totally committed to the welfare of our personnel and our activities in this regard and in relation to our environmental responsibilities appear in the Operational Review.

Denis Alexandrov
Chief Executive Officer

CEO'S REPORT CONTINUED

	Units	H1 2015	H2 2015	H1 2016	H2 2016	2015	2016
MNV							
Waste stripping	m^3	1,780,663	1,573,547	305,900	1,462,897	3,354,210	**1,768,797**
Underground development	m	4,287	6,163	5,863	5,518	10,450	**11,381**
Waste dumps ore mined	t			276,312	2,801	–	**279,113**
Waste dumps ore grade	g/t			1.06	1.21	–	**1.06**
Open–pit ore mined	t	289,420	448,548	22,067	383,426	712,073	**405,493**
Open–pit ore grade	g/t	2.08	1.85	3.02	1.89	2.01	**1.95**
Underground ore mined	t	330,329	434,890	351,336	388,576	765,219	**739,912**
Underground ore grade	g/t	2.21	2.52	3.20	2.92	2.38	**3.05**
Total ore mined	t	619,749	883,438	649,715	774,803	1,477,292	**1,424,518**
Average grade	g/t	2.15	2.18	2.28	2.41	2.20	**2.35**
Ore processed	t	705,493	707,326	672,600	708,363	1,412,819	**1,380,963**
Average grade	g/t	2.08	2.49	2.28	2.44	2.29	**2.36**
Recovery rate	%	89.0	91.5	90.93	91.9	90.4	**91.5**
Gold produced	**oz**	**42,451**	**52,107**	**44,929**	**51,259**	**94,558**	**96,188**
Belaya Gora							
Waste stripping	m^3	1,557,257	2,160,512	3,294,701	2,212,572	3,717,769	**5,507,273**
Ore mined	t	885,314	1,337,790	955,385	605,349	2,223,104	**1,560,734**
Average grade	g/t	1.63	1.32	1.22	1.24	1.45	**1.23**
Ore processed	t	674,985	876,303	833,509	809,637	1,551,288	**1,643,146**
Average grade	g/t	1.87	1.47	1.29	1.14	1.64	**1.21**
Recovery rate	%	75.89	74.9	72.7	70.0	75.4	**71.4**
Gold produced	**oz**	**30,157**	**31,149**	**25,349**	**20,560**	**61,306**	**45,909**
Novo							
Underground development	m	5,312	5,625	5,808	5,444	10,937	**11,251**
Ore mined	t	327,629	373,790	401,983	359,131	701,419	**761,114**
Average grade[1]	g/t	5.4	5.7	5.5	5.75	5.56	**5.61**
Ore processed[2]	t	331,551	359,733	371,945	386,026	691,284	**757,971**
Average grade[1]	g/t	5.4	5.8	5.6	5.63	5.58	**5.62**
Recovery rate[1]	%	85.3	86.6	86.5	85.28	85.98	**85.88**
Gold produced[1 2]	**oz**	**48,634**	**57,288**	**57,960**	**59,617**	**105,922**	**117,577**
Sredny Golgotay (Kaftan)							
Underground development	m	–	–	766	0	–	**766**
Ore mined	t	–	–	13,103	6,396	–	**19,499**
Average Grade	g/t	–	–	2.50	3.07	–	**2.69**
Ore processed[3]	t	–	5,722	4,501	10,794	5,722	**15,295**
Average Grade	g/t		4.50	3.6	3.05	4.50	**3.22**
Gold produced[3]	**oz**		**699**	**433**	**882**	**699**	**1,315**
Lyubov							
Gold produced	**oz**	**–**	**–**	**–**	**170**		**170**
Total Gold Production	**oz**	**121,242**	**141,243**	**128,671**	**132,488**	**262,485**	**261,159**

1. Calculated in Au equivalent in actual prices (Metal grade of mined ore = Au 3.74 g/t, Ag 62.99 g/t, Pb 1.99 %, Zn 0.60 %)
2. Excluding Sredny Golgotay ore processed
3. 2015 ore processing and gold production previously reported as part of Novo production data

OPERATIONAL REVIEW

KHABAROVSK REGION, RUSSIA

Mnogovershinnoye (MNV)

Production of gold and gold equivalent at MNV in 2016 edged ahead from 94,558 oz to 96,188 oz representing a near 37% share of total production. The average grade showed a 3% improvement year-on-year from 2.29 g/t to 2.36 g/t, while the recovery rate rose from 90.4% to 91.5%. Ore processed totalled 1,380,963 tonnes (2015: 1,412,819 tonnes).

A detailed reappraisal of each of the 12 ore bodies across the licence area continued into Q1 2017 and culminated in a four-year extension of the life of the mine to 2022 following the regulatory approval of reserves under Russian (GKZ) classification. The primary target, however, is to extend the life of the mine beyond this (see 'Outlook'). In total, more than 18,000 metres of drilling was carried out during 2016.

The evaluation of MNV's historic rock dumps saw a total of 758,200 tonnes of ore identified during the course of 2016. This programme will continue in 2017.

PRODUCTION COSTS

Total cash costs amounted to US$607 per oz (2015: US$691 per oz) while all-in sustaining costs were US$765 per oz (2015: US$881 per oz).

CAPITAL COSTS

A total of US$14.0 million was invested at MNV in 2016. This included capitalised expenditures and construction (US$4.1 million), purchase of equipment (US$8.7 million) and exploration (US$1.2 million).[1]

OUTLOOK

The extensive near-mine exploration activity seen during 2016 will continue in 2017 with a view to further extending the life of the mine beyond 2022. Such activity will encompass:

- The lower horizons of the existing underground mine;
- Areas in the vicinity of open-pit operations;
- Near-mine Greenfield sites on adjacent licences; and
- Historic rock dumps.

Specific targets, utilising an annual budget of US$3-5 million, will include the Southern, Flank, Upper, and Quiet ore zones and, additionally, the MNV North-Western Flank licence (Bear ore body).

An updated JORC-compliant reserve audit of MNV is currently in progress, with results expected during Q2 2017.

Belaya Gora

With effect from Q3 2016 operations at Belaya Gora focused on the treatment of low-grade ore stockpiles (~1 g/t) while an operational reassessment was undertaken in response to irregular grade distribution, inconsistent mill performance and low recovery rates.

In addition to focusing on prospective improvements to the processing flowsheet in order to increase recoveries, management is working with outside consultants on designs for the incorporation of additional cyanide leach (CIP) capacity at the mill. A programme designed to stabilise the mill input rate successfully lowered the tailings grade.

As a consequence, production of gold and gold equivalent recorded a 25% year-on-year reduction in respect of 2016 to 45,909 oz. This was accompanied by a fall in the recovery rate from 2015's 75.4% to 71.4% and a decline in average grade from 2015's 1.64 g/t to 1.21 g/t.

Some 3,000 metres of drilling was conducted for the purpose of reserve confirmation.

PRODUCTION COSTS

Total cash costs amounted to US$678 per oz (2015: US$465 per oz) while all-in sustaining costs were US$1,134 per oz (2015: US$551 per oz).

CAPITAL COSTS

A total of US$6.1 million was invested at Belaya Gora in 2016. This included capitalised expenditures and construction (US$2.9 million) and purchase of equipment (US$3.2 million).

OUTLOOK

The results of a comprehensive review of the processing plant flowsheet, carried out during the final quarter of 2016, are expected in the new financial year as is a new JORC-compliant reserve statement from SRK.

Blagodatnoye

In order to augment Belaya Gora's mineral resource base, management has targeted further exploration of resources at the Blagodatnoye gold deposit, located some 40 km from Belaya Gora. The licence enjoys preliminarily measured C2 category reserves, suitable for open-pit mining, comprising some 10 million tonnes of ore. Initial metallurgical testwork has supported gold recovery of more than 90% via cyanidation.

Following an extensive 15,000 metre reserve verification drilling programme earlier in the year, work at Blagodatnoye in Q4 focused on the collation and interpretation of exploration results.

CAPITAL COSTS

A total of US$2.0 million was invested at Blagodatnoye in 2016 and represented a capitalised exploration and evaluation asset.[1]

OUTLOOK

A report on reserve estimates is expected to be submitted to the State Expert Review Panel during H1 2017. A JORC-compliant reserves statement is scheduled for publication within the same time frame.

ZABAIKALSKY REGION, RUSSIA

Novoshirokinskoye (Novo)

Production of gold and gold equivalent at Novo in 2016 recorded a 10% increase from 106,621 oz to 117,577 oz representing a 45% share of total production. The average grade showed a modest 0.7% improvement year-on-year from 5.58 g/t to 5.62 g/t, while the recovery rate shaded from 85.98% to 85.88%. Ore processed advanced by 9.6% to 757,971 tonnes (2015: 691,284 tonnes).

Plans to expand Novo's annual ore processing capacity from 700,000 tonnes per annum to an annualised 1.3 million tonnes gathered momentum in Q4 2016. Geotechnical work was completed at construction sites together with inspections of buildings and various structures under renovation.

PRODUCTION COSTS

Total cash costs amounted to US$254 per oz (2015: US$302 per oz) while all-in sustaining costs were US$274 per oz (2015: US$353 per oz).[2]

CAPITAL COSTS

A total of US$11.0 million was invested at Novo in 2016. This included capitalised expenditures and construction (US$6.4 million) and purchase of equipment (US$4.6 million).

OUTLOOK

The preparation of design documentation in relation to the planned expansion is well under way and a selection process has commenced for contractors with regard to construction and installation work. The mine is expected to achieve targeted production capacity in late 2018.

A new JORC reserve statement is expected in Q2 2017.

1 In the consolidated financial statements, capital costs for Blagodatnoye are reported together with MNV.
2 All figures quoted as per oz of gold equivalent production without any by-product credits and refining charges.

Sredny Golgotay – Kaftan Site
The pilot mining project at the Sredny Golgotay (Kaftan site), designed to evaluate the provision of additional resources for the Novo mill versus a stand-alone operation, resulted in the processing of 15,295 tonnes of ore with an average grade of 3.22 g/t. Delivery to Novo and subsequent treatment yielded 1,315 oz of gold and gold equivalent.

During Q4 2016 the results of the grade control drilling programme conducted earlier in the year, totalling 7,330 metres, in conjunction with operating data, served to delineate ore bodies to facilitate any future mining at the Kaftan site. The drilling programme, designed to validate the quantity and quality of reserves in the area, was completed in July, having been performed from above and below the surface. The evaluation programme utilised 8,281 assay results.

CAPITAL COSTS
A total of US$0.6 million was invested at Sredny Golgotay-Kaftan in 2016.

Baley Ore Cluster (Taseevskoye, Sredny Golgotay and ZIF-1)
As at the 2016 year end, a de-watering programme at the Taseevskoye open-pit, initiated the previous May, had resulted in the removal of more than 2 million m^3 of water out of a total of 7 million m^3. Water levels continue to decrease – there are no signs of inflow from the nearby Baley pit – and the pumping programme is scheduled to continue throughout 2017.

At Sredny Golgotay, R&D testwork continued regarding the advisability of utilising an X-ray fluorescence spectrometry (XRF) sorting plant to enable the pre-concentration of gold-bearing ores. The preliminary results of a pilot XRF operation, received in Q4 2016, fell short of expectations, primarily due to an insufficient level of the separation required to make the process viable. Nevertheless, the study continues utilising different equipment and finer grain sizes.

Exploration work also continued at Sredny Golgotay – in addition to the aforementioned work at the Kaftan site – where 1,757 metres of trenching during Q4 2016 took the year's total to 2,027 metres with logging completed in full. Some 1,985 samples were extracted during the final quarter taking the year's total to 2,210 samples. Contractor SGS Chita delivered 311 fire assay results during Q4 2016 with an additional 1,979 scheduled for subsequent delivery.

Diamond drilling activity totalled 5,146 metres in Q4 (with 5,695 samples extracted) and 15,919 metres for the year (with 16,508 samples extracted). A total of 14,001 fire assay results were received with results for the remaining 3,410 samples scheduled for subsequent delivery.

With the benefit of these results, work will continue in 2017 regarding the delineation of the licence's ore bodies and the compilation of reserve estimates.

CAPITAL COSTS
A total of US$5.1 million was invested at the three Baley area licences in 2016, excluding Sredny Golgotay-Kaftan.

Lyubov Ore Cluster (ZIF tailings)
An outside contractor was retained to oversee a resource verification project at Lyubov during the second half of 2016. The project entailed the trial processing of material from the Khaverginskoye, Lyubov and Nikolaevskoye tailings dams and waste dumps within the Lyubov licence area and involved 4,200 m^3 of trenching and 96 metres of exploratory drilling to evaluate available resources. Sample selection was carried out by SGS Chita. A total of 5,680 tonnes of ore was treated, yielding 170 oz of gold.

CAPITAL COSTS
A total of US$0.2 million was invested at Lyubov in 2016.

CHUKOTKA AUTONOMOUS DISTRICT, RUSSIA
Kekura
Processing of results from the 25,000-metre Kekura exploration programme was completed during the fourth quarter of 2016. Drilling activity had focused on the eastern flank of the deposit for the purpose of confirming resource and potentially adding reserves suitable for underground mining.

The development of a definitive feasibility study (DFS) for the Kekura project by Fluor Canada commenced in October 2016. SRK was awarded a contract to draft the mining section of the DFS, a task that began two months later. The process will continue in 2017 as Fluor consolidates the various sections of the DFS into a single report.

Fluor is also involved in the tender process for processing plant equipment, and tenders have been received in respect of milling and crushing equipment, power generators and press filters.

Preparations for the 2017 construction season are ongoing, including the procurement of construction materials and work with contractors with regard to key infrastructure facilities. A winter road to the site has already been constructed and shipments of diesel fuel and key commodity supplies are being transported from the ports of Pevek and Magadan.

The results of a JORC-compliant resource re-evaluation are also expected in the second half of 2017.

Klen
Preparation of a revised pre-feasibility study (PFS) was ongoing throughout the second half of 2016. Contractor Hatch has provided data on mining methodology, processing plant design and infrastructure solutions together with a financial and economic model. Further clarification in respect of processing parameters is required and, following additional process testwork, an updated report is scheduled for 2017.

KYRGYZSTAN
Unkurtash
The Company is currently considering different development options, including potential partnership opportunities with regard to its Kyrgyzstan licence in which three prospects – Unkurtash, Sarytube and Karatube – have been the subject of extensive exploration activity.

A scoping study, undertaken by SRK over the course of the year, was finalised and published in March 2017.

HEALTH, SAFETY AND THE ENVIRONMENT

The safety and welfare of our employees is of paramount importance and, sadly, a fatality at MNV during the year under review serves to underline the need for constant vigilance on the part of management and each and every member of the workforce.

We have always placed considerable emphasis on the need for employees to assume a sense of responsibility for their safety and for the safety of others and, to this end, various staff training courses and workshops are held each year. In parallel with such activities there is constant focus on the need to maximise safety measures in order to minimise occupational risks.

Our unvarying target is to achieve a zero incident rate, irrespective of the hazardous characteristics of the mining industry. In order to further these priorities a new Health and Safety Team was assembled last autumn for the specific purpose of improving the implementation of best safety practices across all operations. In line with our historic approach, the plan is to institute an occupational safety management system that prioritises the improvement of employees' behaviour in respect of health and safety.

Senior staff from the Moscow management office Russdragmet (33 managers), Novo (18 managers) and MNV (19 managers), attended a highly informative course entitled "Conscious Safety Management" during the final quarter of 2016. At Novo, 36 managers, specialists and workers participated in a training course on "Internal Accident Investigation".

New corporate standards for Internal Incident Investigation, a methodology for Behavioural Safety Audits and rules and regulations in respect of Occupational Safety Committees have been developed. Tools for Behavioural Safety Audits and Leader Bypass were introduced at Novo and MNV.

Such developments, set to gather momentum in 2017, come in the wake of a sharp uptick in Lost Time Incidents (defined as the number of "LTI" for every 1,000,000 man-hours worked) to 2.80 in 2016 compared with 1.85 the previous year. During the course of the year under review, 14 incidents were recorded across the Company including the aforementioned fatality, compared to 12 incidents, involving minor injuries, in 2015. Of these, six incidents occurred at MNV, three at Belaya Gora, four at Novo and one at Kekura.

During 2016, one-day courses in safety induction and fire & electrical safety induction were attended by 1,367 employees. A total of 176 managers and specialists passed self-tuition courses and tests using OlimpOKS software and were certified in respect of industrial safety (7-30 day programmes).

The auxiliary mine rescue crews, formed in 2014 and located at the mine sites, remain in a state of readiness to respond to emergencies.

The Company is committed to meeting all applicable environmental and regulatory requirements. Critical risks to the environment from operations are constantly evaluated and monitored in order to develop mitigation programmes. No environmental incidents were reported during the period.

Independent auditors DNV conducted a supervisory audit of the certified Environmental Management Systems (EMS) at Russdragmet, Belaya Gora and Novo during 2016 and confirmed respective compliance with international ISO 14001:2004 standards. Environmental safety training was given to 966 employees, while 406 employees received training and passed tests on Category I-IV hazardous waste handling.

CFO'S REPORT
ALLA BARANOVSKAYA

EFFICIENT STRUCTURE

"HIGHLAND GOLD RETAINED ITS POSITION AMONG THE WORLD'S LOWEST COST GOLD PRODUCERS DURING THE YEAR."

The Company demonstrated a solid financial performance in 2016 benefiting from favourable macroeconomic conditions which included higher gold prices, a weak Rouble and the availability of cheaper credit facilities for Russian companies.

Highland Gold retained its position among the world's lowest cost gold producers during the year. All of the Company's operating assets generated positive free cash flow which served to achieve a 16% reduction in borrowings.

Improvements in the Company's key performance indicators alongside a strengthened balance sheet enabled the delivery of an enhanced dividend distribution for the financial year to 31 December 2016 compared with 2015.

Total revenue increased by 10.8% to US$305.9 million, primarily driven by higher average realised gold prices. In 2016, the average LBMA gold price recorded a y-o-y increase of 7.8% to US$1,251 (2015: US$1,160) per oz. During the reporting period the Company sold 267,330 oz of gold and gold equivalent, representing a 3.5% volume increase versus 2015. Novo and MNV increased their respective sales volumes. Novo's sales rose 18.7% to 125,021 eq. oz y-o-y, accounting for 46.8% of the total, while MNV increased its sales volume by 4.2% to 96,899 oz representing a 36.2% share. BG, with a 17.0% share, saw its sales volume decline to 45,411 oz (2015: 59,971 oz), a decrease of 24.3%.

During 2016, the Group continued to pursue a "no hedge" policy. The Company's average realised price of gold and gold equivalent increased by 7.0% to US$1,136 per oz compared with US$1,062 per oz in 2015. The average realised price of gold in respect of MNV and Belaya Gora (net of commission) was US$1,247 per oz which was in line with the average market price. The improved quality of lead concentrates and higher prices for precious metals raised the average price of gold equivalent realised by Novo to US$1,008[3] per eq. oz against US$927 per eq. oz in 2015 (+8.8% y-o-y).

The Company's cost of sales net of depreciation decreased by 2.4% to US$123.8 million (2015: US$126.8 million). The positive effect of the Russian Rouble devaluation enabled the Company to offset the negative impact of overall inflation (5.4%) encompassing an increase in energy prices. Depreciation amounted to US$60.2 million, down 17.0% y-o-y largely due to the extension of life-of-mine at all operational assets.

Financial highlights

US$000 (unless stated)	2016	2015
Production (gold and gold eq. oz)	**261,159**	262,485
Group all-in sustaining costs (US$/oz)	**652**	640
Total Group cash costs (US$/oz)	**454**	480
Revenue	**305,901**	276,175
Operating profit	**69,361**	22,413
EBITDA[1]	**162,491**	133,317
Net profit/(loss)	**47,909**	(10,019)
Earnings/(loss) per share (US$)	**0.145**	(0.032)
Net profit before impairment losses	**70,741**	25,963
Net cash inflow from operations	**136,164**	105,603
Capital expenditure	**59,349**	42,195
Net debt[2]	**(205,465)**	(231,442)

1 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
2 Net debt is defined as cash and cash equivalent, financial assets, decreased by interest-bearing loans and borrowings and by liability under finance lease

Cash operating costs – breakdown

	2016 US$000	2015 US$000	y-o-y change, %
Cost of sales	**183,995**	**199,365**	**(7.7%)**
– depreciation, depletion and amortisation	**(60,212)**	(72,583)	(17.0%)
Cost of sales, net of depreciation, depletion and amortisation	**123,783**	**126,782**	**(2.4%)**
Breakdown per item:			
Labour	**42,261**	40,448	4.5%
Consumables and spares	**44,532**	48,127	(7.5%)
Power	**9,639**	8,736	10.3%
Movement in ore stockpiles, finished goods and stripping assets	**(12,902)**	(12,745)	1.2%
Maintenance and repairs	**23,972**	26,286	(8.8%)
Taxes other than income tax	**16,281**	15,930	2.2%

The cost structure was little changed, other than a modest increase in labour costs. With the latter being Rouble denominated, the devaluation of the domestic currency offset the negative impact of salary increases, which reflected a shortage of qualified personnel, competition for labour with other mining companies and additional labour costs at Novo and BG in relation to increases in rock extraction and processing volumes.

Total cash costs[4] (TCC) decreased by 5.5% to US$454 per oz, which is below the industry average. Breaking this down by business units, total cash costs at our low cost producer Novo fell by 16.1% to US$254 per eq. oz, reflecting the increase in production volumes and improved grades. MNV, our oldest mine, also achieved lower total cash costs of US$607 per oz (2015: US$691 per oz) due to improvements in the average grade and recovery rate. As a result of lower grades and a decrease in recovery rates, total cash costs at Belaya Gora rose from US$465 per oz to US$678 per oz.

All-in sustaining costs[5] (AISC) per oz increased by 1.8%, from US$640 per oz in 2015 to US$652 per oz in 2016.

3 Novo's average price is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver), net of fixed processing and refining costs at third-party plants.
4 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.
5 In line with guidance issued by the World Gold Council, the formula used to define the all-in sustaining cash costs measurement commences with total cash costs per ounce sold and then adds sustaining capital expenditures, corporate general and administrative costs, mine site exploration and evaluation costs and environmental rehabilitation costs. This data seeks to represent the total costs of producing gold from current operations, and therefore it does not include capital expenditures attributable to projects or mine expansions, exploration and evaluation costs attributable to growth projects, income tax payments, interest costs or dividend payments.

TCC and AISC calculations

	2016 US$000	2015 US$000	y-o-y change, %
Cost of sales, net of depreciation, depletion and amortisation	**123,783**	**126,782**	**(2.4%)**
– cost of by-products and other sales	**(2,123)**	(2,374)	(10.6%)
– taxes other than income tax at non-operating entities	**(380)**	(392)	(3.1%)
Total cash costs (TCC)	**121,280**	**124,016**	**(2.2%)**
+ administrative expenses	**14,293**	13,127	8.9%
+ accretion and amortisation on site restoration provision	**1,778**	2,541	(30.0%)
+ movement in ore stockpiles obsolescence provision	**9,869**	120	8124.2%
+ sustaining capital expenditure	**27,031**	25,561	5.8%
Total all-in sustaining costs (AISC)	**174,251**	**165,365**	**5.4%**
Gold sold (gold and gold eq.oz)	**267,330**	258,292	3.5%
TCC (US$/oz)	**454**	**480**	**(5.5%)**
AISC (US$/oz)	**652**	**640**	**1.8%**

The Company's administrative expenses increased by 8.9% y-o-y to US$14.3 million reflecting the changes in management structure and higher labour costs.

Higher sales volumes, a supportive macro environment and cost control initiatives resulted in a 21.9% increase in the Company's EBITDA to US$162.5 million with Novo and MNV remaining the principal contributors to such growth.

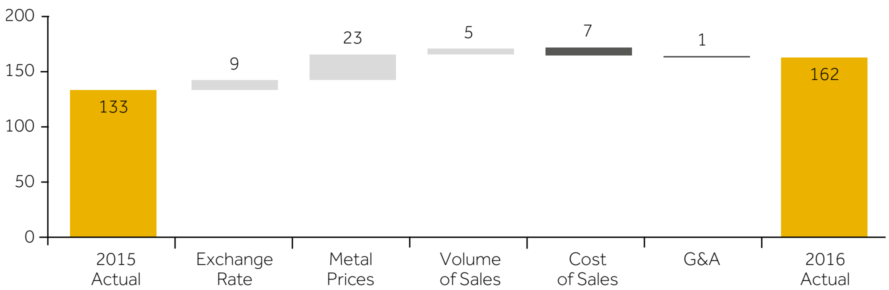
The EBITDA margin[6] rose from 48.3% to 53.1%, which ranks the Company among the most efficient gold mining producers.

EBITDA Reconciliation to Operating Profit

	2016 US$000	2015 US$000
Operating profit	**69,361**	**22,413**
Depreciation of mine properties and property, plant and equipment	60,212	72,583
Impairment losses related to cash-generating units	22,832	35,982
Individual impairment of property, plant and equipment and mine assets	17	1,698
Movement in ore stockpiles obsolescence provision	9,869	120
Movement in raw materials and consumables obsolescence provision	600	521
Gain on settlement of contingent consideration	(400)	–
EBITDA	**162,491**	**133,317**

6 EBITDA margin is defined as EBITDA divided by total revenue

EBITDA Bridge USD M



The Company's management analysed internal and external indicators of impairment as of 31 December 2016. An impairment loss was recognised in relation to the Belaya Gora project: BG's goodwill was impaired by US$12.6 million and its property, plant and equipment, mine asset and stripping activity asset were impaired by US$10.3 million. The primary triggers for the impairment loss recognition were the effects of changes to the mine plan and higher prospective capital expenditure.

In 2016, the Company recognised a net finance cost of US$5.0 million compared with US$4.2 million in 2015. The principal components were the interest expense on bank loans in the amount of US$2.2 million in 2016 (2015: US$3.3 million) and the negative effect of a fair value reassessment of bonds amounting to US$1.0 million due to a weaker Pound sterling. In September 2016, all bonds held by the Company were sold.

A foreign exchange gain of US$1.9 million (2015: loss of US$4.3 million) resulted from the settlement of foreign currency transactions and the transfer of monetary assets and liabilities denominated in Russian Roubles into US Dollars.

Income tax charges totalled US$18.3 million in 2016 compared with US$23.9 million in 2015. Current tax expenses of US$36.6 million (US$22.1 million at Novo and US$14.5 million at MNV) and dividend withholding tax of US$3.1 million were partially offset by the release of US$21.4 million of deferred tax largely as a result of the Rouble appreciation at the end of the year and favourable change to the Russian Tax Legislation (tax losses generated after 2007 can now be utilised with no time limit).

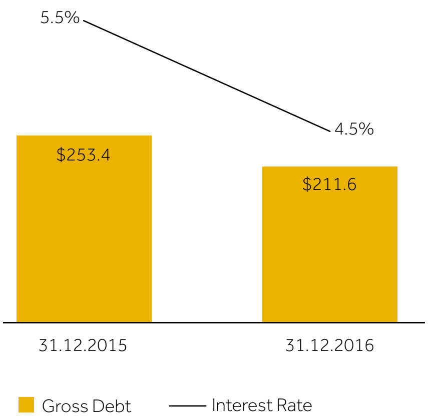
Net profit for the financial year to 31 December 2016 totalled US$47.9 million compared to a net loss of US$10.0 million in 2015. Earnings per share amounted to US$0.145 (2015: loss US$0.032). Net profit before impairment losses recorded a significant increase at US$70.7 million (2015: US$26.0 million).

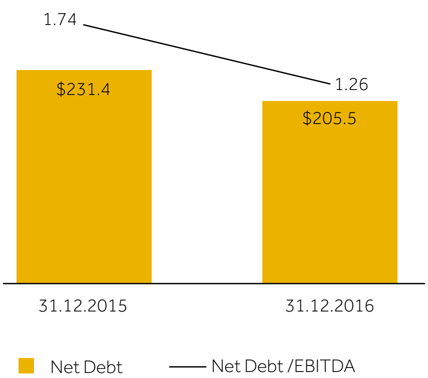
The Company's cash inflow from operating activities registered a 28.9% advance from 2015's US$105.6 million to US$136.2 million driven by strong EBITDA and a reduction in working capital due to a decrease in inventories.

The Company's capital expenditure for the reporting period amounted to US$59.3 million versus US$42.2 million in respect of 2015. This largely reflected higher development CAPEX at MNV, regarding near-mine exploration designed to replace reserves, and the evolution of the Kekura project.

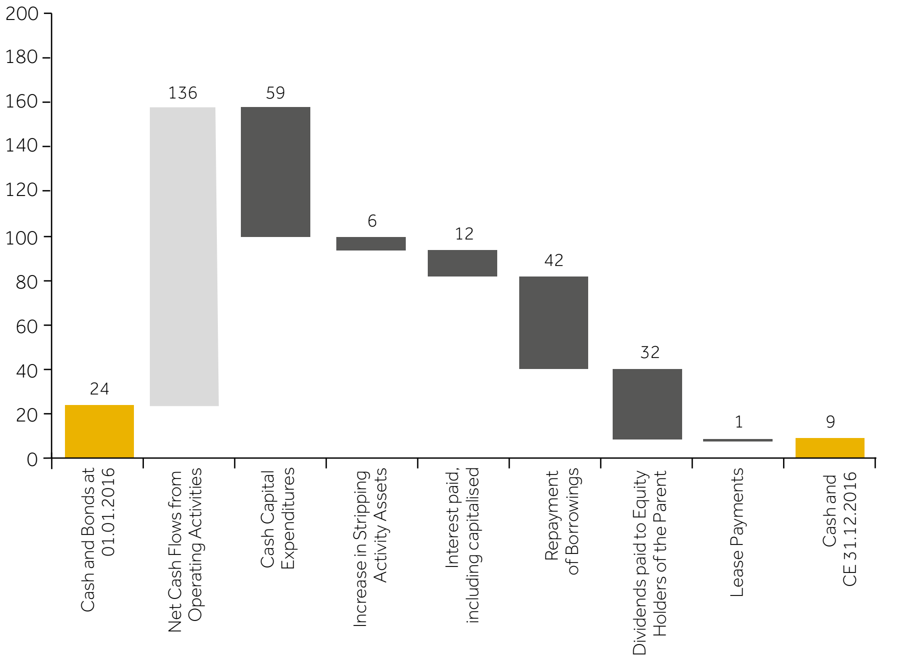
Capital expenditures included US$16.0 million at MNV, US$11.0 million at Novo, US$6.1 million at Belaya Gora, US$19.8 million at Kekura, US$ 0.6 million for Sredny Golgotay-Kaftan, US$5.1 million at the Baley hub projects (Taseevskoye, Sredny Golgotay, ZIF-1 tailings, excluding Kaftan) and US$0.7 million in respect of other exploration and development projects. Capital expenditures were entirely funded by operating cash flow.

The Company's total debt is denominated in USD. The debt in relation to facility agreements with banks showed a decrease of 16.5% to US$211.6 million as of 31 December 2016 (2015: US$253.4 million) accompanied by a fall of 18.2% in the effective annual interest rate to 4.5% (2015: 5.5%).





Cash Position Bridge USD M



At the end of the reporting period, cash and cash equivalents amounted to US$8.7 million, compared with US$24.2 million as of 31 December 2015. The Company's net debt position including lease liabilities was US$205.5 million as of 31 December 2016, compared with US$231.4 million as of 31 December 2015.

The ratio of net debt to EBITDA was 1.26 as of the end of 2016. This is substantially lower than the 1.74 ratio as of the end of 2015 and is well within the Board of Directors' debt policy.

Taking into account the improvements in the Company's target financial indicators and favourable market conditions, the Board is pleased to recommend a final dividend of GBP 0.054 per share.

PAYMENT OF DIVIDENDS

The final dividend for the year ending 31 December 2015 in the amount of US$11.9 million was paid on 19 May 2016.

The Group paid an interim dividend of GBP 0.050 per share (2015: an interim dividend of GBP 0.020 per share) which resulted in an aggregate interim dividend payment of US$19.8 million (2015: US$10.0 million). The interim dividend was paid on 13 October 2016.

The Board has recommended a final dividend of GBP 0.054 per share which, taking into account the interim dividend paid in October 2016, gives a total dividend of GBP 0.104 per share for the year (2015: GBP 0.045 per share). The final dividend will be paid on 19 May 2017 to shareholders on the register at the close of business on 21 April 2017 (the record date). The ex-dividend date will be 20 April 2017.

EVENTS AFTER THE REPORTING PERIOD

In March 2017, the Group signed a new long-term credit facility agreement with Gazprombank, with an overall limit of US$100.0 million, thereby providing an extension of the final maturity until March 2020.

Alla Baranovskaya
Chief Financial Officer

Rounding of figures may result in computational discrepancies

PRINCIPAL RISKS AND UNCERTAINTIES

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

The Group's risk management system is designed to provide a consistent and clear framework for managing and reporting the most significant 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 utilise 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 is responsible for 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 in respect of 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	Risk description	Mitigation	Movement
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 practice hedging in 2015 and prior periods and price fluctuations had an effect on the Group's profits. The capability to invest in growth projects is limited during periods of low commodity prices – which may, in turn, affect future performance. Furthermore, the financial viability of the Group's exploration, development projects and production operations is sensitive to price levels and may become questionable in an environment of decreasing prices. 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 financial markets can give rise to risks which may negatively impact the Group's operations and results. Please refer to Note 28 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 amount is incurred in Russian Roubles. In 2016 and 2015, 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 2016 and 2015 nor in prior periods.	▲

Change in residual risk level assessment as compared to the similar risk in 2015:

- Increased
- No change
- Decreased

Risk	Risk description	Mitigation	Movement
CREDIT RISK	Risk of loss related to a counterparty's failure to perform its contractual obligations or transactions in a certain time frame and, as a result, certain financial assets (including assets with high liquidity) may be impaired.	The Group places cash in reputable and highly rated financial institutions and constantly monitors the financial/economic situation. The Group sells commodities to creditworthy and reliable customers.	No change
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.	Decreased
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.	Decreased

OPERATING RISKS

Risk	Risk description	Mitigation	Movement
RISKS ASSOCIATED WITH EXPLORATION ACTIVITIES	The Group's estimates of ore reserves and mineral resources are subject to a number of assumptions and approximations, including geological, metallurgical and technical factors, future commodity prices and production costs. Fluctuations in any of these variables could result in lower than expected revenues, higher costs, and lower operating profits and could lead to reductions in estimated reserves and resources. The Group makes significant investments in exploration activities performed at greenfield sites to develop the business and at brownfield sites to extend the life of mines. For various reasons, including geological and economic factors, such activities may prove unsuccessful and may not result in an increase in Group resources. The failure to discover new resources could adversely affect the Group's future performance.	The Group conducts detailed exploration and assesses results in accordance with widely recognised methods of resources/reserves evaluation. The Group engages internationally recognised external consultants to confirm its resources and reserves estimates (information regarding the Group's mineral resources and reserves, reported in accordance with JORC, is presented on pages 65 to 66). The Board reviews exploration projects on a regular basis and approves all exploration activities and costs based on indicative economic probabilities.	No change
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.	No change

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

OPERATING RISKS continued

Risk	Risk description	Mitigation	Movement
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 10 to 12.	
NEW CONSTRUCTION PROJECTS	The Group faces challenges in developing major projects, particularly in geographically remote locations and in technically challenging areas. Construction projects require significant resources and should be executed in accordance with planned costs and within defined terms. Cost overruns and timely execution in projects directly impact the capital, productivity and commercial performance of assets across the Group. Incorrect capital allocation and poor project management may result in a decrease in the profitability of a particular project and affect the Group's results.	The Group initiates new projects, mine extensions, etc., based on detailed investment plans and a review of management resources. Major projects are subject to external consultants' reports and JORC evaluation. Capital expenditure disciplines and controls are implemented to deliver on-budget performance for construction projects. Widely recognised project management techniques are employed. The Group applies a stage-gate process to ensure the cash generation potential of future growth projects. Management and the Board closely monitor the status of new projects, costs incurred and project issues.	
SKILLED WORKFORCE SHORTAGE	The Group experiences intense competition with other companies for the retention and engagement of mining and production staff, including geologists, engineers, production process managers and other mining specialists. The loss of key personnel or a failure to attract, retain and motivate qualified personnel, could have a materially adverse effect on the Group's business, financial 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.	=

Change in residual risk level assessment as compared to the similar risk in 2015:

- ▲ Increased
- = No change
- ▼ Decreased

Risk	Risk description	Mitigation	Movement
THE GROUP IS SUBJECT TO EXTENSIVE ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REGULATIONS	Group companies are subject to various environmental, health and safety regulations stipulated by the relevant regulatory agencies. The Group's operations require various licences/permissions with regard to the use of industrial explosives, the operation of flammable, explosive and chemically aggressive production facilities and the use of hazardous structures. Stricter regulations could cause the Group to incur additional costs in order to comply with the new 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 license 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 and 2016 successfully completed ISO 14001 recertification audits. At Board level the Group's HSE Committee considers and monitors all key HSE risks.	=

STRATEGIC RISKS

Risk	Risk description	Mitigation	Movement
AN ADEQUATE RESOURCE BASE NEEDS TO BE MAINTAINED FOR FUTURE OPERATIONS AND REPLACEMENT OF DEPLETED MINES	Due to the fact that the life of a mine is limited, the Group has to strategically seek to replenish its resource base through the development of organic projects or through M&A activity. Mine development from exploration to production is a prolonged process. There can be no guarantee that current or prospective exploration will lead to sustainable production in the future.	The Group undertakes exploration projects to sustain and increase the resource base. Comprehensive near-mine exploration plans are developed for all sites. The Group is actively looking for opportunities around its existing operational assets to create competitive advantages through synergies within the Group and with regard to competitors' projects.	▼
REGULATORY CHANGES AND GOVERNMENT ACTIONS	Risks related to changes in the political and economic situation and legislative regulation in the Russian Federation and Kyrgyzstan are significant for the Group in that its major operations are located in these jurisdictions. The Group's operations in these jurisdictions are regulated by numerous laws, standards and guidelines. The Group's approach is to strive to comply with all applicable laws and regulations. There is a risk that government and government agencies could perform actions, adopt new laws, taxes, regulations, rules, or other requirements which could have a negative impact on the Group's business and operations.	Senior management monitors political developments and new legislation and assesses possible implications for the Group. In addition, the Group has established lines of communication with various governmental authorities in order to contribute to the thinking of such bodies and, when appropriate, to participate in relevant discussions with political and regulatory authorities. In 2015 and 2016, 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.	=

BOARD OF DIRECTORS

Eugene Shvidler
Executive Chairman

Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a 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 re-joined 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 has worked in the fields of public relations, public affairs and investor relations for 22 years, 20 of which were spent in the CIS region. Mr Mann consulted some of the world's largest natural resources, energy, and consumer products corporations before joining Russian listed oil major Sibneft in 2002 as head of international public relations. From 2006, he has served as head of communications for Millhouse LLC, joining Highland in autumn 2014. He joined the Board of Directors in April 2015.

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 an 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.

GOOD GOVERNANCE

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 2016.

Review of Activities

Highland Gold Mining Limited ("Highland Gold" or the "Company" or the "Group") was incorporated in Jersey on 23 May 2002 for the principal purpose, then and now, of establishing a portfolio of gold mining operations within the Russian Federation. The Group's activities, structure and operating companies are described more fully on page 67 of the Report. The Chairman's Statement and the Chief Executive Officer's Report highlight the Company's business developments during 2016 and future opportunities. 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 2016 appears in the Chief Financial Officer's Report on page 14 of the Report. The Group achieved a profit for the year of US$ 47.9 million (2015: loss of US$10.0 million).

The Directors recommend the payment of a final dividend on the ordinary shares of GBP 0.054 pence (2015: GBP 0.025) per share payable on 19 May 2017.

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 31/12/2016	Ordinary shares At 31/12/2015	% Holding 31/12/2016
Eugene Shvidler	40,853,660	36,916,144	12.56%
Valery Oyf*	14,507,453	14,196,653	4.46%
Duncan Baxter	20,000	20,000	0.01%

* In the 2015 Annual Report, Mr Oyf's shareholding was recorded in the "Substantial shareholdings" section below as one of the beneficial shareholders of Primerod International Limited.

Primerod International Limited ("Primerod") is the holding vehicle through which certain individual persons, managers and connected parties of Millhouse LLC, including Valery Oyf, held a combined 32% interest in the Company. In November 2016, Primerod reorganised and simplified the shareholding by exchanging its Highland Gold shares in return for Primerod shares. Among the recipients of this reorganisation were Valery Oyf and Executive Chairman Eugene Shvidler. An announcement to this effect was made on 8 November 2016.

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

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

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 April 2016 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. Three Non-Executive Directors, comprising Duncan Baxter, Colin Belshaw and Terry Robinson, bring an element of independence to the Board and provide a balance to those Directors who cannot be regarded as independent. The Board considers them to be independent in character and judgement. Eugene Shvidler, Valery Oyf and Olga Pokrovskaya are affiliated with Millhouse LLC which is associated with persons collectively holding 43.64% of the issued share capital of the Company, including Eugene Shvidler's interest of 12.56% and Valery Oyf's interest of 4.46%.

The Board meets on a regular basis to review the business and performance of the Group, to ensure that financing needs are appropriate and to consider operational matters, development and acquisition opportunities. 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 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, having not witnessed many changes in the year, undertook a self-assessment review in early 2017 from which no material issues arose, having considered the interaction with Committees, Executive Management and Corporate Governance matters. The Board will continue to undertake such reviews on a biennial basis provided there are no major changes to the Board that would render such a review ineffective. We anticipate the next review will take place during 2019.

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 within every three years and new appointments be confirmed at the following Annual General Meeting. Duncan Baxter, Valery Oyf and John Mann who retire by rotation will offer themselves for re-election at the Annual General Meeting to be held on 17 May 2017. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

The profiles of the Directors are to be found on pages 22 and 23 of this Report.

Audit Committee

The Audit Committee in 2016 consisted of two Non-Executive Directors, Olga Pokrovskaya and Terry Robinson, and was chaired by Mr Robinson. The Audit Committee met three times during 2016 to consider the annual and interim financial statements and the internal and external audit programme. In April 2017, the Audit Committee considered and reviewed the 2016 Financial Statements and the Annual Report statements as to the Company's Principal Risk 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, and 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 discount rate, are the drivers of the separate mine forward financial models and value in use calculation.

The Audit Committee recommended the Interim Half-Year Financial Statements and the 2016 full year audited Financial Statements to the Board for approval.

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

Following 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 2016, the Committee consisted of three Directors, all of which are non-executive, comprising Duncan Baxter, as Chairman, Valery Oyf and Terry Robinson. The Committee is responsible for reviewing the performance of executive management and, where appropriate, other senior executives, and for determining their appropriate levels of remuneration. Recommendations are made, as and when appropriate, with regard to appointments in respect of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies; the composition of the Board is monitored on an ongoing basis. The Committee makes recommendations to the Board, within defined terms of reference, which the Board reviews at least annually. The Committee, on the recommendations from management, 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 27. The Committee has considered and recommended to the Board the re-election of Duncan Baxter, Valery Oyf and John Mann 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 and the retention of Valery Oyf as a Non-Executive Director after relinquishing his position as CEO, with effect from January 2016.

Health, Safety and Environmental Committee
The Board has a Health, Safety and Environmental Committee which is chaired by Olga Pokrovskaya. The other members of the Committee during 2016 were Terry Robinson and Colin Belshaw. 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 Operational 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 control and effectiveness in safeguarding the assets of the Group. Internal controls can provide reasonable, but not absolute assurance against material misstatements or loss. The processes used by the Board to review the effectiveness of the internal controls are carried out by the Audit Committee. There is an Internal Audit Charter, which can be seen on the website at www.highlandgold.com.

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

Shareholders passed a special resolution at the Annual General Meeting on 27 May 2014 whereby the Directors were authorised to allot and grant rights to subscribe for, or convert securities into, shares in the Company up to a maximum nominal amount equivalent to 33% of the nominal amount of the authorised but unissued share capital of the Company, to such persons at such times and on such terms as they think proper without first making an offer to each person who holds shares in the Company. Such authority expires at the conclusion of the Company's Annual General Meeting this year and a renewal of the authority is proposed by the Directors for a further three year period to the Company's Annual General Meeting in 2020. A special resolution to this effect is contained within the Notice of the Annual General Meeting to be held on 17 May 2017.

Substantial shareholdings
As at close of business on 28 February 2017, the Company had been notified of the following interests, other than Directors' interests shown on page 24 of this Report, which amounted to three per cent or more of the issued share capital of the Company:

Name of Holder	Number	Percentage
Denalot Worldwide Limited	32,519,690	9.99%
Prosperity Capital Management	32,242,289	9.91%
Primerod International Limited	26,025,310	8.00%
Van Eck Associates	22,989,868	7.07%
Erlinad Holdings Limited	14,390,653	4.52%
Ivan Koulakov	13,500,000	4.15%

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

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

Annual General Meeting Notice
The Annual General Meeting will be held at 11.00 am on Wednesday 17 May 2017 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is set out on page 68 of the Report.

Statement of Directors' responsibilities in relation to the Annual Report and financial statements
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

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

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

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

Report on 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 Remuneration and Nomination 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 2016 was as follows:

No grants of options under the Unapproved share option scheme were made during 2016 and management and employees were incentivised through a bonus scheme, currently of a discretionary nature with certain production KPIs. There were no options outstanding as of 31 December 2016 (2015: nil).

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

Further information on the Remuneration and Nominations Committee can be found on page 25 of this Report.

By Order of the Board
07 April 2017

	Fees and Remuneration		Bonus	
	US$ 2016 audited	US$ 2015 audited	**US$ 2016 audited**	US$ 2015 audited
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	**122,319**	1,239,081	**–**	–
John Mann	**120,000**	80,000	**–**	–
Eugene Tenenbaum*	**-**	33,333	**–**	–
Alla Baranovskaya*	**-**	177,689	**–**	36,496
Sergey Mineev*	**-**	101,554	**–**	3,318

*resigned in April 2015.

INDEPENDENT AUDITOR'S 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 2016 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 31. 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

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

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

Andy Smyth
for and on behalf of Ernst & Young LLP, London

7 April 2017

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	2016 US$000	2015 US$000
Revenue	7	**305,901**	276,175
Cost of sales	8	**(183,995)**	(199,365)
Gross profit		**121,906**	76,810
Administrative expenses	9	**(14,293)**	(13,127)
Other operating income	10.1	**1,255**	2,882
Other operating expenses	10.2	**(16,675)**	(8,170)
Impairment losses	5, 17	**(22,832)**	(35,982)
Operating profit		**69,361**	22,413
Foreign exchange gain/(loss)	11	**1,909**	(4,321)
Finance income	12.1	**145**	1,331
Finance costs	12.2	**(5,187)**	(5,529)
Profit before income tax		**66,228**	13,894
Current income tax expense	13	**(36,596)**	(15,867)
Withholding tax expense	13	**(3,135)**	–
Adjustments in respect of prior year income tax	13	**–**	(1,542)
Deferred income tax release/(expense)	13	**21,412**	(6,504)
Total income tax expense	13	**(18,319)**	(23,913)
Profit/(loss) for the year		**47,909**	(10,019)
Total comprehensive profit/(loss) for the year		**47,909**	(10,019)
Attributable to:			
Equity holders of the parent		**47,235**	(10,316)
Non-controlling interests		**674**	297
Profit/(loss) per share (US$ per share)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	14	**0.145**	(0.032)
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	14	**0.145**	(0.032)

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 2016 US$000	31 December 2015 US$000
ASSETS			
Non-current assets			
Exploration and evaluation assets	15	**85,459**	309,101
Mine properties	15	**567,762**	318,068
Property, plant and equipment	15	**295,019**	320,986
Intangible assets	16	**57,802**	70,365
Inventories	19	**8,989**	16,372
Other non-current assets	18	**4,151**	3,845
Deferred income tax asset	13	**–**	–
Total non-current assets		**1,019,182**	1,038,737
Current assets			
Inventories	19	**56,140**	67,758
Trade and other receivables	20	**32,296**	31,188
Income tax prepaid		**1,032**	3,770
Prepayments		**1,975**	888
Financial assets	29	**–**	21,150
Cash and cash equivalents	21	**8,748**	3,058
Other current assets		**1,226**	602
Total current assets		**101,417**	128,414
TOTAL ASSETS		**1,120,599**	1,167,151
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	22	**585**	585
Share premium		**718,419**	718,419
Assets revaluation reserve	22	**832**	832
Retained earnings		**33,947**	18,176
Total equity attributable to equity holders of the parent		**753,783**	738,012
Non-controlling interests		**1,859**	1,566
TOTAL EQUITY		**755,642**	739,578
Non-current liabilities			
Interest-bearing loans and borrowings	23	**164,587**	183,000
Liability under finance lease		**1,590**	1,526
Long-term accounts payable	24	**254**	223
Provisions	25	**17,199**	16,026
Deferred income tax liability	13	**114,045**	135,457
Total non-current liabilities		**297,675**	336,232
Current liabilities			
Trade and other payables	24	**17,633**	20,201
Interest-bearing loans and borrowings	23	**47,000**	70,375
Income tax payable		**1,613**	16
Liability under finance lease		**1,036**	749
Total current liabilities		**67,282**	91,341
TOTAL LIABILITIES		**364,957**	427,573
TOTAL EQUITY AND LIABILITIES		**1,120,599**	1,167,151

The financial statements were approved by the Board of Directors on 07 April 2017 and signed on its behalf by: John Mann 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	Assets revaluation reserve US$000	Retained earnings US$000	Total US$000	Non-controlling interest US$000	Total equity US$000
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	27	–	–	–	869	869	(1,301)	(432)
Dividends paid to equity holders of the parent	30	–	–	–	(20,075)	(20,075)	–	(20,075)
At 31 December 2015		585	718,419	832	18,176	738,012	1,566	739,578
Total comprehensive income for the year		–	–	–	47,235	47,235	674	47,909
Novo share purchase		–	–	–	241	241	(381)	(140)
Dividends paid to equity holders of the parent	30	–	–	–	(31,705)	(31,705)	-	(31,705)
At 31 December 2016		**585**	**718,419**	**832**	**33,947**	**753,783**	**1,859**	**755,642**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

	Notes	2016 US$000	2015 US$000
Operating activities			
Profit before income tax		**66,228**	13,894
		66,228	13,894
Adjustments to reconcile profit before income tax to net cash flows from operating activities:			
Depreciation of mine properties and property, plant and equipment	8	**60,212**	72,583
Impairment losses related to cash-generating units	5, 17	**22,832**	35,982
Movement in ore stockpiles obsolescence provision	10.2.1	**9,869**	120
Movement in raw materials and consumables obsolescence provision	10.2	**600**	521
Write-off of mine properties and property, plant and equipment	10.2, 15	**1,180**	1,916
Individual impairment of property, plant and equipment and mine assets	10.2.2	**17**	1,698
Loss on disposal of property, plant and equipment	10.2	**318**	172
Bank interest receivable	12.1	**(138)**	(75)
Bonds fair value movement	12.1, 12.2, 29	**1,013**	(1,246)
Interest expense on bank loans	12.2	**2,247**	3,297
Accretion expense on site restoration provision	12.2	**1,674**	2,117
Gain on change in estimation – site restoration asset	10.1	**–**	(2,104)
Gain on settlement of contingent consideration	10.1	**(400)**	-
Net foreign exchange loss	11	**(1,909)**	4,321
Movement in provisions		**545**	177
Unwinding costs other		**(7)**	–
Other non-cash expenses/(income)		**1**	983
Working capital adjustments:			
Increase in trade and other receivables and prepayments		**(5,313)**	(8,295)
Decrease in inventories		**10,215**	147
Increase in trade and other payables		**1,770**	839
Income tax paid		**(34,790)**	(21,444)
Net cash flows from operating activities		**136,164**	105,603
Investing activities			
Proceeds from sale of property, plant and equipment		**1,494**	98
Purchase of property, plant and equipment	5	**(59,349)**	(42,195)
Capitalised interest paid	5, 15	**(9,624)**	(12,359)
Increase in stripping activity assets	15	**(5,884)**	(9,399)
Interest received from deposits		**138**	75
Interest received from bonds	29	**–**	2,534
Purchase of investments – bonds	29	**–**	(3,818)
Novo shares purchase	27	**(138)**	(432)
Sale of investments – bonds	29	**20,136**	24,337
Net cash flows used in investing activities		**(53,227)**	(41,159)
Financing activities			
Proceeds from borrowings		**314,500**	673,924
Repayment of borrowings		**(356,450)**	(724,472)
Dividends paid to equity holders of the parent	30	**(31,705)**	(20,075)
Payment under finance lease, including interest		**(1,277)**	(827)
Interest paid		**(2,132)**	(3,087)
Net cash flows used in financing activities		**(77,064)**	(74,537)
Net increase/(decrease) in cash and cash equivalents		**5,873**	(10,093)
Effects of exchange rate changes		**(183)**	205
Cash and cash equivalents at 1 January	21	**3,058**	12,946
Cash and cash equivalents at 31 December	21	**8,748**	3,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on 07 April 2017.

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.

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 such scenarios.

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.

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.

3. Summary of significant accounting policies continued

Business combinations and goodwill continued

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 2016	31 December 2015
Average		
RUR	**66.834**	61.319
GBP	**0.741**	0.654
Closing		
RUR	**60.657**	72.883
GBP	**0.810**	0.676

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 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 development expenditure is included into mine assets.

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.

3. Summary of significant accounting policies continued

Stripping costs

The Group incurs waste removal costs (stripping costs) during the production phase of surface mining operations. Further details 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 29.

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 29.

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 CGUs 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.

3. Summary of significant accounting policies continued

Financial assets and liabilities continued

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;
- 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. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted as follow: changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period; the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

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 organized market (LME, London Metal Exchange; LBMA, London Bullion Market Association). A portion of the provisional invoice is settled within a few days (80%). The remaining amount (20%), plus or minus any adjustment on 100% of the value of the sale for movements in price from the price in the provisional invoice and the final price, plus any volume of metals adjustments resulting from the final assay is settled in 4 months after the date of the shipment for Kazzinc and is settled in 3 months from July 2016 to 22 December 2016 and in 4 months from 23 December 2016 after the date of the delivery for Hyosung. For Kazzinc the title to the commodity passes to the buyer on shipment and for Hyosung the title to the commodity passes to the buyer on delivery to boundary railway station – border of the Russian Federation – the People's Republic of China.

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 that requires separation at the date the sale is recognised. 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.

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

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

Dividend distribution
Dividends 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.

3. Summary of significant accounting policies continued

Income taxes continued

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 2016.

Changes to IFRS:

The following new standards and amendments became effective as of 1 January 2016:

- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38
- Annual Improvements Cycle – 2012-2014
- IAS 1 Disclosure Initiative – amendments to IAS 1

The Group plans to apply IFRS 15, IFRS 16 and IFRS 9 starting from the dates effective in the European Union. At present the Group is in the process of analysis of the possible impact of the application of these standards on its consolidated financial statements, but the preliminary results show that the impact will not be significant.

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).

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 written off in 2016 due to non-fulfilment of the contractual terms.

Functional currency

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. USD is the functional currency of all entities both in 2015 and 2016.

4. Critical accounting estimates and judgements in applying accounting policies continued

Estimations and assumptions

Impairment of non-current assets

Non-financial assets (excluding goodwill)

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

In calculating the recoverable amount, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining the recoverable amount, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Further details on how FVLCD is calculated are outlined in Note 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 26 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 2022 at MNV, in 2026 at BG, in 2029 at Novo, in 2029 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) were used in the units of production calculation for depreciation in 2016, as management believes they represent the most accurate approximation of the reserves.

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).

5. Segment information continued

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 profit/(loss) after tax for the year.

The finance costs, finance income, income taxes, foreign exchange losses are managed on a group basis and are not allocated to operating segments. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 3 of the financial statements. Revenue from several customers was greater than 10% of total revenues.

In 2016 the gold and silver revenue reported in the gold production segment was received from sales to Gazprombank (US$179.5 million) in the territory of the Russian Federation.

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 2016 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US$97.8 million was received from sales to Kazzinc (2015: US$97.6 million) in the territory of the Republic of Kazakhstan and to Hyosung corporation in the territory of the People's Republic of China in the amount of US$28.2 million (2015: Nil).

Other third-party revenues in both 2016 and 2015 were received in the territory of the Russian Federation.
Inter-segment revenues mostly represent management services.

Year ended 31 December 2016	Gold production segment US$000	Polymetallic concentrate production segment US$000	Development & Exploration US$000	Other US$000	Eliminations US$000	Total US$000
Revenue						
Gold revenue	177,528	–	–	–	–	177,528
Silver revenue	1,985	–	–	–	–	1,985
Concentrate revenue	–	126,048	–	–	–	126,048
Other third-party	138	181	21	–	–	340
Inter-segment	46	–	–	12,228	(12,274)	–
Total revenue	179,697	126,229	21	12,228	(12,274)	305,901
Cost of sales	133,959	49,531	196	309	–	183,995
EBITDA	76,604	90,086	(1,401)	(2,798)	–	162,491
Other segment information						
Depreciation	(42,273)	(17,814)	(26)	(99)	–	(60,212)
Movement in ore stockpiles obsolescence provision	(9,869)	–	–	–	–	(9,869)
Movement in raw materials and consumables obsolescence provision	(501)	(99)	–	–	–	(600)
Impairment losses related to cash-generating units	(22,832)	–	–	–	–	(22,832)
Individual impairment of property, plant and equipment	–	–	(17)	–	–	(17)
Gain on settlement of contingent consideration	–	–	400	–	–	400
Finance income						145
Finance costs						(5,187)
Foreign exchange loss						1,909
Profit before income tax						66,228
Income tax						(18,319)
Loss for the year						47,909
Segment assets at 31 December 2016						
Non-current assets						
Capital expenditure*	183,937	164,468	599,342	493	–	948,240
Goodwill	9,690	5,134	42,978	–	–	57,802
Other non-current assets	9,571	902	2,385	282	–	13,140
Current assets**	84,028	29,217	5,847	6,622	(24,297)	101,417
Total assets						1,120,599
Capital expenditure – additions in 2016***, including:	27,365	11,085	37,544	41	–	76,035
Stripping activity assets	5,884	–	–	–	–	5,884
Capitalised bank interest	–	–	9,624	–	–	9,624
Unpaid /(settled) accounts payable	860	688	(365)	2	–	1,185
Cash capital expenditure	20,621	10,397	28,292	39	–	59,349

* 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$8.7 million, inventories of US$56.1 million, trade and other receivables of US$33.3 million and other assets of US$3.3 million. Investments consisting of bonds of US$21.2 million was completely sold in their entirety during 2016. Eliminations relate to intercompany accounts receivable.

*** Capital expenditure – additions in 2016 – includes additions to property, plant and equipment of US$66.1 million (Note 15), capitalised interest of US$9.6 million (Note 15) and prepayments made for property, plant and equipment of US$0.3 million.

Non-current assets for 2016 are located in the Russian Federation (US$975.7 million) and in the Kyrgyz Republic (US$43.5 million). Current assets for 2016 are located in the Russian Federation.

5. Segment information continued

Year ended 31 December 2015	Gold production segment US$000	Polymetallic concentrate production segment US$000	Development & Exploration US$000	Other US$000	Eliminations US$000	Total US$000
Revenue						
Gold revenue	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 intercompany 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.

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	
	2016 US$000	2015 US$000	**2016 US$000**	2015 US$000	**2016 US$000**	2015 US$000
Audit of the Group financial statements	**575**	575	**–**	–	**575**	575
Local statutory audits for subsidiaries	**11**	18	**88**	75	**99**	93
	586	593	**88**	75	**674**	668

7. Revenue

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

	2016 US$000	2015 US$000
Gold sales	**177,528**	176,625
Concentrate sales*	**126,048**	97,602
Silver sales	**1,985**	1,519
Other sales	**340**	429
	305,901	276,175

* Concentrate sales include a zero fair value movement (2015: a positive fair value movement of US$1.3 million) relating to an embedded derivative as described in note 28.

8. Cost of sales

	2016 US$000	2015 US$000
Operating costs	**33,611**	35,022
Movement in ore stockpiles and gold in progress	**(3,902)**	(4,159)
Movement in finished goods	**211**	813
Capitalised to stripping activity assets	**(9,211)**	(9,399)
Employee benefits expense	**42,261**	40,448
Depreciation, depletion and amortisation	**60,212**	72,583
Raw materials and consumables used	**44,532**	48,127
Taxes other than income tax*	**16,281**	15,930
Total cost of sales	**183,995**	199,365

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

9. Administrative expenses

	2016 US$000	2015 US$000
Management company administrative expenses	**9,393**	8,716
Minimum lease payments recognised as an operating lease expense	**850**	819
Salaries and wages of parent company	**1,260**	1,158
Auditors' remuneration (Note 5)	**674**	668
Legal and professional fees	**873**	842
Bank charges	**320**	374
Travel expenses of parent company	**351**	359
Allowance for doubtful prepayments and other receivables	**545**	177
Other administrative expenses	**27**	14
Total administrative expenses	**14,293**	13,127

10. Other operating income and expenses

10.1. Other operating income

	2016 US$000	2015 US$000
Other operating income	**831**	762
Gain on settlement of contingent consideration	**400**	–
Accounts payable write-off	**24**	16
Change in estimation – site restoration asset (Note 15)	**–**	2,104
Total other operating income	**1,255**	2,882

10.2. Other operating expenses

		2016 US$000	2015 US$000
Movement in ore stockpiles obsolescence provision (Note 19)	10.2.1	**9,869**	120
Mine properties and property, plant and equipment write-off		**1,180**	1,916
Individual impairment of property, plant and equipment	10.2.2	**17**	1,698
Donations to local communities		**1,608**	832
Loss on disposal of property, plant and equipment		**318**	172
Loss on disposal of inventory		**1,082**	397
Movement in raw materials and consumables obsolescence provision		**600**	521
Other operating expenses		**2,001**	2,514
Total other operating expenses		**16,675**	8,170

10.2.1. Movement in ore stockpiles obsolescence provision

Stock-piled low grade ore at BG is tested for impairment annually. During 2016, the Company changed the technical project of BG and decreased the cut-off grade and the projected recovery rate. As a result, a portion of ore stockpiles in the amount of US$9.9 million was written down in 2016 (2015: US$0.1 million).

10.2.2. Individual impairment of property, plant and equipment

The recoverable amount of some non-current assets determined as at 31 December 2016 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.

11. Foreign exchange gains and losses

The total amount of foreign exchange gain for the year ended 31 December 2016 was US$1.9 million (2015: loss of US$4.3 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

12.1. Finance income

	2016 US$000	2015 US$000
Bonds fair value movement (Note 29)	**–**	1,246
Bank interest	**138**	75
Other finance income	**7**	10
Total finance income	**145**	1,331

12.2. Finance costs

	2016 US$000	2015 US$000
Accretion expense on site restoration provision (Note 25)	**1,674**	2,117
Interest expense on bank loans	**2,247**	3,297
Bonds fair value movement (Note 29)	**1,013**	–
Interest expense on finance lease	**253**	115
Total finance costs	**5,187**	5,529

13. Income tax

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016 US$000	2015 US$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	**36,596**	15,867
Withholding tax	**3,135**	–
Adjustments in respect of prior year tax	**–**	804
Adjustments in respect of prior year withholding tax	**–**	738
	39,731	17,409
Deferred income tax:		
Relating to origination of temporary differences	**(21,412)**	6,504
Income tax expense reported in the statement of comprehensive income	**18,319**	23,913

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 years ended 31 December 2016 and 2015 is as follows:

	2016 US$000	2015 US$000
Accounting profit before income tax	**66,228**	13,894
At Russian statutory income tax rate of 20%	**13,247**	2,779
Non-deductible expenses	**4,679**	2,748
Effect of translation of tax base denominated in foreign currency	**(8,254)**	8,758
Adjustments in respect of prior year tax	**–**	804
Adjustments in respect of prior year withholding tax	**–**	738
Withholding tax	**3,135**	–
Lower tax rates on overseas losses	**6,575**	3,218
Unrecognised losses	**(3,904)**	1,305
Loss/(gain) from other unrecognised temporary differences	**328**	212
Losses arising from goodwill impairment	**2,513**	3,351
Income tax expense at the effective tax rate of 28% (2015: 172%)	**18,319**	23,913
Income tax expense reported in the consolidated statement of comprehensive income	**18,319**	23,913

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	2016 US$000	2015 US$000	2016 US$000	2015 US$000
Deferred income tax liability				
Property, plant and equipment	**(138,754)**	(146,570)	**(7,816)**	4,299
Inventory	**(3,377)**	(9,384)	**(6,007)**	(496)
Accounts receivable and other debtors	**(993)**	(710)	**283**	(93)
Deferred financing costs	**(83)**	(25)	**58**	(33)
	(143,207)	(156,689)	**(13,482)**	3,677
Deferred income tax assets				
Accounts receivable and other debtors	**212**	(60)	**(272)**	724
Finance lease obligations	**334**	212	**(122)**	(212)
Trade accounts and notes payable	**1,290**	772	**(518)**	321
Tax losses	**27,326**	20,308	**(7,018)**	1,994
	29,162	21,232	**(7,930)**	2,827
Net deferred income tax liabilities	**(114,045)**	(135,457)	**(21,412)**	6,504

13. Income tax continued

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 2016 is US$17.2 million (31 December 2015: US$15.3 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 2016 is US$15.6 million (31 December 2015: US$15.9 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 2016 is US$21.7 million (31 December 2015: US$32.5 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

Russian tax legislation in respect of treating tax losses was changed in 2016: tax losses generated after 2007 can be utilised with no time limit.

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$486.9 million (2015: US$298.2 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is not probable that the temporary differences will reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences should be between US$0 and US$73.0 million (2015: US$0 and US$14.9 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2016 and 2015 years of assessment will be subject to 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 2016 (2015: 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:

	2016 US$000	**2015 US$000**
Net loss attributable to ordinary equity holders of the parent	**47,235**	(10,316)

	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 period-by-period basis for the period ending 31 December 2016

	Exploration and evaluation assets US$000	Mine assets 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 2015	**323,117**	**460,703**	**17,225**	**205,277**	**218,437**	**67,343**	**1,292,102**
Additions	10,437	16,636	5,884	–	1,427	31,734	66,118
Transfers	(253,554)	259,824	–	10,337	16,470	(33,880)	(803)
Write-off**	–	(10,497)	(1,804)	(1,076)	(6,791)	(417)	(20,585)
Disposals	–	(64)	–	–	(352)	(1,762)	(2,178)
Capitalised depreciation	171	6,888	333	–	–	979	8,371
Capitalised interest***	5,288	4,336	–	–	–	–	9,624
Change in estimation – site restoration asset****	–	(484)	–	–	–	–	(484)
At 31 December 2016	**85,459**	**737,342**	**21,638**	**214,538**	**229,191**	**63,997**	**1,352,165**
Depreciation and impairment							
At 31 December 2015	**14,016**	**151,128**	**8,732**	**65,935**	**102,565**	**1,571**	**343,947**
Provided during the year	–	23,618	3,180	11,624	21,790	–	60,212
Transfers	(14,016)	14,016	–	(306)	(497)	–	(803)
Write-off**	–	(10,492)	(1,804)	(868)	(6,142)	(99)	(19,405)
Impairment of property, plant and equipment and mine assets	–	17	–	–	–	–	17
Disposals	–	(62)	–	–	(304)	–	(366)
Capitalised depreciation	–	762	–	2,927	4,682	–	8,371
Reclass to inventory	–	–	–	327	1,366	–	1,683
BG Impairment	–	1,478	645	4,594	3,401	151	10,269
At 31 December 2016	**–**	**180,465**	**10,753**	**84,223**	**126,860**	**1,623**	**403,925**
Net book value:							
At 31 December 2015	**309,101**	**309,575**	**8,493**	**139,342**	**115,872**	**65,772**	**948,155**
At 31 December 2016	**85,459**	**556,877**	**10,885**	**130,315**	**102,330**	**62,374**	**948,240**

* Net book value of plant and equipment in the amount of US$2.9 million at 31 December 2016 relates to assets under finance lease at MNV and Novo: cost of US$4.3 million less accumulated depreciation of US$1.4 million.

** Write-off for 2016 in the amount of US$1.2 million relates to retirement of old inefficient equipment and some buildings.

*** Capitalised interest for 2016 includes US$9.6 million of borrowing costs capitalised at Kekura at interest rates between 3.9% and 5.2%.

No plant and equipment has been pledged as security for bank loans in 2016.

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

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

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

Reconciliation of fixed assets on period-by-period basis for the period ending 31 December 2015

	Exploration and evaluation assets US$000	Mine assets 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)
Reclass to inventory	–	–	–	305	607	–	912
Kekura Impairment	14,016	–	–	2,572	1,271	1,369	19,228
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 25) which exceeded the corresponding net book value in fixed assets by US$2.1 million. This excess was recognised in other operating income.

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:

	2016 US$000	2015 US$000
Operating expenses	**(515)**	(1,113)
Net cash from operating activities	**–**	–
Net cash used in investing activities	**11,848**	15,107

16. Intangible assets

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 2016 intangible assets represented goodwill arising from the Barrick transaction (US$65.2 million), US$12.6 million of which relating to Belaya Gora was impaired in 2016, and from the acquisition of Novo (US$5.1 million).

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:

	2016 US$000	2015 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
Goodwill allocated to the polymetallic mining company (Novo)	**5,134**	5,134
Goodwill allocated to the group of development and exploration assets (Taseevskoye, Unkurtash and Lubov)	**42,978**	42,978
Balance at 31 December	**57,802**	70,365

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 2016 and 2015 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 until 2022;
- BG – 2026;
- Novo – 2029;
- Klen – 2029;
- Kekura – 2030;
- Taseevskoye – 2029;
- Unkurtash – 2037;
- Lubov – 2028.

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.

17. Impairment testing of non-current assets continued

The table below shows the key assumptions used in the fair value calculation at 31 December 2016 and 2015.

	2016	2015
Post-tax discount rate for cash flows in the operating gold mining company (MNV), %	**7.25**	7.54
Post-tax discount rate for cash flows in the operating gold mining company (BG), %	**8.25**	8.54
Post-tax discount rate for cash flows in the polymetallic mining company (Novo), %	**7.25**	7.54
Post-tax discount rate for cash flows in the gold mining company being at development stage (Klen), %	**9.25**	9.54
Post-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye), %	**9.25**	9.54
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Kekura), %	**9.25**	9.54
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Unkurtash), %	**9.25**	9.54
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Lubov), %	**9.25**	9.54
Gold price, US$ per ounce in the future year	**1,200**	1,050
Gold price, US$ per ounce in the year after the next	**1,250**	1,150
Silver price, US$ per ounce in the future periods	**16**	15
Lead price, US$ per tonne in the future periods	**1,800**	1,700
Zinc price, US$ per tonne in the future periods	**2,200**	1,700

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

	2016 US$000	2015 US$000
Goodwill	**12,563**	16,754
Exploration and evaluation assets	**–**	14,016
Mine assets	**1,478**	–
Stripping activity assets	**645**	–
Buildings	**4,594**	2,572
Property, plant and equipment	**3,401**	1,271
Construction in progress	**151**	1,369
Total impairment losses	**22,832**	35,982

An impairment loss was recognised in 2016 in relation to the Belaya Gora project. The triggers for the impairment loss recognition were primarily the effect of changes to the mine plan which resulted in lower recovery rate and higher future capital expenditure accompanied by higher costs due to a stronger Rouble. 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, mine assets, stripping activity assets, buildings, property, plant and equipment and construction in progress exceeded their recoverable amounts. The carrying amount of goodwill allocated to Belaya Gora has been reduced to Nil via the recognition of an impairment loss of US$12.6 million during the year ended 31 December 2016. US$10.2 million was recognised as an impairment loss in respect of other non-current assets.

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 increase in the post-tax discount rate, any decrease in gold prices below US$1,200 per ounce in 2017 or any increase in operating or capital costs at Belaya Gora would result in a further impairment of mine properties and property, plant and equipment.

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

18. Other non-current assets

	2016 US$000	2015 US$000
Non-current prepayments*	**3,868**	3,517
Other non-current assets	**283**	328
Total other non-current assets	**4,151**	3,845

* 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. Inventories

Non-current*

	2016 US$000	2015 US$000
Ore stockpiles	**12,839**	21,101
Ore stockpile obsolescence provision	**(3,850)**	(4,729)
Total inventories	**8,989**	16,372

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

Current

	2016 US$000	2015 US$000
Raw materials and consumables	**51,146**	66,195
Ore stockpiles	**21,223**	6,661
Gold in progress	**5,625**	5,195
Finished goods	**684**	896
	78,678	78,947
Raw materials and consumables obsolescence provision	**(11,789)**	(11,189)
Ore stockpile obsolescence provision**	**(10,749)**	–
Total inventories	**56,140**	67,758

Movement in raw materials and consumables obsolescence provision amounted to US$0.6 million in 2016 (2015: US$0.5 million). No inventory has been pledged as security.

** Stockpiled low-grade ore at BG is tested for impairment semi-annually. Movement in ore stockpile obsolescence provision amounted to US$9.9 million in 2016 (2015: US$0.1 million).

20. Trade and other receivables

	2016 US$000	2015 US$000
VAT receivable	**16,056**	15,563
Other taxes receivable	**1,188**	454
Related party receivables (Note 27)	**6**	35
Trade receivables	**12,917**	13,480
Other receivables	**2,129**	1,656
	32,296	31,188

The Group's trade customers have no history of default. Other receivables are non-interest bearing and are generally on 30-90 days-term.

20. Trade and other receivables continued

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

	2016 US$000	2015 US$000
At 1 January	**20**	45
Additions / (utilisation)	**5**	(25)
At 31 December	**25**	20

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.

21. 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.

	2016 US$000	2015 US$000
Cash in hand and at bank	**8,728**	3,058
Short-term deposits	**20**	–
	8,748	3,058

22. Issued capital and reserves

a) Issued share capital

Authorised	2016 Shares	2015 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 2014	325,222,098	585
Ordinary shares issued	–	–
At 31 December 2015	325,222,098	585
Ordinary shares issued	–	–
At 31 December 2016	**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.

23. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	2016 US$000	2015 US$000
Current				
Gazprombank loan(1)	4.8	March 2017	–	33,000
Sberbank loan(2)	4.2	September 2016	–	37,375
Gazprombank loan(3)	4.7	December 2018	**21,428**	–
UniCredit loan(4)	4.8	December 2018	**16,666**	–
Raiffaizen loan(6)	5.2	August 2019	**4,889**	–
UniCredit loan(7)	3.9	October 2019	**4,017**	–
			47,000	70,375
Non-current				
Gazprombank loan(1)	4.8	March 2017	–	22,500
Gazprombank loan(3)	4.7 (2015: 6.5)	December 2018	**28,572**	80,000
UniCredit loan(4)	4.8 (2015: 5.4)	December 2018	**33,333**	50,000
Alfa-bank loan(5)	4.5 (2015: 5.9)	December 2018	**40,000**	30,500
Raiffaizen loan(6)	5.2	August 2019	**17,111**	–
UniCredit loan(7)	3.9	October 2019	**45,571**	–
			164,587	183,000
Total			**211,587**	253,375

(1) The loan was repaid in October 2016.
(2) The loan was repaid in September 2016.
(3) In November 2015 the Group secured a revolving facility with Gazprombank at a 6.5% interest rate with the draw period set until 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 2016 is US$50.0 million (2015: US$80.0). The outstanding bank debt is subject to the following covenants: the ratio of total debt to EBITDA should be equal to or lower than 4.0 and the deficit of liquidity cannot exceed 5% of the annual revenue.
(4) In December 2015 the Group raised financing with UniCredit bank at a LIBOR USD 1M + 5.0% interest rate with the draw period set until 17 January 2016. In 2016 the interest rate decreased to LIBOR USD 1M + 4.0%. The loan is repayable in instalments between July 2017 and December 2018. The drawn down payable balance obtained under the agreement at 31 December 2016 is US$50.0 million (2015: US$50.0). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5 and the Group EBITDA to interest expense ratio should be equal to or higher than 4.0.
(5) In April 2015 the Group raised financing with Alfa-bank with the draw period set until 31 December 2018. The interest rate is set for every instalment separately. The date of repayment was shifted to 31 December 2019. The drawn down payable balance obtained under the agreement at 31 December 2016 is US$40.0 million (2015: US$30.5 million). The outstanding bank debt is subject to the following covenant: the ratio of total net debt to EBITDA should be equal to or lower than 4.0.
(6) In August 2016 the Group raised financing with Raiffaizen bank at a LIBOR USD 1M + 4.4% interest rate with the draw period set until 23 September 2016. The loan is repayable in August 2019. The drawn down payable balance obtained under the agreement at 31 December 2016 is US$22.0 million (2015: Nil). The outstanding bank debt is subject to the following covenants: the ratio of total net debt to EBITDA should be equal to or lower than 4.0; the ratio of EBITDA to interest expense should be equal to or higher than 4.0; the ratio of total debt to Equity should be lower than 0.6.
(7) In October 2016 the Group raised financing with UniCredit bank at a 3.55% interest rate adjusted for the upfront fee amounting to 0.9% with the draw period set until 20 November 2016. The loan is repayable October 2019. The drawn down payable balance obtained under the agreement at 31 December 2016 is US$49.6 million (2015: Nil). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5; the ratio of EBITDA to interest expenses should be equal to or higher than 4.0.

The total outstanding bank debt of the Group at 31 December 2016 is US$211.6 million (2015: US$253.4 million). There were no covenant breaches as at 31 December 2016 (2015: none).

24. Trade and other payables

Non-current

	2016 US$000	2015 US$000
Pension liabilities	**254**	223
	254	223

24. Trade and other payables continued

Current

	2016 US$000	2015 US$000
Contingent consideration liability	–	400
Trade payables	**6,126**	10,366
Salaries payable	**7,403**	5,814
Other taxes payable	**3,691**	3,166
Other current payables	**413**	455
	17,633	20,201

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 3.

25. Provisions

	Site restoration provision US$000
At 31 December 2014	15,699
Accretion	2,117
Utilisation of provision	(18)
Effect of changes in the discount and inflation rates	1,613
Effect of changes in estimated costs	2,599
Effect of exchange rate changes	(5,984)
At 31 December 2015	16,026
Accretion	1,674
Utilisation of provision	(17)
Effect of changes in the discount and inflation rates	(4,992)
Effect of changes in estimated costs	(95)
Effect of exchange rate changes	4,603
At 31 December 2016	**17,199**

Site restoration provision

In 2016 the Group performed a re-assessment of the site restoration provision at MNV, Novo, BG, Kekura and Klen. 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 2022, 2029, 2026, 2030 and 2029 respectively), with site restoration activities expected to be carried out in 2022, 2029, 2026, 2029 and 2029 (removal of waste, restoration of mine sites).

Current prices for similar activities and risk-free RUR-denominated government bonds discount rate of 9.3% (2015: 10.2%) has been used to calculate the site restoration liability at MNV assuming its closure in 2022.

A risk-free RUR-denominated government bonds discount rate of 10.1% (2015: RUR-denominated government bonds rate of 11.5%) 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 8.4% (2015: RUR-denominated government bonds rate of 9.7%) has been used to calculate the site restoration liability at BG assuming its closure in 2026.

A risk-free RUR-denominated government bonds discount rate of 10.1% (2015: RUR-denominated government bonds rate of 11.9%) has been used to calculate the site restoration liability at Klen and Kekura assuming site closure in 2029.

The increase in site restoration liability in the amount of US$4.6 million was due to appreciation of RUR against USD in 2016 (2015: decrease of US$6.0 million).

The total change in estimation of site restoration liability amounts to US$0.5 million in 2016 (2015: US$1.8 million).

26. 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 2016 was US$0.9 million (2015: US$0.8 million).

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

	2016 US$000	2015 US$000
Within one year	**892**	935
After one year but not more than five years	**231**	1,209
	1,122	2,144

Capital commitments

At 31 December 2016 the Group had commitments of US$15.1 million (2015: US$5.8 million) principally relating to development assets and US$1.0 million (2015: US$1.9 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	
	2016 US$000	2015 US$000	2016 US$000	2015 US$000
Within one year	**1,037**	917	**1,090**	845
After one year but not more than five years	**1,589**	1,735	**1,300**	1,407
Total minimum lease payments	**2,626**	2,652	**2,390**	2,252
Less amounts representing finance charges	**(236)**	(400)	**–**	–
Present value of minimum lease payments	**2,390**	2,252	**2,390**	2,252

Contingent Liabilities

Management has identified possible tax claims within the various jurisdictions in which the Group operates totalling US$2.1 million as at 31 December 2016 (at 31 December 2015: US$2.3 million). In management's view these possible tax claims will likely not result in a future outflow of resources, consequently no provision is required in respect of these matters.

In addition, because a number of fiscal periods remain open to review by the tax authorities, there is a risk that transactions and interpretations that have not been identified by management or challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with the passage of time. It is not practical to determine the amount of any such potential claims or the likelihood of any unfavourable outcome.

Notwithstanding the above risks, management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable. Where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

27. 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 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	99.13*
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 – until 11 November 2014	Russia	100

* Direct shareholding in OJSC Novo-Shirokinsky Rudnik is 99.0%. In 2016 OJSC Novo-Shirokinsky Rudnik acquired treasury stock equal to 0.13% of outstanding shares for cash consideration of US$0.1 million, which resulted in a decrease in non-controlling interest of US$0.4 million. Effective control is therefore equivalent to a 99.13% 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. In November 2016, the persons behind Primerod International Limited reorganised and simplified their indirect holdings in the Company by exchanging their shares in Primerod for their pro rata shareholding in Highland Gold. These entities, and their shareholdings as of 31 December 2016, include: Primerod International Limited (8.00%), Denalot Worldwide Limited (9.99%), Erlinad Holdings Limited (4.52%), Matteson Overseas Limited (4.46%), New Evolution Trading Limited (2.10%), and Ms Irina Panchenko (2.00%, previously held via Frazar Worldwide Holdings). All of the above parties have agreed to be bound by the terms of the relationship agreement with Highland Gold entered into at the time of the original subscription by Primerod.

Eugene Shvidler, Executive Chairman of the Company, and persons connected with him owned 40,853,660 shares representing 12.56% of the total issued share capital of the Company as of 31 December 2016. Through his ownership of Matteson Overseas Limited, Non-Executive Director Valery Oyf controls 14,507,453 shares representing 4.46%of total issued share capital.

Prosperity Capital Management and affiliated entities held 13.79% of Highland Gold's issued shares at 31 December 2016.

Terms and conditions of transactions with related parties

There were no related party transactions in 2016. 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 2016 (2015: Nil). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2015: 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

	2016 US$000	2015 US$000
Short-term employee benefits	**5,223**	5,537
Total compensation paid to key management personnel	**5,223**	5,537

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

There is no share options plan.

28. 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 2016 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 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 organized market (LME, London Metal Exchange; LBMA, London Bullion Market Association). A portion of the provisional invoice is settled within a few days (80%). The remaining amount (20%), plus or minus any adjustment on 100% of the value of the sale for movements in price from the price in the provisional invoice and the final price, plus any volume of metals adjustments resulting from the final assay is settled in 4 months after the date of the shipment for Kazzinc and is settled in 3 months from July 2016 to 22 December 2016 and in 4 months from 23 December 2016 after the date of the delivery for Hyosung. For Kazzinc the title to the commodity passes to the buyer on shipment and for Hyosung the title to the commodity passes to the buyer on delivery to boundary railway station – border of the Russian Federation – the People's Republic of China. Pricing adjustment features that are based on quoted market prices for a date subsequent to the date of shipment or delivery of the commodity represent a derivative financial instrument once the commodity has been delivered. The derivative has a fair value, based on the pricing formula set out in the contract, which is based on quoted market prices.

Foreign currency risk

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

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

	Increase/ decrease in RUR rate	Effect on profit before tax US$000	Increase/ decrease in GBP rate	Effect on profit before tax US$000
2015	10%	758	5%	1,106
	-10%	(758)	-5%	(1,106)
2016	**10%**	**496**	**5%**	**208**
	-10%	**(496)**	**-5%**	**(208)**

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 immediately after the sale. Therefore, there are no trade receivables associated with the gold trade.

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 23 for the information on the financial covenants the Group is bound by.

28. Financial risk management objectives and policies continued

Liquidity risk continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 and 31 December 2016 based on contractual undiscounted payments.

Year ended 31 December 2015	On demand US$000	< 1 year US$000	1-2 years US$000	2-5 years US$000	> 5 years US$000	Total US$000
Interest bearing loans and borrowings	–	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

Year ended 31 December 2016	On demand US$000	< 1 year US$000	1-2 years US$000	2-5 years US$000	> 5 years US$000	Total US$000
Interest bearing loans and borrowings	**–**	**60,819**	**136,622**	**28,656**	**–**	**226,097**
Trade and other payables	**–**	**13,726**	**–**	**–**	**–**	**13,726**
Liability under finance lease	**–**	**1,037**	**735**	**853**		**2,626**
Contingent consideration liability	**–**	**–**	**–**	**–**	**–**	**–**
	–	**75,582**	**137,358**	**29,509**	**–**	**242,448**

Interest bearing loans and borrowings for the year ended 31 December 2016 with maturity of less than 1 year include revolving facilities secured with Alfa-bank: the amount of US$5.0 million outstanding at 31 December 2016 has been presented as non-current liabilities in the consolidated statement of financial position. Refer to Note 23 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 23. 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 2016 the Group has outstanding bank debt in the amount of US$211.6 million (2015: US$253.4 million).

Market price risk

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

	Increase/ decrease in prices, %	Effect on derivative	
		2016 US$000	2015 US$000
Lead	5%	**86**	133
	-5%	**(86)**	(133)
Zinc	5%	**34**	25
	-5%	**(34)**	(25)
Gold	5%	**263**	304
	-5%	**(263)**	(304)
Silver	5%	**68**	124
	-5%	**(68)**	(124)

29. Financial assets and liabilities

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

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

Coupon bonds

During 2016 all bonds were sold and as a result of selling the Group received US$20.1 million (2015: US$24.3 million) and no coupon interest (2015: US$2.5 million).

The bonds were 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 sets out movement in fair value of the bonds.

	2016 US$000	2015 US$000
At 1 January	**21,150**	42,957
Fair value gain	**(562)**	14
Foreign exchange loss	**(1,189)**	(1,271)
Coupon interest income accrued	**738**	2,503
Bonds fair value movement	**(1,013)**	1,246
Coupon interest income received	**–**	(2,534)
Bonds sold	**(20,136)**	(24,337)
Bonds purchased	**–**	3,818
At 31 December	**–**	21,150

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.

29. Financial assets and liabilities continued

Assets measured at fair value

	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

In 2016, concentrate sales include a zero fair value movement (2015: a positive fair value movement of US$1.3 million) relating to an embedded derivative.

30. Dividends

The Group paid an interim dividend of GBP 0.050 per share (2015: an interim dividend of GBP 0.020 per share) which resulted in an aggregate interim dividend payment of US$19.8 million (2015: US$10.0 million). The interim dividend was paid on 13 October 2016.

The final dividend for the year ending 31 December 2015 in the amount of US$11.9 million was paid on 19 May 2016.

The Board has recommended a final dividend of GBP 0.054 per share which, taking into account the interim dividend paid in October 2016, gives a total dividend of GBP 0.104 per share for the year (2015: GBP 0.045 per share). The final dividend will be paid on 19 May 2017 to shareholders on the register at the close of business on 21 April 2017 (the record date). The ex-dividend date will be 20 April 2017.

31. Events after the reporting period

In March 2017, the Group signed a new long-term credit facility agreement with Gazprombank, with an overall limit of US$100.0 million, thereby providing an extension of the final maturity until March 2020.

MINERAL RESOURCES AS AT 31 DECEMBER 2016, REPORTED IN ACCORDANCE WITH JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Measured	5,457,493	3.8	662,091	100%	662,091
	Indicated	3,346,329	2.9	308,523	100%	308,523
	Measured +Indicated	**8,803,822**	**3.4**	**970,615**	**100%**	**970,615**
	Inferred	5,841,167	3.3	627,214	100%	627,214
	Total	**14,644,989**	**3.4**	**1,597,830**	**100%**	**1,597,830**
TASEEVSKOYE	**Indicated**	**25,785,000**	**4.9**	**4,057,587**	**100%**	**4,057,587**
	Inferred	5,278,000	6.1	1,030,766	100%	1,030,766
	Total	**31,063,000**	**5.1**	**5,088,353**	**100%**	**5,088,353**
UNKURTASH	Measured	21,024,000	1.7	1,179,836	100%	1,179,836
	Indicated	32,870,000	1.8	1,860,917	100%	1,860,917
	Measured +Indicated	**53,894,000**	**1.8**	**3,040,753**	**100%**	**3,040,753**
	Inferred	12,291,000	1.7	656,004	100%	656,004
	Total	**66,185,000**	**1.7**	**3,696,757**	**100%**	**3,696,757**
NOVOSHIROKINSKOYE	Measured	1,434,270	8.7	400,553	99.0%	396,547
	Indicated	2,742,337	8.3	735,558	99.0%	728,202
	Measured +Indicated	**4,176,607**	**8.5**	**1,136,111**	**99.0%**	**1,124,750**
	Inferred	1,510,303	5.1	246,981	99.0%	244,511
	Total	**5,686,910**	**7.6**	**1,383,092**	**99.0%**	**1,369,261**
BELAYA GORA	Measured	3,612,418	2.3	266,009	100%	266,009
	Indicated	2,896,443	2.4	221,187	100%	221,187
	Measured +Indicated	**6,508,861**	**2.3**	**487,196**	**100%**	**487,196**
	Inferred	2,704,511	2.2	192,167	100%	192,167
	Total	**9,213,372**	**2.3**	**679,363**	**100%**	**679,363**
KLEN	**Indicated**	**2,850,000**	**5.8**	**530,809**	**100%**	**530,809**
	Inferred	1,020,000	2.9	96,452	100%	96,452
	Total	**3,870,000**	**5.0**	**627,261**	**100%**	**627,261**
KEKURA	**Indicated**	**7,412,000**	**8.6**	**2,059,311**	**100%**	**2,059,311**
	Inferred	3,266,000	4.9	512,786	100%	512,786
	Total	**10,678,000**	**7.5**	**2,572,097**	**100%**	**2,572,097**
LYUBAVINSKOYE	Measured	1,304,990	1.5	62,758	100%	62,758
	Indicated	9,802,700	1.3	413,330	100%	413,330
	Measured +Indicated	**11,107,690**	**1.3**	**476,088**	**100%**	**476,088**
	Inferred	139,540	1.8	8,198	100%	8,198
	Total	**11,247,230**	**1.3**	**484,287**	**100%**	**484,287**
TOTAL	Measured	32,833,171	2.4	2,571,247		2,567,242
	Indicated	87,704,809	3.6	10,187,222		10,179,867
	Measured +Indicated	**120,537,980**	**3.3**	**12,758,470**		**12,747,108**
	Inferred	32,050,521	3.3	3,370,568		3,368,098
	Total	**152,588,501**	**3.3**	**16,129,038**		**16,115,207**

1. MNV, Taseevskoye, Belaya Gora, Unkurtash, Klen and Lyubavinskoye resource estimations do not include a silver assessment.
2. MNV, Novoshirokinskoye, Belaya Gora and Kekura Mineral Resources are inclusive of Mineral Reserves.

MINERAL RESOURCES AS AT 31 DECEMBER 2016, REPORTED IN ACCORDANCE WITH JORC CONTINUED

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 are diluted and based upon a gold price of US$1,488 per ounce. Resources were evaluated with specific cutoff grade > 1.0 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 was confirmed by Micon International, 2012.
   Resource estimate for Kekura was confirmed by Wardell Armstrong International (WAI), 2016.
5. The Novoshirokinskoye resource estimate is performed for gold equivalent calculated as follows: Pb*0.510496+Zn*0.430005+Ag*0.01723 (WAI coefficients).
6. Mineral resources at MNV, Novo and Belaya Gora have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the resources with annual production.

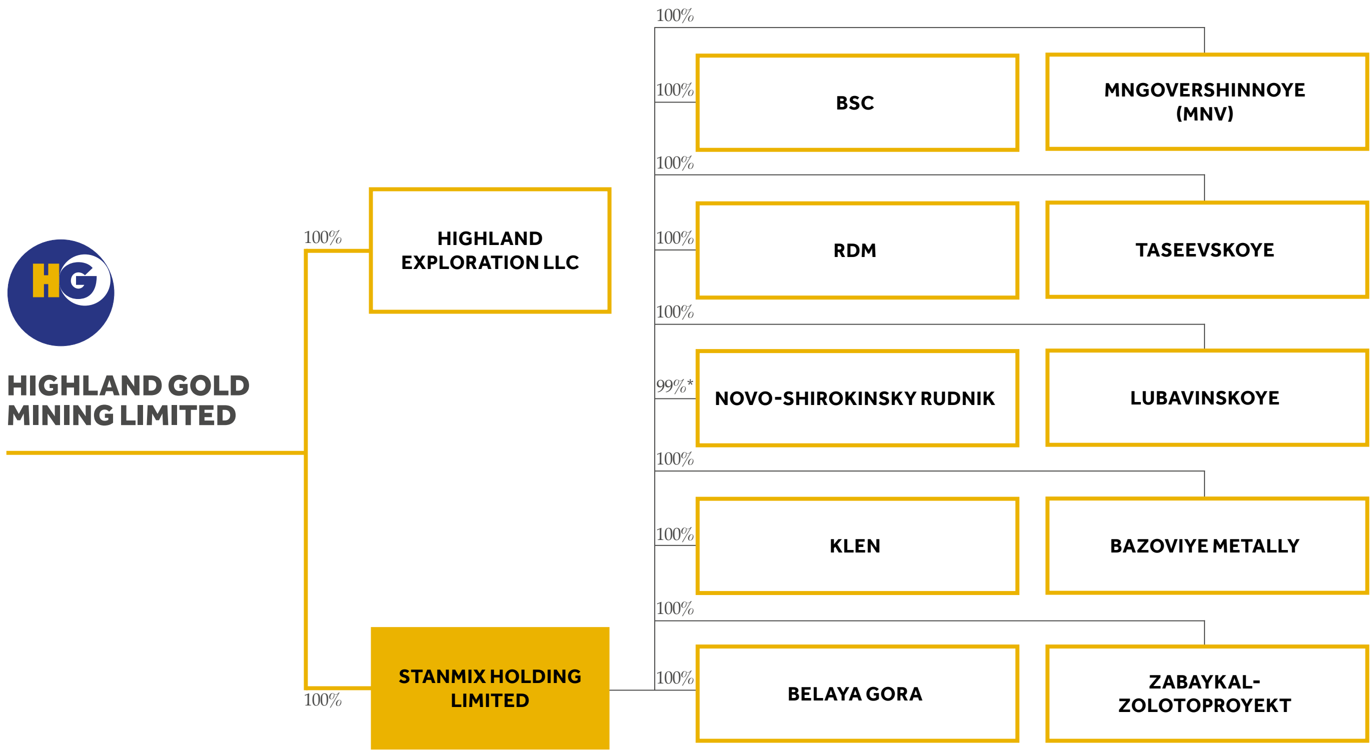
RESERVES AS AT 31 DECEMBER 2016, REPORTED IN ACCORDANCE WITH JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold Ounces attributable to Highland
MNOGOVERSHINNOYE	Proven	1,304,982	4.10	170,990	100%	170,990
	Probable	518,844	4.50	74,628	100%	74,628
	Proven + Probable	**1,823,826**	**4.20**	**245,618**	**100%**	**245,618**
NOVOSHIROKINSKOYE	Proven	1,204,444	9.9	381,573	99.0%	377,757
	Probable	2,187,068	9.7	683,728	99.0%	676,891
	Proven + Probable	**3,391,512**	**9.8**	**1,065,301**	**99.0%**	**1,054,648**
BELAYA GORA	Proven	1,532,321	3.3	161,829	100%	161,829
	Probable	1,184,560	3.4	129,230	100%	129,230
	Proven + Probable	**2,716,881**	**3.3**	**291,060**	**100%**	**291,060**
KEKURA	Proven	–	–	–	–	–
	Probable	4,837,416	10.7	1,668,799	100%	1,668,799
	Proven + Probable	**4,837,416**	**10.7**	**1,668,799**	**100%**	**1,668,799**
TOTAL	Proven	4,041,747	5.5	714,392		710,576
	Probable	8,727,888	9.1	2,556,385		2,549,548
	Proven + Probable	**12,769,635**	**8.0**	**3,270,777**		**3,260,124**

- MNV and BG reserves estimate does not include a silver assessment.
- Novo reserves are calculated for Au equivalent and include Pb, Zn and Ag assessment.
- 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 for underground mining and 1.36 g/t for open cut.
- 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.
- The Belaya Gora values shown are based upon a gold price of $ 850 per ounce and marginal cut-off 1.06 g/t.
- Kekura Mineable Reserves are diluted and based upon a gold price of US$ 1,150 per ounce and marginal cut-off 2.2 g/t for open cut and 4.2 g/t for underground mining.
- 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.

The Company is in the process of producing updated mineral reserve estimates for all of its key operating mines and development projects to better reflect the latest geological data for each site and, in some cases, following the conversion of resources to reserves through additional exploration. This process includes new JORC reserve estimates for MNV, Novo, Belaya Gora, Kekura, and Blagodatnoye. Results are expected over the course of 2017 and will be released accordingly.

GROUP COMPANIES



* Direct shareholding in OJSC Novo-Shirokinsky Rudnik is 99%. In 2016 OJSC Novo-Shirokinsky Rudnik acquired treasury stock equal to 0.1% of outstanding shares, which resulted in a decrease in non-controlling interest. Effective control is therefore equivalent to a 99.1% shareholding in the enterprise. There are no restrictions imposed by non-controlling interest on our ability to use assets and settle liabilities of Novo.

PRINCIPAL GROUP COMPANIES AS OF 31.12.2016

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
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) (AO)	99	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

NOTICE OF ANNUAL GENERAL MEETING

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

NOTICE OF ANNUAL GENERAL MEETING
Notice is hereby given that the Annual General Meeting of Highland Gold Mining Limited (the Company) will be held on Wednesday 17 May, 2017 at 26 New Street, St Helier, Jersey JE2 3RA at 11.00 am to consider and if thought fit, pass the following ordinary resolutions and special resolution;

Ordinary Business (ordinary resolutions)
1. To receive and adopt the Report of the Directors, the Audited Financial Statements and Auditor's report for the year ended 31 December 2016.
2. That a final dividend of £0.054 for each ordinary share of £0.001 in the Company be declared.
3. That Duncan Baxter who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
4. That Valery Oyf who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
5. That John Mann who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
6. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
7. That the Directors be authorised to fix the Auditor's remuneration.

Special Business (special resolution)
8. That the Directors be and they are hereby generally and unconditionally authorised to allot, grant options or warrants over, offer or otherwise deal with up to 33% of the authorised but unissued share capital of the Company at the date of the passing of this resolution to such persons at such times and on such terms as they think proper without first making an offer to each person who holds ordinary shares in the Company, such authority to expire at the conclusion of the annual general meeting of the Company in 2020, save that the Directors may, notwithstanding such expiry, allot any ordinary shares or grant such rights under this authority in pursuance of any offer or agreement to do so made by the Company before the expiry of this authority.

By Order of the Board
28 April 2017

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 close of business 24 hours prior to the date of the meeting (or, in the cause of an adjournment, as at close of business 24 hours before the date 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.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

CURRENT DIRECTORS

Eugene Shvidler
Executive Chairman

Terry Robinson
Non-Executive Director***
Senior Independent Director

Duncan Baxter
Non-Executive Director*

Colin Belshaw
Non-Executive Director

John Mann
Executive Director
Head of Communications

Olga Pokrovskaya
Non-Executive Director**

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

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

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

HEAD OFFICE AND REGISTERED OFFICE
26 New Street
St Helier
Jersey
JE2 3RA

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

NOMINATED ADVISER AND BROKER
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

JOINT BROKER
Peat & Co
118 Piccadilly
London
W1J 7NW

AUDITORS TO THE COMPANY AND GROUP
Ernst & Young LLP
1 More London Place
London
SE1 2AF

SOLICITORS TO THE COMPANY
as to Russian Law
PricewaterhouseCoopers
Kosmodamianskaya Nab. 52 Bld. 5,
115054 Moscow, Russia

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

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

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

FINANCIAL CALENDAR

Ex-Dividend Date:
20 April 2017

Record Date:
21 April 2017

Post 2016 Annual Report:
28 April 2017

Annual General Meeting:
17 May 2017

Dividend Payment Date:
19 May 2017

Listing Sector/Ticker Reuters:
HGM.L

Number of Shares in Issue:
325,222,098

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