HIGHLAND GOLD MINING Ltd.

HIGHLAND GOLD MINING LIMITED

ANNUAL REPORT & ACCOUNTS 2013

THE RESOLUTE PURSUIT OF SUSTAINABLE GROWTH

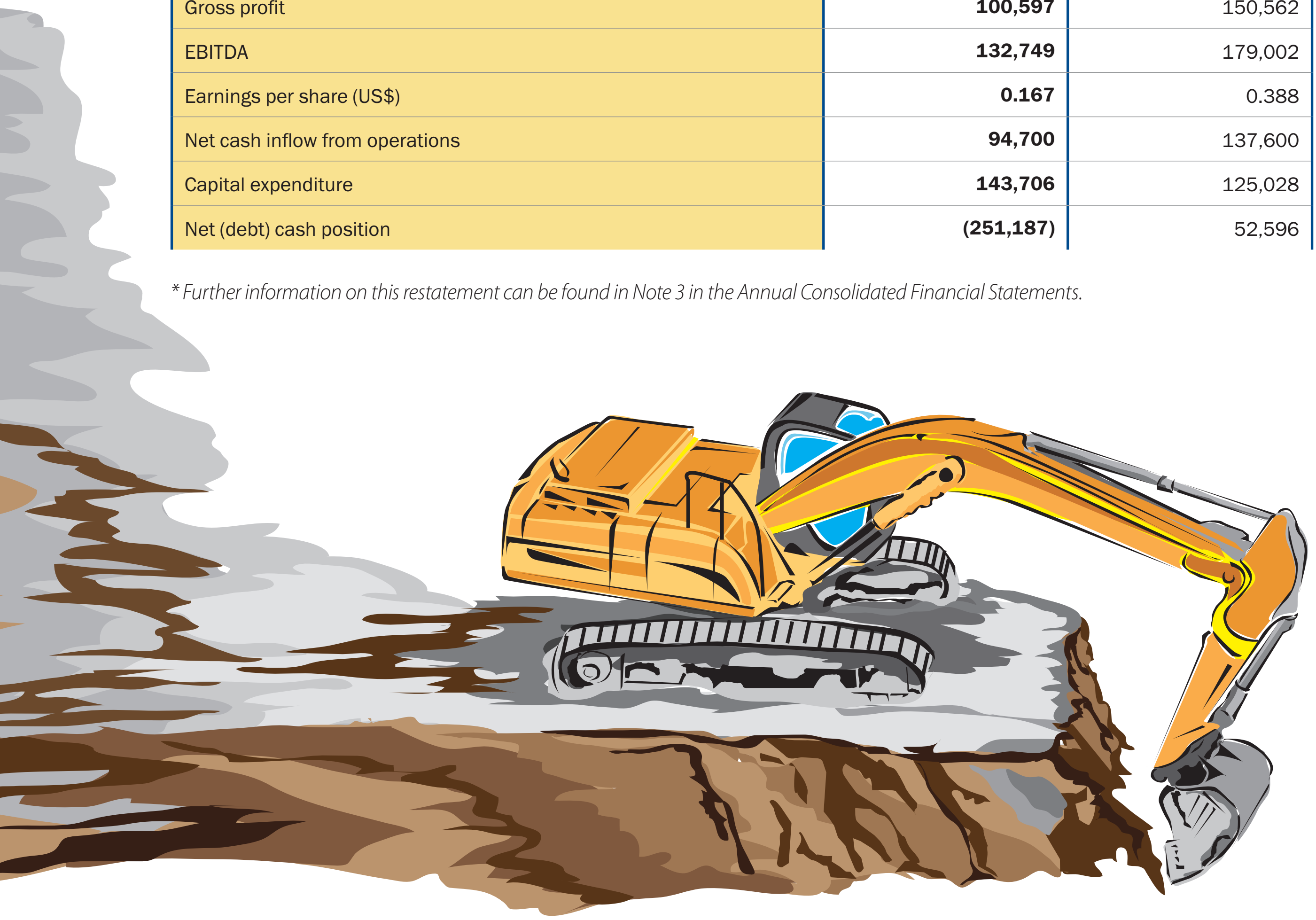
CONTENTS

THE YEAR IN REVIEW

FINANCIAL HIGHLIGHTS

IFRS, US$000 (unless stated)	2013	2012
		Restated*
Production (gold and gold eq. oz)	233,696	216,885
Group all-in sustaining costs (US$/oz)	842	894
Total Group cash costs (US$/oz)	611	671
Revenue	304,206	351,828
Gross profit	100,597	150,562
EBITDA	132,749	179,002
Earnings per share (US$)	0.167	0.388
Net cash inflow from operations	94,700	137,600
Capital expenditure	143,706	125,028
Net (debt) cash position	(251,187)	52,596

** Further information on this restatement can be found in Note 3 in the Annual Consolidated Financial Statements.*



Eugene Shvidler, Chairman of Highland Gold Mining, commented:
"During 2013 management extended the Company's resource base, oversaw further organic expansion and continued to implement appropriate financial disciplines and production efficiencies. The latter measures, applied throughout the Group's operations, served to mitigate the effects of an adverse trading climate. One of the highlights was the first gold pour at our Belaya Gora processing plant which, with ramp-up to nameplate capacity under way, will make an important contribution to the sizeable increase in overall production budgeted for 2014. We completed the purchase of the Kekura property and this, together with the Klen project, also situated in the Chukotka region, will remain at the forefront of our exploration and development agenda. Your Board believes that the accomplishments of 2013 and our strategy in respect of 2014 will significantly further the medium and long-term realisation of the Company's growth potential."

2013 KEY EVENTS

- Group wide production rose 8% to a record 233,696 oz of gold and gold equivalents (2012: 216,885 oz). This is in line with our guidance estimate and represents the combined contribution from the Group's three mines: Mnogovershinnoye (MNV), Novoshirokinskoye (Novo) and Belaya Gora
- Total cash costs recorded a sharp decline to US$611 per ounce (2012: US$671 per ounce) and remained highly competitive versus peer group. All-in sustaining cash costs decreased to US$842 (2012: US$894)
- Group JORC compliant resources registered a 32% increase to 17.3 Moz (compared with 13.2 Moz stated at 31 December 2012) as a result of the Kekura licence purchase and independent resource audit updates at MNV and Unkurtash
- The Group's assets remained unimpaired despite significant declines in metal prices
- First gold poured at Belaya Gora
- Interim dividend of 2.5 pence per share paid in October 2013 (2012: Interim special dividend of 4.8 pence per share)
- Lost Time Incident (LTI) rate was reduced to 0.28 in 2013 compared with 0.31 in 2012
- ISO 14001 (2004) certification awarded in respect of the environmental management systems at MNV and Russdragmet (RDM) LLC, the Moscow-based management company

POST YEAR EVENTS

- Final dividend of 2.5 pence per share recommended, making a total distribution of 5.0 pence for the year to 31 December 2013 (2012: 7.8 pence)

2014 TARGETS

- Total production in 2014 is expected to increase to more than 300,000 oz of gold and gold equivalents (derived from MNV, Novo and Belaya Gora)
- Ramp-up of the Belaya Gora plant to nameplate capacity
- MNV – maintain stable production and rigorous cost controls
- Novo – improve efficiencies and drive further increases in plant throughput
- Chukotka – ongoing development of the Klen and Kekura projects
- Exploration – focus on near mine exploration programme and delineating upside of the Chukotka projects

STRONG DISCIPLINES MITIGATE WEAK GOLD MARKET

I am pleased to report that your Company achieved significant progress across much of its operational base during the financial year to 31 December 2013, the benefits of which are reflected in our performance.

This time last year I emphasised the importance the Board attached to the improvement of efficiencies at all levels, including the optimisation of production operations. Our focus in this regard was rewarded with an 8% advance in overall production to a record 233,696 oz of gold and gold equivalents in respect of the year under review, thereby achieving our guidance estimate.

This year we are budgeting for a further increase in output to more than 300,000 oz of gold and gold equivalents. Our production estimate is based on expectations of the combined output from our three mines in Russia: Mnogovershinnoye (MNV), Novoshirokinskoye (Novo) and Belaya Gora.

A notable milestone during 2013 was the first pour of gold at the Belaya Gora processing plant followed by the commencement of ramp-up which will continue in 2014. In addition the design provision that allows for carbon-in-leach (CIL) treatment of gravity tailings is being exercised, a measure that will enhance overall gold recoveries.

At full capacity the Belaya Gora plant is expected to process approximately 1.5 million tonnes of ore per annum to give an annual yield of between 75,000 and 110,000 oz of gold. This represents the Company's second construction of a major processing plant following upon the commissioning of the Novo complex in 2009.

The US$212 million acquisition of the Kekura licence, which follows upon 2012's purchase of the Klen/Verkhne-Krichalskaya properties in the Chukotka region, represents an integral aspect of the Company's prospective production pipeline. Our current plans envisage an open-pit output of between 180,000 – 220,000 oz of gold per annum.

We are delighted to have established our credentials in Chukotka, a fast growing region renowned for its favourable investment climate, and the advancement of the Kekura and Klen properties will remain at the forefront of our project development schedule during 2014.

In line with this strategy, the Company's exploration activities during 2013 were also focused on the Kekura and Verkhne-Krichalskaya projects and substantial drilling programmes, designed to upgrade and expand existing mineral resources, were completed on budget.

A 32% increase in the Group's JORC compliant resources to 17.3 Moz compared with 13.2 Moz as at 31 December 2012, primarily reflected the inclusion of Kekura's asset base. Two independent updates raised the values of the resources at both Unkurtash and MNV.

We continued to focus on the optimisation of cost management techniques. Our success in this regard is reflected in a 9.0% reduction in total cash costs to

US$611 per ounce in 2013 – a figure which remains highly competitive in terms of peer group comparison. Our all-in sustaining cash costs recorded a 5.8% decline from US$894 in 2012 to a similarly competitive US$842.

As stated, the Board's policy with regard to dividend payments is to make regular distributions, with the level of such dividends dependent upon various factors including the strength of the balance sheet, the gold price, cash flows and capital requirements. In the light of such considerations, the Board is recommending the payment of a final dividend of 2.5 pence per share which, taking into account the interim dividend of 2.5 pence per share, gives a total distribution of 5.0 pence per share in respect of 2013 compared with 7.8 pence per share in 2012.

The health and safety of our employees must be of paramount importance and, in addition to the rigid implementation of appropriate rules and precautions across the Group, we place considerable emphasis on the need to educate personnel and engender a sense of personal responsibility for site safety. To this end, various training courses were held throughout the year. We are encouraged by a fall in the Lost Time Incident (LTI) rate (defined as the number of lost time incidents for every 200,000 man hours worked) to an historic low of 0.28 in 2013 compared with 0.31 in 2012. There can, however, be no room for complacency.

On behalf of the Board I would like to welcome Colin Belshaw who was appointed an additional Independent Non-Executive Director of the Board with effect from 10 September 2013. We are delighted to be able to draw on Mr. Belshaw's wealth of international mining experience and expertise.

In summary, two of the key events during 2013, the acquisition of the Kekura deposit and the first gold pour at Belaya Goya, aptly illustrate the Company's pursuit of both acquisitive and organic growth: a policy that is ongoing. Your Board has every confidence that the strategies outlined above, supported by experienced management and a sound balance sheet, leave the Company well placed to further its development into a highly profitable mid-tier producer within the Russian gold mining industry.

It gives me much pleasure, on behalf of the Board, to thank all our employees for the hard work and dedication that was central to our achievements during 2013.

Eugene Shvidler
Non-Executive Chairman


MOSCOW
Bishkek
UNKURTASH


KLEN&VERKHNE-KRICHALSKAYA
KEKURA
BELAYA GORA
Chita
MNV
BLAGODATNOYE
TASEEVSKOYE
NOVOSHIROKINSKOYE
Khabarovsk
LYUBOV
Vladivostok
Operating Mine
Development Project
Exploration Project

HIGHER PRODUCTION DRIVEN BY OPERATIONAL EFFICIENCES

In 2013 the Company achieved its production guidance and was able to decrease costs despite adverse market conditions. The commencement of gold production at the Belaya Gora plant together with the purchase of the Kekura gold deposit represented important developments both of which are integral to the Company's growth strategy.

CORPORATE & SOCIAL RESPONSIBILITY

Our Company remains committed to its obligations in terms of social responsibility. In the regions where we conduct our operations we have established and are maintaining good working relationships with local communities and the respective authorities. During 2013, as in prior years, we continued to participate in various socioeconomic programmes which encompass sport, culture, health and education.

Through the due payments of all appropriate taxes and charges to local and state budgets, our Company contributes to the well-being of the communities concerned. During the year under review, we extended our Social Partnership Agreements with the Governments of the Khabarovsk and Zabaikalsky regions. Pursuant to this we provided our usual assistance in respect of the construction and renovation of educational and medical facilities and the general improvement of public amenities.

HEALTH, SAFETY & ENVIRONMENT

The provision of a safe working environment, the management of production risks, the training of personnel and the encouragement of a sense of personal responsibility for site safety remained key priorities throughout 2013. The Lost Time Incident ("LTI") rate (defined as the number of lost time incidents for every 200,000 man hours worked) was reduced to a level of 0.28 in 2013 compared with 0.31 in 2012. A total of 1,342 employees attended introductory (1 day) safety training courses, 322 employees participated in industrial safety certification through RosTechNadzor, 693 employees participated in a work performance / production safety course (3-5 days) and 520 employees completed industrial safety certification training courses (7-30 days). To ensure that specific operating skills were maintained, 32 employees completed a vehicle driving skills course (22 hours), while 21 employees received training in the use of personal protective equipment.

The Company's environmental compliance remains in good standing with the regulatory authorities. In September 2013, the first ISO 14001 compliant external audit successfully appraised the environmental management system operating at MNV and Russdragmet (RDM), our Moscow-based management company, and confirmed the Company's compliance with environmental requirements. The Company continued its efforts towards rolling out and implementation of an accredited environmental management system (ISO 14001 compliant) at Belaya Gora with final auditing and compliance expected in September 2014. To this end, 24 Belaya Gora and MNV employees received in-house environmental audit training developed by an external environmental consultant. A total of 121 MNV and Belaya Gora employees received environmental safety training, including three MNV specialists who attended a five-day environmental safety course at the University of Khabarovsk.

OPERATIONS

MNOGOVERSHINNOYE (MNV), Khabarovsk region, Russia

Overall production at MNV was in line with the Company's targets. Although, as expected, we witnessed a gradual decline in processed grades during the reporting period, the stable performance of other key production factors enabled us to achieve our production plans. Process plant throughput amounted to 1,328,181 tonnes of ore, while the recovery rate remained strong at 92% to yield 145,259 oz of gold. Improvement of the plant's cyanidation process was achieved through the installation and commissioning of a mechanical agitator.

MNV 100%	Units	H2 2012	H2 2013	H1 2013	FY 2012	FY 2013
Waste stripping	m^3	1,732,726	**2,429,865**	1,914,210	3,558,423	**4,344,075**
U/G development	metres	3,864	**4,163**	3,833	7,343	**7,996**
Open pit ore mined	tonnes	376,813	**459,349**	241,292	649,164	**700,641**
Open pit ore grade	g/t	4.6	**3.7**	3.8	4.4	**3.8**
U/G ore mined	tonnes	306,157	**352,462**	368,518	580,479	**720,980**
U/G ore grade	g/t	3.4	**3.6**	3.5	3.7	**3.5**
Total ore mined	tonnes	682,970	**811,811**	609,810	1,229,643	**1,421,621**
Avg. grade mined	g/t	4.1	**3.7**	3.6	4.1	**3.7**
Ore processed	tonnes	669,195	**657,527**	670,654	1,280,231	**1,328,181**
Processed grade	g/t	4.1	**3.9**	3.5	4.0	**3.7**
Recovery rate	%	91.0	**92.1**	91.9	90.4	**92.0**
Gold produced	oz	79,742	**76,263**	68,996	148,493	**145,259**

PRODUCTION COSTS

Cash operating costs in 2013 totalled US$557 per ounce, total cash costs amounted to US$647 per ounce (2012-restated: US$638 per ounce) and total production costs were US$858 per ounce (2012-restated: US$843 per ounce).

CAPITAL COSTS

During 2013 a total of US$17.4 million was invested at MNV. This included: capitalised expenditures and construction (US$5.0 million), purchase of equipment (US$11.0 million) and exploration (US$1.4 million).

OUTLOOK

In order to mitigate the effects of the decline in grades an increase in throughput is planned with ca. 1,350,000 tonnes of ore expected to be produced in 2014.

An independent JORC resource audit was carried out at the MNV mine, providing a 79% increase in its resources compared to those stated as at 31 December 2012. This will support the current life of mine plan and extend the mining operation until 2017. Management will also work on the conversion of MNV's resource base into mineable reserves.

NOVOSHIROKINSKOYE (Novo), Zabaikalsky region, Russia

During 2013 underground ore production and processed ore throughput both achieved their respective targets. Production amounted to 81,361 oz of gold equivalents which represents a substantial 26% increase compared with the previous year. An upgrade of the milling circuit served to increase efficiency.

Average processed grades in the second half of the year were 25% higher than those for the corresponding period of 2012 and 14% above those for the first half of 2013. This increase was in line with the mining plan and was achieved following the successful completion of the required development work.

Full year 2013 development amounted to 8,478 metres, thereby exceeding the comparable figure for 2012 by 14%.

Novo 100%	Units	H2 2012	H2 2013	H1 2013	FY 2012	FY 2013
U/G development	metres	3,726	**3,993**	4,485	7,450	**8,478**
Ore mined	tonnes	252,922	**258,151**	245,775	484,189	**503,926**
Average grade mined*	g/t	4.8	**6.4**	5.5	4.9	**6.0**
Ore processed	tonnes	254,145	**260,178**	244,907	485,412	**505,085**
Processed grade*	g/t	4.8	**6.4**	5.5	4.9	**6.0**
Recovery rate *	%	82.7	**83.8**	84.3	83.7	**83.8**
Gold produced*	oz	32,408	**44,727**	36,634	64,438	**81,361**

** Approximate Au equivalent mined ore metal content breakdown = Au 3.4 g/t, Ag 66.5 g/t, Pb 2.2%, Zn 1.1%.*

PRODUCTION COSTS

Cash operating costs in 2013 totalled US$486 per ounce, total cash costs amounted to US$542 per ounce (2012: US$676 per ounce) and total production costs were US$774 per ounce (2012: US$929 per ounce).

CAPITAL COSTS

During 2013 a total of US$9.4 million was invested at Novo. This included: capitalised expenditures and construction (US$3.5 million) and purchase of equipment (US$5.9 million).

OUTLOOK

Anticipated ore production in 2014 will amount to 550,000 tonnes. Plant adjustments, to facilitate the increased throughput and the development of deeper elevations, will be conducted during the year.

BELAYA GORA, Khabarovsk region, Russia

Plant construction was completed during the year, followed by commencement of ramp-up, including testing to determine optimum operating conditions. While operating in testing mode the plant produced 7,077 oz of gold. Open-pit operations focused on the Pologaya zone in order to prepare ground for mining in 2014 and optimise haulage.

Belaya Gora 100%	Units	H2 2012	H2 2013	H1 2013	FY 2012	FY 2013
Waste stripping	m^3	648,978	**672,562**	963,278	1,129,638	**1,635,840**
Ore mined	tonnes	159,620	**1,011,095**	815,585	277,106	**1,826,680**
Average grade mined	g/t	1.8	**1.4**	1.4	1.6	**1.4**
Ore processed	tonnes	28,132*	**291,962**	–	49,812*	**291,962**
Average grade processed	g/t	2.6	**1.2**	–	2.8	**1.2**
Recovery rate	%	87.3	**64.0**	–	87.3	**64.0**
Gold produced	oz	2,035	**7,077**	–	3,954	**7,077**

** Ore toll processed at the MNV plant.*

PRODUCTION COSTS

Cash operating costs of 215 oz of gold sold in H1 2013 totalled US$635 per ounce and total cash costs amounted to US$1,426 per ounce (2012-restated: US$1,695 per ounce). The costs of gold produced during the start-up works and sold during the second half of 2013 (7,060 oz) were capitalised to the cost of construction.

CAPITAL COSTS

During 2013 a total of US$56.8 million was invested at Belaya Gora. This included: capitalised expenditures and construction (US$56.5 million) and exploration (US$ 0.3 million).

OUTLOOK

We expect to process ca. 1.1 – 1.2 million tonnes of ore at the Belaya Gora plant during 2014. In line with this we will utilise the design facility that allows for carbon-in-leach (CIL) treatment of gravity tailings, a procedure that will enhance overall gold recoveries. The objective will be to achieve all nameplate technological parameters.

DEVELOPMENT PROJECTS

KLEN – Chukotka region, Russia

Activity at Klen during 2013 largely focused on the development and completion of design documentation which is currently under review by state agencies. The project-related capex estimates are also under review. Site preparation work gathered momentum during the second half of the year: roads were constructed to facilitate vehicle access and transportation around the site, storage facilities were created, work commenced on the development of a water reservoir, accommodation was provided for builders and a reliable data network was established. The focus in 2014 will be on exploration: targeting the discovery of satellite deposits within the surrounding Verkhne-Krichalskaya licence with the objective of improving the resource base and the economics of the future Klen operation. This will be accompanied by further project design development.

CAPITAL COSTS

During 2013 a total of US$38.9 million was invested at Klen.

KEKURA – Chukotka region, Russia

At Kekura, potentially a high grade open-pit operation, further metallurgical studies were initiated on a number of samples taken from throughout the ore body to define ore characteristics and spatial distribution in order to develop an optimal processing route. The latter part of the year also witnessed site layout proposals accompanied by preliminary project work. Test work was carried out on the pilot plant.

Ongoing work at Kekura will include the extension and upgrading of the existing resources and the completion of metallurgical test work and engineering design, thereby leading to a bankable feasibility study. The work planned during 2014 will essentially facilitate the completion of all technical requirements with regard to a GKZ reserve registration update, targeted for early 2015.

CAPITAL COSTS

During 2013 a total of US$14.7 million was invested at Kekura.

TASEEVSKOYE – Zabaikalsky region, Russia

At Taseevskoye, project design documentation for first and third ore bodies was completed during the second half of the year. Following approval by various regulatory bodies the project design is now under review by the State Examination Board. The cut-off grade study for the Baley ZIF 1 tailings was prepared. In 2014 work will focus on project design documentation.

CAPITAL COSTS

During 2013 a total of US$4.4 million was invested at Taseevskoye.

LYUBOV – Zabaikalsky Region, Russia

Based on the reserves approved in Q4 2012, the design documents for the Evgraf prospect were completed. The project was approved by various regulatory bodies and is currently being reviewed by the State Examination Board. In 2014 the Company expects to receive the results of a project review conducted by state authorities.

CAPITAL COSTS

During 2013 a total of US$0.3 million was invested at Lyubov.

EXPLORATION

The Company's exploration activities in 2013 were focused on our Chukotka projects while we also maintained our operational priority of near-mine exploration at MNV. Group JORC compliant resources registered a 32% increase to 17.3 Moz (compared with 13.2 Moz stated at 31 December 2012) as a result of the Kekura licence purchase and an independent resource audit update at both Unkurtash and MNV.

During the year the Company completed a total of more than 45,000 metres of drilling primarily at Klen, Kekura and the MNV Western Flank licence. The Company's overall expenditure on exploration projects including Unkurtash and Belaya Gora Flanks amounted to US$16.0 million in 2013, compared with a $20.5 million spend in 2012.

MNOGOVERSHINNOYE – Khabarovsk region, Russia

Throughout 2013 the Company continued to pursue its near-mine exploration efforts at MNV designed to identify additional resources in order to enhance the life of the open-pit mine. In the course of these efforts we successfully delineated new resources at the Pebble, Quiet and Watershed prospects.

Whereas mining at Pebble started in the first half of 2013, mining at the Watershed prospect commenced in the second half of the year. Diamond core drilling activity in respect of underground resource conversion totalled 6,152 metres during H2 2013, in line with budget.

At the Western Flank Mnogovershinnoye licence, immediately adjacent to the mine operations and hosting the Chaynoye prospect, the Company completed 2,440 metres of diamond core drilling. Results corroborate historic exploration data and geological modelling currently underway indicates the potential for an open-pit mineable resource. Further exploration works planned in 2014 will evaluate the resource potential of the entire licence area and will include a geochemical survey with a follow-up trenching programme.

VERKHNE-KRICHALSKAYA – Chukotka region, Russia

The Verkhne-Krichalskaya (VK) exploration and mining licence incorporates the Klen licence and is believed to hold good upside potential with regard to the Klen operation. The Company's previous exploration programme defined several gold anomalies and exploration targets at VK. In H1 2013 the Company focused on two targets and completed an initial shallow-depth reconnaissance drilling programme totalling 7,350 metres. Drilling results received in H2 2013 delineate several zones with an elevated grade of gold mineralisation, in part comparable to the Klen deposit grade. A detailed geochemical survey was also completed in H2 2013 at selected targets with results expected in Q1 2014. A follow-up drilling programme planned for 2014 at several zones is designed to define continuity of gold mineralisation along strike and depth.

KEKURA – Chukotka region, Russia

Following the acquisition of the Kekura project in Q2 2013, the Company completed a 35,000 metre diamond core drilling programme in 2013 designed to upgrade resources and complete requirements for future additional reserve registration with the Russian GKZ. Drilling results obtained from comprehensive «metallic screen» fire assays are in line with the previous resource model in terms of average grade and width of gold intersects. Resource modelling is in progress and will be followed by an independent JORC-compliant resource audit. Exploration works planned for 2014 will facilitate the completion of specific requirements for GKZ compliance including several thousand metres of infill drilling and additional technical studies. Exploratory prospecting on the greater licence area will include geochemical surveys at selected targets and the evaluation of several promising near-mine gold prospects.

UNKURTASH – Kyrgyzstan

The Unkurtash project includes three distinct prospects, Unkurtash, Sarytube and Karatube, located within the Company's single Kassan licence (63 km^2). An independent JORC compliant resource audit, undertaken earlier in 2013, updated the project's total resource by ca. 0.68 Moz to approximately 3.7 Moz.

In order to facilitate registration of the entire Unkurtash project's C1+C2 category reserves with the Kyrgyz GKZ, the Company completed a reserve calculation update during H2 2013. Project economics will be refined through additional metallurgical studies in 2014 and, in agreement with the regulatory authorities, submission of the necessary documentation for reserve registration to GKZ is targeted for Q4 2014.

BELAYA GORA FLANKS – Khabarovsk region, Russia

The Belaya Gora Flanks licence encapsulates the Belaya Gora deposit and represents near-mine exploration potential which could serve to increase Belaya Gora's open-pit resource base. In 2013 the Company resumed field-based exploration at the property and allocated 1,000 metres of trenching and 350 metres of diamond core drilling at two exploration targets (Pavlovsky, Kolchanka). Results of field work completed at the Pavlovsky target in H1 2013 revealed gold mineralisation of significant grade with shallow continuity at depth. No field work was conducted at the Kolchanka target or at the nearby Blagodatnoye licence. Exploration work at Belaya Gora Flanks and Blagodatnoye in 2014 will include data analysis and report compilation.

Qualified Persons Statement: Mr. Werner Klemens, Head of Exploration at Highland Gold, has reviewed and verified the information contained in this release with respect to reserve and resource matters. Mr. Klemens holds a Ph.D. in Geology from the University of Toronto. He has more than 16 years' experience in mineral exploration and is a fellow of the Geological Association of Canada. A rigorous quality assurance programme complying with international standards is in effect at all exploration projects and includes duplicate sampling, insertion of standards and check assaying at external laboratories.

CONCLUSION

Our principal objective in 2014 is to drive the Company into a higher production league as signalled by our forecast of an increase in output to more than 300,000 ounces of gold and gold equivalents. In order to achieve this, management will continue to focus on optimisation of the Group's operational base, with the emphasis on further efficiency improvements at each of our three producing assets. Parallel with this, our project development and exploration programmes, designed to underwrite future production, will continue on schedule.

Valery Oyf
Chief Executive Officer

SOUND BALANCE SHEET AND ASSET BASE UNDERWRITE FUTURE EXPANSION

The Group's financial performance in 2013 gives cause for satisfaction, particularly when viewed against the adverse trading background. Our investments of prior years in the expertise of highly qualified managers and more efficient mining procedures, together with the across the board cost reduction programme initiated in 2012, brought important rewards during the year under review.

All of the Group's key financial parameters in respect of 2013 were in line with the best comparables in the industry, as illustrated by the significant declines in total cash costs* and all-in sustaining cash costs** (detailed below) to levels which are the lowest in the Russian gold mining sector and fully competitive on a world basis. Satisfaction can also be taken from the fact that the Group's assets remained unimpaired, despite the sharp falls in metal prices, a factor that serves to underline the quality of the Group's long-term resources.

The Group's overall revenue was US$304.2 million in 2013 compared with US$351.8 million in 2012. This 13.5% decline reflected the fall in precious and other metal spot market prices during the period, despite higher sales volumes of gold and gold equivalents. The Group sold 237,271 ounces of gold and gold equivalents in 2013 compared with 215,917 ounces in 2012. MNV's share of sales at 147,893 oz showed a 0.6% increase versus 2012, while Novo's share at 82,102 eq. oz registered a significant 27.3% advance. Belaya Gora, undergoing a period of start-up works, produced 7,077 ounces and sold 7,060 ounces in 2013. The related revenues were netted off with costs of sales and capitalised into the cost of the plant. The Group did not carry out any hedging activity in 2013.

The average price of gold realised by MNV and Belaya Gora (net of commission) decreased by 15.4% to US$1,405 per ounce in 2013 compared with US$1,660 per ounce in 2012. The average price of gold equivalents realised by Novo in 2013 was US$1,076 per eq. oz, 23.7% below the level achieved in 2012. The average price at Novo is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver) net of the fixed processing and refining costs at the Kazzinc plant. The Group's average realised price of gold and gold equivalents amounted to US$1,291 per oz in 2013 compared with US$1,586 per oz in 2012, a decline of 18.6%.

In 2013 the Group adopted IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. This led to a US$4.3 million reduction in the previously reported cost of sales in respect of 2012. Further information on this restatement can be found in Note 3 in the Annual Consolidated Financial Statements.

Following upon various cost reduction exercises the increase in the Group's cost of sales was limited to 1.2%, or US$2.3 million of US$203.6 million in 2013 (2012-restated: US$201.3 million). This was largely due to a 10.2% increase in salaries and wages at MNV and Novo, the principal operating entities, which in turn reflected the Group's policy of employing highly qualified personnel in order to drive efficiencies. Belaya Gora's revenues and costs, which related to the start-up activities required to bring the plant into production, were netted off and capitalised into the cost of construction in progress.

Total Group cash costs decreased by 9.0% to US$611 per oz in 2013 (2012-restated: US$671 per oz). Total cash costs at MNV were effectively maintained at US$647 per oz (2012-restated: US$638 per oz) despite the increase in salaries and wages and the processing of ore with grades down by 7.5% (3.7 g/t in 2013 vs 4.0 g/t in 2012). Total cash costs at Novo decreased to US$542 per eq. oz (2012: US$676 per eq. oz) largely reflecting the ore grades which were 22.4% higher in 2013 versus 2012. A 4.1% increase in the processed volume yielded benefits in terms of economies of scale.

All-in sustaining costs (AISC) per ounce sold decreased from US$894 per ounce in 2012-restated to US$842 per ounce in 2013 – in line with the AISC of the world's principal gold producers and are the lowest in Russia.

As a result of reduced sales revenues due to lower metal prices, the Group's EBITDA (defined as operating profit excluding depreciation, amortisation, movement in ore stockpile obsolescence provision and result of disposal of a non-core entity) declined by 25.8% to US$132.7 million in 2013 compared with US$179.0 million in 2012-restated. The EBITDA margin (defined as EBITDA divided by total revenue) decreased from 50.9% to 43.6%.

Despite the decrease in metal prices, the Group's assets remained unimpaired. For impairment testing the Group used the following average price assumptions for the whole life of mine: gold at US$1,200 per ounce, silver at US$22 per ounce, lead at US$1,950–2,100 per tonne and zinc at US$1,850 per tonne.

In 2013 the Group recorded a net finance income of US$7.8 million compared with US$24.2 million in 2012. This largely reflected the reassessment of fair value on coupon bonds and shares and lower levels of interest earned on deposits.

A foreign exchange loss of US$2.8 million (2012: US$4.4 million – gain) resulted from the settlement of foreign currency transactions and the translation of monetary assets and liabilities denominated in currencies such as Russian Roubles and Pounds Sterling into US Dollars. The foreign exchange loss primarily reflected a 7.8% devaluation of the Russian Rouble during 2013.

The income tax charge amounted to US$27.4 million in 2013 compared with US$31.5 million (restated) for the corresponding period of 2012. The tax charge comprises US$26.8 million in respect of current tax expenses (MNV: US$23.1 million; Novo: US$3.7 million) and US$0.6 million in respect of deferred tax. The effective tax rate increased from 20.0% in 2012 to 33.3% in 2013, largely due to an increase in non-deductible expenses (including inventory write-down and foreign exchange losses) and differences in the Russian tax and IFRS depreciation charges.

In 2013 the Group recorded a net profit after tax amounting to US$54.7 million (2012-restated: US$126.4 million) and earnings per share of US$0.167 (2012-restated: US$0.388).

Cash inflow from the Group's operating activities during 2013 was US$94.7 million compared with US$137.6 million (restated) in 2012. MNV and Novo generated positive cash flow.

The Group invested US$143.7 million in capital expenditure during the year to 31 December 2013, compared with US$125.0 million in 2012. Capital expenditure in 2013 comprised US$17.4 million at MNV, US$9.4 million at Novo, US$56.8 million at Belaya Gora, US$38.9 million at Klen, US$14.7 million at Kekura and US$6.5 million in respect of other exploration and development projects. The required capital expenditure was funded by operating cash inflow and debt. On 29 March 2013, the Group acquired 100% of ZAO Bazovye Metally, which holds the mining and exploration rights to the Kekura gold deposit and the surrounding licence area, for a consideration of US$212.0 million which was settled in full in 2013. The US$11.0 million amount relating to the construction agreement, which represented part of this transaction, was partially settled. The total consideration was funded via a debt facility.

The Group's net debt position as at 31 December 2013 amounted to US$251.2 million compared to a net cash position as at 31 December 2012 of US$52.6 million. The net debt is defined as cash at bank, deposits and bonds, decreased by any bank borrowings. The ratio of net debt to EBITDA is 1.9 which is in line with the Board's policy.***

EVENTS AFTER THE REPORTING PERIOD

In March 2014 the Group signed a new financing agreement with Gazprombank in respect of a US$100.0 million facility with a maximum 4.0% interest rate with the draw period set until March 2016. This facility, which is repayable in instalments between March 2016 and March 2017, will be used to finance development and operating activities within the Group.

In the first quarter of 2014 the Group fully repaid the Gazprombank loan drawn down in 2012 and held at a 5.0% interest rate with maturity in October 2015.

DIVIDENDS

The Group paid an interim dividend of GBP 0.025 per share (2012: an interim dividend of GBP 0.025 per share and a special dividend of GBP 0.023 per share, making a total of GBP 0.048 per share) which resulted in an aggregate interim dividend payment of US$13.0 million (2012: US$25.1 million). The interim dividend was paid on 18 October 2013.

The Board has recommended a final dividend of GBP 0.025 per share which, taking into account the interim dividend paid in October 2013, gives a total dividend of GBP 0.05 per share for the year (2012: GBP 0.078 per share). The final dividend will be paid on 30 May 2014 to shareholders on the register at the close of business on 2 May 2014 (the record date). The ex-dividend date will be 30 April 2014.

Alla Baranovskaya
Chief Financial Officer

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

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

**** Rounding of figures may result in computational discrepancies*

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's activities are exposed to various risks and the Group recognises that dealing with risks is an integral part of managing the Group's operations and is fundamental to the Group's business success.

The Board of Director's mandate includes a responsibility 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 Audit Committee ensures that there is a system for identifying key risks and that there is a responsible body or individual charged with monitoring, managing and, if appropriate, mitigating these risks.

Executive management assesses the level of risk inherent in achieving the Company's strategies and incorporates controls into processes designed to mitigate such risk to the appropriate level through the internal control system and specific risk management actions.

Risk identification, assessment and mitigation is performed 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 strategic and financial risks at executive management and Board levels.

During 2013 the Group applied a continuous process to identify, evaluate and manage the significant risks faced by the Group and determine the nature and extent of the significant risks that it is willing to take in order to achieve its objectives. The Group plans to enhance its practices with regard to defining, implementing and monitoring risk management action plans in relation to the principal risk areas, particularly where the level of risk exceeds the Group's risk appetite.

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. Because of the limitations inherent in any system of internal control, the Group's risks listed below do not represent a complete register of the risks and uncertainties.

MARKET AND FINANCIAL RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Commodity prices	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 has a 'no hedge' policy and price fluctuations may have an effect on profits. Furthermore, the financial viability of exploration, development projects and production operations may become questionable and management may have to reassess the economic model.	The Group constantly monitors price trends, implements measures to reduce costs to appropriate levels, checks the viability of the exploration and development projects and, if necessary, revises specific investment plans and schedules. The Group regularly checks hedging possibilities against commodity price changes.
Financial risks	Adverse economic conditions or uncertainties that affect global markets can give rise to risks which may negatively impact the Group's operations and results, specifically: adverse fluctuations in Russian Rouble/USD and GBP/USD. The Group's sales and borrowings are denominated in US Dollars. The majority of costs are also linked to US Dollars although a significant portion is incurred in Russian Roubles. An appreciation of the Rouble may lead to an increase in Group costs compared to revenues. credit risks, the majority of which are attributable to the Group's financial assets, and the risk that, due to changes in the global economy, certain financial assets (including assets with high liquidity) may be impaired. an increase in interest rate may adversely affect the Group's financial results and its ability to demonstrate the economic viability of certain assets. a rate of inflation which may result in higher prices for materials used in production and an increase in labour costs.	The Group uses natural hedging and matches revenue and debt nominated in US Dollars and reviews other possible ways to hedge exchange rate fluctuations if appropriate. 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. Investment decisions are reviewed and approved by the Board and the investment portfolio is monitored constantly. The Group uses a short-term, medium-term cash planning system and long-term cash flow forecasts are prepared in line with strategic planning. For the budgeting and planning process, the Group uses market consensus estimates of commodity prices, inflation, interest rates and exchange rates. Please refer to Note 33 to the Consolidated Financial Statements for further details explaining the implications and management of financial risks.

OPERATING RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
The Group is subject to extensive environmental, health and safety laws and regulations	The Group companies are controlled and guided by various safety and health regulatory bodies and regulations. Stricter regulations could cause the Group to incur additional costs in order to comply with the new regulations. The Group companies use contaminants, including cyanide-containing reagents, and operate under the strict control of environmental authorities. The Group monitors compliance with environmental requirements and incurs costs to achieve compliance but if environmental regulations change the 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. In the absence of a final product this would lead to a decrease in profitability.	The Group has a separate HSE Committee where all main HSE risks are considered and monitored The Group's policies with regard to the environment and health and safety are based on the applicable legislation. Changes in legislation are monitored. The Group purchases necessary equipment to prevent fires, flooding or other accidents and for the prevention of pollution. The Group organises training and assessment programmes for all staff and regularly checks their compliance with HSE rules and regulations. An external provider of rescue services is contracted in accordance with legislation. The Group implements best practices and is certified under ISO 14001.
Risks associated with exploration activities	The Group's ore reserves and mineral resources estimates are subject to a number of assumptions and estimations, including geological, metallurgical and technical factors, future commodity prices and production costs. Fluctuations in any of these variables could result in lower than expected revenues, higher costs, and lower operating profits and could lead to reduction in reserves and resources. The Group makes significant investments in exploration performed at greenfield sites to develop the business and at brownfield sites to extend the life of mines. However, the exploration activities may not be successful due to many factors including geological as well as economic and may not result in an increase of the Group's resources.	The Group conducts detailed exploration and considers various production methods before proceeding with the best commercial and economic options. The Group has in-house experts who have a proven track record of successful exploration works and the history of moving exploration projects to the next stage (i.e. mine development). External consultants (including internationally recognised consultants for a JORC-complaint audit) are contracted if appropriate. The Board reviews the exploration projects on a regular basis and the Board approves all exploration activities and costs based on indicative economic probabilities. The review of the Group's exploration activities is presented in the Exploration section on pages 12 to 13. Information regarding the Group's mineral resources and reserves, reported in accordance with JORC is presented on pages 84 to 85.

RISK NAME	RISK DESCRIPTION	MITIGATION
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 the licence requirements or major licence changes may result in a loss of licence and mineral rights, or significant costs to ensure compliance with the new requirements.	Compliance with licence requirements is monitored monthly at management level, and a licence compliance report is drafted. The report serves as a basis to develop measures to meet the terms and conditions of agreements. The Group's management and the Board are regularly informed as to compliance with licence agreements.
Production risks	Mining operations are subject to a number of circumstances not wholly within the Group's control, including damage to or breakdown of equipment or infrastructure, unexpected/ unusual geological variations or technical issues, extreme weather conditions and natural disasters, which could adversely affect production volumes and costs. 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. The unexpected interruption in the processing and technological characteristic of the ore may result in the recovery rate lower that was expected. As a result of these factors, end-product unit costs may turn out to be considerably above budget. This might hinder implementation of the production plan, 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 working and commercially economic mine plans. In turn, the in-house mine plans are reviewed by external consultants and national 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 undertakes development exploration during production stage to define the ongoing nature of reserves and geological conditions. The Group has a system in place to monitor the quality of ore and has capacities to mix the ore in order to make its characteristics best suitable for the processing. Details of the operational performance of each of the Group's operations are included within the Operations section on pages 9 to 11.

RISK NAME	RISK DESCRIPTION	MITIGATION
New construction projects	The cost of new construction projects is usually significant and may differ from initial investment plans. The economics of a project are dependent upon the macroeconomic situation, product prices, the geological and technological conditions of a particular deposit, increases in the construction cost and the availability of skilled and operating personnel. Furthermore, it is not always possible to ensure that the indicative assessment of capital investment is accurate. Changes in the investment cost of projects may have an adverse effect on the use of capital resources for other projects, and on the Group's liquidity resulting in a decrease in the profitability of particular project and impacting on the Group as a whole. Construction is normally outsourced to external contractors. The Group cannot completely ensure that the contractors will be able to fulfil their obligations promptly and to the full extent, which may lead to changes in the cost of development projects and completion deadlines.	The Group initiates new projects, mine extensions, etc., based on detailed investment plans and a review of management resource. Major projects are subject to external consultants' reports and JORC evaluation. Management and the Board closely monitor the contractor's performance and costs. Corrective action is taken if required.

HUMAN RESOURCES RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
Skilled workforce shortage	The Group competes with other companies for the retention and engagement of mining and production staff, including geologists, mining engineers, processing and other specialists, and workers. Skilled workforce shortage is a universal issue in the mining industry; this is evident in Russia and impacts the Group's activities. In view of the workforce shortage, the Group's ability to recruit and fill vacancies on a timely basis may have a negative impact on its operations and prospects.	The Group utilises various HR policies including provision of housing, house loans and employee training and development programmes, to attract and retain skilled specialists. The Group monitors the labour and salary market to provide acceptable and competitive packages relevant to the form of employment and the location of operations. One of the responsibilities of the Group's Remuneration Committee is to consider and approve remuneration in respect of senior management.

STRATEGIC RISKS

RISK NAME	RISK DESCRIPTION	MITIGATION
An adequate resource base needs to be maintained for future operations and replacement of depleted mines	Due to the fact that the life of a mine is limited, the Group has to strategically seek to replenish its resource base through the development of its own projects or through M&A activity. Mine development from exploration to production can prove to be a prolonged process. There can be no guarantee that current or prospective exploration will lead to sustainable production in the future.	The Group has development plans for the future and new acquisitions are subject to Board approval. The Group undertakes exploration projects to sustain and increase the resource base. Project feasibility studies are regularly carried out.
Potential government actions	The risks related to changes in the political, economic situation and legislative regulation in the Russian Federation and Kyrgyzstan are significant for the Group as the principal operations are located in these jurisdictions. There is a risk that government and government agencies could perform actions, adopt new laws, taxes, regulations or other requirements which could have a negative impact on the Group's operations and business. Government actions may make it more difficult to access capital, raise the costs of borrowing, decrease access to markets where the Group operates and/or bring about an overall deterioration in investment climate.	The Group monitors political developments and new legislation and assesses possible implications for the Group. In addition, the Group has established lines of communication with various governmental authorities in order to contribute to the thinking of such bodies and, when appropriate, participate in relevant discussions with political and regulatory authorities.

DIRECTORS' REPORT

The Directors of Highland Gold Mining Limited are pleased to submit their Directors' Report together with the audited financial statements for the year ended 31 December 2013.

REVIEW OF ACTIVITIES

Highland Gold Mining Limited ("Highland Gold" or the "Company" or the "Group") was incorporated in Jersey on 23 May 2002 for the principal purpose of establishing a portfolio of gold mining operations within the Russian Federation. The Group's activities, structure and operating companies are described more fully on pages 87 and 88 of the Report. The Chairman's Statement and the Chief Executive Officer's Report highlight the Company's business developments during 2013 and future prospects. The Company's shares are quoted on the AIM market of the London Stock Exchange.

RESULTS AND DIVIDENDS

An overview of the Group's results for the financial year to 31 December 2013 appears in the Financial Review on page 14 of the Report. The Group achieved a profit for the year of US$54.7million (2012: profit of US$126.4 million).

The Directors recommend the payment of a final dividend on the ordinary shares of 2.5 pence (2012: 3 pence) per share payable in May 2014. This reflects the Board's confidence in Highland Gold's growth projections.

ACCOUNTING POLICIES

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

DIRECTORS AND THEIR INTERESTS

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

Director	Ordinary shares At 31/12/2013	Ordinary shares At 31/12/ 2012	Available Options At 31/12/2013
Andrey Solovyov	–	–	50,000
Duncan Baxter	20,000	20,000	100,000
Eugene Shvidler	36,916,144	28,057,794	–

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

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

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

CORPORATE GOVERNANCE

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

THE BOARD

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

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

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

The changes to the Board during the year included the appointment of Colin Belshaw in September as an Independent Non-Executive Director and the resignation of Andrey Solovyov, Highland's Head of Human Resources & Administration, who remains with the Company.

The Board undertook a self-assessment review in early 2014 from which no material issues arose. 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 2016.

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

It is a requirement that all Directors retire by rotation at least every three years and new appointments be confirmed at the following Annual General Meeting. Colin Belshaw will retire and offer himself for election and Eugene Shvidler, Eugene Tenenbaum and Terry Robinson who retire by rotation will offer themselves for re-election at the Annual General Meeting to be held on 27 May 2014. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

The profiles of the Directors are to be found on page 28 of this report.

AUDIT COMMITTEE

The Audit Committee in 2013 consisted of four Directors, three of which are Non-Executives, and is chaired by Terry Robinson. The Audit Committee met three times during 2013 to consider the annual and interim financial statements, the audit programme, the Anti-Corruption policy and an Internal Code of Business Conduct and Ethics. Management is invited to attend meetings as appropriate. There are defined Terms of Reference for the Audit Committee which are reviewed by the Board on an annual basis and will be available for inspection at the Annual General Meeting. The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies, meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit Committee also considers budgets and has agreed an authorisation and expenditure policy. The Audit Committee is responsible for monitoring key risks and has implemented, through the internal audit department, a process for reporting on and monitoring those risks. The other members of the Committee were Olga Pokrovskaya, Eugene Tenenbaum and Alla Baranovskaya. Audit Committee members meet with management and the auditors on a regular basis.

REMUNERATION AND NOMINATION COMMITTEE

The Committee consisted of four Directors, three of which are Non-Executives, comprising Duncan Baxter, as Chairman, Eugene Tenenbaum, Valery Oyf and Terry Robinson. The Committee is responsible for reviewing the performance of executive management and, where appropriate, other senior executives, and for determining their appropriate levels of remuneration. Recommendations are made, as and when appropriate, with regard to appointments in respect of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies; the composition of the Board is monitored on an ongoing basis. The Committee makes recommendations to the Board, within defined terms of reference, which the Board reviews at least annually. The Committee also examines fees in relation to non-executive remuneration and committee Chairmen. The Committee held one meeting during the year. Details of the Directors' remuneration are given on page 27. The Committee has considered and recommended to the Board the election of Colin Belshaw and the re-election of Eugene Shvidler, Eugene Tenenbaum and Terry Robinson respectively as Directors of the Company at the forthcoming AGM. The terms of reference were amended to ensure that at least one or more meetings are held in any one year.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Board has established a Health, Safety and Environmental Committee which is chaired by OlgaPokrovskaya. The other members of the Committee are Terry Robinson, Colin Belshaw and Sergey Mineev. Andrey Solovyov resigned from the Committee on 18 December 2013 at which date Colin Belshaw was appointed to the Committee. The Committee considers, in conjunction with management, development and training requirements and regulatory compliance matters related to health, safety and environmental issues. The Committee makes recommendations to the Board, within agreed terms of reference, which the Board reviews at least annually. The Committee met twice during the year. Details of the progress and performance of the Company in respect of health, safety and the environment are given in the Chief Executive Officer's report on pages 8 to 13.

OTHER COMMITTEES

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

INTERNAL CONTROLS

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

RELATIONS WITH SHAREHOLDERS

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

Shareholders passed a special resolution at the Annual General Meeting on 16 June 2011 whereby the Directors were authorised to allot and grant rights to subscribe for, or convert securities into, shares in the Company up to a maximum nominal amount equivalent to 33% of the nominal amount of the authorised but unissued share capital of the Company, to such persons at such times and on such terms as they think proper without first making an offer to each person who holds shares in the Company. Such authority will expire at the conclusion of the Company's Annual General Meeting in 2014. The Board intends to seek Shareholder approval for an extension to this authority as outlined in the Special Resolution set out as Resolution 9 in the Notice of the Annual General Meeting. The authority, if given, will expire at the conclusion of the Annual General Meeting in 2017.

SUBSTANTIAL SHAREHOLDINGS

As at close of business on 15 April 2014, the Company had been notified of the following interests, other than Directors' interests, which amounted to three per cent or more of the issued share capital of the Company:

Name of Holder	Number	Percentage
Primerod International Limited*	104,080,000	32.00%
Prosperity Capital Management	59,525,782	18.30%
Van Eck Associates	17,524,389	5.39%
Ivan Koulakov	13,500,000	4.15%
J.P. Morgan Asset Management	12,027,079	3.70%

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

GOING CONCERN

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

AUDITORS

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

ANNUAL GENERAL MEETING NOTICE

The Annual General Meeting will be held at 11.00 am on Tuesday 27 May 2014 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is set out on page 89 of the Report.

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

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

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

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

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

REPORT ON DIRECTORS' REMUNERATION

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

No grants of options under the Unapproved share option scheme were made during 2013 and management and employees were incentivised through a bonus scheme, currently of a discretionary nature. All remaining options under the Unapproved share option scheme have vested and are exercisable up to the seventh anniversary from the date when the options were granted. The number of options outstanding as of 31 December 2013, were 450,000 (2012: 525,000). During the year 75,000 options were forfeited. For the remaining options the exercise period will lapse on 22 September 2014.

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

The remuneration paid to the Directors in the financial period to 31 December 2013 was as follows:

	US$ 2012	US$ 2013	US$ 2012	US$ 2013
	Fees and Remuneration		Bonus	
Eugene Shvidler	366,660	500,000	–	–
Duncan Baxter	273,328	160,000	–	–
Eugene Tenenbaum	100,000	100,000	–	–
Olga Pokrovskaya	125,000	125,000	–	–
Terry Robinson	160,000	160,000	–	–
Colin Belshaw	–	30,832	–	–
Valery Oyf	490,927	982,897	–	–
Alla Baranovskaya	304,423	603,690	102,002	103,242
Sergey Mineev	103,795	303,313	20,865	10,324

The remuneration paid to the Directors who retired during the financial year to 31 December 2013 was as follows:

	US$ 2012	US$ 2013	US$ 2012	US$ 2013
	Fees and Remuneration		Bonus	
Andrey Solovyov	117,134	326,617	30,879	20,648

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

By Order of the Board
22 April 2014

EUGENE SHVIDLER

Non-Executive Chairman

Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a masters degree in applied mathematics, 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. He joined the Highland Gold Board of Directors in January 2008.

ALLA BARANOVSKAYA

Executive Director

CFO

Alla Baranovskaya has held the post of Chief Financial Officer of Highland Gold, based in Moscow, since 1 June 2011. Ms Baranovskaya is a graduate from Moscow State University where she majored in Economics. From 2006 to 2007 she was CFO and a Director of Slavneft, a Russian oil and gas company, and from 2008 to 2010 was CFO of Rusneft, also an oil and gas enterprise.

DUNCAN BAXTER

Independent Non-Executive Director

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

COLIN BELSHAW

Independent Non – Executive Director

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

SERGEY MINEEV

Executive Director

Head of Exploration and Capital Projects Development

Sergey Mineev has been Head of Exploration and Capital Projects Development at Highland Gold, based in Moscow, since 1 April 2011. He is a graduate from Moscow State University where he majored in Geochemistry, and holds a PhD in geology. From 2004 to 2011 he was CEO and Deputy Director of various subsidiaries of Renova, the Russian investment company, including Ural Minerals, UralPlatinum Holding, Interminerals and Zoloto Kamchatki where he was a Director.

VALERY OYF

Executive Director

CEO

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

OLGA POKROVSKAYA

Non-Executive Director

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

TERRY ROBINSON

Non-Executive Director

Chairman of the Audit Committee

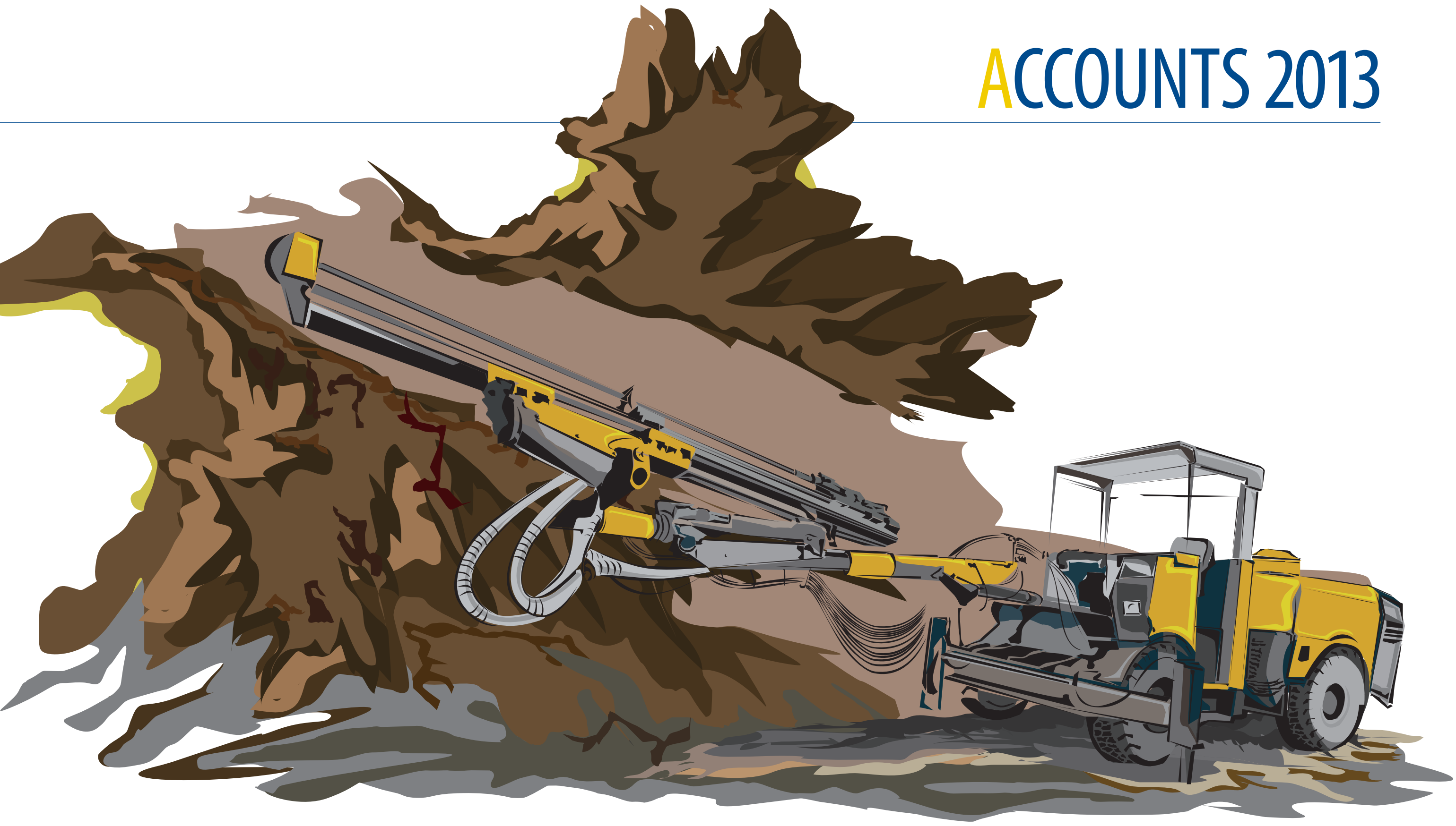
Terry Robinson is a qualified chartered accountant and has 40 years' international business experience. He spent 20 years at Lonrho PLC, the international mining and trading group , the last 10 years of which he served as a main board director. Since 1998 he has been variously occupied with international business recovery engagements and investment projects including natural resources in the UK, Russia, the CIS and Brazil. Mr. Robinson is a Non-Executive director of the Evraz Group, a large steel producer, he was elected to the Board of OJSC Raspadskaya, a subsidiary of Evraz, in 2013. 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.

EUGENE TENENBAUM

Non-Executive Director

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

ACCOUNTS 2013



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

We have audited the financial statements of Highland Gold Mining Limited for the year ended 31 December 2013 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 37. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Director's 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 2013 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.

Ken Williamson
for and on behalf of Ernst & Young LLP
London
22 April 2014

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 2013

	Notes	2013 US$000	2012 restated* US$000
Revenue	8	304,206	351,828
Cost of sales	9	(203,609)	(201,266)
Gross profit		**100,597**	**150,562**
Administrative expenses	10	(18,646)	(17,801)
Other operating income	11.1	2,757	1,524
Other operating expenses	11.2	(7,689)	(4,983)
Operating profit		**77,019**	**129,302**
Foreign exchange (loss)/gain	12	(2,767)	4,432
Finance income	13.1	9,429	25,540
Finance costs	13.2	(1,620)	(1,315)
Profit before income tax		**82,061**	**157,959**
Income tax expense	14	(27,364)	(31,532)
Profit for the year		**54,697**	**126,427**
Total comprehensive income for the year		**54,697**	**126,427**
Attributable to:			
Equity holders of the parent		54,463	126,347
Non-controlling interests		234	80
Earnings per share (US$ per share)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	15	0.167	0.388
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	15	0.167	0.388

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

** Certain amounts shown here reflect the adoption of new and revised standards as detailed in Note 3, and therefore do not correspond to the consolidated statement of comprehensive income for the year ended 31 December 2012.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	As at 31 December 2013 US$000	As at 31 December 2012 restated* US$000
ASSETS			
Non-current assets			
Exploration and evaluation assets	16	270,287	72,903
Mine properties	17	338,007	359,193
Property, plant and equipment	18	367,486	158,746
Intangible assets	5,19	97,324	80,570
Inventories	23	14,623	9,647
Other non-current assets	21	13,272	48,100
Deferred income tax asset	14	826	616
Total non-current assets		**1,101,825**	**729,775**
Current assets			
Inventories	23	71,017	67,011
Trade and other receivables	24	53,577	50,376
Income tax prepaid		1,811	4,607
Prepayments	25	6,389	2,593
Financial assets	34	50,199	54,095
Cash and cash equivalents	26	7,938	7,251
Total current assets		**190,931**	**185,933**
TOTAL ASSETS		**1,292,756**	**915,708**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	27	585	585
Share premium		718,419	718,419
Assets revaluation reserve	27	832	832
Retained earnings		99,444	73,122
Total equity attributable to equity holders of the parent		**819,280**	**792,958**
Non-controlling interests		2,471	2,237
TOTAL EQUITY		**821,751**	**795,195**
Non-current liabilities			
Interest-bearing loans and borrowings	28	185,309	6,875
Long-term accounts payable	29	441	417
Provisions	30	34,402	37,272
Deferred income tax liability	14	80,375	41,942
Total non-current liabilities		**300,527**	**86,506**
Current liabilities			
Trade and other payables	29	46,445	32,007
Interest-bearing loans and borrowings	28	124,015	1,875
Income tax payable		–	2
Provisions	30	18	123
Total current liabilities		**170,478**	**34,007**
TOTAL LIABILITIES		**471,005**	**120,513**
TOTAL EQUITY AND LIABILITIES		**1,292,756**	**915,708**

The financial statements were approved by the Board of Directors on 22 April 2014 and signed on its behalf by: Alla Baranovskaya and Olga Pokrovskaya.

** Certain amounts shown here reflect the adoption of new and revised standards as detailed in Note 3, and therefore do not correspond to the consolidated statement of financial position as at 31 December 2012.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
		Issued capital US$000	**Share premium US$000**	**Asset revaluation reserve US$000**	**Retained earnings/ (accumulated losses) US$000**	**Total US$000**	**Non-controlling interest US$000**	**Total equity US$000**
At 1 January 2012		**585**	**718,419**	**832**	**(28,139)**	**691,697**	**3,391**	**695,088**
Total comprehensive income for the year		–	–	–	126,347	126,347	80	126,427
Dividends paid to equity holders of the parent	35	–	–	–	(25,086)	(25,086)	–	(25,086)
Novo compulsory share purchase*		–	–	–	–	–	(1,234)	(1,234)
At 31 December 2012 (restated)**		**585**	**718,419**	**832**	**73,122**	**792,958**	**2,237**	**795,195**
Total comprehensive income for the year		–	–	–	54,463	54,463	234	54,697
Dividends paid to equity holders of the parent	35	–	–	–	(28,141)	(28,141)	–	(28,141)
At 31 December 2013		**585**	**718,419**	**832**	**99,444**	**819,280**	**2,471**	**821,751**

** The compulsory share purchase from non-controlling shareholders in accordance with the Russian legislation resulted in the Company's stake in Novoshirokinskoye (Novo) increasing from 96.6% at 1 January 2012 to 97.9% at 31 December 2012.*
*** Certain amounts shown here reflect the adoption of new and revised standards as detailed in Note 3, and therefore do not correspond to the consolidated statement of changes in equity for the year ended 31 December 2012.*

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 US$000	2012 restated* US$000
Operating activities			
Profit before tax		82,061	157,959
		82,061	**157,959**
Adjustments to reconcile profit before tax to net cash flows from operating activities:			
Depreciation of mine properties and property, plant and equipment	9	54,645	49,700
Movement in ore stockpile obsolescence provision	11.2.1	2,386	–
Movement in raw materials and consumables obsolescence provision	11.2.1	1	(279)
Write-off of mine properties and property, plant and equipment	11.2.2,17,18	619	710
(Gain)/loss on disposal of property, plant and equipment	11.1,11.2	(38)	346
Bank interest	13.1	(253)	(3,237)
Bonds and shares fair value movement	13.1,34	(9,176)	(22,303)
Finance expense	13.2	1,386	846
Unwinding of contingent consideration liability	13.2	180	469
Net foreign exchange loss/(gain)	12	2,767	(4,432)
Movement in provisions		326	223
Income from disposal of an entity	11.1,36	(1,301)	–
Other non-cash income and expenses		127	–
Working capital adjustments:			
Increase in trade and other receivables and prepayments		(3,117)	(21,125)
Increase in inventories		(10,968)	(8,498)
(Decrease)/increase in trade and other payables		(754)	7,921
Income tax paid		(24,191)	(20,700)
Net cash flows from operating activities		**94,700**	**137,600**
Investing activities			
Proceeds from sale of property, plant and equipment		306	359
Proceeds from disposal of an entity	36	304	–
Purchase of property, plant and equipment	6	(143,706)	(125,028)
Capitalised interest paid	6,16,17	(9,277)	(82)
Increase in deferred stripping costs	17	(11,826)	(16,106)
Acquisition of subsidiaries	5	(195,394)	(53,705)
Interest received from deposits		253	3,640
Interest received from bonds	34	4,176	4,319
Sale of investments – bonds	34	5,252	–
Sale of investments – shares	34	3,644	–
Net cash flows used in investing activities		**(346,268)**	**(186,603)**
Financing activities			
Novo compulsory share purchase		–	(1,218)
Proceeds from borrowings	28	325,799	8,750
Dividends paid to equity holders of the parent	35	(28,141)	(25,086)
Repayment of borrowings		(24,766)	–
Interest paid		(399)	–
Repayment under assignment agreements	5	(17,099)	(15,377)
Net cash flows from/(used in) financing activities		**255,394**	**(32,931)**
Net decrease in cash and cash equivalents		3,826	(81,934)
Effects of exchange rate changes		(3,139)	(1,450)
Cash and cash equivalents at 1 January	26	7,251	90,635
Cash and cash equivalents at 31 December	**26**	**7,938**	**7,251**

** Certain amounts shown here reflect the adoption of new and revised standards as detailed in Note 3, and therefore do not correspond to the consolidated statement of cash flows for the year ended 31 December 2012.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 22 April 2014.

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

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

2. BASIS OF PREPARATION

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

STATEMENT OF COMPLIANCE

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

BASIS OF CONSOLIDATION

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS COMBINATIONS AND GOODWILL

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

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

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

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

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

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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 2013	31 December 2012
Average		
RUR	31.906	31.074
GBP	0.639	0.631
Closing		
RUR	32.729	30.373
GBP	0.607	0.619

PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

DEPRECIATION AND DEPLETION

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

- Mineral properties are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves.

- Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

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

Depreciation of mineral properties at Mnogovershinnoye (MNV) in 2013 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2017 (2012: up to 2016). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2017).

Depreciation of mineral properties at Novo in 2013 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2025 (2012: up to 2025). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2025).

Depreciation of mineral properties at Belaya Gora (BG) in 2013 has been calculated based on a JORC report with estimated economically recoverable reserves up to 2019 (2012: up to 2019). All other assets were depreciated using the straight-line method based on management's best estimate (up to 2019).

The expected useful lives are as follows:

Buildings	5 – 13 years
Plant and Equipment	1 – 13 years

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

EXPLORATION AND EVALUATION EXPENDITURE

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

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or

- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

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

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

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

MINE DEVELOPMENT EXPENDITURE

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

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

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

MINE PROPERTIES

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

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

STRIPPING COSTS

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

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

CONSTRUCTION WORK IN PROGRESS

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

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

INCIDENTAL AND NON-INCIDENTAL INCOME

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

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

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

FAIR VALUE MEASUREMENT

The Group measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 34.

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 34.

IMPAIRMENT

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

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

LEASES

Operating leases

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

Finance lease

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

GOODWILL

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

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

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. An impairment loss on goodwill cannot be reversed under any circumstances.

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

Further information is contained in Note 19.

FINANCIAL ASSETS AND LIABILITIES

Financial instruments classification and recognition

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

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

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

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

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

INVENTORIES

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

The inventories are segregated by the following:

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

TRADE AND OTHER RECEIVABLES

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

CASH AND CASH EQUIVALENTS

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

SHARE CAPITAL

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

VALUE ADDED TAX

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

BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Subsequently, borrowings are carried at amortised cost using the effective interest method. Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use (a qualifying asset) are capitalised as part of the cost of the respective asset, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

TRADE AND OTHER PAYABLES

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

PROVISIONS FOR LIABILITIES AND CHARGES

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

ENVIRONMENTAL PROTECTION, REHABILITATION AND CLOSURE COSTS

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

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

REVENUE RECOGNITION

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

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

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

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

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

EMPLOYEE BENEFITS

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

PENSION PLAN

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

SHARE BASED PAYMENTS

Equity-settled transactions

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

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

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

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

Cash-settled transactions

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

EARNINGS PER SHARE

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

DIVIDEND DISTRIBUTION

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

INCOME TAXES

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

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

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

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

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

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

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

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

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2013 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012, except for the new standards adopted as described below.

There were a number of new standards and interpretations, effective from 1 January 2013, that the Group applied for the first time in the current year. These include IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine and IFRS 13 Fair Value Measurement. Only the adoption of IFRIC 20 resulted in a restatement of previous financial statements.

Other new or amended standards and interpretations do not materially impact the annual financial statements of the Group and hence are not discussed. These include:

- IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income (Amendments)
- IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments)
- IAS 19 Employee Benefits (Revised)
- IFRS 1 Government Loans – Amendments to IFRS 1
- Annual Improvements to IFRSs 2009-2011 Cycle

IFRIC 20 STRIPPING COSTS IN THE PRODUCTION PHASE OF A SURFACE MINE

IFRIC 20 now clarifies when an entity should recognise production phase waste removal (stripping) costs (production stripping costs) incurred in relation to a surface mining operation, as an asset. Such an asset will be referred to as a stripping activity asset. The interpretation is effective for annual reporting periods beginning on or after 1 January 2013 and has impacted the way in which the Group accounts for production stripping costs.

The Group has adopted IFRIC 20 effective 1 January 2013. Upon adoption of IFRIC 20, the Group assessed the deferred stripping balance as at 1 January 2012 and determined that this balance can be associated with identifiable components of ore bodies. Therefore no adjustments were made as at 1 January 2012.

The adoption of IFRIC 20 has resulted in increased capitalisation of stripping costs and reduced cost of sales in 2012. If the Group had not adopted the standard, the net income and capitalised stripping costs for current and comparative periods would have decreased. The quantitative impact of adopting IFRIC 20 on the consolidated financial statements for the year ended 31 December 2012 is presented in the tables below.

Adjustments to the consolidated statement of comprehensive income:

For the year ended 31 December 2012	Previously stated US$000	Adjustments for adoption of IFRIC 20 US$000	Restated US$000
Cost of sales	205,570	(4,304)	201,266
Income tax expense	30,673	859	31,532
Increase in net income		**(3,445)**	

For the year ended 31 December 2012	Previously stated US$ per share	Adjustments for adoption of IFRIC 20 US$ per share	Restated US$ per share
Basic earnings per share	0.378	0.010	0.388
Diluted earnings per share	0.378	0.010	0.388

Adjustments to the consolidated statement of financial position:

At 31 December 2012	Previously stated US$000	Adjustments for adoption of IFRIC 20 US$000	Restated US$000
Mine properties	355,972	3,221	359,193
Non-current inventories	10,738	(1,091)	9,647
Current inventories	64,837	2,174	67,011
Deferred income tax liability	(41,083)	(859)	(41,942)
Increase in net assets/retained earnings		**3,445**	

Adjustments to the consolidated cash flow statement:

For the year ended 31 December 2012	Previously stated US$000	Adjustments for adoption of IFRIC 20 US$000	Restated US$000
Profit before tax	153,655	4,304	157,959
Adjusted for:			
Depreciation of property, plant and equipment	36,810	12,890	49,700
Deferred stripping costs write-off	9,710	(9,710)	–
Increase in inventories	(7,415)	(1,083)	(8,498)
Increase in net cash flows from operating activities		**6,401**	
Increase in deferred stripping costs	(9,705)	(6,401)	(16,106)
Increase in net cash flows used in investing activities		**(6,401)**	

IFRS 13 FAIR VALUE MEASUREMENT

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group reassessed its policies for measuring fair values – in particular its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. The fair value hierarchy is provided in Note 34.

STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

Standards, interpretations and amendments issued but not yet effective or early adopted up to the date of issuance of the Group's financial statements are listed below. This listing is of standards, interpretations and amendments issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt them when they become effective and adopted by the European Union. IFRS 10, 11 and 12 become effective on or after 1 January 2014.

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39.

In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the Group's financial assets but it will not have an impact on classification and measurement of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS, IAS 27 SEPARATE FINANCIAL STATEMENTS

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues covered in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including structured entities (previously referred to as special purpose entities). The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

IFRS 11 JOINT ARRANGEMENTS AND IAS 28 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The application of IFRS 11 and IAS 28 is not expected to impact the Group's accounting as the Group does not have any joint arrangements or investments in associates.

IFRS 12 DISCLOSURE OF INTERESTS IN OTHER ENTITIES

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for such investments but will have no impact on the Group's financial position or performance.

The IASB and IFRIC have issued other new standards, interpretations and amendments, effective on or after 1 January 2014, which were adopted by the European Union. Management considers that they will not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (Amendments);
- IAS 36 Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (Amendments);

- IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting (Amendments);
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27).

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

JUDGEMENTS

Deferred stripping costs

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

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

- probable future economic benefits associated with the stripping activity will flow to the Group;
- costs can be measured reliably; and
- the Group can identify the component of the ore body for which access has been improved.

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

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

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

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

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

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

GOING CONCERN

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

The agreed financing agreements were taken into consideration for the purposes of the going concern analysis.

DISPOSAL OF AN ENTITY

The Group determined that the sale of ZAO Trade House Mnogovershinnoye (TH MNV) does not constitute a discontinued operation as the disposal did not lead to the Group abandoning any geographical area of operation or any product line (Note 36).

NON-INCIDENTAL INCOME

In the course of start-up works in the second half of 2013 BG produced and sold 7,060 ounces of gold. The revenue from sale of the gold was generated wholly and necessarily as a result of the process of bringing the plant into the condition for its intended use. Therefore the revenues of US$8.5 million and the related costs of US$9.3 million were capitalised into the cost of the plant.

ESTIMATIONS AND ASSUMPTIONS

Business combinations

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. The determination of the fair value is based on discounted cash flows. The key assumptions taken into consideration are the probability of meeting each performance target and the discount factor (Note 5).

The fair value of assets and liabilities at Klen acquired in July 2012 was assessed based on the results of the independent audit of Klen and Verkhne-Krichalskaya deposits undertaken by Micon International Co Ltd. and approved by the Company's nominated adviser.

The fair value of assets and liabilities at Kekura acquired in March 2013 was assessed based on the results of the independent valuation undertaken by BDO.

IMPAIRMENT OF NON-CURRENT ASSETS

The Group tests goodwill for impairment at least annually. Note 20 outlines the significant judgements and estimations made when preparing impairment tests of non-current assets.

TAX LEGISLATION

Russian tax, currency and customs legislation is subject to varying interpretations. Please refer to Note 31 for details.

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

DEFERRED INCOME TAX ASSET RECOGNITION

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future tax profits together with an assessment of the effect of future tax planning strategies. Further details are contained in Note 14.

SITE RESTORATION PROVISION

A provision is recognised for expected close down, restoration and environmental clean up costs based on the estimated future costs of such activities. It is expected that most of these costs will be incurred at the end of life of the operating mine. Assumptions used to calculate the provision for site restoration were based on the government requirements applicable to sites closure, and assumptions regarding the life of mine (which is assumed to close in 2017 at MNV, in 2019 at BG and in 2025 at Novo), expected site restoration activities (removal of waste, restoration of mine sites), and current prices for similar activities.

DISCOUNT RATES AFFECTING IMPAIRMENT CALCULATIONS

Discount rates are based on the weighted average cost of capital and adjusted for project specific risk (country risk, production risk, cost estimation risk, reserve/resource risk etc). Please refer to Note 20 for pre-tax discount rates.

INVENTORY OBSOLESCENCE

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

DETERMINATION OF ORE RESERVES AND RESOURCES

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

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

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

EXPLORATION AND EVALUATION EXPENDITURE

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group classifies financial assets as "financial assets at fair value through profit or loss" when this group of assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about them is provided internally on that basis to the Group's key management personnel. The Group's financial assets held at fair value through profit or loss comprise coupon bonds and shares, which have a carrying value at 31 December 2013 of US$50.2 million (2012: US$54.1 million). The Group uses quoted market prices to determine fair value for financial assets. The fair value adjustment on financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

5. BUSINESS COMBINATIONS

ACQUISITION OF ZAO BAZOVYE METALLY

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

The Group determined that this transaction represents a business combination.

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

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

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

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

In addition, at the acquisition date up to US$11.0 million of contingent consideration was payable in the second half of 2013 upon the successful launch of the pilot plant which is nearing completion. It was recognised at the fair value of US$10.9 million, a 2.2% discount factor was applied. As at 31 December 2013 up to US$10.5 million remained outstanding and are expected to be paid in 2014.

ASSETS ACQUIRED AND LIABILITIES ASSUMED

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

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

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

Accounts receivable and other debtors were partly received in 2013 and the Group expects the remaining balance to be received during 2014.

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

PRIOR YEAR ACQUISITION OF OOO KLEN

On 9 July 2012, the Group acquired a 100% share in OOO Klen from Aristus Holdings Limited in order to improve the proven and probable reserves base and to increase the gold and gold equivalents production.

This transaction is classified as a related party transaction. The Directors of the Company, having received approval from the Company's nominated adviser, Numis Securities Limited, consider that the terms of the said transaction are fair and reasonable insofar as the shareholders of the Company are concerned.

The Group determined that this transaction represents a business combination.

Purchase consideration	US$000
Cash paid	53,705
Fair value of loan assigned	15,377
Total consideration transferred	**69,082**

From total consideration the amount allocated to loan was US$15.4 million based on the fair value of the loan. The payment was made on 16 July 2012.

ASSETS ACQUIRED AND LIABILITIES ASSUMED

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

	Fair value recognised on acquisition US$000
Assets	
Exploration and evaluation assets (Verkhne-Krichalskaya licence)	7,000
Mine properties (Klen gold deposit)	59,141
Property, plant and equipment	1,362
Other non-current assets	1,246
Accounts receivable and other debtors	638
Cash and cash equivalents	18
Total assets acquired	**69,405**
Liabilities	
Borrowings	(15,377)
Deferred tax liabilities	(10,142)
Trade accounts and notes payable	(322)
Other accounts payable and accrued liabilities	(60)
Current taxes payable	(4)
Total liabilities assumed	**(25,905)**
Total identifiable net assets at fair value	**43,500**
Goodwill arising on acquisition	**10,205**
Purchase price	**53,705**
Plus: fair value of loan	15,377
Total consideration transferred	**69,082**

The goodwill balance is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases.

From the date of acquisition in 2012, Klen has contributed US$0.0 million to revenue and loss of US$0.3 million to the profit before income tax of the Group in 2012. If the combination had taken place at the beginning of the year 2012, revenue of the Group in 2012 would have been US$351.8 million and profit before income tax of the Group (restated) would have been US$158.0 million.

6. SEGMENT INFORMATION

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

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

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

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

The development and exploration segment contains the entities which hold the licenses being in the development and exploration stage: Klen, Taseevskoye, Unkurtash, Lubov. Following the acquisition on 29 March 2013, the development and exploration segment also includes the results and balances of Kekura.

The “other” segment includes head office, management company, trade house and other 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 gain/(loss) and movement in ore stockpile obsolescence provision). The development and exploration segment is evaluated based on the life of mine models in connection with the capital expenditure spent during the reporting period.

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

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

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

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

In 2012 the gold and silver revenue reported in the gold production segment was received from sales to Gazprombank (US$107.9 million), VTB Bank (US$91.7 million), Sberbank (US$51.9 million) and MDM Bank (US$2.4 million) in the territory of the Russian Federation.

In 2013 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US$88.3 million was received from sales to Kazzinc (2012: US$90.9 million) in the territory of the Republic of Kazakhstan.

Other third-party revenues in both 2013 and 2012 were received in the territory of the Russian Federation.

Inter-segment revenues mostly represent management services.

Year ended 31 December 2013	Gold production segment US$000	Polymetallic concentrate production segment US$000	Develop-ment & exploration US$000	Other US$000	Eliminations US$000	Total US$000
Revenue						
Gold revenue	209,500	–	–	–	–	209,500
Silver revenue	1,819	–	–	–	–	1,819
Concentrate revenue	–	88,333	–	–	–	88,333
Other third-party	366	300	19	3,869	–	4,554
Inter-segment	193	–	1	15,761	(15,955)	–
Total revenue	**211,878**	**88,633**	**20**	**19,630**	**(15,955)**	**304,206**
Cost of sales	136,200	63,882	342	3,185	–	203,609
EBITDA	97,960	38,499	(510)	(3,200)	–	132,749
Other segment information						
Depreciation	(35,190)	(19,061)	–	(394)	–	(54,645)
Movement in ore stockpiles obsolescence provision	(2,386)	–	–	–	–	(2,386)
Income from disposal of an entity						1,301
Finance income						9,429
Finance costs						(1,620)
Foreign exchange loss						(2,767)
Profit before income tax						**82,061**
Income tax						(27,364)
Profit for the year						**54,697**
Segment assets at 31 December 2013						
Non-current assets						
Capital expenditure*	232,674	204,934	537,652	520	–	975,780
Goodwill	22,253	5,134	69,937	–	–	97,324
Other non-current assets	25,814	198	2,217	492	–	28,721
Current assets**	114,928	29,552	16,748	57,882	(28,179)	190,931
Total assets						**1,292,756**

Capital expenditure – addition in 2013*, including:**	**89,549**	**9,361**	**75,324**	**187**	**–**	**174,421**
Stripping activity assets	11,826	–	–	–	–	11,826
Non-cash capital expenditure****	2,536	–	16,353	–		18,889
Cash capital expenditure	75,187	9,361	58,971	187	–	143,706

** Capital expenditure is the sum of exploration and evaluation assets, mine properties and property, plant and equipment.*
*** Current assets include corporate cash and cash equivalents of US$7.9 million, investments of US$50.2 million, inventories of US$71.0 million, trade and other receivables of US$53.6 million and other assets of US$8.3 million. Eliminations relate to intercompany accounts receivable.*
**** Capital expenditure – addition in 2013 – includes additions to property, plant and equipment of US$205.1 million less prepayments previously made for property, plant and equipment of US$30.7 million.*
***** Non-cash capital expenditure includes unpaid accounts payable of US$8.6 million, inventories of US$1.0 million sold to contractor and capitalised interest of US$9.3 million.*

Year ended 31 December 2012 (restated)	Gold production segment	Polymetallic concentrate production segment	Develop-ment & exploration US$000	Other US$000	Eliminations US$000	Total US$000
Revenue						
Gold revenue	251,431	–	–	–	–	251,431
Silver revenue	2,432	–	–	–	–	2,432
Concentrate revenue	–	90,940	–	–	–	90,940
Other third-party	130	338	9	6,548	–	7,025
Inter-segment	372	–	6	14,552	(14,930)	–
Total revenue	**254,365**	**91,278**	**15**	**21,100**	**(14,930)**	**351,828**
Cost of sales	136,285	60,229	44	4,708	–	201,266
EBITDA	137,973	44,637	(388)	(3,220)	–	179,002
Other segment information						
Depreciation	(33,024)	(16,296)	–	(380)	–	(49,700)
Finance income						25,540
Finance costs						(1,315)
Foreign exchange gain						4,432
Profit before income tax						**157,959**
Income tax						(31,532)
Profit for the year						**126,427**
Segment assets at 31 December 2012						
Non-current assets						
Capital expenditure*	154,757	216,104	218,617	1,364	–	590,842
Goodwill	22,253	5,134	53,183	–	–	80,570
Other non-current assets	52,898	1,413	4,032	20	–	58,363
Current assets**	102,947	27,127	3,738	65,192	(13,071)	185,933
Total assets						**915,708**

Capital expenditure – addition in 2012*, including:**	**106,426**	**7,098**	**27,550**	**142**	**–**	**141,216**
Deferred stripping costs	16,106	–	–	–	–	16,106
Non-cash capital expenditure****	82	–	–	–	–	82
Cash capital expenditure	90,238	7,098	27,550	142	–	125,028

** Capital expenditure is the sum of exploration and evaluation assets, mine properties and property, plant and equipment.*
*** Current assets include corporate cash and cash equivalents of US$7.3 million, investments of US$54.1 million, inventories of US$67.0 million, trade and other receivables of US$50.4 million and other assets of US$7.2 million. Eliminations relate to intercompany accounts receivable.*
**** Capital expenditure – addition in 2012 – includes additions to property, plant and equipment of US$106.5 million and prepayments given for property, plant and equipment of US$34.7 million, including US$32.3 million relating to the construction of a stand-alone process plant at BG.*
***** Non-cash capital expenditure includes capitalised interest of US$0.1 million.*

All assets for both 2013 and 2012 are located in the Russian Federation and in the Kyrgyz Republic.

7. AUDITORS' REMUNERATION

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

	Ernst & Young		Others		Total	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Audit of the Group financial statements	701	648	–	–	701	648
Local statutory audits for subsidiaries	18	18	244	109	262	127
	719	**666**	**244**	**109**	**963**	**775**

8. REVENUE

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

	2013 US$000	2012 US$000
Gold sales	209,500	251,431
Concentrate sales*	88,333	90,940
Silver sales	1,819	2,432
Other sales	4,554	7,025
	304,206	**351,828**

** Concentrate sales include the fair value movement of an embedded derivative in the amount of US$0.2 million (2012: a negative fair value movement of US$0.5 million).*

9. COST OF SALES

	2013 US$000	2012 restated US$000
Operating costs	26,637	27,732
Employee benefits expense	55,412	50,954
Depreciation, depletion and amortisation	54,645	49,700
Cost of inventories recognised as expense	47,920	50,620
Taxes other than income tax*	18,995	22,260
	203,609	**201,266**

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

10. ADMINISTRATIVE EXPENSES

	2013 US$000	2012 US$000
Management company administrative expenses	12,296	10,269
Selling and distribution expenses	1,262	2,700
Minimum lease payments recognised as an operating lease expense	1,098	1,123
Salaries and wages of parent company	1,078	1,036
Auditors' remuneration (Note 7)	963	775
Legal and professional fees	818	935
Bank charges	406	462
Travel expenses of parent company	298	254
Other administrative expenses	427	247
Total administrative expenses	**18,646**	**17,801**

11. OTHER OPERATING INCOME AND EXPENSES

11.1. OTHER OPERATING INCOME

	2013 US$000	2012 US$000
Other income	1,218	1,220
Income from disposal of an entity (Note 36)	1,301	–
Gain on disposal of property, plant and equipment	38	–
Accounts payable write-off	200	304
Total other operating income	**2,757**	**1,524**

11.2. OTHER OPERATING EXPENSES

	Notes	2013 US$000	2012 US$000
Movement in ore stockpiles obsolescence provision	11.2.1	2,386	–
Mine properties and property, plant and equipment write-off	11.2.2	619	710
Donations to local communities		2,564	1,793
Loss on disposal of property, plant and equipment		–	346
Loss on disposal of inventory		454	616
Movements in inventory obsolescence provision		1	(279)
Other		1,665	1,797
Total other operating expenses		**7,689**	**4,983**

11.2.1. MOVEMENT IN ORE STOCKPILES OBSOLESCENCE PROVISION

Stock-piled low grade ore at BG is tested for impairment annually. The balance of ore stockpiles in the amount of US$2.4 million was written down in 2013 (2012: no movement in ore stockpiles obsolescence provision).

11.2. 2. PROPERTY, PLANT AND EQUIPMENT WRITE-OFF

In 2013 US$0.6 million (2012: US$0.7 million) write-off relates to retirement of old inefficient equipment.

12. FOREIGN EXCHANGE GAINS AND LOSSES

The total amount of foreign exchange loss for the year ended 31 December 2013 was US$2.8 million (2012: gain of US$4.4 million) resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies such as Russian Roubles and British pounds into the functional currency.

13. FINANCE INCOME AND COSTS

13.1. FINANCE INCOME

	2013 US$000	2012 US$000
Bonds and shares fair value movement (Note 34)	9,176	22,303
Bank interest	253	3,237
Total finance income	**9,429**	**25,540**

13.2. FINANCE COSTS

	2013 US$000	2012 US$000
Accretion expense on site restoration provision (Note 30)	1,386	846
Unwinding of contingent consideration liability	180	469
Other finance costs	54	–
Total finance costs	**1,620**	**1,315**

14. INCOME TAX

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	2013 US$000	2012 restated US$000
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	26,755	23,438
Adjustments in respect of prior year current tax	59	–
	26,814	**23,438**
Deferred income tax:		
Relating to origination of temporary differences	550	7,436
Adjustments in respect of prior year deferred tax	–	658
Income tax expense reported in the statement of comprehensive income	**27,364**	**31,532**

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by Russian statutory tax rate of 20% for the year ended 31 December 2013 and 2012 is as follows:

	2013 US$000	2012 restated US$000
Accounting profit before income tax	**82,061**	**157,959**
At Russian statutory income tax rate of 20%	16,412	31,592
Non-deductible expenses	9,954	570
Adjustments in respect of prior year tax	59	658
Loss arising from disposal of an entity	(334)	–
Lower tax rates on overseas earnings or losses	(863)	(1,829)
Unrecognised/(recognised) losses	625	(76)
Movements in other unrecognised temporary differences	1,511	617
Income tax expense	**27,364**	**31,532**
Income tax expense reported in the consolidated statement of comprehensive income	**27,364**	**31,532**

DEFERRED INCOME TAX

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		Acquisitions	
	2013 US$000	2012 restated US$000	2013 US$000	2012 restated US$000	2013 US$000	2012 US$000
Deferred income tax liability						
Property, plant and equipment	(105,632)	(60,021)	6,265	11,349	(39,346)	(12,680)
Inventory	(3,239)	(3,061)	178	(1,700)	–	–
Accounts receivable and other debtors	(159)	(20)	139	(112)	–	–
Deferred financing costs	(92)	–	92	–	–	–
	(109,122)	**(63,102)**	**6,674**	**9,537**	**(39,346)**	**(12,680)**
Deferred income tax assets						
Accounts receivable and other debtors	1,040	701	(339)	(255)	–	–
Inventory	–	107	107	124	–	–
Provisions for liabilities and charges	–	20	20	(20)	–	–
Trade accounts and notes payable	842	356	(486)	586	–	–
Tax losses	27,691	20,592	(5,426)	(1,878)	1,673	2,538
	29,573	**21,776**	**(6,124)**	**(1,443)**	**1,673**	**2,538**
Net deferred income tax liabilities	**(79,549)**	**(41,326)**	**550**	**8,094**	**(37,673)**	**(10,142)**

Entity-specific deferred tax positions are presented below:

	2013 US$000	2012 restated US$000
Deferred income tax assets	826	616
Deferred income tax liabilities	(80,375)	(41,942)
Deferred tax liabilities net	**(79,549)**	**(41,326)**

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 2013 is US$18.6 million (31 December 2012: US$13.4 million).

No deferred tax benefit is recognised in relation to the provision for obsolete inventory. These materials are unlikely to be used for production purposes in the future and therefore future tax relief is not assumed. The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the obsolescence provision at 31 December 2013 is US$14.1 million (31 December 2012: US$11.7 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 2013 is US$7.9 million (31 December 2012: US$4.8 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

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

The temporary differences associated with investments in subsidiaries, for which deferred tax liability in respect of withholding tax on dividends has not been recognised aggregate to US$456.5 million (2012: US$389.1 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences should be between US$0 and US$22.8 million (2012: US$0 and US$19.5 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2013 and 2012 years of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

15. EARNINGS PER SHARE

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

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

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

	2013 US$000	2012 restated US$000
Net profit attributable to ordinary equity holders of the parent	54,697	126,427
Net profit attributable to ordinary equity holders of the parent	54,697	126,427

	Thousands	**Thousands**
Weighted average number of ordinary shares for basic earnings per share	325,222	325,222
Effect of dilution:		
Share options	–	130
Weighted average number of ordinary shares adjusted for the effect of dilution	**325,222**	**325,352**

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

16. EXPLORATION AND EVALUATION ASSETS

	US$000
Cost as at 1 January 2012	**52,197**
Additions	18,014
Transfer from other non-current assets	2,504
Verkhne-Krichalskaya acquisition	7,000
Capitalised depreciation	15
Transfer to development	(6,827)
Cost as at 31 December 2012	**72,903**
Additions	28,503
Kekura acquisition	161,357
Capitalised depreciation	6,682
Transfers	842
Cost as at 31 December 2013	**270,287**
Net book value as at 31 December 2012	**72,903**
Net book value as at 31 December 2013	**270,287**

Transfer from non-current assets relates to amounts of VAT that the company does not have the right to reclaim.

Additions for 2013 include US$7.8 million of borrowing costs capitalised at Kekura during the period at interest rates between 4.2% and 5.6%.

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:

	2013 US$000	2012 US$000
Operating expenses	(174)	(121)
Net cash from operating activities	–	–
Net cash used in investing activities	29,176	18,258

17. MINE PROPERTIES

	Mining assets US$000	Stripping activity assets US$000	Total US$000
Cost as at 1 January 2012	**353,028**	**769**	**353,797**
Reclassification	(908)	–	(908)
Additions	15,584	16,106	31,690
Transfers	6,956	–	6,956
Write-off	(193)	–	(193)
Capitalised depreciation	200	–	200
Change in estimation – site restoration asset	13,269	–	13,269
Klen acquisition	59,141	–	59,141
Cost as at 31 December 2012 (restated)	**447,077**	**16,875**	**463,952**
Additions*	12,267	11,826	24,093
Transfers	(15,031)	–	(15,031)
Write-off	(19)	–	(19)
Capitalised depreciation	3,182	–	3,182
Change in estimation – site restoration asset**	(4,206)	–	(4,206)
Cost as at 31 December 2013	**443,270**	**28,701**	**471,971**
Depletion and impairment as at 1 January 2012	**71,336**	**–**	**71,336**
Reclassification	(908)	–	(908)
Provided during the year	21,581	12,890	34,471
Write-off	(168)	–	(168)
Transfers	28	–	28
Depletion and impairment as at 31 December 2012 (restated)	**91,869**	**12,890**	**104,759**
Provided during the year	26,306	10,558	36,864
Write-off	(18)	–	(18)
Transfers	(10,018)	–	(10,018)
Capitalised depreciation	2,377	–	2,377
Depletion and impairment as at 31 December 2013	**110,516**	**23,448**	**133,964**
Net book value as at 31 December 2012 (restated)	**355,208**	**3,985**	**359,193**
Net book value as at 31 December 2013	**332,754**	**5,253**	**338,007**

** Additions for 2013 include US$1.5 million of borrowing costs capitalised at BG during the period at interest rates between 4.2% and 5.6% (2012: US$0.1 million at the interest rate of 5.6%).*
*** During 2013 there was a change in the rehabilitation estimate. The net present value of the decrease in the cost estimate is US$4.2 million (decrease by US$3.6 million at MNV, increase by US$0.2 million at BG, decrease by US$2.0 million at Novo, addition of US$0.8 million at Kekura and addition of US$0.4 million at Klen) which was booked as a decrease to mining assets and non-current provisions.*

18. PROPERTY, PLANT AND EQUIPMENT

	Freehold building US$000	Plant and equipment US$000	Construction in progress US$000	Total US$000
Cost				
At 1 January 2012	**45,806**	**91,683**	**17,103**	**154,592**
Reclassification	(1,529)	(210)	54	(1,685)
Additions	307	130	56,346	56,783
Transfers	4,510	25,060	(29,689)	(119)
Reclass to inventory	–	–	(723)	(723)
Write-off	(3)	(2,284)	(221)	(2,508)
Disposals	(16)	(741)	–	(757)
Capitalised depreciation	–	–	1,604	1,604
Klen acquisition	–	252	1,110	1,362
At 31 December 2012	**49,075**	**113,890**	**45,584**	**208,549**
Additions	–	1,706	150,777	152,483
Transfers	12,832	30,373	(29,190)	14,015
Reclass to inventory	–	–	(34)	(34)
Write-off	(15)	(4,859)	(40)	(4,914)
Disposals*	(429)	(902)	(3)	(1,334)
Capitalised depreciation	–	–	3,600	3,600
Kekura acquisition	38,273	14,569	26,914	79,756
At 31 December 2013	**99,736**	**154,777**	**197,608**	**452,121**
Depreciation				
At 1 January 2012	**6,099**	**30,234**	**–**	**36,333**
Reclassification	(1,529)	(156)	–	(1,685)
Provided during the year	3,993	11,236	–	15,229
Write-off	(2)	(1,821)	–	(1,823)
Disposals	(4)	(48)	–	(52)
Transfers	(17)	(1)	–	(18)
Capitalised depreciation	65	1,754	–	1,819
At 31 December 2012	**8,605**	**41,198**	**–**	**49,803**
Provided during the year	4,525	13,256	–	17,781
Write-off	(12)	(4,284)	–	(4,296)
Disposals*	(127)	(477)	–	(604)
Transfers	8,843	1,001	–	9,844
Reclass to inventory	–	947	–	947
Other adjustments	–	–	73	73
Capitalised depreciation	3,337	7,750	–	11,087
At 31 December 2013	**25,171**	**59,391**	**73**	**84,635**
Net book value:				
At 31 December 2012	**40,470**	**72,692**	**45,584**	**158,746**
At 31 December 2013	**74,565**	**95,386**	**197,535**	**367,486**

No plant and equipment has been pledged as security for bank loans (2012: Nil).

** Disposals include cost of US$0.7 million and depreciation of US$0.2 million related to disposal of an entity (Note 36).*

19. INTANGIBLE ASSETS

	Goodwill US$000
Cost	
At 1 January 2012	**70,365**
Business combination – acquisition of subsidiary (Note 5)	10,205
At 31 December 2012	**80,570**
Business combination – acquisition of subsidiary (Note 5)	16,754
At 31 December 2013	**97,324**
Impairment	
At 1 January 2012	**–**
Provided during the year	–
At 31 December 2012	**–**
Provided during the year	–
At 31 December 2013	**–**
Net book value:	
At 31 December 2012	**80,570**
At 31 December 2013	**97,324**

Intangible assets represent goodwill arising from the Barrick transaction (US$65.2 million), from acquisition of Novo (US$5.1 million), from acquisition of Klen (US$10.2 million) and from acquisition of Kekura (US$16.8 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:

	2013 US$000	2012 US$000
Goodwill allocated to the operating gold mining company (MNV)	9,690	9,690
Goodwill allocated to the operating gold mining company (BG)	12,563	12,563
Goodwill allocated to the polymetallic mining company (Novo)	5,134	5,134
Goodwill allocated to the group of development and exploration assets (excluding Klen and Kekura)	42,978	42,978
Goodwill allocated to development and exploration company (Klen)	10,205	10,205
Goodwill allocated to development and exploration company (Kekura)	16,754	–
Balance at 31 December	**97,324**	**80,570**

20. IMPAIRMENT TESTING OF NON-CURRENT ASSETS

The carrying amount of non-current assets including goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. Management has determined the recoverable amounts in 2013 and 2012 using fair value less costs to sell calculations. The fair value is determined at the cash-generating unit level, in this case being the separate gold production and development and exploration assets, by discounting the expected cash flows estimated by management over the life of the mine:

- MNV till 2017;
- BG – 2019;
- Novo – 2025;
- Klen – 2026;
- Kekura – 2026;
- Taseevskoye – 2025;
- Unkurtash – 2034;
- Lubov – 2029.

No impairment loss has been identified and recognised in both periods.

The key assumptions used for its calculation are as follows:

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

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

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

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

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

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

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

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

The table below shows the key assumptions used in the fair value calculation at 31 December 2013 and 2012.

	2013	2012
Pre-tax discount rate for cash flows in the operating gold mining company (MNV), %	19.38	28.73
Pre-tax discount rate for cash flows in the operating gold mining company (BG), %	15.42	16.43
Pre-tax discount rate for cash flows in the polymetallic mining company (Novo), %	12.77	12.57
Pre-tax discount rate for cash flows in the gold mining company being at development stage (Klen), %	11.74	12.82
Pre-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye), %	11.26	11.33
Pre-tax discount rate for cash flows in the gold mining company being at exploration stage (Kekura), %	14.59	–
Pre-tax discount rate for cash flows in the gold mining company being at exploration stage (Unkurtash)*, %	9.60	9.58
Pre-tax discount rate for cash flows in the gold mining company being at exploration stage (Lubov), %	10.94	11.28
Gold price, US$ per ounce in the next year	1,200	1,600
Gold price, US$ per ounce after the next year**	1,200	1,400
Silver price, US$ per ounce in the next year	22	30
Lead price, US$ per tonne in the next year	2,100	1,950
Lead price, US$ per tonne after the next year	1,950	1,950
Zinc price, US$ per tonne in the next year	1,850	1,850

** No income tax in Kyrgyzstan since 2012.*
*** Gold price for 2014 and beyond used in the 2013 impairment testing is US$1,200 per ounce. Gold price for 2014-2016 used in the 2012 impairment testing is US$1,400 per ounce, for 2017 and beyond is US$1,300 per ounce.*

In management's view, changes in the key assumptions would trigger an impairment charge at Klen at 31 December 2013.

At current assumptions the recoverable amount of Klen project exceeds its carrying value including goodwill by US$0.4 million. Therefore any decrease in gold prices below 1,200 per ounce or any increase in operating or capital costs or discount rate would, in isolation, cause the estimated recoverable amount of Klen to be lower than the carrying value. The current carrying value of Klen non-current assets is US$103.9 million.

21. OTHER NON-CURRENT ASSETS

	2013 US$000	2012 US$000
Non-current prepayments*	11,354	47,524
Non-current portion of accounts receivable*	1,447	–
Other non-current assets	471	576
Total other non-current assets	**13,272**	**48,100**

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

22. SHARE-BASED PAYMENT PLANS

EMPLOYEE SHARE OPTION PLAN

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

During the year 2013 the Group did not issue any new share options as the Board considered and agreed that at the present time there would be no further grant of options under the unapproved share option scheme. Previously each grant of options was divided into four equal parts which could be exercised starting from the first anniversary of the date of grant for the first part, the second anniversary for the second part etc. until the fourth anniversary. In 2008 it was agreed that for those still in the scheme their options would vest and that 50% would be exercisable up and until 30 September 2009 at which point thereafter all options could be exercised up to the seventh anniversary from when the options were granted.

Options for 75,000 shares were forfeited in 2013 due to the retirement of certain participants.

Currently there are 12 participants of the scheme representing board members, directors and executive management of the Group.

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

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding as at 1 January	525,000	£0.96	1,025,000	£1.46
Expired during the year	–	–	(450,000)	£2.11
Forfeited during the year	(75,000)	£0.96	(50,000)	£0.96
Outstanding as at 31 December	**450,000**	**£0.96**	**525,000**	**£0.96**
Exercisable at 31 December	450,000	£0.96	525,000	£0.96

For the share options outstanding as at 31 December 2013, the weighted average remaining contractual life is 0.73 years (2012: 1.73 years).

The exercise price for options outstanding at the end of the year was £0.96 (2012: £0.96).

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

23. INVENTORIES

NON-CURRENT*

	2013 US$000	2012 restated US$000
Ore stockpiles	18,569	11,207
	18,569	**11,207**
Ore stockpile obsolescence provision	(3,946)	(1,560)
Total inventories	**14,623**	**9,647**

** 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

	2013 US$000	2012 restated US$000
Raw materials and consumables	58,441	58,917
Ore stockpiles	15,876	7,618
Gold in progress	6,686	9,780
Finished goods	173	854
	81,176	**77,169**
Raw materials and consumables obsolescence provision	(10,159)	(10,158)
Total inventories	**71,017**	**67,011**

No inventory has been pledged as security.

24. TRADE AND OTHER RECEIVABLES

	2013 US$000	2012 US$000
VAT receivable	39,589	36,746
Other taxes receivable	1	113
Trade receivables*	9,798	10,737
Other receivables	4,189	2,780
Total	**53,577**	**50,376**

** As at 31 December 2013, a negative prices and volume adjustment was booked to trade receivables in the amount of US$0.9 million (2012: a positive adjustment in the amount of US$0.2 million).*

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

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

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

	2013 US$000	2012 US$000
At 1 January	45	213
Addition	197	–
Utilisation	–	(168)
At 31 December	**242**	**45**

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

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

25. PREPAYMENTS

	2013 US$000	2012 US$000
Prepayments	6,389	2,593
Total	**6,389**	**2,593**

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

26. CASH AND CASH EQUIVALENTS

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

	2013 US$000	2012 US$000
Cash in hand and at bank	5,979	1,206
Short-term deposits	1,959	6,045
Total	**7,938**	**7,251**

27. ISSUED CAPITAL AND RESERVES

a) Issued share capital

Authorised	2013	2012
	Shares	Shares
Ordinary shares of £0.001 each	750,000,000	750,000,000

Ordinary shares issued and fully paid	Shares	Amount US$000
At 1 January 2012	325,222,098	585
Ordinary shares issued	–	–
At 31 December 2012	325,222,098	585
Ordinary shares issued	–	–
At 31 December 2013	**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.

28. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate %	Maturity	2013 US$000	2012 US$000
Current				
Gazprombank loan*	5.6, 5.0 from 30 April 2013	March 2014	6,875	1,875
Gazprombank loan**	5.17, 5.0 from 30 April 2013, 4.0 from 28 October 2013	March 2016	88,714	–
Gazprombank loan***	5.0	May 2016	15,926	–
Sberbank loan****	4.2	September 2016	12,500	–
			124,015	**1,875**
Non-current				
Gazprombank loan*	5.6, 5.0 from 30 April 2013	March 2014	–	6,875
Gazprombank loan**	5.17, 5.0 from 30 April 2013, 4.0 from 28 October 2013	March 2016	110,893	–
Gazprombank loan***	5.0	May 2016	27,074	–
Sberbank loan****	4.2	September 2016	47,342	–
			185,309	**6,875**
Total			**309,324**	**8,750**

In September 2013 the Group signed a financing agreement with UniCreditBank for a US$10.0 million facility at a LIBOR 1m + 3.7 interest rate. The loan is subject to redemption on 11 September 2014. It was undrawn and available at 31 December 2013.

In May 2013 the Group signed a financing agreement with UniCreditBank for a US$10.0 million facility at a LIBOR 1m + 3.7 interest rate. The loan is subject to redemption on 8 November 2014. It was undrawn and available as at 31 December 2013.

* In October 2012 the Group raised financing with Gazprombank at a 5.6% interest rate with the draw period set till 23 January 2013. In April 2013 the rate was changed to 5.0%. The loan is repayable in monthly instalments between July 2013 and October 2015. The loan is secured by future gold sales at market prices at a time of sale. The outstanding amount of funds obtained under the agreement at 31 December 2013 is US$6.9 million (2012: US$8.8 million).

** In March 2013 the Group raised financing with Gazprombank at a 5.17% interest rate with the draw period set till 21 June 2013. In April 2013 the rate was changed to 5.0%. In October 2013 the rate was changed to 4.0%. The loan is repayable in monthly instalments between December 2013 and March 2016. The loan is secured by future gold sales at market prices at a time of sale. The outstanding amount of funds obtained under the agreement at 31 December 2013 is US$199.6 million (2012: Nil).

*** In June 2013 the Group raised financing with Gazprombank at a 5.0% interest rate with the draw period set till 20 October 2013. The loan is repayable in monthly instalments between March 2014 and May 2016. The loan is secured by future gold sales at market prices at a time of sale. The outstanding amount of funds obtained under the agreement at 31 December 2013 is US$43.0 million (2012: Nil).

**** In September 2013 the Group signed a new financing agreement with Sberbank for a US$100.0 million facility at a 3.8% interest rate with the draw period set till 2 September 2016. The loan is repayable in instalments between December 2014 and September 2016. The outstanding amount of funds obtained under the agreement at 31 December 2013 is US$59.8 million (2012: Nil).

The total outstanding bank debt of the Group at 31 December 2013 is US$309.3 million (2012: US$8.75 million).

The outstanding bank debt is subject to the following covenant: the ratio of total debt to EBITDA should be equal to or lower than 4.0.

29. TRADE AND OTHER PAYABLES

NON-CURRENT

	2013 US$000	2012 US$000
Non-current portion of pension liabilities	441	417
Total	**441**	**417**

CURRENT

	2013 US$000	2012 US$000
Contingent consideration liability (Note 5)	10,504	9,000
Trade payables	19,491	9,021
Salaries payable	10,182	8,421
Other taxes payable	5,198	4,757
Other current payables	1,070	808
Total	**46,445**	**32,007**

Terms and conditions of current financial liabilities included above:

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

30. PROVISIONS

	Site restoration provision US$000	Legal provision US$000	Total US$000
At 1 January 2012	**23,196**	**21**	**23,217**
Accretion	846	–	846
Disposal	–	(21)	(21)
Utilisation of provision	(41)	–	(41)
Change in estimation	13,271	123	13,394
At 31 December 2012	**37,272**	**123**	**37,395**
Accretion	1,386	18	1,404
Disposal	–	(123)	(123)
Utilisation of provision	(50)	–	(50)
Additions	1,163	–	1,163
Change in estimation	(5,369)	–	(5,369)
At 31 December 2013	**34,402**	**18**	**34,420**
Current 2012	–	123	123
Non-current 2012	37,272	–	37,272
	37,272	**123**	**37,395**
Current 2013	–	18	18
Non-current 2013	34,402	–	34,402
	34,402	**18**	**34,420**

SITE RESTORATION PROVISION

In 2013 the Group performed a re-assessment of the site restoration provision at MNV. The assessments were based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life of mine (which is assumed to close in 2017), expected site restoration activities (removal of waste, restoration of mine sites), current prices for similar activities and a risk-free RUR-denominated government bonds discount rate of 6.8% (2012: USD-denominated government bonds rate of 1.1%).

A risk-free RUR-denominated government bonds discount rate of 6.1% (2012: USD-denominated government bonds rate of 2.7%) has been used to calculate the site restoration liability at Novo assuming its closure in 2025. The changes in the liability associated with the change in discount rate have been added to the cost of the related asset.

In 2013 the Group re-assessed the volume of site restoration activities at BG due to the construction of processing plant. A risk-free RUR-denominated government bonds discount rate of 7.2% (2012: USD-denominated government bonds rate of 1.8%) has been used to calculate the site restoration liability assuming its closure in 2019.

In 2013 the Group assessed the volume of site restoration activities at Kekura and Klen. A risk-free RUR-denominated government bonds discount rate of 7.4% has been used to calculate the site restoration liability assuming site closure in 2026.

There was a change in currency of risk-free discount and inflation rates from USD in 2012 to RUR in 2013.

LEGAL PROVISION

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

31. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS – GROUP AS LESSEE

The Group has entered into a new commercial lease on its office premises at the end of 2009. This lease has a life of 5 years. There are no restrictions placed upon the Group by entering into this lease. The operating lease charge for the year ended 31 December 2013 was US$1.1 million (2012: US$1.1 million).

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

	2013 US$000	2012 US$000
Within one year	1,073	1,041
After one year but not more than five years	180	1,252
Total	**1,253**	**2,293**

CAPITAL COMMITMENTS

At 31 December 2013, the Group had commitments of US$21.8 million (2012: US$59.9 million) principally relating to development assets and US$1.0 million (2012: US$10.2 million) for the acquisition of new machinery.

FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

As at 31 December 2013 the Group has no current finance leases and hire purchase contracts.

CONTINGENT LIABILITIES

Management has identified possible tax claims within the various jurisdictions in which it operates totalling US$1.3 million as at 31 December 2013 (at 31 December 2012: US$1.0 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.

32. RELATED PARTY DISCLOSURES

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

Name	Country of incorporation	Shareholding %
Subsidiary undertakings		
Held by the ultimate parent		
Stanmix Investments Limited	Cyprus	100
Stanmix Holding Limited	Cyprus	100
Highland Exploration Kyrgyzstan LLC (Unkurtash)	Kyrgyzstan	100
Held indirectly via subsidiaries		
ZAO Mnogovershinnoye (MNV)	Russia	100
OAO Novo-Shirokinsky Rudnik (Novo)	Russia	97.9
OOO Belaya Gora (BG)	Russia	100
OOO Lyubavinskoye (Lubov)	Russia	100
OOO Taseevskoye	Russia	100
OOO Klen	Russia	100
ZAO Bazovye Metally (Kekura)	Russia	100
OOO Russdragmet (RDM)	Russia	100
ZAO TH Mnogovershinnoye – till 5 August 2013	Russia	100
OOO Zabaykalzolotoproyekt (ZZP)	Russia	100
OOO RDM-Resources	Russia	100

In 2012 the Group acquired a 100% share in OOO Klen from Aristus Holdings Limited (Note 5). OOO Klen was a subsidiary of an entity that is associated with Primerod International Limited, a substantial shareholder in the Company. As such, the transaction was classified as a related party transaction under AIM Rule 13.

ENTITY WITH SIGNIFICANT INFLUENCE OVER THE GROUP

Barrick Gold Services and Barrick International are companies controlled by Barrick Gold Corporation of Canada. Barrick Gold Corporation of Canada owned 20.37% of the ordinary shares in Highland Gold Mining Limited until 26 April 2012 when Barrick Gold Corporation sold its ordinary shares, representing the entire holding in the Company.

Following the Second Subscription on new ordinary shares in Highland Gold Mining Limited on 15 January 2008 by Primerod International Limited, Primerod held 32% of Highland Gold at 31 December 2013.

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

Prosperity Capital Management held 18.08% of Highland Gold at 31 December 2013.

TERMS AND CONDITIONS OF TRANSACTIONS WITH RELATED PARTIES

The sales to and purchases from related parties are made at normal market prices and arm's length terms. There are no outstanding balances at 31 December 2013 (2012: Nil). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2013, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2012: 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

	2013 US$000	2012 US$000
Short-term employee benefits	4,117	5,138
Total compensation paid to key management personnel	**4,117**	**5,138**

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

LOAN ISSUED TO MANAGEMENT OF THE GROUP

In May 2013 the Group issued an interest-free RUR-denominated loan to a Director of the Group in the amount of US$0.4 million. The loan is repayable in equal monthly instalments between May 2013 and May 2018. The outstanding amount of loan at the date of authorising these financial statements is US$0.3 million.

DIRECTOR'S INTERESTS IN AN EMPLOYEE SHARE INCENTIVE PLAN

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

Date of issue	Expiry date	Exercise price	Number 2013	Number 2012
2007	2014	£0.96	150,000	150,000

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

GOLD PRICE RISK

In year 2013 as well as in prior years, the Group continued its no hedge policy in relation to the gold price.

EMBEDDED DERIVATIVE

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

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

FOREIGN CURRENCY RISK

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

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

	Increase/ decrease in EUR rate	Effect on profit before tax US$000	Increase/ decrease in RUR rate	Effect on profit before tax US$000	Increase/ decrease in GBP rate	Effect on profit before tax US$000
2012	6%	112	6%	1,597	6%	3,165
	-6%	(112)	-6%	(1,597)	-6%	(3,165)
2013	6%	–	6%	891	6%	3,054
	-6%	–	-6%	(891)	-6%	(3,054)

There is no other foreign currency impact on equity.

CREDIT RISK

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

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

LIQUIDITY RISK

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

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

Please refer to Note 28 for the information on the financial covenants the Group is bound by.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 and 31 December 2012 based on contractual undiscounted payments.

Year ended 31 December 2012	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	–	2,022	4,334	3,191	–	9,547
Trade and other payables	–	18,250	–	–	–	18,250
Contingent consideration liability	–	9,000	–	–	–	9,000
	–	**29,272**	**4,334**	**3,191**	**–**	**36,797**

Year ended 31 December 2013	On demand US$000	< 1 year US$000	1-2 years US$000	2-5 years US$000	> 5 years US$000	Total US$000
Interest bearing loans and borrowings	–	134,368	160,437	30,721	–	325,526
Trade and other payables	–	30,591	–	–	–	30,591
Contingent consideration liability	–	10,504	–	–	–	10,504
	–	**175,463**	**160,437**	**30,721**	**–**	**366,621**

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 28. In order to ensure an appropriate return for shareholders' capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board where applicable.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The exposure to the risk of changes in market interest rates relates primarily to long-term debt obligations with floating interest rates. The Group mitigates this risk through signing financing arrangements at fixed rates.

As at 31 December 2013 the Group has outstanding bank debt at fixed rates in the amount of US$309.3 million.

MARKET PRICE RISK

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

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

		Effect on profit before tax	
	Increase/decrease in prices, %	2013 US$000	2012 US$000
Bonds	5%	2,330	2,495
Shares	5%	–	144
Bonds	-5%	(2,330)	(2,495)
Shares	-5%	–	(144)

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

		Effect on derivative	
	Increase/decrease in prices, %	2013 US$000	2012 US$000
Lead	5%	74	73
	-5%	(74)	(73)
Zinc	5%	29	23
	-5%	(29)	(23)
Gold	5%	231	221
	-5%	(231)	(221)
Silver	5%	76	89
	-5%	(76)	(89)

34. FINANCIAL ASSETS AND LIABILITIES

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

FAIR VALUES

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

	Carrying amount		Fair value	
	2013 US$000	2012 US$000	2013 US$000	2012 US$000
Financial assets				
Cash and cash equivalents	7,938	7,251	7,938	7,251
Financial instruments at fair value through profit or loss (coupon bonds)	50,199	51,206	50,199	51,206
Financial instruments at fair value through profit or loss (shares)	–	2,889	–	2,889
Trade and other receivables	4,189	2,780	4,189	2,780
Trade receivables (including embedded derivative)	9,798	10,737	9,798	10,737
Financial liabilities				
Interest-bearing loans and borrowings	309,782	8,750	309,324	8,750
Trade and other payables	30,743	18,250	30,743	18,250
Contingent consideration	10,504	9,000	10,504	9,000

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:

- Cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of the instruments.
- Fixed-rate interest-bearing loans and borrowings are evaluated based on current market interest rates.
- The fair value of the derivative is based on quoted market prices.

COUPON BONDS AND SHARES

In November 2009 the Group invested US$49.8 million in acquisition of pound denominated bank coupon bonds. During 2010-2011 the Group invested US$59.9 million and received US$40.8 million as a result of selling bonds purchased in 2009-2011. In August 2011 coupon bonds of Bank of Ireland were converted into euro denominated ordinary shares.

During 2013 the Group received US$3.6 million as a result of selling all the shares, US$5.3 million as a result of selling some bonds purchased in 2009 and US$4.2 million of coupon interest (2012: US$4.3 million).

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

The table below contains bonds and shares fair value movement.

	2013 US$000	2012 US$000
At 1 January	**54,095**	**36,111**
Fair value gain	4,178	16,082
Foreign exchange gain	1,104	1,915
Coupon interest income accrued	3,894	4,306
Bonds and shares fair value movement	**9,176**	**22,303**
Coupon interest income received	(4,176)	(4,319)
Bonds sold	(5,252)	–
Shares sold	(3,644)	–
At 31 December	**50,199**	**54,095**

FAIR VALUE HIERARCHY

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

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

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

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

Assets measured at fair value	**31 Dec 2012 US$000**	**Level 1 US$000**	**Level 2 US$000**
Coupon bonds and shares	54,095	54,095	–
Trade receivables (embedded derivative)	(523)	–	(523)
	31 Dec 2013 US$000	**Level 1 US$000**	**Level 2 US$000**
Coupon bonds and shares	50,199	50,199	–
Trade receivables (embedded derivative)	204	–	204

Liabilities measured at amortised cost	**31 Dec 2012 US$000**	**Level 3 US$000**
Interest-bearing loans and borrowings	8,750	8,750
	31 Dec 2013 US$000	**Level 3 US$000**
Interest-bearing loans and borrowings	309,324	309,324

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

35. DIVIDENDS

The Group paid an interim dividend of GBP 0.025 per share (2012: an interim dividend of GBP 0.025 per share and a special dividend of GBP 0.023 per share, making a total of GBP 0.048 per share) which resulted in an aggregate interim dividend payment of US$13.0 million (2012: US$25.1 million). The interim dividend was paid on 18 October 2013.

The final dividend for the year ending 31 December 2012 in the amount of US$15.1 million was paid on 14 June 2013.

The Board has recommended a final dividend of GBP 0.025 per share which, taking into account the interim dividend paid in October 2013, gives a total dividend of GBP 0.050 per share for the year (2012: GBP 0.078 per share). The final dividend will be paid on 30 May 2014 to shareholders on the register at the close of business on 2 May 2014 (the record date). The ex-dividend date will be 30 April 2014.

36. DISPOSAL OF AN ENTITY

In August 2013 the Group sold Trade House Mnogovershinnoye (TH MNV) to a non-related party.

TH MNV was involved in non-core activities of the Group, providing trading, hotel-type and catering services to other companies. It formed part of the "other" reporting segment.

Income from disposal of TH MNV was US$1.3 million, resulting from the disposal of assets in the amount of US$1.5 million and liabilities in the amount of US$2.5 million and proceeds of US$0.3 million.

37. EVENTS AFTER THE REPORTING PERIOD

In March 2014 the Group signed a new financing agreement with Gazprombank for a US$100 million facility at a 4.0% interest rate with the draw period set until March 2016. This facility, which is repayable in instalments between April 2015 and March 2017, will be used to finance development and operating activities within the Group. The loan is secured by future gold sales at market prices at a time of sale.

In the first quarter of 2014 the Group fully repaid the loan obtained from Gazprombank in 2012 in the amount of US$6.9 million.

MINERAL RESOURCES AS AT 31 DECEMBER, 2013 REPORTED IN ACCORDANCE WITH JORC

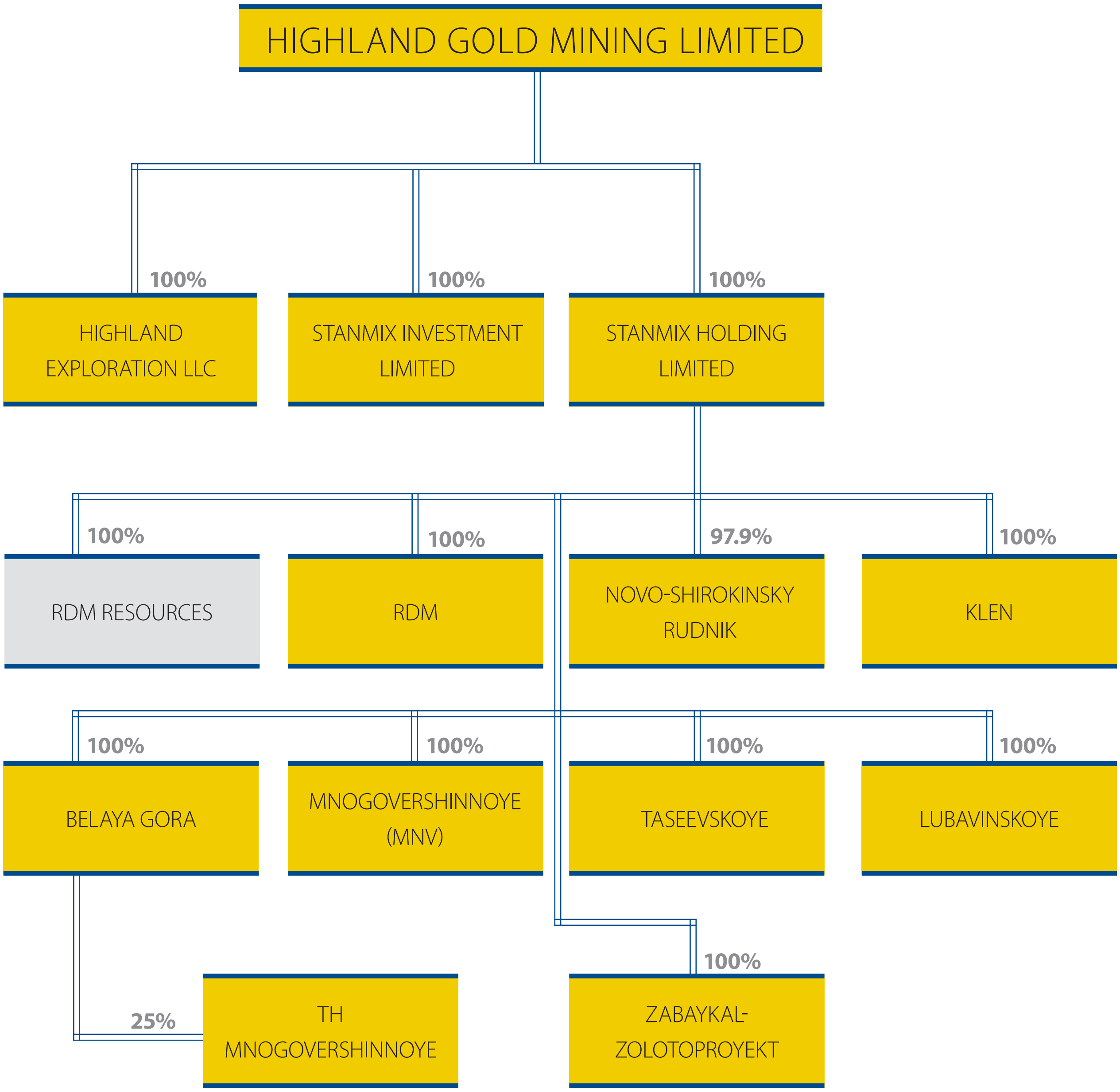
Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Measured	6,030,035	4.0	777,699	100%	777,699
	Indicated	3,946,553	2.9	362,394	100%	362,394
	Measured + Indicated	9,976,588	3.6	1,140,093	100%	1,140,093
	Inferred	6,354,000	3.2	659,324	100%	659,324
	Total	16,330,588	3.4	1,799,417	100%	1,799,417
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	2,019,443	8.4	548,627	97.9%	537,105
	Indicated	3,861,193	8.1	1,007,474	97.9%	986,317
	Measured + Indicated	5,880,636	8.2	1,556,101	97.9%	1,523,422
	Inferred	1,510,303	5.1	246,981	97.9%	241,794
	Total	7,390,939	7.6	1,803,082	97.9%	1,765,217
BELAYA GORA	Measured	5,050,762	2.4	384,467	100%	384,467
	Indicated	4,049,710	2.5	319,685	100%	319,685
	Measured + Indicated	9,100,472	2.4	704,153	100%	704,153
	Inferred	4,028,000	2.3	291,707	100%	291,707
	Total	13,128,472	2.4	995,860	100%	995,860
KLEN	Indicated	2,850,000	5.8	530,809	100%	530,809
	Inferred	1,020,000	2.9	96,452	100%	96,452
	Total	3,870,000	5.0	627,261	100%	627,261
KEKURA	Indicated	5,000,000	9.6	1,540,664	100%	1,540,664
	Inferred	5,350,000	8.0	1,351,103	100%	1,351,103
	Total	10,350,000	8.7	2,891,767	100%	2,891,767
LYUBAVINSKOYE	Measured	1,304,990	1.5	62,758	100%	62,758
	Indicated	9,802,700	1.3	413,330	100%	413,330
	Measured + Indicated	11,107,690	1.3	476,088	100%	476,088
	Inferred	139,540	1.8	8,198	100%	8,198
	Total	11,247,230	1.3	484,287	100%	484,287
TOTAL	Measured	35,429,230	2.6	2,953,387		2,941,865
	Indicated	83,165,156	3.8	10,092,860		10,071,703
	Measured + Indicated	118,594,386	3.4	13,046,247		13,013,568
	Inferred	30,620,843	4.4	4,340,535		4,335,348
	Total	149,215,229	3.6	17,386,784		17,348,919

1. MNV, Taseevskoye, Belaya Gora, Unkurtash, Klen and Lyubavinskoye resource estimations do not include a silver assessment.
2. MNV, Novoshirokinskoye and Belaya Gora Mineral Resources are inclusive of Mineral Reserves.
3. MNV Mineral Resources are undiluted and based upon a gold price of US$1,200 per ounce. Resources were evaluated with specific cutoff grade > 1.0 g/t.
MNV Mineral Resources for Deep are undiluted and based upon a gold price of US$1,100 per ounce. Resources were evaluated with specific cutoff grade > 1.5 g/t.
Taseevskoe Mineral Resources are undiluted and based upon a gold price of US$1,000 per ounce. Resources were evaluated with specific cutoff grade > 1.8 g/t.
Unkurtash Mineral Resources are undiluted and based upon a gold price of US$1,600 per ounce. Resources were evaluated with specific cutoff grade > 0.8 g/t.
Belaya Gora Mineral Resources are undiluted and based upon a gold price of US$850 per ounce. Resources were evaluated with specific cutoff grade > 0.7 g/t.
Klen Mineral Resources were evaluated with specific cutoff grade > 1.0 g/t.
Kekura Mineral Resources were evaluated with specific cutoff grade > 0.8 g/t.
Lyubavinskoye Mineral Resources were evaluated with specific cutoff grade > 0.5 g/t.
4. Resource estimates for MNV (Deep), Taseevskoye, and Belaya Gora deposits were confirmed by Micromine Consulting, 2010-2011.
Resource estimate for MNV were confirmed by CSA Global Pty., 2012.
Resource estimate for Novoshirokinskoye was confirmed by Wardell Armstrong International (WAI), 2011.
Resource estimate for Lyubavinskoye was confirmed by IMC Montan, 2012.
Resource estimate for Unkurtash was reconfirmed by IMC Montan, 2013.
Resource estimate for Klen and Kekura was confirmed by Micon International, 2012.
*5. The Novoshirokinskoye resource estimate is performed for gold equivalent calculated as follows: Pb*0.510496+Zn*0.430005+Ag*0.01723 (WAI coefficients).*

RESERVES AS AT 31 DECEMBER, 2013 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	1,781,298	4.56	261,409	100%	261,409
	Probable	708,221	5.01	114,091	100%	114,091
	Proven + Probable	**2,489,519**	**4.69**	**375,500**	**100%**	**375,500**
NOVOSHIROKINSKOYE	Proven	1,931,051	8.4	522,726	97.9%	511,749
	Probable	3,506,466	8.3	936,656	97.9%	916,986
	Proven + Probable	**5,437,517**	**8.3**	**1,459,381**	**97.9%**	**1,428,734**
BELAYA GORA	Proven	2,398,258	3.4	264,887	100%	264,887
	Probable	1,853,972	3.5	211,528	100%	211,528
	Proven + Probable	**4,252,230**	**3.5**	**476,416**	**100%**	**476,416**
TOTAL	Proven	6,110,607	5.3	1,049,022		1,038,045
	Probable	6,068,659	6.5	1,262,275		1,242,605
	Proven + Probable	**12,179,266**	**5.2**	**2,311,297**		**2,280,650**

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



COMPANY UNDER LIQUIDATION

PRINCIPAL GROUP COMPANIES

HIGHLAND GOLD MINING LIMITED
HOLDS THE EQUITY SHARE CAPITAL OF THE FOLLOWING COMPANIES:

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

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

Name	%	Country of incorporation	Principal activity and place of business
Russdragmet (RDM) (OOO)	100	Russia	Management company
Mnogovershinnoye (MNV) (ZAO)	100	Russia	Holder of MNV and Blagodatnoye licences
Taseevskoye (OOO)	100	Russia	Holder of Taseevskoye, ZIF-1 and Sredne-Golgotayskoye licences
Zabaykalzolotoproyekt (OOO)	100	Russia	Project engineering, Russia
Novo-Shirokinsky Rudnik (Novo) (OAO)	97.9	Russia	Holder of Novo licence
RDM Resources (OOO)	100	Russia	In liquidation
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

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

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

DIRECTORS, COMPANY SECRETARY AND ADVISERS

CURRENT DIRECTORS

Eugene Shvidler
Non-Executive Chairman

Duncan Baxter
Non-Executive Director*

Colin Belshaw
Non-Executive Director
(appointed 10 September 2013)

Terry Robinson
Non-Executive Director***

Olga Pokrovskaya
Non-Executive Director**

Eugene Tenenbaum
Non-Executive Director

Valery Oyf
Chief Executive Officer

Alla Baranovskaya
Chief Financial Officer

Sergey Mineev
Head of Exploration & Capital Projects Development

PAST DIRECTORS

Andrey Solovyov
Head of Human Resources & Administration
(resigned 18 December 2013)

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

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

HEAD OFFICE AND REGISTERED OFFICE

26 New Street
St Helier
Jersey JE2 3RA

COMPANY SECRETARY

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

NOMINATED ADVISER AND BROKER

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London
EC4M 7LT

JOINT BROKER

Peat & Co
118 Piccadilly
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W1J 7NW

AUDITORS TO THE COMPANY AND GROUP

Ernst & Young LLP
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London SE1 2AF

REGISTRARS

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

SOLICITORS TO THE COMPANY

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

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

BANKERS

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

TRANSFER AGENT

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

FINANCIAL CALENDAR

Ex Dividend Date: 30 April 2014

Record Date: 2 May 2014

Post 2013 Annual report:
9 May 2014

Annual General Meeting:
27 May 2014

Dividend payment Date:
30 May 2014

2014 Interim Announcement and Interim Report: September 2014

Listing sector/ticker Reuters: HGM.L

Number of shares in issue:
325,222,098

NOTICE OF ANNUAL GENERAL MEETING

HIGHLAND GOLD MINING LIMITED (THE "COMPANY")

(Incorporated and Registered in Jersey
under the Companies (Jersey) Law 1991, as amended, with registered number 83208)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Highland Gold Mining Limited (the Company) will be held on Tuesday 27 May, 2014 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 Auditors' Report for the year ended 31 December 2013.
2. That a final dividend of £0.025 for each ordinary share of £0.001 in the Company be declared.
3. That Colin Belshaw who retires as a Director of the Company be elected.
4. That Eugene Shvidler who retires by rotation as a Director of the Company be re-elected.
5. That Eugene Tenenbaum who retires by rotation as a Director of the Company be re-elected.
6. That Terry Robinson who retires by rotation as a Director of the Company be re-elected.
7. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
8. That the Directors be authorised to fix the Auditors' remuneration.

Special Business (special resolution)

9. 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 shares in the Company, such authority to expire at the conclusion of the Annual General Meeting of the Company in 2017, 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
9 May 2014

NOTES

1. Any member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not also be a member of the Company. A form of proxy is enclosed with this notice to members.
2. A form of proxy is enclosed which, to be effective, must be completed and deposited at Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, BR3 4TU not less than 24 hours before the time fixed for the meeting (or any adjournment of such meeting).
3. Completion and return of a form of proxy does not preclude a member from attending and voting in person.
4. Only those shareholders registered in the register of members of the Company as at 24 hours prior to the time fixed for the meeting (or, in the cause of an adjournment, as at 24 hours before the time of the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Pursuant to Article 40(2) of the Companies (Uncertificated Securities Jersey) Order 1999, changes to entries on the register of members after such time shall be disregarded in determining the rights of any person to attend and vote.
5. Directors' Service contracts and register of Directors' interests in the Share Capital of the Company are available at the registered office of the Company for inspection during usual business hours on weekdays from the date of this notice until the date of the meeting and at the meeting until the conclusion of the meeting.

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

HIGHLAND GOLD MINING Ltd.