



# Highland Gold Mining Limited

Annual Report  
and Accounts 2017



Highland Gold Mining is a well-established gold producer with a world class Russian asset base of producing, development and exploration projects. It has strong management and operational teams with local and international expertise, and an exciting portfolio of JORC audited resources.



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[www.highlandgold.com](http://www.highlandgold.com)



# Steady progress

## Key Events

Total 2017 production of 272,274 oz of gold and gold equivalent, above the guidance range for the year of 255,000 – 265,000 oz. (2016 production: 261,159 oz).

Average realised price of gold equivalents was US\$1,162 per oz for the year (2016: US\$1,136 per oz).

Total Cash Costs increased by 11.7% to US\$507 per oz, influenced by the stronger rouble, while All-In Sustaining Cash Costs inched up by 1.8% to US\$664 per oz.

Cash inflow from operating activities decreased by 6.0% to US\$131.0 million (2016: US\$139.3 million)

Net debt to EBITDA ratio slightly increased to 1.28 as of 31 December 2017 from 1.26 a year earlier.

Interim dividend of £0.0498 per share paid for H1 2017 (2016: Interim dividend of £0.05 per share).

Mnogovershinnoye (MNV) – New JORC-compliant reserve estimate at MNV doubled ore reserves and supported the extension of life-of-mine by four years to at least 2022, with initial results from the ongoing near-mine exploration programme indicating resources for additional years of operation. New exploration licences were received for two areas adjacent to MNV.

Novosirokinskoye (Novo) – Updated resource and reserve estimates for Novo supported an increase in gold equivalent ounces by more than 70%, but at lower grades. The planned expansion of ore mining and processing capacity to 1.3 mtpa is ongoing and is now expected to achieve its full capacity in the year 2020.

Belaya Gora – A pre-feasibility study (PFS) was developed for Belaya Gora including plant upgrades and the treatment of ore from the nearby Blagodatnoye deposit (finalised and released in early 2018). Mining at Belaya Gora continued to focus on processing low-grade ore stockpiles pending the completion of an ongoing project review.

Kekura – Preparations made for construction and work advanced on a Definitive Feasibility Study (DFS) and updated JORC-compliant mineral resource and ore reserve estimates (finalised and released in early 2018).

Baley Hub – De-watering programme continued for existing Taseevskoye open-pit with a view to de-risking the project and allowing for further reserve confirmation, with attention now turned to finding new water disposal solutions. On the ZIF-1 Tailings licence, the Board approved funding for design work on a possible heap leach operation.

Unkurtash – Scoping study completed and released, and discussions held with potential partners for joint project development.

The Company's Board of Directors adopted a new dividend policy targeting a payout of 20% of net cash flow from operations.

## Post Year End Events

Second interim dividend of £0.0542 per share approved by the Board of Directors, making a total distribution of £0.104 per share for the year to 31 December 2017 (2016: £0.104 per share).

## Key 2018 Targets

Total production of gold and gold equivalent is expected to be in the range of 265,000 – 275,000 oz.

MNV – To continue extensive near-mine exploration programme and publish an updated JORC-compliant reserve estimate in Q3 2018.

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

Belaya Gora – To move forward with project development according to the PFS and conduct additional exploration on the Belaya Gora flanks licence.

Kekura – To build electric substation and other infrastructure facilities, and to continue with procurement, transport and other preparations in advance of the 2019 construction season.

## Financial Highlights

US\$ M (unless stated)

### Production (gold and gold eq. oz)

**272,274**

2016: 261,159 oz

### Revenue (US\$ M)

**316.7**

2016: 305.9

### Net Cash Inflow from Operations\*\* (US\$ M)

**131.0**

2016: 139.2

### Capital Expenditure (US\$ M)

**58.3**

2016: 59.3

### Total Group Cash Costs (US\$/oz)

**507**

2016: 454 US\$/oz

### Operating Profit (US\$ M)

**102.2**

2016: 69.4

### Net Profit Before Impairment Losses (US\$ M)

**65.9**

2016: 70.7

### Net Debt\*\*\* (US\$ M)

**(198.3)**

2016: (205.5)

### Group All-in Sustaining Costs (US\$/oz)

**664**

2016: 652 US\$/oz

### EBITDA\* (US\$ M)

**155.3**

2016: 162.5

### Earnings Per Share (US\$)

**0.201**

2016: 0.145

### Debt/EBITDA Ratio (31 Dec.)

**1.28**

2016: 1.26

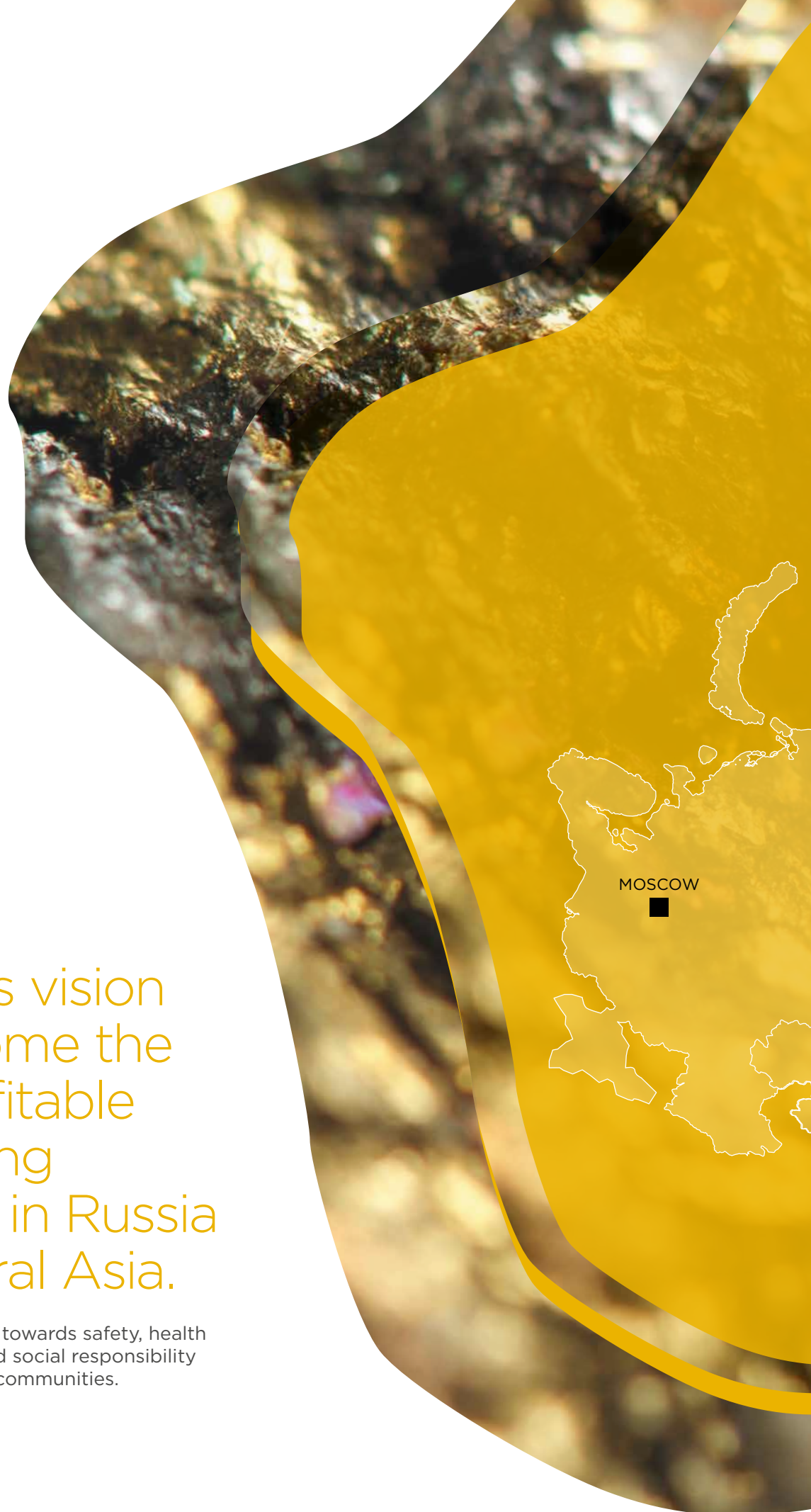
\* EBITDA is defined as operating profit/ (loss) excluding depreciation and amortisation, impairment losses, movement in ore stockpiles obsolescence provision, movement in raw materials and consumables obsolescence provision, result of disposal of a non-core entity and gain on settlement of contingent consideration.

\*\* 2016 net cash inflow from operations was amended for US\$3.1 million reclassified to the investing activities.

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

Highland's vision is to become the most profitable gold mining company in Russia and Central Asia.

With a firm commitment towards safety, health and the environment, and social responsibility towards employees and communities.



## Where we operate

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

- Operating Mine
- Development Project
- Pre-development Project



# Steady progress

## “Unlocking the Value of a World Class Resource Base...”

### Dear Shareholder,

It gives me much pleasure to report that Highland Gold Mining's 15th year as a public company – Anniversary: 23rd May 2017 – marked a period of steady progress on all our strategic fronts.

Before I chronicle such progress, I would like to draw your attention to the fact that, after 15 years as a publicly quoted enterprise, some 63% of your Company's shares are in 'free float' and our shareholder base includes a wide range of UK, European and US institutional investors. Our commitment to good corporate governance remains strong. Furthermore, we continue to enjoy a strong dividend record and a conservative debt profile.

As some of you will be aware, our recent presentations to the investment and mining communities have focused on unlocking the value of our assets. I utilise this phrase again because there can be few better descriptions of management's primary objective which was furthered, throughout the year under review, by effective business strategies and carefully monitored disciplines.

Unlocking value came of age during 2017 when the results of extensive exploration activity and a series of updated estimates from our producing mines, Blagodatnoye, and Kekura, our flagship development project, culminated in a 56% increase in the Company's proven and probable ore reserves from 3.26 Moz of gold and gold equivalent to 5.10 Moz on a year-on-year basis.

This significant enhancement of our reserves, accompanied by a lowering of average grade from 8/0 g/t to 3.3 g/t reflecting lower cut-off grades and increased ore tonnage, underlines the strength of our asset base, as does a 6.6% increase in our mineral resources

(measured, indicated and inferred) to 17.2 Moz of gold and gold equivalent compared to 16.1 Moz as at 31 December 2016. Further details regarding the extension of our resources and reserves are to be found in the Chief Executive's Report and the subsequent Operational Review.

Our business strategy, as outlined in recent years, is to balance a steady rate of production from our operating mines – MNV, Novo and Belaya Gora – with the progression of our key development and exploration projects, while also reviewing opportunities to add new resources or production in our regions of presence.

In keeping with this approach, total production registered a 4.3% increase to a record 272,274 oz of gold and gold equivalent in 2017 compared with the previous year's 261,159 oz. This performance exceeded our initial 255,000 – 265,000 oz guidance range and our estimate in respect of 2018 targets looks for a maintained outcome of between 265,000 and 275,000 oz.

Consistent with our business strategy, your Company will continue to maximise the upside potential of our operating assets, namely: MNV ('Life-of-mine' extended), Novo (capacity being expanded to 1.3 Mtpa) and Belaya Gora (processing plant upgrades and combination with the Blagodatnoye deposit).

We will also drive the development of assets at the Definitive Feasibility Study and/or Preliminary Feasibility Study stages encompassing Kekura, where Government approval has been received for the development of a deposit of 'federal significance' and infrastructure construction has commenced, and Klen,

where we are planning additional exploration work.

I would like to emphasise the importance we place on retaining our low cost producer credentials and I am pleased to report that our current ratios fully support our status as one of the most competitive gold mining companies in the world. Total Cash Costs amounted to US\$507 per oz in 2017, while our All-In-Sustaining Cash Costs totalled US\$664 per oz. This compares with US\$454 per oz and US\$652 per oz respectively in 2016.

The average realised price of gold and gold equivalent during 2017 amounted to US\$1,162 per oz compared with US\$1,136 per oz in 2016 and should be seen against our All-In-Sustaining Cash Costs measurement. The average realised price of gold, in respect of MNV and Belaya Gora, was US\$1,259 per oz during the year.







The combination of a stronger Russian rouble, and the resulting slightly higher dollar production costs, as well as our utilisation of low grade ore at Belaya Gora was reflected in a 4.4% reduction in EBITDA to US\$155.3 million in 2017 compared with US\$162.5 million in 2016. In line with this, our EBITDA margin declined to 49.0% (2016: 53.1%).

Net debt, as at 31 December 2017, amounted to US\$198 million versus US\$205 million as at 31 December 2016. Our net debt to EBITDA ratio remains stable at 1.28 (2016: 1.26).

Your Directors recognise the Company's commitment to the return of profits to shareholders through dividend payments and towards the end of last year we decided to clarify such intentions by way of adopting a more formalised dividend policy.

The key aspects of the policy are as follows:

- The Company aims to pay a dividend that takes into account its cash generation, profitability, balance sheet strength and capital investment requirements;
- The Company anticipates that the total dividend distribution for each financial year will be 20% of net cash flow from operating activities; and
- The Board may recommend the distribution of additional cash on the balance sheet through increased or special dividends should such funds not be required for capital expenditure or debt repayment.

In the wake of such considerations, the Board is pleased to recommend the payment of a second interim dividend of £0.0542 per share (2016 final dividend: £0.054 per share) which will make a total distribution of £0.104 per share (2016: £0.104 per share) for the financial year to 31 December 2017.

As evidenced above and in the ensuing sections, 2017 has witnessed sound progress on numerous fronts. Your Board has every confidence that such progress will serve to deliver further returns to shareholders in the future.

It is with deep regret that I have to report the occurrence of a fatality at our Novo underground mine on 13 April 2017, as well as a lamentable increase in Lost Time Incidents Frequency Rate (LTIFR) to 4.88 in 2017 compared to 2.30 in 2016. A thorough review of the circumstances surrounding the fatality has been carried out, as well as a comprehensive review of our health and safety system, implemented by a new, highly-qualified HSE team. Among the results of this effort is a new set of cardinal rules of safety behaviour at each of our production sites (more details on this programme in the Operational Review).

I would now like to take this opportunity, on behalf of the Board, to thank all of our employees for the hard work and commitment that was integral to all that has been achieved in our Anniversary Year.

**Eugene Shvidler**  
Executive Chairman

# Stable production

It is gratifying to report that the extensive exploration and development activity undertaken by Highland Gold during 2016 and 2017 has been rewarded with a material 56% increase in your Company's ore reserves (proven and probable) to 5.1 Moz of gold and gold equivalent as at 31 December 2017 compared with 3.3 Moz at year-end 2016.

This JORC-compliant reserve estimation as at 31 December 2017 was accompanied by notification of a similarly compliant 6.6% increase in the Company's mineral resources (measured, indicated and inferred) from 16.1 Moz of gold and gold equivalent to 17.2 Moz on a year-on-year basis. At the same time, the average grade of ore reserves was lowered from 8.0 g/t at year-end 2016 to 3.3 g/t at year-end 2017 due to lower cut-off grades and increased ore tonnage at our Novo and Belaya Gora operations, and the inclusion of the Blagodatnoye deposit.

Last year, I emphasised the importance we attached to our Khabarovsk, Baikal and Chukotka 'cluster' initiative in order to drive overall development by focusing our activities in key geographic regions and maximising synergies.

The potential benefits of this approach are well illustrated by recent developments at Belaya Gora (Khabarovsk cluster) where our Preliminary Feasibility Study (PFS) -largely compiled in 2017 and published post the financial year-end - envisages an integrated Belaya Gora/ Blagodatnoye operation with combined gold reserves of 932,000 oz: more than triple Belaya Gora's 291,000 oz recorded at the outset of 2017. Grade was reduced to 1.44 g/t versus 3.3 g/t for Belaya Gora alone. Average annual gold production is estimated at 55,000 oz, with the life of the combined mine forecast to extend

to 2032 and estimated average TCC of US\$802.

Operations at Belaya Gora, in advance of the PFS, focused on the processing of low grade stockpiles following a regulatory decision to reduce the mine's cut-off grade from 0.7 g/t to 0.3 g/t. Overall output recorded a relatively modest year-on-year decline from 45,000 oz to 43,000 oz.

An updated JORC reserve statement in respect of MNV, our longstanding mine which is also located in the Khabarovsk region, was completed and published in May 2017. This confirmed a doubling of ore reserves to 500,000 oz Au (as of 31 December 2016) which, in turn, underwrote a life-of-mine extension to at least 2022.

We are intent on extending MNV's productive life beyond this date and, to this end, we have budgeted for an annual US\$3 million - US\$5 million exploration spend. Near-mine exploration activity is ongoing and initial exploratory work has commenced in relation to our two new greenfield site licences - Zamanchivaya (4.2 sq km) and Kulibinskaya (38 sq km) - which are directly adjacent to MNV. A solid performance from MNV throughout 2017 resulted in a 6.6% increase in gold and gold equivalent production to 102,000 oz.

Novo fully maintained its status as our lowest cost, highest margin producer by way of a 7.7% increase in the production of gold and gold equivalent to 126,000 oz in 2017 compared with 117,000 oz in 2016.

A JORC reserve audit completed at Novo in November 2017 brought a 430% increase in ore tonnage. Ore reserves rose from the previously estimated 1.1 Moz of gold equivalent to 1.9 Moz (as of 31 December 2016) at an average grade of 3.3 g/t compared with the previously reported 9.8 g/t.

The planned expansion of Novo's mining and milling capacity to 1.3 Mtpa is designed to compensate for the lower grades and the first stage of the development, involving a series of upgrades to the mining system, is scheduled for completion by year-end 2018.





The second stage, focused on the processing plant, is in the design phase.

We continued to pursue our strategy of balancing a stable rate of production with the progression of our development and exploration projects, with the cash flow from the former integral to the funding of the latter. Output recorded a 4.3% increase to a record 272,274 oz of gold and gold equivalent and our guideline for the current financial year is a comparable outcome of between 265,000 - 275,000 oz.

Our principal development project is Kekura, a world class deposit located in the remote Chukotka region in the Far East of Russia. Government approval for the development of a deposit of 'federal significance' (a standard regulatory requirement for an operation of this scale) was duly received in 2017. Exploration activity included 11,000 metres of reverse circulation drilling and 4,750 metres of core drilling for the purpose of reserve confirmation, while work commenced on a state-funded power line to connect Kekura to the regional electrical grid.

The Definitive Feasibility Study for Kekura was completed in early 2018 and anticipates:

- An estimated start date of 2021;
- Sequential and combined open-pit and underground extraction with a total mine life of 16 years (twice the original expectation);
- Processing plant capacity of 800,000 tpa with an 85% recovery rate;
- Capex of US\$229 million (pre-commissioning/excluding underground operations);
- Average annual gold production of 172,000 oz for the first eight years and 46,000 oz thereafter; and

- Average Total Cash Costs of US\$511 per oz and All-In Sustaining Cash Costs of US\$541 per oz.

Kekura's Au resources (measured, indicated and inferred) are currently estimated at 2.46 Moz commanding an average grade of 8.1 g/t, while Au reserves (proven and probable) total 2.00 Moz with an average grade of 7.0 g/t. Preliminary construction is underway with the bulk of such work scheduled to take place in 2019 - 2020.

Additional R&D studies at Klen, involving external consultants, indicated the potential for higher than anticipated recoveries of more than 90% and lower than forecast operating costs. Such findings will be incorporated in the updated PFS which is expected to be completed in the near future. Meanwhile, additional exploration is to be undertaken in order to delineate any additional potential resources.

In Kyrgyzstan, our fourth region, the Scoping Study for Unkurtash, published in Q1 2017, envisaged:

- Two open pits and an 18-year LoM;
- Processing plant throughput of 4 Mtpa with an 80% plus recovery rate;
- Annual production of 133,000 oz of gold at an average operating cost of US\$616 per oz; and
- A Capex requirement of US\$322 million to commence production.

Your Board continues to consider prospective partnerships to develop the Unkurtash resource and preliminary talks have been held with certain parties.

In conclusion, I have every confidence that the quality of assets outlined above and the strategies that management is deploying to capitalise on such assets, augur well for the Company's medium term growth prospects.

You can find more details in the Operational Review which includes a detailed analysis of 2017's activities including those associated with the health and safety of employees and the protection of the environment.

**Denis Alexandrov**  
Chief Executive Officer

Highland Gold Mining Ltd	Units	FY 2017	FY 2016	H2 2017	H1 2017	H2 2016	H1 2016
Waste stripping	t	9,450,392	17,005,916	4,353,629	5,096,763	8,818,209	8,187,706
Underground development	m	22,736	23,398	11,593	11,143	10,962	12,437
Waste dumps ore mined	t	327,358	279,113	146,293	181,065	2,801	276,312
Waste dumps ore grade	g/t	1.12	1.06	1.15	1.10	1.21	1.06
Open-pit ore mined	t	1,359,799	1,966,227	503,831	855,968	988,775	977,452
Open-pit ore grade	g/t	1.03	1.38	1.03	1.03	1.49	1.26
Underground ore mined	t	1,650,846	1,520,525	847,326	803,520	754,103	766,426
Underground ore grade	g/t	4.38	4.33	4.44	4.31	4.27	4.39
Total ore mined	t	3,338,003	3,765,865	1,497,450	1,840,553	1,745,679	2,020,190
Average grade	g/t	2.70	2.55	2.98	2.47	2.69	2.42
Ore processed	t	3,895,759	3,797,375	1,960,152	1,935,607	1,914,820	1,882,555
Average grade	g/t	2.57	2.52	2.62	2.52	2.54	2.50
Recovery rate	%	85	85	85	84	85	85
<b>Gold and gold eq. produced</b>	<b>oz</b>	<b>272,274</b>	<b>261,159</b>	<b>140,489</b>	<b>131,785</b>	<b>132,488</b>	<b>128,671</b>

Mnogovershinnoye (MNV)	Units	FY 2017	FY 2016	H2 2017	H1 2017	H2 2016	H1 2016
Waste stripping	t	6,514,859	4,669,624	2,808,059	3,706,800	3,862,048	807,576
Underground development	m	11,357	11,381	5,934	5,423	5,518	5,863
Waste dumps ore mined	t	327,358	279,113	146,293	181,065	2,801	276,312
Waste dumps ore grade	g/t	1.12	1.06	1.15	1.10	1.21	1.06
Open-pit ore mined	t	280,006	405,493	119,106	160,900	383,426	22,067
Open-pit ore grade	g/t	2.05	1.95	2.11	2.00	1.89	3.02
Underground ore mined	t	792,740	739,912	404,083	388,657	388,576	351,336
Underground ore grade	g/t	3.15	3.05	3.20	3.10	2.92	3.20
Total ore mined	t	1,400,104	1,424,518	669,482	730,622	774,803	649,715
Average grade	g/t	2.46	2.35	2.56	2.36	2.41	2.28
Ore processed	t	1,373,130	1,380,963	652,667	720,463	708,363	672,600
Average grade	g/t	2.55	2.36	2.67	2.43	2.44	2.28
Recovery rate	%	91.36	91.50	91.80	90.90	91.90	90.93
<b>Gold produced</b>	<b>oz</b>	<b>102,502</b>	<b>96,188</b>	<b>51,753</b>	<b>50,749</b>	<b>51,259</b>	<b>44,929</b>

Belaya Gora	Units	FY 2017	FY 2016	H2 2017	H1 2017	H2 2016	H1 2016
Waste stripping	t	2,935,533	12,336,292	1,545,570	1,389,963	4,956,161	7,380,130
Ore mined	t	1,079,793	1,560,734	384,725	695,068	605,349	955,385
Average grade	g/t	0.77	1.23	0.70	0.81	1.24	1.22
Ore processed	t	1,696,810	1,643,146	886,261	810,549	809,637	833,509
Average grade	g/t	1.11	1.21	1.10	1.12	1.14	1.29
Recovery rate	%	72.52	71.40	73.30	71.70	70.00	72.70
<b>Gold produced</b>	<b>oz</b>	<b>43,166</b>	<b>45,909</b>	<b>23,132</b>	<b>20,034</b>	<b>20,560</b>	<b>25,349</b>

Novosibirskskoye (Novo)	Units	FY 2017	FY 2016	H2 2017	H1 2017	H2 2016	H1 2016
Underground development	m	11,379	11,251	5,659	5,720	5,444	5,808
Ore mined	t	858,106	761,114	443,243	414,863	359,131	401,983
Average grade*	g/t	5.52	5.61	5.58	5.45	5.75	5.50
Ore processed**	t	825,819	757,971	421,224	404,595	386,026	371,945
Average grade*	g/t	5.61	5.62	5.72	5.50	5.63	5.60
Recovery rate*	%	84.95	85.88	84.69	85.24	85.28	86.50
<b>Gold eq. produced*</b>	<b>oz</b>	<b>126,606</b>	<b>117,577</b>	<b>65,604</b>	<b>61,002</b>	<b>59,617</b>	<b>57,960</b>

Sredny Golgotay (Kaftan)	Units	FY 2017	FY 2016	H2 2017	H1 2017	H2 2016	H1 2016
<b>- Gold produced</b>	<b>oz</b>	<b>-</b>	<b>1,315</b>	<b>-</b>	<b>-</b>	<b>882</b>	<b>433</b>
<b>Lyubov - Gold produced</b>	<b>oz</b>	<b>-</b>	<b>170</b>	<b>-</b>	<b>-</b>	<b>170</b>	

\* Calculated in gold equivalent (gold equivalent is calculated based on average factual prices for the period)

Metal grade of mined ore=Au 3.57 g/t, Ag 59.04 g/t, Pb 1.71%, Zn 0.59 %.

\*\* Excluding Sredny Golgotay ore processed in 2015.

## OPERATIONAL REVIEW KHABAROVSK REGION, RUSSIA Mnogovershinnoye (MNV)

Production of gold and gold equivalent at MNV achieved a 6.6% increase from 96,188 oz to 102,502 oz in 2017, thereby accounting for a fully maintained 38% share of total production. The average grade registered an 8% improvement from 2.36 g/t to 2.55 g/t year-on-year (reflecting a higher proportion of underground ore) while the recovery rate was effectively unchanged at 91.4% (2016: 91.5%).

Completion and publication of an updated JORC reserve statement in May revealed a doubling of MNV's ore reserves to 500,000 oz Au, a development that saw the life-of-mine (LoM) extended by four years to at least 2022. Management is intent on continuing operations beyond this date and a near-mine exploration programme – actively progressed in 2016 and 2017 – is ongoing. The Company aims to continue budgeting US\$3 – 5 million per year to support this effort.

May also witnessed the receipt of licences in respect of two greenfield sites adjacent to MNV, namely Zamanchivaya (4.2 sq km located to the north east of the mine) and Kulibinskaya (38 sq km located to the south west of the mine).

The re-evaluation of MNV's historic waste dumps continued throughout 2017, an exercise that has added a total of 1.07 million tonnes of ore (with grades of approximately 1.1 g/t Au) since the programme commenced in 2016.

### PRODUCTION COSTS

Total cash costs amounted to US\$617 per oz (2016: US\$607 per oz) while all-in sustaining costs were US\$741 per oz (2016: US\$765 per oz).

### CAPITAL COSTS

A total of US\$12.8 million was invested at MNV in 2017. This included capitalised expenditures and construction (US\$5.5 million), purchase of equipment (US\$6.6 million) and exploration (US\$0.7 million).

### OUTLOOK

The extensive near-mine exploration activity seen during 2017 will continue in 2018 with a view to identifying sufficient resources to facilitate a further extension of LoM. Such activity will prioritise areas

in the vicinity of previously mined ore bodies including the Intermediate and Deep ore bodies and the Burliviy zone, while also encompassing the new greenfield sites – Zamanchivaya and Kulibinskaya – where geochemical prospecting work was carried out in 2017 in preparation for 2018's exploration programme.

Appraisal of the waste stockpiles – a potentially significant source of additional resource – will also continue in 2018.

Against this background, an updated JORC-compliant reserve estimate is scheduled for completion in Q3 2018.

### Belaya Gora

Operations at Belaya Gora focused on processing low-grade ore stockpiles during 2017 in advance of the Pre-Feasibility Study involving a joint mining schedule with the nearby Blagodatnoye deposit.

A lowering of the cut-off grade from 0.7 g/t to 0.3 g/t was reflected in a year-on-year reduction in mined ore grade from 1.23 g/t to 0.77 g/t. The recovery rate improved to 72.5% (2016: 71.4%) and the decline in overall production was limited to 6% at 43,166 oz of gold and gold equivalent.

An exploratory drilling programme focused on the deep horizons of the north-western flank of the Belaya Gora licence area was completed in Q4 2017, an exercise which saw 111 diamond holes, totalling 12,686 metres, drilled over the course of the year. In addition, Stage 1 exploration drilling was completed at the Kolchansky area within the broader Belaya Gora Flanks licence. The drilling programme, as at the year-end, encompassed 702 metres over 14 holes and has continued into 2018.

### PRODUCTION COSTS

Total cash costs amounted to US\$861 per oz (2016: US\$678 per oz) while all-in sustaining costs were US\$1,029 per oz (2016: US\$1,134 per oz).

### CAPITAL COSTS

A total of US\$3.8 million was invested at Belaya Gora in 2017. This included capitalised expenditures and construction (US\$3.4 million) and purchase of equipment (US\$0.4 million).

## OUTLOOK

The pointers to the future lie in the Pre-Feasibility Study, announced early in 2018. Features include:

- More than tripled gold reserves of 932,000 oz (encompassing Blagodatnoye and a 60% increase in Belaya Gora ore) versus Belaya Gora's previously reported 291,000 oz;
- Upgrades to the processing plant (including the addition of a carbon-in-pulp (CIP) circuit) designed to improve recoveries from 72% to 86-91% for Belaya Gora ore and 90% for Blagodatnoye ore;
- New open-pit mining plans which envisage the processing of Blagodatnoye ore at the Belaya Gora mill and a combined LoM extending to 2032;
- Capex estimated at US\$15 million in respect of the plant upgrade and US\$21 million to transfer mining activity from Belaya Gora to Blagodatnoye in 2023; and
- Estimated annual production of 55,000 oz Au over LoM at an average Total Cash Cost of US\$802 per oz and All-In Sustaining costs of US\$848 per oz.

### Blagodatnoye

The year under review witnessed the processing of extensive exploration work carried out in 2016 and the completion of an additional drilling programme totalling 2,400 metres.

### CAPITAL COSTS

A total of US\$1.1 million was invested at Blagodatnoye in 2017 and represented a capitalised exploration and evaluation asset.<sup>1</sup>

### OUTLOOK

The Blagodatnoye deposit is the subject of a prospective amalgamation with Belaya Gora's mining and processing operations. The new mining plan was outlined in Belaya Gora's Pre-Feasibility Study, announced early in 2018 and highlighted above.

1. In the consolidated financial statements, capital costs for Blagodatnoye are reported together with MNV.



## ZABAİKALSKY REGION, RUSSIA Novosibirskoye (Novo)

Production of gold and gold equivalent at Novo recorded a 7.7% increase from 2016's 117,577 oz to 126,606 oz in 2017 representing 46.5% (2016: 45%) of total output.

Ore mined registered a 12.7% increase to 858,106 tonnes on a year-on-year basis, while ore processed during 2017 advanced 9% to 825,819 tonnes versus 2016.

Average grade was effectively unchanged at 5.61 g/t (2016: 5.62 g/t) as was the recovery rate at 85.0% (2016: 85.9%).

Completion of an updated JORC reserve audit in November 2017 saw ore reserves advance from the previously estimated 1.1 Moz to 1.9 Moz Au Eq., as of 31 December 2016, with an average grade of 3.3 g/t compared with the previously reported 9.8 g/t and the aforementioned 5.61 g/t in respect of 2017. The lower grade reflects a reduction in the cut-off grade and a substantial increase in ore volume.

Work continued on the expansion of Novo's ore mining and processing capacity from 700,000 tpa to 1.3 mtpa. In line with this a comprehensive survey of the hoist, headframe, crusher and main fan unit buildings was conducted.

## PRODUCTION COSTS

Total cash costs amounted to US\$291 per oz (2016: US\$254 per oz) while all-in sustaining costs were US\$342 per oz (2016: US\$274 per oz).<sup>1</sup>

## CAPITAL COSTS

A total of US\$13.5 million was invested at Novo in 2017. This included capitalised expenditures and construction (US\$9.7 million) and purchase of equipment (US\$3.8 million).

## OUTLOOK

The expansion of Novo's capacity - designed to compensate for the expected lower ore grades - is scheduled for completion in 2020.

Design documentation for the project has been split into two stages:

Stage 1, which has already been filed with the Russian State Expert Board for approval, encompasses construction and installation work including the main fan unit building, the skip shaft and dosing complex, and run-off water treatment facilities.

Stage 2 encompasses facilities in relation to the processing plant and the tailings dam. The Company is also reviewing the potential for the utilisation of dense media separation (DMS) or X-ray separation to reduce capital costs associated with Stage 2 mill expansion.

## Baley Ore Cluster (Taseevskoye, Sredny Golgotay and ZIF-1)

The primary objective at Taseevskoye, the largest of the Baley Hub projects, is a 'de-risking' of the site (by way of pumping water out of the Taseevskoye open-pit and monitoring any inflow of water from the neighbouring Baley pit) in preparation for exploration activity designed to verify reserves.

Some 4.3 million cubic metres of water were pumped from the Taseevskoye pit during H2 2016 and H1 2017, thereby resulting in a 10.05 metre decrease in the water level. No water inflow was observed from the Baley pit.

Pumping is currently on hold, due to the fact that the ZIF-2 tailings pond, which receives the water, is full.

In November, Giprotsvetmet, the mining and metallurgy research and design institute (Moscow), issued a trade-off study of various options available for additional storage and/or treatment of water pumped from the pit. Such options are currently under consideration. Funding was approved, in Q3 2017, for the commencement of design work on a heap leach operation at the ZIF-1 Tailings licence, containing approximately 300,000 oz Au. A technological flowsheet, drafted by engineering consultants Irgiredmet, anticipates annual throughput of up to 840,000 tonnes of ore. The Company has selected Geotechproekt LLC (Ekaterinburg) as contractor responsible for all design work associated with the project. Engineering studies were initiated in October and technical solutions are under development.

## CAPITAL COSTS

A total of US\$2.8 million was invested at the Baley area licences in 2017.

## CHUKOTKA AUTONOMOUS DISTRICT, RUSSIA

### Kekura

Work on the final sections of the Kekura Definitive Feasibility Study (DFS), including mine design, technical solutions, a financial model and estimates for capital and operating expenditures, was concluded during Q4 2017 prior to publication in early 2018. This, in turn, was accompanied by a JORC-compliant resource update which included data drawn from the 2016-17 drilling programme.

Work was also completed on the design documentation for Kekura's fuel storage facilities in preparation for construction in 2018. In the wake of an in-house review an application to the State Expert Board for approval is scheduled for submission in H1 2018.

The government project for construction of the Bilibino-Kekura-Peschanka-Omsukchan power line, which will bring the regional electricity grid to Kekura, also made headway during Q4 2017. Meanwhile, State Expert Board approval was received for the planned 110/6 kV Kekura substation, with construction permits duly applied for.

Equipment for the substation was delivered to the Chukotka port of Pevek by Rostek JSC, under a supply and installation contract, and will be transported to the Kekura site in March 2018 when weather conditions become suitable. Construction work is scheduled to begin in May 2018.

### Klen

Further R&D studies, designed to confirm engineering parameters and mitigate project risks for incorporation into the PFS currently under development, continued to be carried out by consultants SGS Vostok during Q4 2017. Such research yielded positive results, indicating the potential to improve Au recovery to 90.82% and reduce operating expenses and class V hazard for tailings.

A tender was held to select a contractor to carry out an additional exploration programme at Klen and work began in Q1 2018.

1. All figures quoted as per oz of gold equivalent production without any by-product credits and refining charges.

## KYRGYZSTAN

### Unkurtash

A scoping study was completed and published in March 2017 which envisages:

- Two open-pits and an 18-year LoM;
- Processing plant utilisation of gravity concentration and gravity tailings CIL with an annual throughput of 4 million tonnes and recoveries of more than 80%;
- Annual production of 133,000 oz Au at an average operating cost of US\$616 per oz; and
- Total Capex to commence production of US\$322 million.

Management continues to consider partnership opportunities to develop this significant resource and preliminary discussions have been held with potential partners.

## HEALTH, SAFETY AND ENVIRONMENT

The health and safety of our employees is paramount and Highland Gold's endeavours to minimise risk and maximise protection are focused on:

- Safe working conditions;
- The management of operational risks;
- Across-the-board training; and
- Constant emphasis on the need for employees to develop a sense of accountability for their safety and the safety of others.

To these ends, senior staff from the Company's Moscow management office (42 managers), Novo (212 managers) and MNV (394 managers) attended courses entitled 'Conscious Safety Management' during Q4 2017. Employees at Novo (100 participants) and MNV (254 participants), also attended a training course on 'Internal Accident Investigation', and eight staff from Moscow participated in a 'Defensive Driving' course.

In 2017, the Health & Safety team developed and introduced several updated corporate standards including: 'Labour Safety Management System', 'Internal Accidents Investigation', 'Behavioural Safety Audits', 'Labour Safety Committee', 'Cardinal Rules of Safe Behaviour' and 'Best Practices'. Tools compliant with these standards were introduced at each of the Company's operating mines.

Audits of occupational safety management systems were conducted at each operating subsidiary in November 2017, the results of which will be used as benchmarks in 2018.

November also saw the Company introduce a new Transportation Safety programme and implement transport audits to facilitate the drafting of improved transportation safety policies.

We are deeply saddened to record that, despite our endeavours, a fatality occurred at Novo's underground mine on 13 April, 2017, as reported in the Company's Q1 Report on 27 April, 2017.

The Lost Time Incidents Frequency Rate (LTIFR) totalled 4.88 in respect of 2017 compared with 2.30 in 2016. The number of incidents across the Group totalled 26 over the course of the year involving the aforementioned fatality and 13 incidents at Novo, five such incidents at Belaya Gora and seven at MNV. This compares with one fatality and 13 incidents in 2016. The scale of increase is, in part, due to more stringent reporting requirements in relation to minor incidents.

During the year a total of 1,582 employees attended safety induction and fire & electrical safety induction (one-day) courses, while 235 managers and specialists underwent self-training and testing safety courses utilising OlimpOKS software and were certified on industrial safety (7 - 30 day programmes).

As in the past, auxiliary rescue teams at each of the Company's mines have been kept 'at the ready' to respond to any emergency.

The Company diligently observes environmental and regulatory requirements and actively seeks to identify, analyse and mitigate any risks from operations that might impact the environment.

Approximately 1,800 employees underwent environmental training programmes during 2017, while 418 employees participated in class I-IV hazard waste treatment training with subsequent testing under the OlimpOKS system. A further 75 managers and specialists attended a two-day course to familiarise themselves with the new ISO 14001-2015 standard for environmental management systems.

An environmental management system certification audit at the Moscow office and at MNV, carried out by risk management specialists DNV, confirmed compliance with the requirements of the new ISO 14001-2015 standard. The absence of any significant discrepancies points to the efficacy of the environmental management systems in place.



# Low cost, high margin

“Highland Gold retained its position among the world's lowest-cost gold producers during the year.”

Trading conditions on the global metal market during the year to 31 December 2017 were, for the most part, favourable. Despite price fluctuations between US\$1,146 per oz and US\$1,358 per oz over the course of the year, the average London Bullion Market Association (LBMA) gold price was US\$1,257, an increase of 0.5% versus 2016. The prices of lead and zinc traded at their highest levels for three years. Meanwhile, the strength of the Russian rouble, influenced by rising oil prices, impacted negatively on financial indicators and exerted upward pressure on costs.

In 2017, Highland Gold increased sales volume, retained its status as one of the world's lowest-cost gold producers and maintained a strong cash position. This enabled the Company to deliver a competitive dividend distribution for the fifth consecutive year.

Total revenue increased by 3.5% to US\$316.7 million, primarily driven by the higher volume of realised gold and gold equivalents. Revenues from sales of precious metals and concentrates totalled US\$185.8 million and US\$130.5 million respectively. During the reporting period, the Company sold 270,380 oz of gold and gold equivalent, representing a 1.1% volume increase versus 2016. Novo's contribution, accounting for 46.0% of the total, was effectively unchanged. A modest decrease of 0.4% in Novo sales was related to the reserving of a consignment of zinc concentrate under a new export agreement. MNV increased its sales volume by 5.3% to 102,015 oz representing a 37.7% share. Belaya Gora accounted for a 16.2% share in the wake of a 3.4% decline in sales volume to 43,885 oz (2016: 45,411 oz) due to processing lower grade ore from stockpiles.

During 2017, the Company continued to pursue a 'no hedge' policy. The Company's average realised price of gold and gold equivalent increased by 2.3% to US\$1,162 per oz compared with US\$1,136 per oz in 2016. The average realised price of gold in respect of MNV and Belaya Gora (net of commission) was US\$1,259 per oz, which corresponded with the average market price. The higher prices for lead and zinc raised the average price of gold equivalent realised by Novo to US\$1,048<sup>1</sup> per eq. oz against US\$1,008 per eq. oz in 2016 (+4.0% y-o-y).

The Company's cost of sales net of depreciation increased by 12.8% to US\$139.6 million (2016: US\$123.8 million). The negative effect of the strengthening Russian rouble was heightened by an increase in energy prices (+6% in RUR y-o-y) and the impact of overall inflation (2.5%). Depreciation amounted to US\$49.5 million, down 17.8% y-o-y, largely reflecting the life-of-mine extensions at all operational assets.

Management's efforts to maximise operating efficiencies and reduce costs across the board led to a decrease in consumption, lower expenses for repairs, and reduced maintenance costs for infrastructure and sites. This, in turn, enabled the Company to offset rising rouble-denominated costs and charges including labour, energy and taxes. The decline in Belaya Gora's mining activity and the lowering of the cut-off grade to 0.3 g/t, in line with the authorities' requirement, resulted in a significant reduction in change in work in progress. Stripping volume started to be classified as poor ore and is subject to impairment testing.

Total cash costs<sup>2</sup> (TCC) increased by 11.7% to US\$507 per oz, comfortably below the industry average. A breakdown by operating unit shows

a 14.8% increase in total cash costs at our lowest-cost producer Novo to US\$291 per eq. oz, reflecting the negative currency effect and an increased share of mining from lower horizons. MNV, our oldest mine, succeeded in holding total cash costs at US\$617 per oz (2016: US\$607 per oz), assisted by an increase in sales volume. Belaya Gora's total cash costs advanced from US\$678 per oz to US\$861 per oz, a reflection of processing lower-grade stockpile ore.

All-in sustaining costs<sup>3</sup> (AISC) registered only a marginal increase from US\$652 per oz in 2016 to US\$664 per oz in 2017.





## Financial highlights

US\$000 (unless stated)	2017	2016
Production (gold and gold eq. oz)	<b>272,274</b>	261,159
Group all-in sustaining costs (US\$/oz)	<b>664</b>	652
Total Group cash costs (US\$/oz)	<b>507</b>	454
Revenue	<b>316,682</b>	305,901
Operating profit	<b>102,202</b>	69,361
EBITDA <sup>1</sup>	<b>155,275</b>	162,491
Net profit	<b>65,855</b>	47,909
Earnings per share (US\$)	<b>0.201</b>	0.145
Net profit before impairment losses	<b>65,855</b>	70,741
Net cash inflow from operations <sup>2</sup>	<b>130,990</b>	139,299
Capital expenditure	<b>58,336</b>	59,349
Net debt <sup>3</sup>	<b>(198,320)</b>	(205,465)

1. EBITDA is defined as operating profit/ (loss) excluding depreciation and amortisation, impairment losses, movement in ore stockpiles obsolescence provision, movement in raw materials and consumables obsolescence provision, result of disposal of a non-core entity and gain on settlement of contingent consideration.
2. 2016 net cash inflow from operations was amended for US\$3.1 million reclassified to the investing activities.
3. Net debt is defined as cash and cash equivalent, decreased by interest-bearing loans and borrowings and by liability under finance lease.

## Cash operating costs – breakdown

	2017 US\$000	2016 US\$000	y-o-y change, %
<b>Cost of sales</b>	<b>189,096</b>	183,995	2.8%
depreciation, depletion and amortisation	<b>(49,476)</b>	(60,212)	(17.8%)
<b>Cost of sales, net of depreciation, depletion and amortisation</b>	<b>139,620</b>	123,783	12.8%
<b>Breakdown per item:</b>			
Labour	<b>48,984</b>	42,261	15.9%
Consumables and spares	<b>39,417</b>	44,532	(11.5%)
Power	<b>11,451</b>	9,639	18.8%
Movement in ore stockpiles, finished goods and stripping assets	<b>(1,684)</b>	(12,902)	(86.9%)
Maintenance and repairs	<b>23,601</b>	23,972	(1.5%)
Taxes other than income tax	<b>17,851</b>	16,281	9.6%

Higher administrative expenses, reflecting the strength of the rouble, were compensated by a 20% reduction in sustaining CAPEX at BG and MNV together with a decrease in BG's poor ore provision.

Higher average realised prices and largely maintained AISC delivered strong headroom of US\$499 per ounce,

effectively underwriting the Company's development projects and dividend distribution.

In 2017, the Company's EBITDA decreased by 4.4% to US\$155.3 million (2016: US\$162.5 million). In line with this, the EBITDA margin<sup>4</sup> dipped from 53.1% to 49.0%: a ratio which underlines

Highland's status as one of the world's most efficient gold producers.

The Company's management analysed internal and external indicators of impairment as of 31 December 2017. No impairment loss was recognised in 2017. In 2016, the Company recognised impairment loss in respect of BG amounting to US\$22.8 million.

1. Novo's average price is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver), net of fixed processing and refining costs at third-party plants.
2. 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.
3. In line with guidance issued by the World Gold Council, the formula used to define the all-in sustaining cash costs measurement commences with total cash costs per ounce sold and then adds sustaining capital expenditures, corporate general and administrative costs, mine site exploration and evaluation costs and environmental rehabilitation costs. This data seeks to represent the total costs of producing gold from current operations and therefore it does not include capital expenditures attributable to projects or mine expansions, exploration and evaluation costs attributable to growth projects, income tax payments, interest costs or dividend payments.
4. EBITDA margin is defined as EBITDA divided by total revenue.

## TCC and AISC Calculation

	2017 US\$000	2016 US\$000	y-o-y change, %
<b>Cost of sales, net of depreciation, depletion and amortisation</b>	<b>139,620</b>	<b>123,783</b>	<b>12.8%</b>
- cost of by-products and other sales	(2,261)	(2,123)	6.5%
- taxes other than income tax at non-operating entities	(363)	(380)	(4.5%)
<b>Total Cash Costs (TCC)</b>	<b>136,996</b>	<b>121,280</b>	<b>13.0%</b>
+ administrative expenses	16,054	14,293	12.3%
+ accretion and amortisation on site restoration provision	1,502	1,778	(15.5%)
+ movement in ore stockpiles obsolescence provision	3,185	9,869	(67.7%)
+ sustaining capital expenditure	21,698	27,031	(19.7%)
<b>Total all-in sustaining costs (AISC)</b>	<b>179,435</b>	<b>174,251</b>	<b>3.0%</b>
Gold sold (gold and gold eq. oz)	270,380	267,330	1.1%
<b>TCC (US\$/oz)</b>	<b>507</b>	<b>454</b>	<b>11.7%</b>
<b>AISC (US\$/oz)</b>	<b>664</b>	<b>652</b>	<b>1.8%</b>
<b>Average realised price of GE (US\$/oz)</b>	<b>1,162</b>	<b>1,136</b>	<b>2.3%</b>
<b>Headroom (US\$/oz)</b>	<b>499</b>	<b>484</b>	<b>3.1%</b>

In 2017, the Company recognised a net finance cost of US\$2.5 million compared with US\$5.0 million in 2016. The principal components were the interest expense on bank loans in the amount of US\$0.8 million in 2017 (2016: US\$2.2 million) and accretion expense on site restoration provision in the amount of US\$1.6 million in 2017 (2016: US\$1.7 million).

A foreign exchange gain of US\$0.7 million (2016: gain of US\$1.9 million) resulted from the settlement of foreign currency transactions and the retranslation of monetary assets and liabilities denominated in Russian roubles into US Dollars.

Income tax charges almost doubled to US\$34.5 million in 2017 compared with US\$18.3 million in 2016. The increase resulted from a substantial US\$14.9 million reduction in released deferred tax, largely as a result of future tax revaluation because of the rouble's appreciation at the end of the year.

Current tax expenses totalled US\$33.3 million (Novo: US\$19.4 million, MNV: US\$13.1 million, BG: US\$0.4 million and RDM: US\$0.4 million) while dividend withholding tax amounted to US\$7.7 million.

Net profit, benefiting from the growth in revenue, cost controls and zero impairment losses, rose 37% from 2016's US\$47.9 million to US\$65.9 million. Consequentially, earnings per share advanced from US\$0.145 in 2016 to US\$0.201 for the year to 31 December 2017.

The Company's cash inflow from operating activities registered a 6.0% decrease to US\$131.0 million reflecting higher income taxes (US\$2.9 million) and lower EBITDA. Capital expenditure for the reporting period amounted to US\$58.3 million versus US\$59.3 million in respect of 2016. This primarily related to near-mine exploration at MNV, designed to further extend the LoM, the expansion of Novo's processing capacity and the progression of the Kekura project.

Specific capital expenditures included US\$12.8 million at MNV, US\$13.5 million at Novo, US\$3.8 million at Belaya Gora, US\$22.4 million at Kekura and US\$5.8 million in relation to other exploration and development projects. Capital expenditures were entirely funded by operating cash flow.

The Company's total debt is denominated in USD. The debt in relation to facility agreements with banks showed a decrease of 2.0% to US\$207.4 million as of 31 December 2017 (2016: US\$211.6 million) accompanied by a 24.3% reduction in the effective annual interest rate to 3.4% (2016: 4.5%), despite rising LIBOR. To mitigate the latter's negative effect on the cost of debt, management continued to switch from floating to fixed interest rates, thereby increasing the overall proportion of fixed-rate liabilities to 65% compared with 47% as of end December 2016.

At the end of the reporting period, cash and cash equivalents amounted to US\$12.4 million compared with US\$8.7 million as of 31 December 2016. The Company's net debt position, including lease liabilities, was US\$198.3 million as of 31 December 2017, compared with US\$205.5 million as of 31 December 2016.

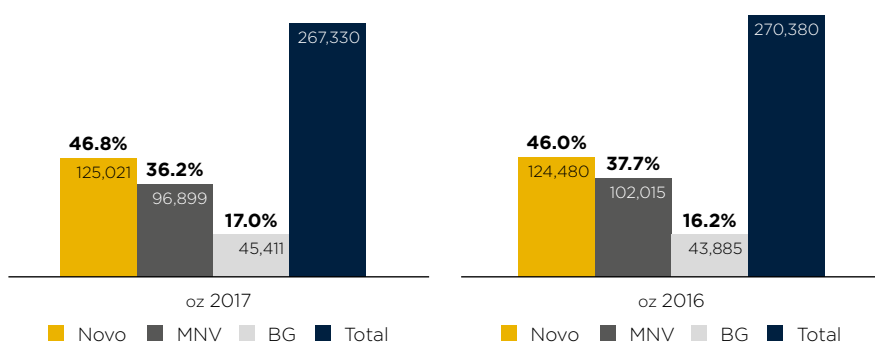
The ratio of net debt to EBITDA was 1.28 as at the end of 2017 which is well within the Board of Directors' debt policy.

Taking into account the growth in earnings per share and the strength of the balance sheet, the Board is pleased to recommend a second interim dividend of GBP 0.0542 per share.

## EBITDA Reconciliation to Operating Profit

	2017 US\$000	2016 US\$000
<b>Operating Profit</b>	<b>102,202</b>	<b>69,361</b>
Depreciation of mine properties and property, plant and equipment	49,476	60,212
Impairment losses related to cash-generating units	-	22,832
Individual impairment of property, plant and equipment and mine assets	(4)	17
Movement in ore stockpiles obsolescence provision	3,185	9,869
Movement in raw materials and consumables obsolescence provision	416	600
Gain on settlement of contingent consideration	-	(400)
<b>EBITDA</b>	<b>155,275</b>	<b>162,491</b>

## Gold and GE sold by mine (oz)



## PAYMENT OF DIVIDENDS

The final dividend for the year ending 31 December 2016 in the amount of US\$22.6 million was paid on 12 May 2017.

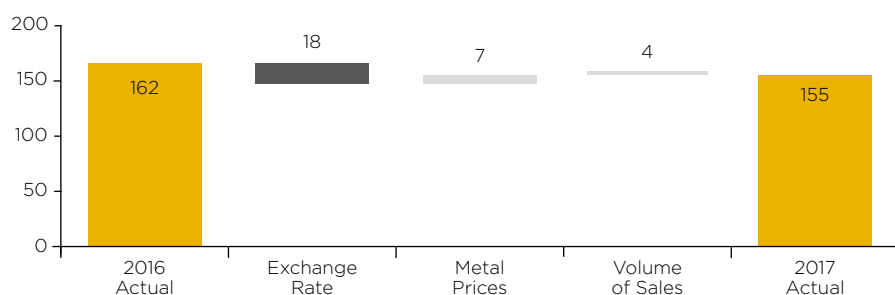
The Group paid an interim dividend of GBP 0.0498 per share in respect of H1 2017 (2016: interim dividend of GBP 0.050 per share) which resulted in an aggregate interim dividend payment of US\$21.3 million (2016: US\$19.8 million). The interim dividend was paid on 3 October 2017.

The Board has recommended a second interim dividend of GBP 0.0542 per share which, taking into account the interim dividend paid in October 2017, gives a total dividend of GBP 0.104 per share for the year 2017 (2016: GBP 0.104 per share). The total payout exceeds the minimum amount prescribed in the Company's dividend policy, reflecting the availability of additional funds for disbursement to shareholders.

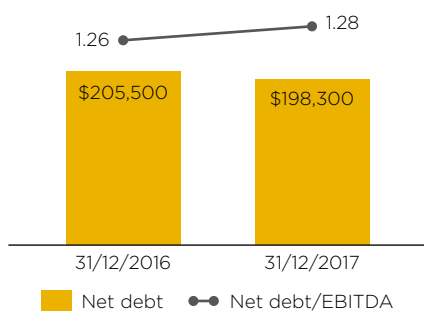
The dividend will be paid on 25 May 2018 to shareholders on the register at the close of business on 27 April 2018 (the record date). The ex-dividend date will be 26 April 2018.

The Company offers an option for shareholders to elect to receive their dividends in US dollars. Payments for dividends in US dollars will be fixed at an exchange rate of 1.4329 GBP/US\$, or US\$0.0777 per share. To receive payment in US dollars, shareholders should complete and file the Currency Election Form no later than the record date (Election Deadline), 27 April 2018. The form and instructions for filing it are available on the Highland Gold website at: [http://www.highlandgold.com/investor\\_relations/share\\_structure](http://www.highlandgold.com/investor_relations/share_structure)

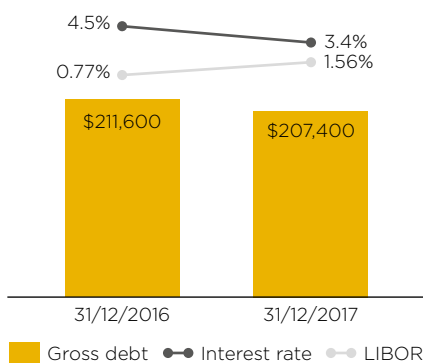
## EBITDA bridge (US\$m)



## The ratio of net debt to EBITDA



## Cost of debt management

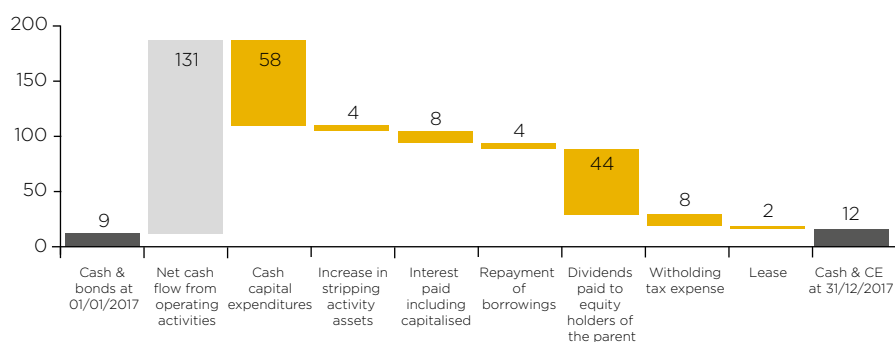


## EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period, except for dividends declared.

**Alla Baranovskaya**  
Chief Financial Officer

## Cash position bridge (US\$m)



Rounding of figures may result in computational discrepancies

## Strategic Report

### Principal Risks and Uncertainties

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

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

The Audit Committee supports the Board of Directors in monitoring the Group's risk exposures and is responsible

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

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

through the internal control system and specific risk management actions. At an operational level, all mines identify, prioritise and directly engage stakeholder groups that have the potential to affect their operational, sustainability or financial performance.



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

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

Risk	Risk description	Mitigation	Movement
<b>MARKET AND FINANCIAL RISKS</b>			
<b>COMMODITY PRICES</b>	<p>The Group's product prices are subject to international supply and demand and can be volatile.</p> <p>A significant and/or prolonged fall in the commodity prices of the metals produced by the Group (primarily Au and to a lesser extent Pb, Zn and Ag) could have an adverse impact on sales and profits. The Group did not utilise hedging in 2017 and prior periods and price fluctuations had an effect on the Group's profits.</p> <p>The capability to invest in growth projects is limited during periods of low commodity prices - which may, in turn, affect future performance. Furthermore, the financial viability of the Group's exploration, development projects and production operations is sensitive to price levels and may become questionable in an environment of decreasing prices. Management may have to reassess the economic model and recognise impairment losses.</p>	<p>The Group constantly monitors price trends and forecasts, maintains a cost-cutting programme, checks the viability of exploration and development projects based on the current and projected price levels and, if necessary, revises specific investment plans and schedules.</p>	




**Change in residual risk level assessment as compared to the similar risk in 2017:**



-  Increased
-  No change
-  Decreased

Risk	Risk description	Mitigation	Movement
<b>FINANCIAL RISKS</b>	<p>Adverse economic conditions or uncertainties that affect global and Russian financial markets can give rise to risks which may negatively impact the Group's operations and results.</p> <p>Please refer to Note 30 to the Consolidated Financial Statements for further details explaining the implications and management of financial risks.</p>		
<b>CURRENCY RISK</b>	<p>Adverse fluctuations in Russian rouble/USD and GBP/USD exchange rates. The Group collects the majority of revenues in US Dollars and also obtains financing in US Dollars. The majority of costs are linked to US Dollars although a significant proportion is incurred in Russian roubles.</p>	<p>The Group uses natural hedging and matches revenue and debt denominated in US Dollars, and reviews other possible ways to hedge exchange rate fluctuations if appropriate. The Group did not use currency hedges in 2017 and 2016 nor in prior periods.</p>	
<b>CREDIT RISKS</b>	<p>Risk of loss related to a counterparty's failure to perform its contractual obligations or transactions in a certain time frame and, as a result, certain financial assets (including assets with high liquidity) may be impaired.</p>	<p>The Group places cash in reputable and highly rated financial institutions and constantly monitors the financial/economic situation.</p> <p>The Group sells commodities to creditworthy and reliable customers.</p>	
<b>INTEREST RATE RISK</b>	<p>Interest rates are affected by geopolitical and macroeconomic events. An increase in interest rates may adversely affect the Group's financial results and its ability to demonstrate the economic viability of certain assets.</p>	<p>The majority of the Group's loans and borrowings have fixed rates at the date of debt drawdown.</p>	
<b>LIQUIDITY RISK</b>	<p>Failure to accurately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss.</p> <p>An event such as a significant operational incident or geopolitical events may potentially increase financing costs and limit access to financing that could put pressure on the Group's liquidity.</p>	<p>The Group uses a short-term, medium-term cash planning system and long-term cash flow forecasts are prepared in line with strategic planning.</p> <p>The Group's centralised treasury function ensures that there is sufficient liquidity for day-to-day operations at each location and reviews the need to attract additional external financing. Opportunities to secure loans at appropriate rates are constantly monitored by the Group.</p>	



Risk	Risk description	Mitigation	Movement
<b>OPERATING RISKS</b>			
<b>RISKS ASSOCIATED WITH EXPLORATION ACTIVITIES</b>	<p>The Group's estimates of ore reserves and mineral resources are subject to a number of assumptions and approximations, including geological, metallurgical and technical factors, future commodity prices and production costs. Fluctuations in any of these variables could result in lower than expected revenues, higher costs and lower operating profits and could lead to reductions in estimated reserves and resources.</p> <p>The Group makes significant investments in exploration activities performed at greenfield sites to develop the business and at brownfield sites to extend the life-of-mines.</p> <p>For various reasons, including geological and economic factors, such activities may prove unsuccessful and may not result in an increase in Group resources. The failure to discover new resources could adversely affect the Group's future performance.</p>	<p>The Group conducts detailed exploration and assesses results in accordance with widely recognised methods of resources/reserves evaluation.</p> <p>The Group engages internationally recognised external consultants to confirm its resources and reserves estimates (information regarding the Group's mineral resources and reserves, reported in accordance with JORC, is presented on pages 76 and 77).</p> <p>The Board reviews exploration projects on a regular basis and approves all exploration activities and costs based on indicative economic probabilities.</p> <p>A review of the Group's exploration activities is presented in the Operations section on pages 11 to 13.</p>	=
<b>THE GROUP'S DEPOSITS ARE SUBJECT TO EXPLORATION AND MINING LICENCES</b>	<p>Group companies must comply with mineral exploration and mining licence requirements. Non-compliance with licence requirements or major licence changes may result in a loss of licence and mineral rights or significant costs to ensure compliance with new requirements.</p>	<p>Compliance with licence requirements is constantly monitored at management level. To diminish risks, measures are developed to meet or renegotiate the terms and conditions of licence agreements. The Group's senior management and the Board are regularly informed as to compliance with licence agreements.</p>	=

### Change in residual risk level assessment as compared to the similar risk in 2017:

-  Increased
-  No change
-  Decreased




Risk	Risk description	Mitigation	Movement
<b>PRODUCTION RISKS AND FAILURE TO DELIVER PRODUCTION PLANS</b>	<p>The Group's mining operations are affected by numerous risk factors not wholly within the Group's control, including flooding, pit slope and rim slide, unexpected/unusual geological variations or technical issues, extreme weather conditions and natural disasters. Such factors could adversely affect production volumes and costs or damage electricity supply facilities and/or other necessary items of equipment or infrastructure.</p> <p>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.</p> <p>Unexpected interruptions in processing and technological characteristics of the ore may result in lower recovery rates than expected.</p> <p>As a result of these factors, end-product unit costs may turn out to be considerably above budget and this might hinder the implementation of production plans and cause major losses in the form of impairment of various assets and goodwill.</p>	<p>The Group employs in-house planning experts who specialise in mine engineering and design and are responsible for developing optimal safe and commercially-viable mine plans. In turn, the in-house mine plans are reviewed by external consultants and state authorities.</p> <p>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.</p> <p>The Group implemented a number of processes to ensure that production is facilitated by the necessary machinery and equipment, and that relevant standby equipment is available. Regular maintenance is performed by qualified Group employees and contractors to ensure reliable machinery and equipment operations. Stocks of spare parts are maintained for urgent repairs.</p> <p>Details of the operational performance of each of the Group's operations are included in the Operations section on pages 11 to 13.</p>	
<b>NEW CONSTRUCTION PROJECTS</b>	<p>The Group faces challenges in developing major projects, particularly in geographically remote locations and in technically challenging areas.</p> <p>Construction projects require significant resources and should be executed in accordance with planned costs and within defined terms.</p> <p>Cost overruns and timely execution in projects directly impact the capital, productivity and commercial performance of assets across the Group.</p> <p>Incorrect capital allocation and poor project management may result in a decrease in the profitability of a particular project and affect the Group's results.</p>	<p>The Group initiates new projects, mine extensions, etc., based on detailed investment plans and a review of management resources. Major projects are subject to external consultants' reports and JORC evaluation.</p> <p>Capital expenditure disciplines and controls are implemented to deliver on-budget performance for construction projects. Widely recognised project management techniques are employed. The Group applies a stage-gate process to ensure the cash generation potential of future growth projects. Management and the Board closely monitor the status of new projects, costs incurred and project issues.</p>	

Strategic Report  
Principal Risks and Uncertainties (continued)

Risk	Risk description	Mitigation	Movement
<b>SKILLED WORKFORCE SHORTAGE</b>	<p>The Group experiences intense competition with other companies for the retention and engagement of mining and production staff, including geologists, engineers, production process managers and other mining specialists.</p> <p>The loss of key personnel or a failure to attract, retain and motivate qualified personnel, could have a materially adverse effect on the Group's business, financial position and operational results.</p>	<p>The Group monitors the labour and salary markets and develops motivation systems to attract qualified personnel and retain key employees.</p> <p>One of the responsibilities of the Group's Remuneration Committee is to consider and approve remuneration for senior management.</p>	
<b>THE GROUP IS SUBJECT TO EXTENSIVE ENVIRONMENTAL, HEALTH AND SAFETY LAWS AND REGULATIONS</b>	<p>Group companies are subject to various environmental, health and safety regulations stipulated by the relevant regulatory agencies. The Group's operations require various licences/permissions with regard to the use of industrial explosives, the operation of flammable, explosive and chemically aggressive production facilities and the use of hazardous structures.</p> <p>Stricter regulations could cause the Group to incur additional costs in order to comply with the new directives.</p> <p>State environmental agencies supervise and regulate the Group's operations in accordance with applicable laws and regulations regarding the use of such contaminants as cyanide-containing reagents. The Group monitors compliance with environmental requirements and incurs costs to achieve compliance but if environmental regulations change, Group companies may face heavy fines and waste removal claims which may become a significant burden on the Group and result in demands to cease operational activity. The absence of a final product would lead to a decrease in profitability.</p> <p>Inability to deliver appropriate levels of safety and environmental protection may result in loss of life, workplace injuries, pollution and lead to a stoppage of operations, significant fines and a threat to the Group's licence to operate.</p>	<p>The Group is focused on health and safety issues and environmental protection, both of which are prioritised.</p> <p>Safety and environmental policies are based on the applicable legislation. Changes in legislation are monitored.</p> <p>The Group purchases the necessary equipment to prevent fires, flooding, other accidents and pollution. The Group organises training and assessment programmes for all staff and regularly checks their compliance with HSE rules and regulations. An external provider of rescue services is contracted in accordance with legislation.</p> <p>The Group strives to implement international best practices, conducts regular internal and external environmental audits, and implements remedial actions where required. In 2014, it completed the certification of all major production sites under ISO 14001:2004, and in 2017 and 2016 successfully completed ISO 14001 recertification audits.</p> <p>At Board level the Group's HSE Committee considers and monitors all key HSE risks.</p>	



**Change in residual risk level assessment as compared to the similar risk in 2017:**

-  Increased
-  No change
-  Decreased

Risk	Risk description	Mitigation	Movement
<b>STRATEGIC RISKS</b>			
<b>AN ADEQUATE RESOURCE BASE NEEDS TO BE MAINTAINED FOR FUTURE OPERATIONS AND REPLACEMENT OF DEPLETED MINES</b>	<p>Due to the fact that the life of a mine is limited, the Group has to strategically seek to replenish its resource base through the development of organic projects or through M&amp;A activity.</p> <p>Mine development from exploration to production is a prolonged process. There can be no guarantee that current or prospective exploration will lead to sustainable production in the future.</p>	<p>The Group undertakes exploration projects to sustain and increase the resource base. Comprehensive near-mine exploration plans are developed for all sites.</p> <p>The Group is actively looking for opportunities around its existing operational assets to create competitive advantages through synergies within the Group and with regard to competitors' projects.</p>	=
<b>REGULATORY CHANGES AND GOVERNMENT ACTIONS</b>	<p>Risks related to changes in the political and economic situation and legislative regulation in the Russian Federation and Kyrgyzstan are significant for the Group in that its major operations are located in these jurisdictions.</p> <p>The Group's operations in these jurisdictions are regulated by numerous laws, standards and guides. The Group's approach is to strive to comply with all applicable laws and regulations.</p> <p>There is a risk that government and government agencies could perform actions, adopt new laws, taxes, regulations, rules, or other requirements which could have a negative impact on the Group's business and operations.</p>	<p>Senior management monitors political developments and new legislation, and assesses possible implications for the Group.</p> <p>In addition, the Group has established lines of communication with various governmental authorities in order to contribute to the thinking of such bodies and, when appropriate, to participate in relevant discussions with political and regulatory authorities.</p> <p>The Group is not directly affected by any sanctions, although the macroeconomic situation in Russia could result in limited financing options thereby increasing the cost of capital.</p> <p>The Group monitors further developments on an ongoing basis.</p>	=



**Eugene Shvidler**  
Executive Chairman

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



**Duncan Baxter**  
Independent Non-Executive Director

Duncan Baxter is a retired banker with over 25 years' experience in international banking, latterly as managing director of Swiss Bank Corporation. Since leaving Swiss Bank in 1998 he has undertaken consultancy projects for international banks and investment management companies. He is a Jersey resident and holds a number of other non-executive directorships. He is a Fellow of the Institute of Chartered Secretaries, the Securities Institute and the Institute of Bankers. He was a member of the Highland Gold Board of Directors from 2002 until early 2008 and re-joined the Board in autumn 2008.



**Colin Belshaw**  
Independent Non-Executive Director

Colin Belshaw studied mining engineering at the Camborne School of Mines in Cornwall, UK, graduating in 1979 with the Dip.CSM (First Class). Colin is a Fellow of the Institute of Materials Minerals and Mining (FIMMM), he is registered as an Incorporated Engineer (IEng) with the Engineering Council of the UK, and holds the Mine Managers Certificate (Ghana). Colin's formative years were spent on the Zambian Copperbelt at the Nkana Division and at the South Crofty Mine in Cornwall, and subsequently held senior operating and corporate positions worldwide, including: Navan Mining's Director of Operations, Bulgaria and Spain; Managing Director of Kinross Gold's Russian subsidiary, Omolon Gold, Magadan region; Kinross Gold's Group Consulting Mining Engineer, Nevada, USA; Vice President Operations with Golden Star Resources, Ghana; and Chief Operating Officer with Banro Corporation in the DRC. Colin joined Highland Gold's Board of Directors in September 2013.



**John Mann**  
Executive Director,  
Head of Communications

John Mann studied political science at Harvard University with a focus on Soviet history and politics. He has worked in the fields of public relations, public affairs and investor relations for 22 years, 20 of which were spent in the CIS region. Mr. Mann consulted some of the world's largest natural resources, energy, and consumer products corporations before joining Russian listed oil major Sibneft in 2002 as head of international public relations. From 2006, he has served as head of communications for Millhouse LLC, joining Highland in autumn 2014. He joined the Board of Directors in April 2015.



**Valery Oyf**  
Non-Executive Director

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



**Olga Pokrovskaya**  
Non-Executive Director

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



**Terry Robinson**  
Senior Independent Director,  
Chairman of the Audit  
Committee, Member of  
the Remco, Nomination  
and HSE committees

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

# Good Governance

The Directors of Highland Gold Mining Limited are pleased to submit their Directors' Report together with the audited Consolidated Financial Statements for the year ended 31 December 2017.

## Review of Activities

Highland Gold Mining Limited ('Highland Gold' or the 'Company' or the 'Group') was incorporated in Jersey on 23 May 2002 for the principal purpose, then and now, of establishing a portfolio of gold mining operations within the Russian Federation. The Group's activities, structure and operating companies are described more fully on page 78 of the Report. The Chairman's Statement and the Chief Executive Officer's Report highlight the Company's business developments during 2017 and prospective opportunities. The Company's shares are quoted on the AIM market of the London Stock Exchange.

## Dividend Policy

In December 2017, the Company's Board of Directors adopted the following Dividend Policy:

- Highland Gold aims to pay a dividend that takes into account the Company's cash generation, profitability, balance sheet strength and capital investment requirements.
- The Company anticipates total dividend payout for each financial year will be 20% of Net Cash Flow from Operating Activities.
- The Board may recommend the distribution of additional cash on the balance sheet through increased or special dividends, should those funds not be required for capital expenditure or debt repayment.

In addition, the Board is proposing a Scrip Dividend Scheme and will seek authorisation to implement this proposal for future dividends at the upcoming Annual General Meeting (AGM). The terms of the Scheme are circulated with the 2017 Annual Report and Notice of the AGM.

Resolutions to approve the dividend policy and a scrip dividend alternative and terms thereof will be proposed at the Annual General Meeting.

## Results and Dividends

An overview of the Group's results for the financial year to 31 December 2017 appears in the Chief Financial Officer's Report on page 14 of this Report. The Group achieved a profit for the year of US\$65.9 million (2016: profit of US\$47.9 million).

The Directors have approved the payment of a second interim dividend on ordinary shares of GBP 0.0542 per share (2016: GBP 0.054 per share) payable on 25 May 2018.

## 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 31/12/2017	Ordinary shares At 31/12/2016	% Holding 31/12/2017
Eugene Shvidler	40,853,660	40,853,660	12.56%
Valery Oyf	14,507,453	14,507,453	4.46%
Duncan Baxter	20,000	20,000	0.01%

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

The Company was subsequently notified on 4 January 2018 that, due to the liquidation of Primerod, which had retained an 8% interest in the Company, Primerod's shareholding was transferred to its sole remaining shareholder, Mr. Roman Abramovich.

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

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

### Corporate Governance

The Directors have implemented many of the main principles of good governance under the UK Corporate Governance Code issued by the Financial Reporting Council in September 2016, having regard to the size and nature of the Company's activities. The Board is assisted by a number of Committees with delegated authority to review key business risks, in addition to the financial risks applicable to the Group in operating its business. The Board has adopted an Anti-Corruption policy and an Internal Code of Business Conduct and Ethics, details of which can be found on the website at [www.highlandgold.com](http://www.highlandgold.com).

### The Board

The Board is currently comprised of seven Directors, five of whom are non-executives. Three non-executive Directors, comprising Duncan Baxter, Colin Belshaw and Terry Robinson, bring an element of independence to the Board and provide a balance to those Directors who cannot be regarded as independent. The Board considers them to be independent in character and judgement. Eugene Shvidler, Valery Oyf and Olga Pokrovskaya are affiliated with Millhouse LLC which, together with persons connected with it and close associates, own 37.41% of the issued share capital of the Company, including Eugene Shvidler's interest of 12.56% and Valery Oyf's interest of 4.46%.

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

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

In the absence of any changes to the Board during the year, the Directors undertook a self-assessment review in early 2017 from which no material issues arose, having considered the interaction with Committees, Executive Management and Corporate Governance matters. The Board will continue to undertake such reviews on a biennial basis provided there are no major changes to the Board that would render such a review ineffective. We anticipate the next review will take place during 2019.

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

It is a requirement that all Directors retire by rotation at least within every three years and new appointments be confirmed at the following Annual General Meeting. Olga Pokrovskaya, Terry Robinson and Colin Belshaw, who retire by rotation, will offer themselves for re-election at the AGM to be held on 24 May 2018. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

The profiles of the Directors are to be found on page 24 of the Annual Report.



### **Audit Committee**

The Audit Committee in 2017 consisted of two non-executive Directors, Olga Pokrovskaya and Terry Robinson, who chaired the Committee. The Audit Committee met three times during 2017 to consider the annual and interim Financial Statements and the internal and external audit programme. In April 2018, the Audit Committee considered and reviewed the 2017 Financial Statements and the Annual Report sections on the Company's Principal Risks and Uncertainties, the Directors' Report and the Operational and Financial Review.

Management and external auditors are invited to attend Committee meetings as appropriate. There are defined Terms of Reference for the Audit Committee which are reviewed by the Board on an annual basis and are available for inspection at the AGM; details can also be found on the Company's website at [www.highlandgold.com](http://www.highlandgold.com). The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies, meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit Committee also considers budgets and has agreed an authorisation and expenditure policy. The Audit Committee is responsible for monitoring key risks and has implemented, through the internal audit department, a process for reporting on and monitoring such risks.

The Audit Committee reviews the annual Internal Audit Plan and Internal Audit recommendations in response to their audit findings and, subsequently, Internal Audit reports to the Audit Committee on management's delivery of such audit recommendations. Internal Audit also reviews and reports on the measurement and completeness of the Risk Register including details of recommended remedial actions on the part of management. Reports on whistleblowing events to the Audit Committee and action in this regard are also within the remit of Internal Audit.

With regard to the Financial Statements, the Audit Committee's key considerations relate in particular to the consistency and appropriateness of the inputs for the Impairment review. Such inputs: Life-of-mine, gold price, annual volumes, cash cost of production and Capex, together with the proposed discount rate, are the drivers of the separate mine forward financial models and calculations of recoverable amount for impairment purposes.

The Audit Committee recommended the Interim Financial Statements and the 2017 full year audited Financial Statements to the Board for approval.

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

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

### **Remuneration and Nomination Committee**

During 2017, the Committee consisted of three non-executive Directors, comprising Duncan Baxter, as Chairman, Valery Oyf and Terry Robinson. The Committee is responsible for reviewing the performance of executive management and, where appropriate, other senior executives, and for determining their appropriate levels of remuneration. Recommendations are made, as and when appropriate, with regard to appointments of Directors, the Chairmanship of Committees, senior management and directors of Group subsidiary companies. The composition of the Board is monitored on an ongoing basis. The Committee makes recommendations to the Board, within defined terms of reference, which the Board reviews at least annually. The Committee, on the recommendations from management, examines fees in relation to non-executive remuneration and committee Chairmen. The Committee held two meetings during the year. Details of the Directors' remuneration are given on page 31. The Committee has considered and recommended to the Board the re-election of Olga Pokrovskaya, Terry Robinson and Colin Belshaw respectively as Directors of the Company at the forthcoming AGM.

### **Health, Safety and Environmental Committee**

The Health, Safety and Environmental Committee is chaired by Olga Pokrovskaya. The other members of the Committee during 2017 were Terry Robinson and Colin Belshaw. The Committee considers, in conjunction with management, development and training requirements and regulatory compliance matters related to health, safety and environmental issues. The Committee makes recommendations to the Board, within agreed terms of reference, which the Board reviews at least annually. The Committee met twice during the year. Details of the progress and performance of the Company in respect of health, safety and the environment are given in the Operational Report on page 13.

### **Other Committees**

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

### Internal Controls

The Directors have overall responsibility for the Group's internal control and effectiveness in safeguarding the assets of the Group. Internal controls can provide reasonable, but not absolute assurance against material misstatements or loss. The processes used by the Board to review the effectiveness of the internal controls are carried out by the Audit Committee. There is an Internal Audit Charter, which can be seen on the website at [www.highlandgold.com](http://www.highlandgold.com).

### Relations with Shareholders

The Group's website provides comprehensive information on the Company's business, results and personnel and is used to update shareholders and the market in respect of key developments and announcements ([www.highlandgold.com](http://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 AGM is provided to all shareholders. The Company also utilises investor and public relations functions, webinars and road shows through brokers and the Nomad.

Shareholders passed a special resolution at the AGM on 17 May 2017 whereby the Directors were authorised to allot and grant rights to subscribe for or convert securities into shares in the Company up to a maximum nominal amount equivalent to 33% of the nominal amount of the authorised but unissued share capital of the Company, to such persons at such times and on such terms as they think proper without first making an offer to each person who holds shares in the Company. Such authority expires at the conclusion of the Company's AGM in 2020.

### Going Concern

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

### Auditors

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

### Annual General Meeting Notice

The Annual General Meeting will be held at 11.00 am on Thursday 24 May 2018 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the AGM is set out on page 79 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.

### Substantial Shareholdings

As at close of business on 31 March 2018, the Company had been notified of the following interests, other than Directors' interests shown on page 26 of this report, which amounted to three per cent or more of the issued share capital of the Company:

Name of Holder	Number	Percentage
Prosperity Capital Management	35,112,682	10.80
Roman Abramovich	26,025,310	8.00
Denalot Worldwide Limited	18,921,673	5.82
Van Eck Global	17,318,930	5.33
J.P. Morgan Asset Management	12,891,743	3.96
Credit Suisse Private Banking	12,083,348	3.72
Miton Asset Management	11,873,633	3.65
LSV Asset Management	10,860,669	3.34



### **Statement of Directors' Responsibilities in Relation to the Annual Report and Financial Statements (continued)**

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

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

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

### **Report on Remuneration Policy**

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

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

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

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

Bonuses, currently paid in cash although they could include a share element, are solely dependent on an overall assessment of the individual's performance, with both financial and non-financial key performance indicators being taken into account.

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

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

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



## Report on Remuneration

The remuneration paid to the Directors in the financial period to 31 December 2017 (no bonuses were paid) was as follows:

	Fees and Remuneration	
	US\$ 2017	US\$ 2016
Eugene Shvidler	558,337	500,000
Duncan Baxter	159,996	160,000
Olga Pokrovskaya	125,000	125,000
Terry Robinson	159,996	160,000
Colin Belshaw	120,000	100,000
Valery Oyf	100,000	122,319
John Mann	120,000	120,000

No grants of options under the Unapproved Share Option Scheme were made during 2017 and management and employees were incentivised through a bonus scheme based on production and other appropriate KPIs. There were no options outstanding as of 31 December 2017 (2016: nil).

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

Further information on the Remuneration and Nomination Committee can be found on page 28 of this report.

### By Order of the Board

16 April 2018

# Independent Auditor’s Report to the Members of Highland Gold Mining Limited

## Opinion

We have audited the financial statements of Highland Gold Mining Limited for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 31 to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion Highland Gold Mining Limited’s financial statements (the “financial statements”):

- Give a true and fair view of the state of the Group’s affairs as at 31 December 2017 and of its profit for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- Have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Use of our report

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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> <li>• Impairment of goodwill and other non-current assets</li> <li>• Going concern</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of three components and audit procedures on specific balances for a further seven components.</li> <li>• The components where we performed full or specific audit procedures accounted for 100% of EBITDA, 100% of Revenue and 95% of Total assets.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality of \$4.7 million which represents 3% of Group EBITDA.</li> </ul>

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Impairment of goodwill and other non-current assets</b></p> <p>At 31 December 2017 the carrying value of PP&amp;E and goodwill was US\$347 million (2016: US\$353 million). The Group recognised no impairment loss in respect of PP&amp;E and goodwill during the year (2016: US\$23 million charge). Improved market conditions in 2017 resulted in an increase in headroom compared to the prior year leading us to believe that the risk has reduced.</p> <p>We focused on this area due to the significance of the carrying value of the assets being assessed, the number and size of recent impairments, the current economic environment in the Group's operating jurisdictions and because the assessment of the recoverable amount of the Group's Cash Generating Units ("CGUs") involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts.</p> <p>In particular we focused our effort on those CGUs with the largest carrying values, those for which an impairment had been recognised in the prior year and those with the lowest headroom.</p>	<p>We have understood management's process for impairment analysis through performing walkthroughs.</p> <p>We evaluated whether potential indicators of impairment had been assessed by management up to the year end date including commodity prices, the market capitalisation of the Group when compared to its net assets, foreign exchange movements, production and reserve estimates.</p> <p>We audited the impairment models prepared by management by testing the arithmetical accuracy and integrity of the impairment models and carrying out procedures on the reasonableness and consistency of the key assumptions including the sensitivity of the model to changes in these assumptions.</p> <p>We assessed the historical accuracy of management's budgets and forecasts, and sought appropriate evidence for any anticipated improvements in key assumptions such as production volumes or operating costs. We corroborated previous forecasts with actual data.</p> <p>We engaged EY valuation specialists where appropriate to ensure certain specific assumptions applied in the impairment model are reasonable.</p> <p>Where the impairment analysis was based on estimates of reserves and/or resources, we reviewed the basis of estimation and assessed the competence and independence of any expert engaged in performing work on the estimates.</p> <p>We tested the appropriateness of the related disclosures provided in the financial statements. In particular we tested the completeness of the disclosures regarding those CGUs with material goodwill balances and where a reasonably possible change in certain variables could lead to impairment charges.</p>	<p>We consider management's estimates to be reasonable for the current year with assumptions within an acceptable range.</p> <p>We concluded that the related disclosures provided in the financial statements are appropriate.</p>

# Independent Auditor's Report to the Members of Highland Gold Mining Limited (continued)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Going concern</b></p> <p>The Directors of the Group are required to make a rigorous assessment of whether the Group will remain a going concern for a period of at least twelve months from the date of approval of the financial statements and assess whether there are any material uncertainties in relation to the going concern basis of preparation.</p> <p>The Group's net debt at 31 December 2017 is US\$198 million and at 31 December 2016 is US\$205 million). The Group has regular scheduled debt repayments and a number of restrictive covenants over a proportion of its debt.</p> <p>Management and the Board prepare a cash flow forecast and undertake sensitivity analysis (Base and Sensitised cases) of the key assumptions to verify that the Group can operate as a going concern for at least 12 months from the date the financial statements are signed.</p> <p>In the current year the performance of the Group has improved largely as a result of more favourable market conditions; therefore we consider that the risk has reduced.</p>	<p>We have tested the quality of management forecasting by comparing cash flow forecasts for prior periods to actual outcomes.</p> <p>We tested the detailed cash flow forecasts prepared by management, assessed the key assumptions used in the model and the sources of funding and verified the conclusions reached by management.</p> <p>We tested the covenant calculations through re-performance to ensure that the Group has not breached any of its key covenants and is not expected to breach any in the future.</p> <p>We agreed the sources of liquidity to supporting documents.</p> <p>We performed sensitivity analysis on the Base and Sensitised cases as part of our assessment as to whether the Group has sufficient cash reserves to meet its forecast expenditures and future debt obligations as well as compliance with its debt covenants.</p>	<p>Based on the audit procedures performed we concur with the conclusion reached by management that there is no material uncertainty in relation to the going concern assumption for the preparation of the consolidated financial statements.</p>

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 10 components covering Russia, Jersey and Kyrgyzstan, which represent the principal business units within the Group.

Of the 10 components selected, we performed an audit of the complete financial information of three components ("full scope components") which were selected based on their size or risk characteristics. For the remaining seven components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. The extent of our audit work on the specific scope accounts was similar to that for a full scope audit.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's EBITDA, 100% (2016: 100%) of the Group's Revenue and 95% (2016: 95%) of the Group's Total assets. For the current year, the full scope components contributed 100% (2016: 100%) of the Group's EBITDA, 100% (2016: 100%) of the Group's Revenue and 39% (2016: 40%) of the Group's Total assets. The specific scope components contributed 56% (2016: 55%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group. We also instructed three locations to perform specified procedures over certain aspects of the financial statements as described in the Risk section above.

### Changes from the prior year

Our scope allocation in the current year is consistent with 2016 in terms of coverage of the Group and the number of full and specific scope entities.

### Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Audit procedures were performed on the three full scope components by our component teams in Russia. For the four specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that each location is subject to an appropriate level of senior team member oversight during key activities. The nature and extent of these visits were designed relative to the size of the component, and the division of the responsibilities between the Group team on the significant risk areas applicable to the component. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in three locations in Russia. The primary audit team focused time on the significant risks and judgemental areas of the audit, met with local management, attended closing meetings and reviewed key working papers. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit activities. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be \$4.7 million (2016: \$3.2 million), which is 3% (2016: 2%) of EBITDA. We believe that EBITDA is the most appropriate measure having taken into consideration what we believe to be the perspectives and expectations of the users of the financial statements in the context of our understanding of the entity and the environment in which it operates. The increase in our materiality is due to improved Group performance and more stable conditions in comparison to prior periods.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely \$3.9m (2016: \$2.4m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was \$1.6m to \$3.2m (2016: \$1.1m to \$2.2m).

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of \$0.2m (2016: \$0.2m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

# Independent Auditor's Report to the Members of Highland Gold Mining Limited (continued)

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## Matters on which we are required to report by exception

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

- proper accounting records have not been kept by the company, 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 company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## Andrew Smyth

for and on behalf of Ernst & Young LLP, London  
16 April 2018

## Notes:

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

## Consolidated Statement of Comprehensive Income for the year ended 31 December

	Notes	2017 US\$000	2016 US\$000
Revenue	7	<b>316,682</b>	305,901
Cost of sales	8	<b>(189,096)</b>	(183,995)
<b>Gross profit</b>		<b>127,586</b>	121,906
Administrative expenses	9	<b>(16,054)</b>	(14,293)
Other operating income	10.1	<b>1,481</b>	1,255
Other operating expenses	10.2	<b>(10,811)</b>	(16,675)
Impairment losses	5, 17	<b>-</b>	(22,832)
<b>Operating profit</b>		<b>102,202</b>	69,361
Foreign exchange gain	11	<b>651</b>	1,909
Finance income	12.1	<b>177</b>	145
Finance costs	12.2	<b>(2,714)</b>	(5,187)
<b>Profit before income tax</b>		<b>100,316</b>	66,228
Current income tax expense	13	<b>(33,279)</b>	(36,596)
Withholding tax expense	13	<b>(7,742)</b>	(3,135)
Deferred income tax release	13	<b>6,560</b>	21,412
<b>Total income tax expense</b>	13	<b>(34,461)</b>	(18,319)
<b>Profit for the year</b>		<b>65,855</b>	47,909
<b>Total comprehensive profit for the year</b>		<b>65,855</b>	47,909
<b>Attributable to:</b>			
Equity holders of the parent		<b>65,275</b>	47,235
Non-controlling interests		<b>580</b>	674
<b>Profit per share (US\$ per share)</b>			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	14	<b>0.201</b>	0.145
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	14	<b>0.201</b>	0.145

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

# Consolidated Statement of Financial Position as at

	Notes	31 December 2017 US\$000	31 December 2016 US\$000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Exploration and evaluation assets	15	88,926	85,459
Mine properties	15	588,035	567,762
Property, plant and equipment	15	289,162	295,019
Intangible assets	16	57,802	57,802
Inventories	19	624	8,989
Other non-current assets	18	10,858	4,151
Deferred income tax asset	13	129	-
<b>Total non-current assets</b>		<b>1,035,536</b>	1,019,182
<b>Current assets</b>			
Inventories	19	58,620	56,140
Trade and other receivables	20	27,687	32,296
Income tax prepaid		1,494	1,032
Prepayments		4,026	1,975
Cash and cash equivalents	21	12,388	8,748
Other current assets		2,401	1,226
<b>Total current assets</b>		<b>106,616</b>	101,417
<b>TOTAL ASSETS</b>		<b>1,142,152</b>	1,120,599
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	22	585	585
Share premium	22	718,419	718,419
Assets revaluation reserve	22	832	832
Retained earnings		55,371	33,947
<b>Total equity attributable to equity holders of the parent</b>		<b>775,207</b>	753,783
Non-controlling interests		2,309	1,859
<b>TOTAL EQUITY</b>		<b>777,516</b>	755,642
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	23, 29	192,351	164,587
Liability under finance lease	29	2,260	1,590
Long-term accounts payable	24	331	254
Provisions	25	20,830	17,199
Deferred income tax liability	13	107,614	114,045
<b>Total non-current liabilities</b>		<b>323,386</b>	297,675
<b>Current liabilities</b>			
Trade and other payables	24	23,454	17,633
Interest-bearing loans and borrowings	23, 29	15,017	47,000
Income tax payable		1,699	1,613
Liability under finance lease	29	1,080	1,036
<b>Total current liabilities</b>		<b>41,250</b>	67,282
<b>TOTAL LIABILITIES</b>		<b>364,636</b>	364,957
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,142,152</b>	1,120,599

The financial statements were approved by the Board of Directors on 16 April 2018 and signed on its behalf by: John Mann and Olga Pokrovskaya.



## Consolidated Statement of Changes in Equity for the year ended 31 December

	Notes	Attributable to equity holders of the parent				Total US\$000	Non- controlling interest US\$000	Total equity US\$000
		Issued capital US\$000	Share premium US\$000	Assets revaluation reserve US\$000	Retained earnings US\$000			
<b>At 31 December 2015</b>		585	718,419	832	18,176	738,012	1,566	739,578
Total comprehensive income for the year		-	-	-	47,235	47,235	674	47,909
Novo share purchase	27	-	-	-	241	241	(381)	(140)
Dividends paid to equity holders of the parent	30	-	-	-	(31,705)	(31,705)	-	(31,705)
<b>At 31 December 2016</b>		585	718,419	832	33,947	753,783	1,859	755,642
Total comprehensive income for the year		-	-	-	65,275	65,275	580	65,855
Novo share purchase	27	-	-	-	80	80	(130)	(50)
Dividends paid to equity holders of the parent	30	-	-	-	(43,931)	(43,931)	-	(43,931)
<b>At 31 December 2017</b>		<b>585</b>	<b>718,419</b>	<b>832</b>	<b>55,371</b>	<b>775,207</b>	<b>2,309</b>	<b>777,516</b>

# Consolidated Statement of Cash Flows for the year ended 31 December

	Notes	2017 US\$000	2016 US\$000
<b>Operating activities</b>			
Profit before income tax		<b>100,316</b>	66,228
		<b>100,316</b>	66,228
<b>Adjustments to reconcile profit before income tax to net cash flows from operating activities:</b>			
Depreciation of mine properties and property, plant and equipment	8	<b>49,476</b>	60,212
Impairment losses related to cash-generating units	5, 17	<b>-</b>	22,832
Movement in ore stockpiles obsolescence provision	10.2.1	<b>3,185</b>	9,869
Movement in raw materials and consumables obsolescence provision	10.2	<b>416</b>	600
Write-off of mine properties and property, plant and equipment	10.2, 15	<b>949</b>	1,180
Individual impairment of property, plant and equipment and mine assets	10.2.2	<b>(4)</b>	17
Loss/(gain) on disposal of property, plant and equipment	10.1, 10.2	<b>(391)</b>	318
Bank interest receivable	12.1	<b>(175)</b>	(138)
Bonds fair value movement	12.1, 12.2, 29	<b>-</b>	1,013
Interest expense on bank loans	12.2	<b>825</b>	2,247
Accretion expense on site restoration provision	12.2	<b>1,593</b>	1,674
Gain on settlement of contingent consideration	10.1	<b>-</b>	(400)
Net foreign exchange gain	11	<b>(651)</b>	(1,909)
Movement in provisions		<b>713</b>	545
Unwinding costs and other non-cash expenses/(income)		<b>(3)</b>	(6)
		<b>156,249</b>	164,282
<b>Working capital adjustments:</b>			
Increase in trade and other receivables and prepayments		<b>(997)</b>	(5,313)
Decrease in inventories		<b>3,264</b>	10,215
Increase in trade and other payables		<b>6,984</b>	1,770
Income tax paid		<b>(34,510)</b>	(31,655)
<b>Net cash flows from operating activities</b>		<b>130,990</b>	139,299
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		<b>879</b>	1,494
Purchase of property, plant and equipment	5	<b>(58,336)</b>	(59,349)
Capitalised interest paid	5, 15	<b>(7,378)</b>	(9,624)
Increase in stripping activity assets	15	<b>(4,077)</b>	(5,884)
Interest received from deposits		<b>175</b>	138
Novo shares purchase	27	<b>(50)</b>	(138)
Sale of investments - bonds	29	<b>-</b>	20,136
<b>Net cash flows used in investing activities</b>		<b>(68,787)</b>	(53,227)
<b>Financing activities</b>			
Proceeds from borrowings	29	<b>299,941</b>	314,500
Repayment of borrowings	29	<b>(304,310)</b>	(356,450)
Dividends paid to equity holders of the parent		<b>(43,931)</b>	(31,705)
Withholding tax expense	13	<b>(7,683)</b>	(3,135)
Payment under finance lease, including interest	29	<b>(1,696)</b>	(1,277)
Interest paid	29	<b>(817)</b>	(2,132)
<b>Net cash flows used in financing activities</b>		<b>(58,496)</b>	(80,199)
Net increase/(decrease) in cash and cash equivalents		<b>3,707</b>	5,873
Effects of exchange rate changes		<b>(67)</b>	(183)
Cash and cash equivalents at 1 January	21	<b>8,748</b>	3,058
<b>Cash and cash equivalents at 31 December</b>	21	<b>12,388</b>	8,748

# Notes to the Consolidated Financial Statements

## 1. Corporate information

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 16 April 2018.

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

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

## 2. Basis of preparation

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

### Statement of compliance

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

### Going concern

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

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

### Basis of consolidation

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

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

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

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

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

## 3. Summary of significant accounting policies

### Business combinations and goodwill

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

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

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

## Notes to the Consolidated Financial Statements (continued)

**3. Summary of significant accounting policies** continued

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. An impairment loss on goodwill cannot be reversed under any circumstances. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Further information is contained in Note 16.

**Foreign currency and foreign currency translation**

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

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

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

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

	<b>31 December 2017</b>	31 December 2016
<i>Average</i>		
RUR	<b>58.279</b>	66.834
GBP	<b>0.777</b>	0.741
<i>Closing</i>		
RUR	<b>57.600</b>	60.657
GBP	<b>0.741</b>	0.810

**Property, plant and equipment**

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

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

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

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

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

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

### Depreciation and depletion

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

- Mineral properties are depreciated using a unit of production method based on the depleted estimated proven and probable reserves and a portion of resources expected to be converted into reserves.
- Buildings, plant and equipment are depreciated using the straight-line method based on estimated useful lives.

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

### Exploration and evaluation expenditure

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

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

Exploration and evaluation assets contain a mixture of tangible (e.g. drill holes) and intangible assets (e.g. capitalised cost of evaluation reports, capitalised borrowing costs or capitalised G&A, cost of licence). Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Exploration and evaluation assets are not depreciated. General and administrative and overhead costs directly attributable to the exploration and evaluation activities are included in exploration and evaluation assets' cost. The restoration provision cost does not form part of exploration and evaluation assets.

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

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

## Notes to the Consolidated Financial Statements (continued)

### 3. Summary of significant accounting policies continued

#### Mine development expenditure

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

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

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

#### Mine properties

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

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

#### Stripping costs

The Group incurs waste removal costs (stripping costs) during the production phase of surface mining operations. Further details are disclosed in Note 4.

#### Construction work in progress

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

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

#### Incidental and non-incidental income

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

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

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

### Fair value measurement

The Group measures financial instruments at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 29.

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

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. Further information on fair values is described in Note 29.

### Impairment

At each reporting date, management assesses whether there is any indication of impairment within the categories of property, plant and equipment (annual impairment test is performed on CGUs to which goodwill has been allocated irrespective of whether any indications exist). If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and an impairment loss is recognised in the statement of comprehensive income.

An impairment loss recognised for an asset other than goodwill in prior years is reversed if there has been a change in the estimates used to determine the asset's value-in-use or fair value less costs of disposal and if there is an indication that the impairment loss may no longer exist or may have decreased.

### Leases

#### Operating leases

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

## Notes to the Consolidated Financial Statements (continued)

### 3. Summary of significant accounting policies continued

#### Finance lease

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

#### Financial assets and liabilities

##### Financial instruments classification and recognition

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

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

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

##### Financial assets at fair value through profit or loss

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

##### Loans and receivables

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

##### Derecognition of financial assets and liabilities

A financial asset is derecognised where:

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

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

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

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



### **Inventories**

Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Inventory items that represent significant parts of property, plant and equipment are capitalised as non-current assets and are depreciated separately. An existing part should be derecognised when it is replaced, with the book value of the replaced part written down through the depreciation charge.

The inventories are segregated by the following:

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

### **Trade and other receivables**

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

### **Cash and cash equivalents**

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

### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is taken to the share premium account.

### **Value added tax**

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

### **Borrowings**

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

### **Trade and other payables**

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

### **Provisions for liabilities and charges**

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

## Notes to the Consolidated Financial Statements (continued)

### 3. Summary of significant accounting policies continued

#### Environmental protection, rehabilitation and closure costs

Provision is made for close down, restoration and environmental clean-up costs (including the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas), where there is a legal or constructive obligation to do so, in the accounting period in which the environmental disturbance occurs, based on the estimated future costs. Where material, the provision is discounted and the unwinding of the discount is shown as a finance cost in the statement of comprehensive income. At the time of establishing the provision, a corresponding asset, is capitalised and depreciated on a unit of production basis. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted as follow: changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period; the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognised immediately in profit or loss.

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

#### Revenue recognition

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

Novo as a concentrate producer and seller has contracts where price risk is retained for a specified period after the sale has occurred. The price payable under the concentrate contract is determined by reference to prices quoted in an organized market (LME, London Metal Exchange; LBMA, London Bullion Market Association). A portion of the provisional invoice is settled within a few days (80%). The remaining amount (20%), plus or minus any adjustment on 100% of the value of the sale for movements in price from the price in the provisional invoice and the final price, plus any volume of metals adjustments resulting from the final assay is settled in 4 months after the date of the shipment for Kazzinc and is settled in no more than 3 months after the date of the delivery for Hyosung. For Kazzinc the title to the commodity passes to the buyer on shipment and for Hyosung the title to the commodity passes to the buyer on delivery to boundary railway station - border of the Russian Federation and the People's Republic of China.

Pricing adjustment features that are based on quoted market prices for a date subsequent to the date of shipment or delivery of the commodity represent an embedded derivative financial instrument that requires separation at the date the sale is recognised. The derivative has a fair value, based on the pricing formula set out in the contract, which is based on quoted market prices.

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

Any adjustments to pricing resulting from the embedded derivative as well as volume adjustments are recognised in revenue from concentrate sales and accounts receivable.

#### Employee benefits

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

#### Earnings per share

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

#### Dividend distribution

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

## Income taxes

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

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

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

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

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

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

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

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

## New standards, interpretations and amendments adopted by the Group

In the preparation of consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2017.

Changes to IFRS:

The following new standards and amendments became effective as of 1 January 2017:

### Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 29.

## Notes to the Consolidated Financial Statements (continued)

### 3. Summary of significant accounting policies continued

#### New Standards and Interpretations will be adopted in future periods

##### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity from the adoption of IFRS 9. However, there will be some changes to the classification and measurement of trade receivables relating to provisionally priced sales. Refer below for further discussion.

##### a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position and equity on applying the classification and measurement requirements of IFRS 9. However, there will be some changes impacting trade receivables relating to provisionally priced sales.

As discussed in more detail below within the discussion on the potential impact of IFRS 15, some of the Group's sales of metal in concentrate contain provisional pricing features. Currently, these provisionally priced sales contain an embedded derivative that is separated from the host contract, i.e., the concentrate receivable, for accounting purposes under IAS 39. Accordingly, the embedded derivative, which does not qualify for hedge accounting, is recognised at fair value, with subsequent changes in fair value recognised in the statement of comprehensive income each period until final settlement, and presented as part of 'Revenue'.

On adoption of IFRS 9, the embedded derivative will no longer be separated from the concentrate receivables as the receivables are not expected to give rise to cash flows that represent solely payments of principal and interest. Instead, the receivables will be accounted for as one instrument and measured at fair value through profit or loss with subsequent changes in fair value recognised in the statement of comprehensive income each period until final settlement and presented as part of 'Revenue'. This means that the quantum of the fair value movement will be different because the current approach only calculates fair value movement based on changes in the relevant commodity price, whereas under IFRS 9, the fair value of the receivable will not only include commodity price changes, but it will also factor in the impact of credit and interest rates. Based on a detailed analysis, management has concluded that the impact is immaterial.

##### b) Other changes

In addition, IFRS 9 changes accounting for loan modifications which the Group may experience from time to time and this requirement will be applied at the time of any future modification. We do not expect any material impact of the adoption of this requirement.

##### c) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

Management has assessed the impact of the new requirements on the Group's consolidated financial statements. Our assessment is focused on the different types of financial assets presented in the financial statements:

- Receivables at Novo (Kazzinc, Hyosung), incl. non-separated embedded derivative,
- Cash and deposits, and
- Other receivables.

Having analysed the IFRS requirements, contracts terms, the existing accounting treatment, the credit rating position of debtors and their history of payments – the new expected credit losses (ECL) impairment requirements will not have a significant impact on short-term trade receivables issued by Novo towards customers or cash, deposits and other receivables. The Group has neither longer-term receivables, contract assets nor debt securities which can be significantly impacted by ECL requirements. No significant impact is expected.

##### d) Hedge accounting

The Group utilises a no-hedge policy. Therefore, there will be no impact of new hedge requirements.

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

During 2016, the Group performed a preliminary assessment of IFRS 15, which was followed by a more detailed analysis in 2017. This analysis included identifying the contracts with customers and the performance obligations in the contracts, determining the transaction price of variable consideration, analysing the allocation of transaction price to separate performance obligations, assessing the impact of shipping terms and considering the new presentation and disclosure requirements. As a result of this analysis, the key issues were identified and are set out below. These are based on the Group's current interpretation of IFRS 15 and may be subject to change as interpretations evolve further.

#### Provisionally priced sales

As noted above, some of the Group's sales of metal in concentrate contain provisional pricing features which are currently considered to be embedded derivatives. Under IAS 18, revenue is recognised at the estimated fair value of the total consideration received or receivable when the concentrate is delivered. Adjustments for prices are calculated using the best estimate. Adjustments for volumes (metal grades in concentrates) are based on the available actual test results. No corrections are made in respect of periods where no final test results are available. Any adjustments to pricing resulting from the embedded derivative as well as volume adjustments are recognised in revenue from concentrate sales and accounts receivable.

IFRS 15 will not change the assessment of the impact of these provisional pricing features. IFRS 15 states that if a contract is partially within the scope of this standard and partially within the scope of another standard, an entity will first apply the separation and measurement requirements of the other standard(s). Therefore, to the extent that provisional pricing features are considered to be within the scope of another standard, they will be outside the scope of IFRS 15 and entities will be required to account for these in accordance with IFRS 9. Any subsequent changes that arise due to differences between initial and final assay will still be considered within the scope of IFRS 15 and will be subject to the constraint on estimates of variable consideration.

Revenue in respect of the host contract will be recognised when control passes to the customer and will be measured at the amount to which the entity expects to be entitled. When considering the initial assay estimate, the Group has considered the requirements of IFRS 15 in relation to the constraint on estimates of variable consideration. It will only include amounts in the calculation of revenue where it is highly probable that a significant revenue reversal will not occur when the uncertainty relating to final assay/quality is subsequently resolved, i.e., at the end of the quotation period. As disclosed above, the assay differences are not usually material to the Group, hence, no change is expected when compared to the current approach.

As explained above, in the discussion on the potential impact of IFRS 9, the embedded derivative will no longer be separated from the host contract, i.e., the concentrate receivable. This is because the existence of the provisional pricing features will mean the concentrate receivable will fail to meet the requirements to be measured at amortised cost. Instead, the entire receivable will be measured at fair value, with subsequent movements being recognised in the statement of comprehensive income. The requirement to measure the entire receivable at fair value is different from current practice in that the current embedded derivative represents changes in the commodity price, whereas the fair value of the receivable will include the impact of changes in the commodity price, interest rate risk and credit risk. Given the nature of the Group's provisionally priced sales, in that they are no more than four months long and are with customers who have a strong credit rating, the Group does not expect this change to have a material impact.

With respect to the presentation of amounts arising from such provisionally priced contracts, IFRS 15 requires 'revenue from contracts with customers' to be disclosed separately from other types of revenue. This means that revenue recognised from the initial sale must be separately disclosed in the notes to the financial statements from any revenue/income recognised from subsequent movements in the fair value of the related concentrate receivable. In 2017, the Group continued testing appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

## Notes to the Consolidated Financial Statements (continued)

### 3. Summary of significant accounting policies continued

#### IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group assembled a project team to begin the process of assessing the impact of the leases standard.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements. For details relating to lease liabilities, refer to Note 26.

### 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, its 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).

### **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.

### **Estimations and assumptions**

#### **Impairment of non-current assets**

##### **Non-financial assets (including goodwill)**

The Group assesses, at each reporting date, whether there is an indication that an asset (or CGU) may be impaired. If any indication exists, or when annual impairment testing for an asset such as goodwill is required, the Group estimates the asset's or CGU's recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and its value in use (VIU). Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. Management has assessed its CGUs as being an individual mine, which is the lowest level for which cash inflows are largely independent of those of other assets.

In calculating the recoverable amount, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining the recoverable amount, recent market transactions (where available) are taken into account. If no such transactions can be identified, an appropriate valuation model is used which reflects management's judgements relating to the estimates a market participant would use to arrive at a FVLCD valuation. These calculations are corroborated by valuation multiples and other available fair value indicators. Further details on how FVLCD is calculated are outlined in Note 17.

The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated, based on the life-of-mine plans. The cash flows are based on estimates of expected future production, metal selling prices, operating costs, capital expenditure and post-tax discount rates. Future changes in these variables may differ from management's estimates and may materially change the recoverable amounts of the CGUs.

Please refer to Note 17 for further details on the significant judgements and estimations made when preparing impairment tests of non-current assets, including post-tax discount rates.

### **Tax legislation**

Russian tax, currency and customs legislation is subject to varying interpretations. Please refer to Note 26 for details. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities in the countries in which it operates. The amounts of such provisions are based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible authority.

### **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 2023 at MNV, in 2032 for plant and infrastructure and in 2024 for open pit at BG, in 2033 at Novo, in 2030 at Klen and in 2036 at Kekura), expected site restoration activities (removal of waste, restoration of mine sites), and current prices for similar activities.

## Notes to the Consolidated Financial Statements (continued)

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

#### Inventory obsolescence

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

#### Determination of ore reserves and resources

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

Proven and probable reserves and a portion of resources expected to be converted into reserves (as indicated in the detailed life-of-mine plans) were used in the units of production calculation for depreciation in 2017, as management believes they represent the most accurate approximation of the reserves.

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

#### Mine development expenditure

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

#### Mine properties

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

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

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

### 5. Segment information

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

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

The gold production reportable segment comprises two operating segments, namely Mnogovershinnoye (MNV) and Belaya Gora (BG) at which level management monitors its results for the purpose of making decisions about resource allocation and evaluating the effectiveness of its activity. MNV and BG have been aggregated into one reportable segment as they exhibit similar long-term financial performance and have similar economic characteristics: nature of products (gold and silver), nature of production processes, type of customer for their products (banks), methods used to distribute their products and the nature of the environment (both are located in the Khabarovsk region).

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

The development and exploration segment contains entities which hold licenses in the development and exploration stage: Kekura, Klen, Taseevskoye, Unkurtash, Lubov, and related service entities: Zabaykalzolotoprojekt (ZZP) and BSC.

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



Segment performance is evaluated based on EBITDA (defined as operating profit/(loss) excluding depreciation and amortisation, impairment losses, movement in ore stockpiles obsolescence provision, movement in raw materials and consumables obsolescence provision, result of disposal of a non-core entity and gain on settlement of contingent consideration). The development and exploration segment is evaluated based on the life-of-mine model in connection with the capital expenditure spent during the reporting period.

The following tables present revenue, EBITDA and assets information for the Group's reportable segments. The segment information is reconciled to the Group's profit/(loss) after tax for the year.

Finance costs, finance income, income taxes and foreign exchange losses are managed on a group basis and are not allocated to operating segments.

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

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

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

In 2017 the gold and silver revenue reported in the gold production segment was received from sales to Gazprombank (US\$185.8 million) in the territory of the Russian Federation.

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

In 2017 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US\$69.4 million was received from sales to Kazzinc (2016: US\$97.8 million) in the territory of the Republic of Kazakhstan and to Hyosung corporation in the territory of the People's Republic of China in the amount of US\$61.1 million (2016: 28.2 million).

Other third-party revenues in both 2017 and 2016 were received in the territory of the Russian Federation.

Inter-segment revenues mostly represent management services.

## Notes to the Consolidated Financial Statements (continued)

## 5. Segment information continued

Year ended 31 December 2017	Gold production segment US\$000	Polymetallic concentrate production segment US\$000	Development & Exploration US\$000	Other US\$000	Eliminations US\$000	Total US\$000
<b>Revenue</b>						
Gold revenue	183,756	-	-	-	-	183,756
Silver revenue	2,088	-	-	-	-	2,088
Concentrate revenue	-	130,492	-	-	-	130,492
Other third-party	79	206	61	-	-	346
Inter-segment	53	-	-	12,195	(12,248)	-
<b>Total revenue</b>	<b>185,976</b>	<b>130,698</b>	<b>61</b>	<b>12,195</b>	<b>(12,248)</b>	<b>316,682</b>
Cost of sales	135,105	53,452	477	62	-	189,096
EBITDA	71,854	87,814	(1,723)	(2,670)	-	155,275
<b>Other segment information</b>						
Depreciation	(32,197)	(17,198)	(20)	(61)	-	(49,476)
Movement in ore stockpiles obsolescence provision	(3,185)	-	-	-	-	(3,185)
Movement in raw materials and consumables obsolescence provision	(304)	(112)	-	-	-	(416)
Reversal of individual impairment of property, plant and equipment	-	4	-	-	-	4
Finance income	-	-	-	-	-	177
Finance costs	-	-	-	-	-	(2,714)
Foreign exchange gain	-	-	-	-	-	651
<b>Profit before income tax</b>						<b>100,316</b>
Income tax						(34,461)
<b>Profit for the year</b>						<b>65,855</b>
<b>Segment assets at 31 December 2017</b>						
Non-current assets						
Capital expenditure*	177,343	161,721	626,816	243	-	966,123
Goodwill	9,690	5,134	42,978	-	-	57,802
Other non-current assets	1,857	591	8,412	751	-	11,611
Current assets**	71,734	37,966	4,136	4,015	(11,235)	106,616
<b>Total assets</b>						<b>1,142,152</b>
Capital expenditure – additions in 2017***, including:	23,305	13,467	36,180	149	-	73,101
Stripping activity assets	4,077	-	-	-	-	4,077
Capitalised bank interest	-	-	7,528	-	-	7,528
Unpaid/(settled) accounts payable	2,542	(50)	726	(58)	-	3,160
Cash capital expenditure	16,686	13,517	27,926	207	-	58,336

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

\*\* Current assets include corporate cash and cash equivalents of US\$12.4 million, inventories of US\$58.6 million, trade and other receivables of US\$29.2 million and other assets of US\$6.4 million. Eliminations relate to intercompany accounts receivable.

\*\*\* Capital expenditure – additions in 2017 – includes additions to property, plant and equipment of US\$60.2 million (Note 15), capitalised interest of US\$7.3 million and capitalised upfront commission US\$0.2 million (Note 15) and prepayments made for property, plant and equipment of US\$5.4 million.

Non-current assets for 2017 are located in the Russian Federation (US\$990.6 million) and in the Kyrgyz Republic (US\$44.9 million). Current assets for 2017 are located in the Russian Federation.

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

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

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

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

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

## Notes to the Consolidated Financial Statements (continued)

**6. Auditors' remuneration**

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

	Ernst & Young		Others		Total	
	2017 US\$000	2016 US\$000	2017 US\$000	2016 US\$000	2017 US\$000	2016 US\$000
Audit of the Group financial statements	546	575	-	-	546	575
Local statutory audits for subsidiaries	11	11	69	88	80	99
	<b>557</b>	586	<b>69</b>	88	<b>626</b>	674

**7. Revenue**

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

	2017 US\$000	2016 US\$000
Gold sales	183,756	177,528
Concentrate sales*	130,492	126,048
Silver sales	2,088	1,985
Other sales	346	340
	<b>316,682</b>	305,901

\* Concentrate sales include a positive fair value movement of US\$0.2 million (2016: a zero fair value movement ) relating to an embedded derivative as described in Note 28.

**8. Cost of sales**

	2017 US\$000	2016 US\$000
Operating costs	35,052	33,611
Movement in ore stockpiles and gold in progress	2,872	(3,902)
Movement in finished goods	(479)	211
Capitalised to stripping activity assets	(4,077)	(9,211)
Employee benefits expense	48,984	42,261
Depreciation, depletion and amortisation	49,476	60,212
Raw materials and consumables used	39,417	44,532
Taxes other than income tax*	17,851	16,281
<b>Total cost of sales</b>	<b>189,096</b>	183,995

\* Other taxes include mineral extraction tax, property tax and transport tax.

**9. Administrative expenses**

	2017 US\$000	2016 US\$000
Management company administrative expenses	10,782	9,393
Minimum lease payments recognised as an operating lease expense	955	850
Salaries and wages of parent company	1,343	1,260
Auditors' remuneration (Note 6)	626	674
Legal and professional fees	859	873
Bank charges	268	320
Travel expenses of parent company	278	351
Allowance for doubtful prepayments and other receivables	713	545
Other administrative expenses	230	27
<b>Total administrative expenses</b>	<b>16,054</b>	14,293

## 10. Other operating income and expenses

### 10.1. Other operating income

	2017 US\$000	2016 US\$000
Other operating income	1,058	831
Gain on fixed assets sale	391	-
Gain on settlement of contingent consideration	-	400
Accounts payable write-off	32	24
<b>Total other operating income</b>	<b>1,481</b>	<b>1,255</b>

### 10.2. Other operating expenses

		2017 US\$000	2016 US\$000
Movement in ore stockpiles obsolescence provision (Note 19)	10.2.1	3,185	9,869
Mine properties and property, plant and equipment write-off		949	1,180
Individual impairment of property, plant and equipment and mine assets (including reversal)	10.2.2	(4)	17
Donations to local communities		1,940	1,608
Loss on disposal of property, plant and equipment		-	318
Loss on disposal of inventory		1,279	1,082
Movement in raw materials and consumables obsolescence provision		416	600
Mineral extraction tax correction and tax penalties		1,590	100
Other operating expenses		1,456	1,901
<b>Total other operating expenses</b>		<b>10,811</b>	<b>16,675</b>

#### 10.2.1. Movement in ore stockpiles obsolescence provision

Stock-piled low grade ore at BG is tested for impairment annually. During 2017 a portion of ore stockpiles in the amount of US\$3.2 million was written down (2016: US\$9.9 million).

#### 10.2.2. Individual impairment of property, plant and equipment and mine assets

The recoverable amount of some non-current assets determined as at 31 December 2016 was lower than their carrying amount because the Group does not expect to derive future cash flows from the assets. The assets were considered impaired and were written down to their recoverable amount. In 2017, the Group recognised a reversal of previously recognised impairment losses.

## 11. Foreign exchange gains and losses

The total amount of foreign exchange gain for the year ended 31 December 2017 was US\$0.7 million (2016: gain of US\$1.9 million) resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies such as Russian roubles and British pounds into the functional currency.

## 12. Finance income and costs

### 12.1. Finance income

	2017 US\$000	2016 US\$000
Bank interest	175	138
Other finance income	2	7
<b>Total finance income</b>	<b>177</b>	<b>145</b>

### 12.2. Finance costs

	2017 US\$000	2016 US\$000
Accretion expense on site restoration provision (Note 25)	1,593	1,674
Interest expense on bank loans	825	2,247
Bonds fair value movement (Note 29)	-	1,013
Interest expense on finance lease	296	253
<b>Total finance costs</b>	<b>2,714</b>	<b>5,187</b>

## Notes to the Consolidated Financial Statements (continued)

**13. Income tax**

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	2017 US\$000	2016 US\$000
<b>Consolidated statement of comprehensive income</b>		
Current income tax:		
Current income tax charge	<b>33,279</b>	36,596
Withholding tax on dividends	<b>7,742</b>	3,135
	<b>41,021</b>	39,731
Deferred income tax:		
Relating to reversal of temporary differences	<b>(6,560)</b>	(21,412)
<b>Income tax expense reported in the statement of comprehensive income</b>	<b>34,461</b>	18,319

The majority of the Group entities are Russian tax residents. A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by Russian statutory tax rate of 20% for the years ended 31 December 2017 and 2016 is as follows:

	2017 US\$000	2016 US\$000
<b>Accounting profit before income tax</b>	<b>100,316</b>	66,228
At Russian statutory income tax rate of 20%	<b>20,063</b>	13,247
Non-deductible expenses	<b>3,678</b>	4,679
Effect of translation of tax base denominated in foreign currency	<b>(3,539)</b>	(8,254)
Withholding tax on dividends	<b>7,742</b>	3,135
Lower tax rates on overseas losses	<b>3,350</b>	6,575
Unrecognised losses/(Recognised losses)	<b>435</b>	(3,904)
Loss from other unrecognised temporary differences	<b>2,732</b>	328
Losses arising from goodwill impairment	<b>-</b>	2,513
<b>Income tax expense at the effective tax rate of 27% (2016: 23%)</b>	<b>34,461</b>	18,319
<b>Income tax expense reported in the consolidated statement of comprehensive income</b>	<b>34,461</b>	18,319

**Deferred income tax**

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	2017 US\$000	2016 US\$000	2017 US\$000	2016 US\$000
<b>Deferred income tax liability</b>				
Property, plant and equipment	<b>(138,133)</b>	(138,754)	<b>(621)</b>	(7,816)
Inventory	<b>(3,300)</b>	(3,377)	<b>(77)</b>	(6,007)
Accounts receivable and other debtors	<b>(1,012)</b>	(993)	<b>19</b>	283
Deferred financing costs	<b>(53)</b>	(83)	<b>(30)</b>	58
	<b>(142,498)</b>	(143,207)	<b>(709)</b>	(13,482)
<b>Deferred income tax assets</b>				
Accounts receivable and other debtors	<b>96</b>	212	<b>116</b>	(272)
Finance lease obligations	<b>602</b>	334	<b>(268)</b>	(122)
Trade accounts and notes payable	<b>1,417</b>	1,290	<b>(127)</b>	(518)
Tax losses	<b>32,898</b>	27,326	<b>(5,572)</b>	(7,018)
	<b>35,013</b>	29,162	<b>(5,851)</b>	(7,930)
<b>Net deferred income tax liabilities</b>	<b>(107,485)</b>	(114,045)	<b>(6,560)</b>	(21,412)

Entity-specific tax position are presented below:

	2017 US\$000	2016 US\$000
Deferred income tax assets	129	-
Deferred income tax liabilities	(107,614)	(114,045)
<b>Deferred tax liabilities net</b>	<b>(107,485)</b>	<b>(114,045)</b>

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 2017 is US\$18.7 million (31 December 2016: US\$17.2 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 2017 is US\$27.8 million (31 December 2016: US\$15.6 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 2017 is US\$23.3 million (31 December 2016: US\$21.7 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

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

The temporary differences associated with investments in subsidiaries, for which deferred tax liability in respect of withholding tax on dividends has not been recognised aggregate to US\$588.8 million (2016: US\$486.9 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is not probable that the temporary differences will reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences should be between US\$0 and US\$88.3 million (2016: US\$0 and US\$73.0 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2017 and 2016 years of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

#### 14. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued, for no consideration, on the exercise of share options into ordinary shares. There is no effect of dilution in 2017 (2016: none) as the share options expired in 2014.

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

	2017 US\$000	2016 US\$000
Net profit attributable to ordinary equity holders of the parent	65,275	47,235
	Thousands	Thousands
Weighted average number of ordinary shares	325,222	325,222

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

The share capital comprises only one class of ordinary shares, which carry a voting right and the right to a dividend. There are no restrictions on the distribution of dividends and the repayment of capital.

## Notes to the Consolidated Financial Statements (continued)

**15. Mine properties, exploration and evaluation assets, and property, plant and equipment**  
**Reconciliation of fixed assets on period-by-period basis for the year ended 31 December 2017**

	Exploration and evaluation assets US\$000	Mine assets US\$000	Stripping activity assets US\$000	Freehold building US\$000	Plant and equipment* US\$000	Construction in progress US\$000	Total US\$000
<b>Cost</b>							
<b>At 31 December 2016</b>	<b>85,459</b>	<b>737,342</b>	<b>21,638</b>	<b>214,538</b>	<b>229,191</b>	<b>63,997</b>	<b>1,352,165</b>
Additions	3,436	15,806	4,077	79	1,081	35,703	60,182
Transfers	(242)	5,222	-	4,168	13,104	(22,730)	(478)
Write-off**	-	(7,406)	(5,991)	(293)	(6,072)	(523)	(20,285)
Disposals	-	(144)	-	-	(201)	(455)	(800)
Capitalised depreciation	273	7,768	-	-	-	936	8,977
Capitalised interest***	-	7,528	-	-	-	-	7,528
Change in estimation - site restoration asset	-	2,065	-	-	-	-	2,065
Other movement	-	-	-	(18)	-	(76)	(94)
<b>At 31 December 2017</b>	<b>88,926</b>	<b>768,181</b>	<b>19,724</b>	<b>218,474</b>	<b>237,103</b>	<b>76,852</b>	<b>1,409,260</b>
<b>Depreciation and impairment</b>							
<b>At 31 December 2016</b>	<b>-</b>	<b>180,465</b>	<b>10,753</b>	<b>84,223</b>	<b>126,861</b>	<b>1,623</b>	<b>403,925</b>
Provided during the year	-	17,787	3,885	8,730	19,074	-	49,476
Transfers	-	(200)	-	44	(307)	(15)	(478)
Write-off**	-	(7,404)	(5,991)	(128)	(5,813)	-	(19,336)
Impairment of property, plant and equipment and mine assets	-	-	-	-	-	(4)	(4)
Disposals	-	(142)	-	-	(170)	-	(312)
Capitalised depreciation	-	572	-	3,122	5,283	-	8,977
Reclass to inventory	-	145	-	384	374	(14)	889
<b>At 31 December 2017</b>	<b>-</b>	<b>191,223</b>	<b>8,647</b>	<b>96,375</b>	<b>145,302</b>	<b>1,590</b>	<b>443,137</b>
Net book value:							
<b>At 31 December 2016</b>	<b>85,459</b>	<b>556,877</b>	<b>10,885</b>	<b>130,315</b>	<b>102,330</b>	<b>62,374</b>	<b>948,240</b>
<b>At 31 December 2017</b>	<b>88,926</b>	<b>576,958</b>	<b>11,077</b>	<b>122,099</b>	<b>91,801</b>	<b>75,262</b>	<b>966,123</b>

\* Net book value of plant and equipment in the amount of US\$3.7 million at 31 December 2017 relates to assets under finance lease at MNV and Novo: cost of US\$7.2 million less accumulated depreciation of US\$3.5 million.

\*\* Write-off for 2017 in the amount of US\$0.9 million relates to retirement of old inefficient equipment and some buildings.

\*\*\* Capitalised interest for 2017 includes US\$7.3 million of borrowing costs capitalised at Kekura at interest rates between 2.3% and 4.5% and capitalised upfront commission of US\$0.2 million.

No plant and equipment has been pledged as security for bank loans in 2017.

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

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



## Reconciliation of fixed assets on period-by-period basis for the year ended 31 December 2016

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

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

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

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

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

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

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

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

	2017 US\$000	2016 US\$000
Operating expenses	(1,047)	(515)
Net cash used in investing activities	8,620	11,848

## Notes to the Consolidated Financial Statements (continued)

**16. Intangible assets**

Goodwill arises principally because of the following factors:

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

At 31 December 2017, intangible assets represented goodwill relating to the group of development and exploration assets (US\$43.0 million) and to the operating gold mining asset (US\$9.7 million), and from the acquisition of Novo (US\$5.1 million). Goodwill is allocated to a single or group of cash-generating units as appropriate, representing the lowest level at which it is monitored for management purposes. Goodwill is allocated to the following groups of cash-generating units:

	2017 US\$000	2016 US\$000
Goodwill allocated to the operating gold mining company (MNV)	9,690	9,690
Goodwill allocated to the polymetallic mining company (Novo)	5,134	5,134
Goodwill allocated to the group of development and exploration assets (Taseevskoye, Unkurtash and Lubov)	42,978	42,978
<b>Balance at 31 December</b>	<b>57,802</b>	<b>57,802</b>

**17. Impairment testing of non-current assets**

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

Management has determined the recoverable amounts in 2017 and 2016 using fair value less costs of disposal (FVLCD) calculations. FVLCD is determined at the cash-generating unit level, in this case being the separate gold production and development and exploration assets (Taseevskoye, Unkurtash and Lubov), by discounting the expected cash flows estimated by management over the life of the mine:

- MNV\* until 2032 (31 December 2016: 2022);
- BG\* - 2032 (31 December 2016: 2026);
- Novo - 2033 (31 December 2016: 2029);
- Klen - 2030 (31 December 2016: 2029);
- Kekura - 2036 (31 December 2016: 2030);
- Taseevskoye - 2029 (31 December 2016: 2029);
- Unkurtash - 2037 (31 December 2016: 2037);
- Lubov - 2028 (31 December 2016: 2028).

\* Including Blagodatnoe

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

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

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

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

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

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

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

The table below shows the key assumptions used in the fair value calculation at 31 December 2017 and 2016.

	2017	2016
Post-tax discount rate for cash flows in the operating gold mining company (MNV), %	6.75	7.25
Post-tax discount rate for cash flows in the operating gold mining company (BG), %	7.75	8.25
Post-tax discount rate for cash flows in the polymetallic mining company (Novo), %	6.75	7.25
Post-tax discount rate for cash flows in the gold mining company being at development stage (Klen), %	8.75	9.25
Post-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye), %	8.75	9.25
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Kekura), %	8.75	9.25
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Unkurtash), %	8.75	9.25
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Lubov), %	8.75	9.25
Gold price, US\$ per ounce in year 1	1,250	1,200
Gold price, US\$ per ounce in year 2 and beyond	1,270	1,250
Silver price, US\$ per ounce	17	16
Lead price, US\$ per tonne	2,000	1,800
Zinc price, US\$ per tonne	2,500	2,200

As a result of the recoverable amount analysis performed during the year, no impairment losses were recognised in 2017 (2016: impairment losses of US\$22.8 million):

	2016 US\$000
Goodwill	12,563
Mine assets	1,478
Stripping activity assets	645
Buildings	4,594
Property, plant and equipment	3,401
Construction in progress	151
<b>Total impairment losses</b>	<b>22,832</b>

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

Any increase in the post-tax discount rate, any decrease in gold prices below US\$1,270 per ounce in 2018 or any increase in operating or capital costs at Belaya Gora, Klen and Kekura would result in a further impairment of mine properties and property, plant and equipment.

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

## Notes to the Consolidated Financial Statements (continued)

**18. Other non-current assets**

	2017 US\$000	2016 US\$000
Non-current prepayments*	10,656	3,868
Other non-current assets	202	283
<b>Total other non-current assets</b>	<b>10,858</b>	<b>4,151</b>

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

**19. Inventories  
Non-current\***

	2017 US\$000	2016 US\$000
Ore stockpiles	16,256	12,839
Ore stockpile obsolescence provision**	(15,632)	(3,850)
<b>Total inventories</b>	<b>624</b>	<b>8,989</b>

\* 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**

	2017 US\$000	2016 US\$000
Raw materials and consumables	51,108	51,146
Ore stockpiles	15,709	21,223
Gold in progress	5,004	5,625
Finished goods	1,156	684
	<b>72,977</b>	<b>78,678</b>
Raw materials and consumables obsolescence provision	(12,205)	(11,789)
Ore stockpile obsolescence provision**	(2,152)	(10,749)
<b>Total inventories</b>	<b>58,620</b>	<b>56,140</b>

Movement in raw materials and consumables obsolescence provision amounted to US\$0.4 million in 2017 (2016: US\$0.6 million). No inventory has been pledged as security.

\*\* Stockpiled low-grade ore at BG is tested for impairment semi-annually. Movement in ore stockpile obsolescence provision amounted to US\$3.2 million in 2017 (2016: US\$9.9 million).

**20. Trade and other receivables**

	2017 US\$000	2016 US\$000
VAT receivable	11,878	16,056
Other taxes receivable	9	1,188
Related party receivables (Note 27)	6	6
Trade receivables	14,388	12,917
Other receivables	1,406	2,129
	<b>27,687</b>	<b>32,296</b>

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:

	2017 US\$000	2016 US\$000
At 1 January	25	20
Addition/(Utilisation)	(22)	5
At 31 December	3	25

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

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

## 21. Cash and cash equivalents

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

	2017 US\$000	2016 US\$000
Cash in hand and at bank	10,565	8,728
Short-term deposits	1,823	20
	12,388	8,748

## 22. Issued capital and reserves

### a) Issued share capital

Authorised	2017 Shares	2016 Shares
Ordinary shares of £0.001 each	750,000,000	750,000,000

### Ordinary shares issued and fully paid

	Shares	Amount US\$000
At 31 December 2015	325,222,098	585
Ordinary shares issued	-	-
At 31 December 2016	325,222,098	585
Ordinary shares issued	-	-
<b>At 31 December 2017</b>	<b>325,222,098</b>	<b>585</b>

### 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.

#### Share premium

The balance on the share premium account represents the amount received in excess of the nominal value of the ordinary shares.

## Notes to the Consolidated Financial Statements (continued)

## 23. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	2017 US\$000	2016 US\$000
<b>Current</b>				
Gazprombank loan <sup>(3)</sup>	4.7	December 2018	-	21,428
UniCredit loan <sup>(4)</sup>	3.6 (2016: 4.8)	June 2020	-	16,666
Raiffaizen loan <sup>(6)</sup>	3.7 (2016: 5.2)	November 2019	11,000	4,889
UniCredit loan <sup>(7)</sup>	3.6 (2016: 3.9)	October 2020	4,017	4,017
			<b>15,017</b>	47,000
<b>Non-current</b>				
Gazprombank loan <sup>(1)</sup>	3.1	March 2020	43,630	-
Sberbank loan <sup>(2)</sup>	3.4	August 2021	20,000	-
Gazprombank loan <sup>(3)</sup>	4.7	December 2018	-	28,572
UniCredit loan <sup>(4)</sup>	3.6 (2016: 4.8)	June 2020	50,000	33,333
Alfa-bank loan <sup>(5)</sup>	4.3	December 2018	-	40,000
Raiffaizen loan <sup>(6)</sup>	3.7 (2016: 5.2)	November 2019	11,000	17,111
UniCredit loan <sup>(7)</sup>	3.6 (2016: 3.9)	October 2020	45,721	45,571
Alfa-bank loan <sup>(8)</sup>	3.0	December 2019	22,000	-
			<b>192,351</b>	164,587
<b>Total</b>			<b>207,368</b>	211,587

(1) In March 2017, the Group secured a revolving facility with Gazprombank with the draw period set until 1 March 2020. The interest rate is set for every instalment separately. The loan is repayable in instalments between March 2017 and March 2020. The drawn down payable balance obtained under the agreement at 31 December 2017 is US\$43.6 million (31 December 2016: Nil). The outstanding bank debt is subject to the following covenants: the ratio of total debt to EBITDA should be equal to or lower than 4.0; the ratio of EBITDA to interest expense should be equal to or higher than 4.0.

(2) In August 2017, the Group secured a revolving facility with Sberbank with the draw period set until 14 August 2021. The interest rate is set for every instalment separately. The loan is repayable in instalments between August 2017 and August 2021. The drawn down payable balance obtained under the agreement at 31 December 2017 is US\$20.0 million (31 December 2016: Nil). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5.

(3) The loan was repaid in September 2017.

(4) In December 2015, the Group raised financing with UniCredit bank. In November 2017 the interest rate decreased to LIBOR USD 1M + 2.05% from LIBOR USD 1M + 2.8% in June 2017 (2016: LIBOR USD 1M + 4.0%) with the draw period set until 17 January 2016. The loan is repayable in instalments between July 2019 and June 2020 (2016: between July 2017 and December 2018). The drawn down payable balance obtained under the agreement at 31 December 2017 is US\$50.0 million (2016: US\$50.0). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5 and the Group EBITDA to interest expense ratio should be equal to or higher than 4.0.

(5) The loan was repaid in September 2017.

(6) In August 2016, the Group raised financing with Raiffeisenbank at a LIBOR USD 1M + 2.1% (till May 2017 LIBOR USD 1M + 4.4%; till November LIBOR USD 1M + 2.75%) interest rate with the draw period set until 23 September 2016. The loan is repayable in November 2019. The drawn down payable balance obtained under the agreement at 31 December 2017 is US\$22.0 million (2016: US\$22.0). The outstanding bank debt is subject to the following covenants: the ratio of total net debt to EBITDA should be equal to or lower than 4.0; the ratio of EBITDA to interest expense should be equal to or higher than 4.0; the ratio of total net debt to Equity should be lower than 0.6.

(7) In October 2016, the Group raised financing with UniCredit bank adjusted for an upfront fee amounting to 0.9% with the draw period set until 20 November 2016. In November 2017, the interest rate decreased to 3.4% from 3.55% in 2016. The loan is repayable October 2020 (2016: October 2019). The drawn down payable balance obtained under the agreement at 31 December 2017 is US\$49.7 million (2016: US\$49.6). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5; the ratio of EBITDA to interest expenses should be equal to or higher than 4.0.

(8) In August 2016, the Group secured a revolving facility with Alfabank with the draw period set until 31 December 2019. The interest rate is set for every instalment separately. The loan is repayable in instalments between August 2016 and December 2019. The drawn down payable balance obtained under the agreement at 31 December 2017 is US\$22.0 million (31 December 2016: Nil). The outstanding bank debt is subject to the following covenants: the ratio of total net debt to EBITDA should be equal to or lower than 4.0.

The total outstanding bank debt of the Group at 31 December 2017 is US\$207.4 million (2016: US\$211.6 million). There were no covenant breaches as at 31 December 2017 (2016: Nil).

## 24. Trade and other payables

### Non-current

	2017 US\$000	2016 US\$000
Non-current portion of pension liabilities	331	254
	<b>331</b>	254

### Current

	2017 US\$000	2016 US\$000
Trade payables	7,675	6,126
Salaries payable	8,381	7,403
Other taxes payable	6,958	3,691
Other current payables	440	413
	<b>23,454</b>	17,633

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.

## 25. Provisions

	Site restoration provision US\$000
<b>At 31 December 2015</b>	16,026
Accretion	1,674
Utilisation of provision	(17)
Effect of changes in the discount and inflation rates	(4,992)
Effect of changes in estimated costs	(95)
Effect of exchange rate changes	4,603
<b>At 31 December 2016</b>	17,199
Accretion	1,593
Utilisation of provision	(27)
Effect of changes in the discount and inflation rates	(1,323)
Effect of changes in estimated costs	1,938
Effect of exchange rate changes	1,450
<b>At 31 December 2017</b>	<b>20,830</b>

### Site restoration provision

In 2017 the Group performed a re-assessment of the site restoration provision at MNV, Novo, BG, Kekura and Klen. The assessments were based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life-of-mine (which is assumed to close in 2023, 2033, 2032 for plant and infrastructure (2024 for open pit), 2036 and 2030 respectively), with site restoration activities expected to be carried out in respective periods (removal of waste, restoration of mine sites).

Current prices for similar activities and a risk-free RUR-denominated government bonds discount rate of 7.1% (2016: 9.3%) has been used to calculate the site restoration liability at MNV assuming its closure in 2023.

A risk-free RUR-denominated government bonds discount rate of 7.8% (2016: RUR-denominated government bonds rate of 10.1%) has been used to calculate the site restoration liability at Novo assuming its closure in 2033.

A risk-free RUR-denominated government bonds discount rate for open pit at BG of 7.3% and for plant and infrastructure of 8.29% (2016: RUR-denominated government bonds rate of 8.4%) has been used to calculate the site restoration liability at BG assuming its closure in 2024 and 2032 accordingly.

## Notes to the Consolidated Financial Statements (continued)

**25. Provisions** continued

A risk-free RUR-denominated government bonds discount rate of 7.8% (2016: RUR-denominated government bonds rate of 10.1%) has been used to calculate the site restoration liability at Klen assuming site closure in 2030.

A risk-free RUR-denominated government bonds discount rate of 7.7% (2016: RUR-denominated government bonds rate of 10.1%) has been used to calculate the site restoration liability at Kekura assuming site closure in 2036.

The increase in site restoration liability in the amount of US\$1.5 million was due to the appreciation of RUR against USD in 2017 (2016: increase of US\$4.6 million).

The total increase in estimation of site restoration liability amounts to US\$2.1 million in 2017 (2016: negative US\$0.5 million).

**26. 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 2017. This lease has a life of 5 years. There are no restrictions placed upon the Group by entering into this lease. The old commercial lease on its office premises ended in March 2018.

The operating lease charge for the year ended 31 December 2017 was US\$0.8 million (2016: US\$0.9 million).

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

	2017 US\$000	2016 US\$000
Within one year	835	892
After one year but not more than five years	3,236	231
	<b>4,071</b>	1,122

**Capital commitments**

At 31 December 2017 the Group had commitments of US\$14.2 million (2016: US\$15.1 million) principally relating to development assets and US\$3.0 million (2016: US\$1.0 million) for the acquisition of new machinery.

**Finance lease and hire purchase commitments**

The Group has finance lease contracts for various items of plant and equipment at MNV and Novo at interest rates between 4.5% and 9.9% for USD lease contracts and 12.8% for RUB lease contracts. Future minimum lease payments under finance leases and the present value of net minimum lease payments are presented below:

	Minimum payments		Present value of payments	
	2017 US\$000	2016 US\$000	2017 US\$000	2016 US\$000
Within one year	1,080	1,037	915	1,090
After one year but not more than five years	2,260	1,589	1,314	1,300
<b>Total minimum lease payments</b>	<b>3,340</b>	2,626	<b>2,229</b>	2,390
Less amounts representing finance charges	(1,111)	(236)	-	-
<b>Present value of minimum lease payments</b>	<b>2,229</b>	2,390	<b>2,229</b>	2,390

**Contingent liabilities**

Management has identified possible tax claims within the various jurisdictions in which the Group operates totalling US\$2.2 million as at 31 December 2017 (at 31 December 2016: US\$2.1 million). In management's view, these possible tax claims will likely not result in a future outflow of resources; consequently no provision is required in respect of these matters.

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

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



## 27. Related party disclosures

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

Name	Country of incorporation	Effective shareholding %
<b>Subsidiary undertakings</b>		
<b>Held by the ultimate parent</b>		
Stanmix Holding Limited	Cyprus	100
Highland Exploration Kyrgyzstan LLC (Unkurtash)	Kyrgyzstan	100
<b>Held indirectly via subsidiaries</b>		
AO Mnogovershinnoye (MNV)	Russia	100
AO Novo-Shirokinsky Rudnik (Novo)	Russia	99.19*
OOO Belaya Gora (BG)	Russia	100
OOO Lubavinskoye (Lubov)	Russia	100
OOO Taseevskoye	Russia	100
OOO Klen	Russia	100
ZAO Bazovye Metally (Kekura)	Russia	100
OOO Rusdragmet (RDM)	Russia	100
OOO BSC	Russia	100
OOO Zabaykalsolotoproyekt (ZZP)	Russia	100
OOO RDM Trade House	Russia	100
OOO RDM-Resources – until 11 November 2014	Russia	100

\* Direct shareholding in OJSC Novo-Shironkinsky Rudnik is 99.0%. In 2017 OJSC Novo-Shirokinsky Rudnik acquired treasury stock equal to 0.06% of outstanding shares for cash consideration of US\$0.1 million, which resulted in a decrease in non-controlling interest of US\$0.6 million. Effective control is therefore equivalent to a 99.19% shareholding in the enterprise. There are no restrictions imposed by non-controlling interest on our ability to use assets and settle liabilities of Novo.

### Entity with significant influence over the Group

Following the Second Subscription on new ordinary shares in Highland Gold Mining Limited on 15 January 2008 by Primerod International Limited, Primerod held 32% of Highland Gold. In November 2016, the persons behind Primerod International Limited reorganised and simplified their indirect holdings in the Company by exchanging their shares in Primerod for their pro rata shareholding in Highland Gold. These entities, and their shareholdings as of 31 December 2016, included: Primerod International Limited (8.00%), Denalot Worldwide Limited (9.99%), Erlinad Holdings Limited (4.52%), Matteson Overseas Limited (4.46%), New Evolution Trading Limited (2.10%), and Ms Irina Panchenko (2.00, previously held via Frazar Worldwide Holdings). Denalot Worldwide Limited and Erlinad Holding Limited have subsequently decreased their shareholding in the Company to 5.33% and 2.96%, respectively, as of 31 December 2017. All of the above parties have agreed to be bound by the terms of the relationship agreement with Highland Gold entered into at the time of the original subscription by Primerod.

Eugene Shvidler, Executive Chairman of the Company, and persons connected with him owned 40,853,660 shares representing 12.56% of the total issued share capital of the Company as of 31 December 2017. Through his ownership of Matteson Overseas Limited, Non-Executive Director Valery Oyf controls 14,507,453 shares representing 4.46% of total issued share capital.

Prosperity Capital Management and affiliated entities held 9.70% of Highland Gold's issued shares at 31 December 2017.

### Terms and conditions of transactions with related parties

There were no related party transactions in 2017. The sales to and purchases from related parties are generally made at normal market prices and arm's length terms. There are no outstanding balances at 31 December 2017 (2016: Nil). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2016: 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.

## Notes to the Consolidated Financial Statements (continued)

**27. Related party disclosures** continued**Compensation of key management personnel of the Group**

	2017 US\$000	2016 US\$000
Short-term employee benefits	<b>5,467</b>	5,223
Total compensation paid to key management personnel	<b>5,467</b>	5,223

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 the report on Directors' remuneration.

**28. Financial risk management objectives and policies**

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

**Gold price risk**

In 2017 as well as in prior years, the Group is exposed to the risk of fluctuations in prevailing market commodity prices on the mix of mineral products it produces. The Group's policy is to manage these risks through the use of contract-based prices with customers. The Group continued its no hedge policy in relation to the gold price.

**Embedded derivative**

Novo as a concentrate producer and seller has contracts where price risk is retained for a specified period after the sale has occurred. For more information please refer to Note 3 'Revenue recognition'.

**Foreign currency risk**

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

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

	Increase/ decrease in RUR rate	Effect on profit before tax US\$000	Increase/ decrease in GBP rate	Effect on profit before tax US\$000
2016	10%	496	5%	208
	-10%	(496)	-5%	(208)
2017	<b>10%</b>	<b>422</b>	<b>5%</b>	<b>30</b>
	<b>-10%</b>	<b>(422)</b>	<b>-5%</b>	<b>(30)</b>

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 a debtor's inability to make payment of its 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 counterparties in transactions in cash, which is limited to balances deposited in banks and accounts receivable at the reporting dates. To manage this risk, the Group deposits its surplus funds in highly rated financial institutions, establishes conservative credit policies and constantly evaluates the conditions of the market in which it conducts its activities. The Group sells the produced gold to recognised, creditworthy banks. The sold gold is being paid for immediately after the sale. Therefore, there are no trade receivables associated with the gold trade.

## Liquidity risk

The Group monitors its risk of 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 receivable, other financial assets) and projected cash flows from operations.

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

Please refer to Note 23 for 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 2016 and 31 December 2017 based on contractual undiscounted payments.

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

Year ended 31 December 2017	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	-	<b>86,806</b>	<b>84,254</b>	<b>46,381</b>	-	<b>217,441</b>
Trade and other payables	-	<b>16,350</b>	-	-	-	<b>16,350</b>
Liability under finance lease	-	<b>1,080</b>	<b>783</b>	<b>1,477</b>	-	<b>3,340</b>
Contingent consideration liability	-	-	-	-	-	-
	-	<b>104,236</b>	<b>85,037</b>	<b>47,858</b>	-	<b>237,131</b>

Interest bearing loans and borrowings for the year ended 31 December 2017 with maturity of less than 1 year include revolving facilities secured with Alfa-bank, Sberbank and Gazprombank: the amount of US\$85.6 million outstanding at 31 December 2017 has been presented as non-current liabilities in the consolidated statement of financial position. Refer to Note 23 for further details.

## Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders (please see the Group's dividends policy), benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Capital comprises equity and debt financing. For information related to equity, refer to consolidated statement of changes in equity. For information on debt financing refer to Note 23. In order to ensure an appropriate return for shareholders' capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board where applicable.

## Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Exposure to the risk of changes in market interest rates relates primarily to long-term debt obligations with floating interest rates. The Group mitigates this risk through signing financing arrangements mostly at fixed rates. The Group's treasury function performs analysis of current interest rates and in case of changes in market fixed or floating interest rates, management may consider the refinancing of a particular debt on more favourable terms. As at 31 December 2017 the Group has outstanding bank debt in the amount of US\$207.4 million (2016: US\$211.6 million).

## Notes to the Consolidated Financial Statements (continued)

**28. Financial risk management objectives and policies** continued**Market price risk**

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

	Increase/ decrease in prices, %	Effect on derivative	
		2017 US\$000	2016 US\$000
Lead	5%	<b>167</b>	86
	-5%	<b>(167)</b>	(86)
Zinc	5%	-	34
	-5%	-	(34)
Gold	5%	<b>553</b>	263
	-5%	<b>(553)</b>	(263)
Silver	5%	<b>131</b>	68
	-5%	<b>(131)</b>	(68)

**29. Financial assets and liabilities**

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

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

**Coupon bonds**

During 2016 all bonds were sold and, as a result of selling, the Group received US\$20.1 million and no coupon interest.

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

The table below sets out the movement in fair value of the bonds.

	2016 US\$000
At 1 January	21,150
Fair value gain	(562)
Foreign exchange loss	(1,189)
Coupon interest income accrued	738
Bonds fair value movement	(1,013)
Coupon interest income received	-
Bonds sold	(20,136)
Bonds purchased	-
<b>At 31 December</b>	<b>-</b>

**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 2017 US\$000	Level 1 US\$000	Level 2 US\$000
Trade receivables (embedded derivative)	165	-	165

In 2017, concentrate sales include a positive fair value movement of US\$0.2 (2016: a zero fair value movement) relating to an embedded derivative.

## Changes in liabilities arising from financing activities

	1 January 2017 US\$000	Cash flow US\$000	Accrued interest US\$000	Foreign exchange movement US\$000	New leases US\$000	Other US\$000	31 December 2017 US\$000
Interest bearing loans and borrowings (excluding items listed below)	211,587	(5,186)	825	-	-	142	207,368
Obligations under finance leases and hire purchase contracts	2,626	(1,696)	295	43	2,072	-	3,340
<b>Total liabilities from financing activities</b>	<b>214,213</b>	<b>(6,882)</b>	<b>1,120</b>	<b>43</b>	<b>2,072</b>	<b>142</b>	<b>210,708</b>

	1 January 2016 US\$000	Cash flow US\$000	Accrued interest US\$000	Foreign exchange movement US\$000	New leases US\$000	Other US\$000	31 December 2016 US\$000
Current interest bearing loans and borrowings (excluding items listed below)	253,375	(44,082)	2,082	-	-	212	211,587
Current obligations under finance leases and hire purchase contracts	2,275	(1,277)	252	59	1,317	-	2,626
<b>Total liabilities from financing activities</b>	<b>255,650</b>	<b>(45,359)</b>	<b>2,335</b>	<b>59</b>	<b>1,317</b>	<b>212</b>	<b>214,213</b>

The 'Other' column includes the effect of various other adjustments.

## 30. Dividends

The final dividend for the year ending 31 December 2016 in the amount of US\$22.6 million was paid on 12 May 2017.

The Group paid an interim dividend of GBP 0.0498 per share in respect of H1 2017 (2016: interim dividend of GBP 0.050 per share) which resulted in an aggregate interim dividend payment of US\$21.3 million (2016: US\$19.8 million). The interim dividend was paid on 3 October 2017.

The Board has recommended a second interim dividend of GBP 0.0542 per share which, taking into account the interim dividend paid in October 2017, gives a total dividend of GBP 0.104 per share for the year 2017 (2016: GBP 0.104 per share). The total payout exceeds the minimum amount prescribed in the Company's dividend policy, reflecting the availability of additional funds for disbursement to shareholders.

The dividend will be paid on 25 May 2018 to shareholders on the register at the close of business on 27 April 2018 (the record date). The ex-dividend date will be 26 April 2018.

The Company offers an option for shareholders to elect to receive their dividends in US dollars. Payments for dividends in US dollars will be fixed at an exchange rate of 1.4329 GBP/US\$, or US\$ 0.0777 per share. To receive payment in US dollars, shareholders should complete and file the Currency Election Form no later than the record date (Election Deadline), 27 April 2018. The form and instructions for filing it are available on the Highland Gold website at address: [http://www.highlandgold.com/investor\\_relations/share\\_structure](http://www.highlandgold.com/investor_relations/share_structure)

## 31. Events after the reporting period

There were no significant events after the reporting period, except as disclosed in Note 30.

# Mineral Resources, as at 31 December 2017

## Reported in Accordance with JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
<b>MNOGOVERSHINNOYE</b>	Indicated	2,069,193	7.7	502,677	100%	502,677
	<b>Measured+Indicated</b>	<b>2,069,193</b>	<b>7.7</b>	<b>502,677</b>	<b>100%</b>	<b>502,677</b>
	Inferred	301,665	7.9	75,319	100%	75,319
	<b>Total</b>	<b>2,370,858</b>	<b>7.7</b>	<b>577,996</b>	<b>100%</b>	<b>577,996</b>
<b>TASEEVSKOYE</b>	<b>Indicated</b>	<b>25,785,000</b>	<b>4.9</b>	<b>4,057,587</b>	<b>100%</b>	<b>4,057,587</b>
	Inferred	5,278,000	6.1	1,030,766	100%	1,030,766
	<b>Total</b>	<b>31,063,000</b>	<b>5.1</b>	<b>5,088,353</b>	<b>100%</b>	<b>5,088,353</b>
<b>UNKURTASH</b>	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
	<b>Measured+Indicated</b>	<b>53,894,000</b>	<b>1.8</b>	<b>3,040,753</b>	<b>100%</b>	<b>3,040,753</b>
	Inferred	12,291,000	1.7	656,004	100%	656,004
	<b>Total</b>	<b>66,185,000</b>	<b>1.7</b>	<b>3,696,757</b>	<b>100%</b>	<b>3,696,757</b>
<b>NOVOSHIROKINSKOYE*</b>	Measured	15,426,606	4.4	2,192,811	99%	2,170,883
	Indicated	3,504,648	3.0	333,219	99%	329,887
	<b>Measured+Indicated</b>	<b>18,931,254</b>	<b>4.2</b>	<b>2,526,031</b>	<b>99%</b>	<b>2,500,770</b>
	Inferred	4,462,000	2.6	375,298	99%	371,545
	<b>Total</b>	<b>23,393,254</b>	<b>3.9</b>	<b>2,901,330</b>	<b>99%</b>	<b>2,872,315</b>
<b>BELAYA GORA</b>	Measured	-	-	-	-	-
	Indicated	12,100,000	1.5	591,574	100%	591,574
	<b>Measured+Indicated</b>	<b>12,100,000</b>	<b>1.5</b>	<b>591,574</b>	<b>100%</b>	<b>591,574</b>
	Inferred	150,000	2.2	9,645	100%	9,645
	<b>Total</b>	<b>12,250,000</b>	<b>1.5</b>	<b>601,219</b>	<b>100%</b>	<b>601,219</b>
<b>BLAGODATNOYE</b>	<b>Indicated</b>	<b>19,200,000</b>	<b>1.3</b>	<b>776,000</b>	<b>100%</b>	<b>776,000</b>
	Inferred	49,000	0.8	1,286	100%	1,286
	<b>Total</b>	<b>19,249,000</b>	<b>1.3</b>	<b>776,119</b>	<b>100%</b>	<b>776,119</b>
<b>KLEN</b>	<b>Indicated</b>	<b>2,850,000</b>	<b>5.8</b>	<b>530,809</b>	<b>100%</b>	<b>530,809</b>
	Inferred	1,020,000	2.9	96,452	100%	96,452
	<b>Total</b>	<b>3,870,000</b>	<b>5.0</b>	<b>627,261</b>	<b>100%</b>	<b>627,261</b>
<b>KEKURA</b>	Measured	580,000	11.0	205,765	100%	205,765
	Indicated	8,720,000	8.0	2,234,477	100%	2,234,477
	<b>Measured+Indicated</b>	<b>9,300,000</b>	<b>8.2</b>	<b>2,440,242</b>	<b>100%</b>	<b>2,440,242</b>
	Inferred	160,000	3.1	16,075	100%	16,075
	<b>Total</b>	<b>9,460,000</b>	<b>8.1</b>	<b>2,456,317</b>	<b>100%</b>	<b>2,456,317</b>
<b>LYUBAVINSKOYE</b>	Measured	1,304,990	1.5	62,758	100%	62,758
	Indicated	9,802,700	1.3	413,330	100%	413,330
	<b>Measured+Indicated</b>	<b>11,107,690</b>	<b>1.3</b>	<b>476,088</b>	<b>100%</b>	<b>476,088</b>
	Inferred	139,540	1.8	8,198	100%	8,198
	<b>Total</b>	<b>11,247,230</b>	<b>1.3</b>	<b>484,287</b>	<b>100%</b>	<b>484,287</b>
<b>TOTAL</b>	Measured	38,335,596	3.0	3,619,242		3,619,242
	Indicated	116,901,541	3.0	11,297,258		11,297,258
	<b>Measured+Indicated</b>	<b>155,237,137</b>	<b>3.0</b>	<b>14,916,500</b>		<b>14,916,500</b>
	Inferred	23,851,205	3.0	2,265,290		2,265,290
	<b>Total</b>	<b>179,088,342</b>	<b>3.0</b>	<b>17,181,791</b>		<b>17,181,791</b>

### Notes:

1. MNV, Taseevskoye, Belaya Gora, Blagodatnoe, Unkurtash, Klen and Lyubavinskoye resource estimations do not include a silver assessment.
2. MNV, Novoshirokinskoye, Belaya Gora, Blagodatnoe and Kekura 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 for open cut mining, and >2.0 g/t for underground mining. 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\$1,500 per ounce. Resources were evaluated with specific cutoff grade >0.4 g/t. Blagodatnoe Mineral Resources are undiluted and based upon a gold price of US\$1,500 per ounce. Resources were evaluated with specific cutoff grade >0.5 g/t. Klen Mineral Resources were evaluated with specific cutoff grade >1.0 g/t. Kekura Mineral Resources are diluted and based upon a gold price of US\$1,500 per ounce. Resources were evaluated with specific cutoff grade >1.2 g/t for open cut; 1.7 g/t for Vertical zones and 2.8 g/t for Horizontal zones for underground mining. Lyubavinskoye Mineral Resources were evaluated with specific cutoff grade >0.5 g/t.
4. Resource estimates for Taseevskoye deposit was confirmed by Micromine Consulting, 2008. Resource estimates for MNV were confirmed by Micon International Co. LTD, 2017. Resource estimates for Belaya Gora and Blagodatnoe was confirmed by SRK Consulting, 2017. Resource estimate for Novoshirokinskoye was confirmed by Wardell Armstrong International (WAI), 2017. Resource estimate for Lyubavinskoye was confirmed by IMC Montan, 2012. Resource estimate for Unkurtash was reconfirmed by IMC Montan, 2013. Resource estimate for Klen was confirmed by Micon International, 2012. Resource estimate for Kekura was reconfirmed by SRK Consulting, 2017.
5. Highland Gold internal gold-equivalent resource and reserve estimates for Novo are based on 2017 WAI JORC-compliant Mineral Resource and Ore Reserves estimates and calculated using WAI 2017 metal prices and recovery parameters. Estimate ratios Au eq.=Au(g/t)+0.017096Ag(g/t)+0.559710Pb(%) + 0.538668Zn(%).
6. Mineral resources at MNV and Belaya Gora have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the resources with annual production.

## Ore Reserves, as at 31 December 2017

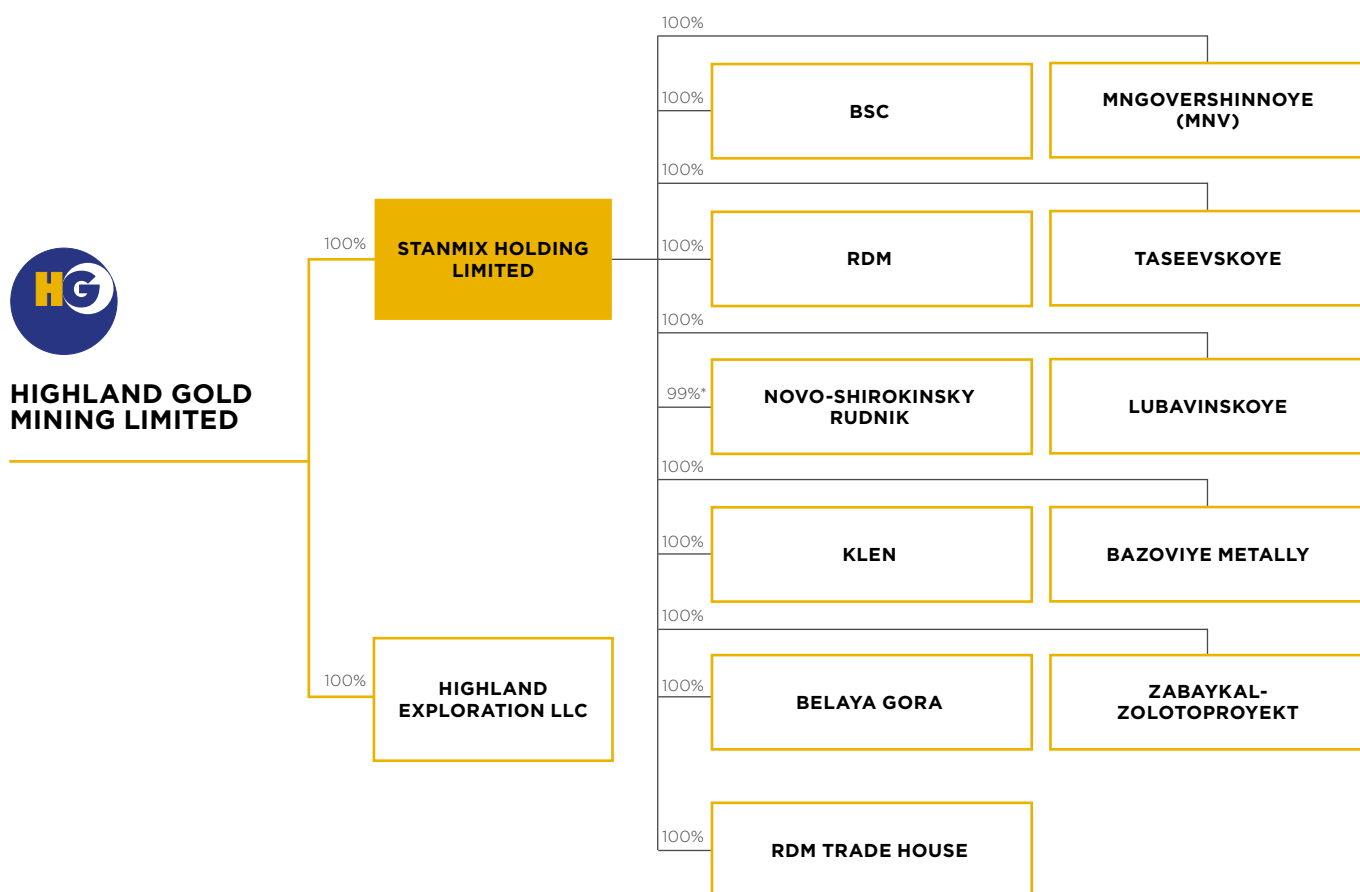
### Reported in Accordance with JORC

Project Name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
<b>MNOGOVERSHINNOYE</b>	Proven	-	-	-	100%	-
	Probable	2,661,286	5.50	452,866	100%	452,866
	Proven + Probable	2,661,286	5.50	452,866	100%	452,866
<b>NOVOSHIROKINSKOYE</b>	Proven	14,399,783	3.3	1,520,186	99%	1,504,984
	Probable	2,733,111	2.3	202,830	99%	200,801
	Proven + Probable	17,132,894	3.1	1,723,015	99%	1,705,785
<b>BELAYA GORA</b>	Proven	-	-	-	100%	-
	Probable	9,900,000	1.5	460,000	100%	460,000
	Proven + Probable	9,900,000	1.5	460,000	100%	460,000
<b>BLAGODATNOE</b>	Proven	-	-	-	100%	-
	Probable	10,200,000	1.4	472,000	100%	472,000
	Proven + Probable	10,200,000	1.4	472,000	100%	472,000
<b>KEKURA</b>	Proven	650,000	9.2	192,904	100%	192,904
	Probable	8,230,000	6.9	1,816,517	100%	1,816,517
	Proven + Probable	8,880,000	7.0	2,009,422	100%	2,009,422
<b>TOTAL</b>	Proven	15,049,783	3.5	1,697,888	100%	1,697,888
	Probable	33,724,397	3.1	3,402,184	100%	3,402,184
	Proven + Probable	48,774,180	3.3	5,100,072	100%	5,100,072

#### Notes:

1. MNV, Belaya Gora, Blagodatnoe and Kekura reserves estimate does not include a silver assessment.
2. Novo reserves are calculated for Au equivalent and include Pb, Zn and Ag assessment.
3. MNV Mineable Reserves are undiluted and based upon a gold price of US\$1,200 per ounce and marginal cut-off 2.0 g/t for underground mining and 1.0 g/t for open cut.
4. Belaya Gora Mineable Reserves are based upon a gold price of US\$1,200 per ounce and marginal cut-offs in between 0.4 and 2.05 g/t.
5. Blagodatnoe Mineable Reserves are based upon a gold price of US\$1,200 per ounce and marginal cut-off 0.77 g/t.
6. Kekura Mineable Reserves are diluted and based upon a gold price of US\$1,150 per ounce and marginal cut-off 1.6 g/t for open cut; 2 g/t for Vertical zones and 3 g/t for Horizontal zones for underground mining.
7. Mineable 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.

## Group Companies



### Principal Group Companies as of 31.12.2017

#### Highland Gold Mining Limited holds equity share capital in the following companies:

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

#### Stanmix Holding Limited holds equity share capital in the following companies:

Name	%	Country of incorporation	Principal activity and place of business
Russdragmet LLC (RDM)	100	Russia	Management company
Mnogovershinnoye JSC (MNV)	100	Russia	Holder of MNV and Blagodatnoye licences
Taseevskoye LLC	100	Russia	Holder of Taseevskoye, ZIF-1 and Sredny Golgotay licences
Zabaykalmazolotoprojekt LLC	100	Russia	Project engineering
Novo-Shirokinsky Rudnik JSC (Novo)	99	Russia	Holder of Novoshirokinskoye (Novo) licence
Belaya Gora LLC	100	Russia	Holder of Belaya Gora licence
Lyubavinskoye LLC	100	Russia	Holder of Lyubavinskoye (Lyubov) licence
Klen LLC	100	Russia	Holder of Klen licence
BSC LLC	100	Russia	Service company
Bazoviye Metally CJSC	100	Russia	Holder of Stadukhinsky Area (Kekura) licence
RDM Trade House	100	Russia	Vladivostok logistics center



# 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 Thursday 24 May, 2018 at 26 New Street, St Helier, Jersey JE2 3RA at 11.00 am to consider and if thought fit, pass the following ordinary resolutions;

1. THAT the Directors' Report, the Audited Financial Statements and the Auditor's report for the year ended 31 December 2017 (each as contained within the 2017 Annual Report circulated with this AGM Notice), be received.
2. THAT the Company's Dividend Policy as outlined on page 26 of the Directors' Report (contained within the 2017 Annual Report circulated with this AGM Notice), be approved.
3. THAT Olga Pokrovskaya who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
4. THAT Terry Robinson who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
5. THAT Colin Belshaw who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
6. THAT Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
7. THAT the Directors be authorised to fix the Auditor's remuneration.
8. THAT the Directors of the Company be authorised to offer any holders of any particular class of shares in the Company the right to elect to receive further shares (whether or not of that class), credited as fully paid, instead of cash, in respect of all or part of any dividend declared within the period commencing 24 May 2018 and ending on the conclusion of the 5th (fifth) Annual General Meeting of the Company to be held following 24 May 2018.
9. THAT the Company's Scrip Dividend Scheme referred to on page 26 of the Directors' Report (contained within the 2017 Annual Report circulated with this AGM Notice) details of which are contained in the Scrip Dividend Scheme Circular (circulated with this AGM Notice) and which can also be found on the Company's website at [www.highlandgold.com](http://www.highlandgold.com), be approved.

### **By Order of the Board**

**4 May 2018**

### **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 Link Asset Services, FREEPOST PXS, 34 Beckenham Road, Beckenham, BR3 9ZA 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. If you wish to appoint a proxy utilising the CREST electronic proxy service, complete and submit a CREST Proxy Instruction in accordance with the procedures described in the CREST Manual, so that it is received by Link Asset Services not less than 24 hours before the time fixed for the meeting (or any adjournment of such meeting).
5. Only those shareholders registered in the register of members of the Company as at close of business on 22 May 2018 (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.
6. Directors' Service contracts and register of Directors' interests in the Share Capital of the Company are available at the registered office of the Company for inspection during usual business hours on weekdays from the date of this notice until the date of the meeting and at the meeting until the conclusion of the meeting.

# Directors, Company Secretary and Advisers

## **CURRENT DIRECTORS**

**Eugene Shvidler**  
Executive Chairman

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

**Duncan Baxter**  
Non-Executive Director\*

**Colin Belshaw**  
Non-Executive Director

**John Mann**  
Executive Director  
Head of Communications

**Olga Pokrovskaya**  
Non-Executive Director\*\*

**Valery Oyf**  
Non-Executive Director

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

- \* Chairman of the Nomination and Remuneration Committee.
- \*\* Chairman of the Health, Safety and Environment Committee.
- \*\*\* Chairman of the Audit Committee.

## **HEAD OFFICE AND REGISTERED OFFICE**

26 New Street  
St Helier  
Jersey  
JE2 3RA

## **COMPANY SECRETARY**

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

## **NOMINATED ADVISER AND BROKER**

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

## **JOINT BROKER**

BMO Capital Markets Limited  
95 Queen Victoria St  
London  
EC4V 4HG  
United Kingdom

## **JOINT BROKER**

Peat & Co  
118 Piccadilly  
London  
W1J 7NW

## **AUDITORS TO THE COMPANY AND GROUP**

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

## **SOLICITORS TO THE COMPANY as to Russian Law**

PricewaterhouseCoopers  
Kosmodamianskaya Nab. 52 Bld. 5,  
Moscow, 115054  
Russian Federation

## **as to Jersey Law**

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

## **REGISTRARS**

Link Market Services (Jersey) Limited  
12 Castle Street  
St Helier  
Jersey  
JE2 3RT

## **TRANSFER AGENT**

Link Asset Services  
The Registry  
34 Beckenham Road  
Beckenham, Kent  
BR3 4TU  
United Kingdom

## **FINANCIAL CALENDAR**

### **Ex-Dividend Date:**

26 April 2018

### **Record Date:**

27 April 2018

### **Post 2017 Annual Report:**

4 May 2018

### **Annual General Meeting:**

24 May 2018

### **Dividend Payment Date:**

25 May 2018

### **Listing Sector/Ticker Reuters:**

HGM.L

### **Number of Shares in Issue:**

325,222,098





**HIGHLAND GOLD MINING Ltd.**

26 NEW STREET  
ST. HELIER,  
JERSEY JE2 3RA

[HIGHLANDGOLD.COM](http://HIGHLANDGOLD.COM)