HIGHLAND GOLD MINING LIMITED

ANNUAL REPORT AND ACCOUNTS 2018

HIGHLAND GOLD MINING LIMITED

A WORLD-CLASS ASSET BASE OF PRODUCTION, DEVELOPMENT AND EXPLORATION PROJECTS IN RUSSIA AND CENTRAL ASIA

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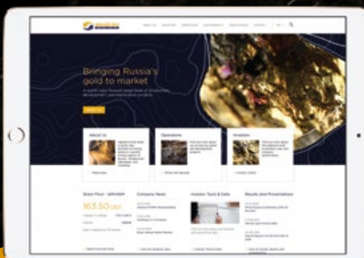

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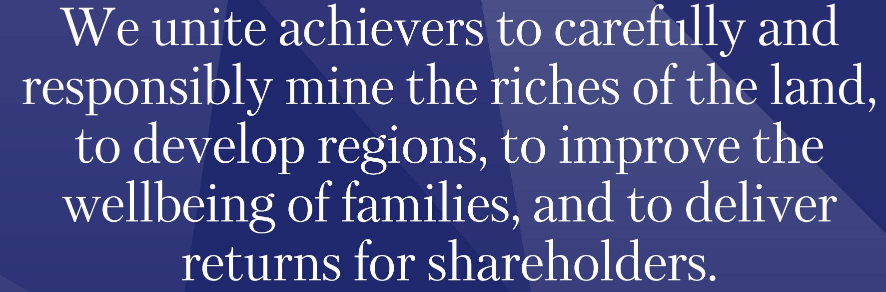
ABOUT US

Highland Gold operates a portfolio of mining assets in three prolific mining regions of Russia – Khabarovsk, Zabaikalsk and Chukotka.



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OUR OPERATIONS

Find out more about performance at the Company's producing assets and development projects.

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GOOD GOVERNANCE

Good corporate governance is a cornerstone of the Highland Gold story.

AT A GLANCE

Highland Gold Mining is a well-established gold producer with a world-class asset base of producing, development and exploration projects.

HIGHLIGHTS

FINANCIAL

Production (gold and gold eq. oz)
269,500
2017: 272,274 oz

Revenue (US$ M)
311.2
2017: 316.7

EBITDA[1] (US$ M)
153.1
2017: 155.3

Net Cash Inflow from Operations (US$ M)
136.2
2017: 131.0

Earnings per Share (US$)
0.154
2017: 0.201

Net Debt[2] (US$ M)
194.3
2017: (198.3)

Total Cash Costs (US$/oz)
506
2017: 507 US$/oz

All-in Sustaining Costs (US$/oz)
682
2017: 664 US$/oz

Operating Profit (US$ M)
109.2
2017: 102.2

Net Profit (US$ M)
56.1
2017: 65.9

Capital Expenditure (US$ M)
62.3
2017: 58.3

Debt/EBITDA Ratio (31 Dec.) (US$)
1.27
2017: 1.28

- Two interim dividends of 0.06 and 0.05 per share, respectively, paid for 2018
- Third interim of 0.024 per share approved by the Board

1. EBITDA is defined as operating profit/(loss) excluding depreciation and amortisation, impairment losses, movement in ore stockpiles obsolescence provision, movement in raw materials and consumables obsolescence provision, result of disposal of a non-core entity and gain on settlement of contingent consideration.
2. Net debt is defined as cash and cash equivalent less interest-bearing loans and borrowings and liabilities under finance lease. The figure does not include debt, lease and cash assumed as part of the Valunisty acquisition. Please refer to the Chief Financial Officer's report for further details.

OPERATIONAL

- A strong operational year at MNV was coupled with the completion of a new JORC-compliant reserve audit that extended the project's life of mine to 2029
- Belaya Gora output rose driven by better recoveries, and a pre-feasibility study was published regarding upgrades to the processing plant and the processing of ore from the nearby Blagodatnoye deposit
- Work on the Novo 1.3 mtpa expansion progressed, but output at the mine declined due to lower grades and recoveries
- The acquisition of the Valunisty mine and related properties closed in December 2018
- Construction of the Kekura project commenced following the completion of a definitive feasibility study.

Read more on our operations See page 12

ASSET PORTFOLIO

WHERE WE OPERATE

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

Producing mine

Exploration & development

KEY TARGETS FOR 2019

- Continue to advance projects designed to improve operations at existing mines – near-mine exploration at MNV, mine and mill expansion at Novo, and processing plant upgrades at Belaya Gora
- Ramp-up construction at Kekura and begin initial stripping and mining at the site
- Integrate the recently-acquired Valunisty mine and related operations and begin studies on potential upgrades to its operations
- Roll-out new programmes for health & safety, operational efficiency and continuous improvement across each of the Company's operating units
- **Total production of gold and gold equivalent in 2019 is expected to be in the range of 290,000-300,000 oz**

PRODUCING MINES

MNOGOVERSHINNOYE (MNV)

112,607

Ounces of gold produced

BELAYA GORA

44,085

Ounces of gold produced

NOVOSHIROKINKSOYE (Novo)

112,808

Ounces of gold equivalent produced

VALUNISTY

Highland Gold's newest operating mine, acquired in December 2018

EXPLORATION & DEVELOPMENT

KEKURA

Kekura is Highland Gold's premier development project, with construction underway and commercial production expected to begin by 2023.

KLEN

Highland Gold holds licences for the Klen gold deposit and the adjacent Verkhne-Krichalskaya property, where renewed exploration drilling is in progress.

BALEY HUB

The Baley group of deposits includes the large Taseevskoye resource, the Sredny Golgotay deposit, and tailings from the former Baley 1 processing plant (ZIF-1).

UNKURTASH

Unkurtash, located in Kyrgyzstan, is an advanced exploration project featuring stockwork-disseminated gold mineralisation hosted in a granitic intrusion.

KAYENMIVAAM (KAYEN)

Kayen is a 1,214km^2 exploration area located approximately 130km from Kupol, the second largest gold mine in Russia. It consists of five exploration targets.

BLAGODATNOYE

The Blagodatnoye deposit is being targeted as an additional source of ore for the Belaya Gora processing plant.

ACCELERATING OUR GROWTH STRATEGY

OUR STRATEGY

Highland Gold's operating strategy is to seek to unlock the value of the assets in its portfolio so as to provide maximum returns to shareholders. Specifically, the Company endeavours to:

Read about our mission, vision and values
See page 10

Focus on operational efficiency and continuous improvement

Realise the upside potential of operating assets

Develop assets at the feasibility study phase into production

De-risk and convert additional resources into reserves

Focus corporate development on regions of presence

Maintain a strong commitment to safety and protecting the environment

MNOGOVERSHINNOYE (MNV)

EXTENDING LIFE OF MINE

Over the course of 2018, Micon International Co Limited conducted an independent updated audit of Mineral Resources and Ore Reserves at the Mnogovershinnoye (MNV) mine in compliance with the JORC code (2012). The audit took into account data from near-mine exploration conducted at MNV in 2017, as well as updated mining parameters.

The new Ore Reserve estimate supports the extension of MNV's life of mine to the year 2029 versus the previous forecast of 2022. Furthermore, a significant increase in Mineral Resources creates the potential to add substantially more reserves in the future.

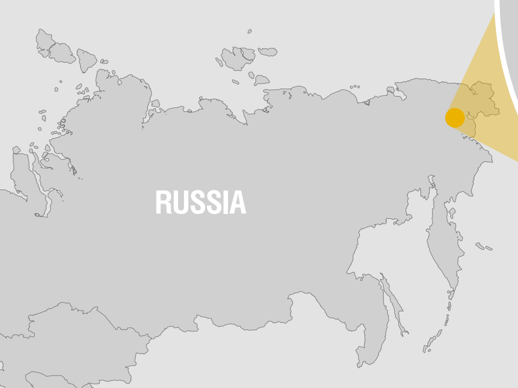
The resource audit did not cover MNV's historic rock waste dumps, which the Company has been evaluating separately on an ongoing basis. During 2016-2018, the Company took over 675k tonnes of ore from the rock waste dumps for processing at the MNV mill.

Read more: Resources and Reserves
See page 87

VALUNISTY

NEW ACQUISITION

Highland Gold completed the acquisition of the Valunisty mine and related assets at the end of Q4 2018, which adds over 30 koz of gold and gold equivalent to Highland Gold's expected production for 2019.



Beginning in 2018 and continuing through 2019, engineering surveys and design work are being carried out for the proposed reconstruction of the processing plant to upgrade annual throughput from 250k to 350k tonnes and for the beginning of underground mining operations.

Read more about our operations
See page 12

AN INCREASING CONTRIBUTION TO COMPANY PERFORMANCE

The acquisition covers three companies with assets in the Russian region of Chukotka, where Highland Gold already operates the Kekura and Klen development projects. The assets include the Valunisty gold mine and processing plant, with annual production of over 30 koz, as well as the Kanchalano-Amguemskaya Square ("KAS") licence, which covers territory surrounding Valunisty and hosts several satellite deposits, and the Kayenmivaam ("Kayen") exploration licence.

>30 koz
of gold added and gold equivalent to Highland Gold's expected production for 2019.

85.8M US$*
Acquisition value

*US$68.1M in shares issued plus US$17.7M in assumed debt as of closing on 27 December 2018.

Key facts

Start date	1999
Life of mine	2028
Mine type	Open pit (+ underground)
Processing	Gravity + cyanide leaching
Processing capacity	250 ktpa
Au eq Resources (M,I&I)[1]	1.67 Moz @ 3.0 g/t
Au eq Reserves (P&P)[1]	503 koz @ 5.2 g/t
Avg Head Grade/Recovery	4.7 g/t I 96%
Total Cash Costs[2]	US$ 752/oz

1. JORC-compliant Resources and Reserves as of 01 Jan. 2019 incl. silver.
2. FY 2018 estimated.

A STRONG AND STABLE PLATFORM

EUGENE SHVIDLER, CHAIRMAN

Throughout the year management continued to pursue its declared strategy of balancing a steady rate of production from our operating mines with the progression of our key development and exploration projects.

DEAR SHAREHOLDER,

Your Board has consistently emphasised Highland Gold Mining's commitment to a combination of organic and acquisitive growth and I am pleased to report that 2018 and the early months of the current financial year have witnessed significant developments on both fronts.

At the forefront of our organic growth plans is the Kekura development project in Russia's Chukotka region, and your Directors are delighted to announce that the Company's Kekura and Klen licences have both been included on the list of companies which can be granted 'residency' status within the Chukotka Advanced Special Economic Zone (ASEZ), a programme designed to encourage investment in the region. Such status will lead to certain tax benefits and other incentives and augurs well for the progression of both projects.

April 2018 brought news of the expansion of our asset base in Chukotka though the acquisition of the established Valunisty gold mine and two associated properties. Further details of this purchase, which was classified as a 'related party' transaction and approved at the Company's Extraordinary General Meeting in May 2018, are to be found in the Chief Executive's Report and on page 5 of this Report. The transaction closed in December.

The third material development that I would like to draw your attention to is the seven-year extension of MNV's 'Life of Mine' from 2022 to 2029. This achievement, confirmation of which was received a matter of days after the conclusion of the year under review, represents a deserved reward for management's commitment over several years.

The Valunisty acquisition adds a fourth gold mine to our portfolio and is expected to contribute upwards of 30,000 oz of gold and gold equivalent to our overall production in 2019 which is estimated at between 290,000 and 300,000 oz compared with 269,500 oz in 2018. The 2018 production total was well within our 265,000 to 275,000 oz guidance range

and, despite challenges at our Novo mine, represented a mere 1% decrease versus 2017's performance.

Throughout the year management continued to pursue its declared strategy of balancing a steady rate of production from our operating mines with the progression of our key development and exploration projects: integral to the unlocking of your Company's extensive asset base.

As always I would like to remind you that Highland's low cost/high margin credentials remain solid, and management is intent on maintaining the Company's position as one of the most competitive gold mining enterprises in the world.

Our standing in this regard is borne out by our Total Cash Costs (TCC) calculation of US$506 per oz (2017: US$507 per oz), well below the industry average. Despite higher administrative expenses, the increase in All-in Sustaining Costs (AISC) was limited to 2.8% from US$664 per oz in 2017 to US$682 per oz in 2018.

Total revenue was little changed at US$311.2 million compared with US$316.7 million in 2017. The average realised price of gold and gold equivalent increased by 0.7% from US$1,162 per oz in 2017 to US$1,171 per oz in 2018. Throughout 2018 the Company continued to pursue a 'no hedge' policy.

EBITDA edged down slightly to US$153.1 million in 2018 from US$155.3 million the year before, while EBITDA margin was maintained at a solid 49.2% versus 49.0% in 2017: a further indication of a highly satisfactory operating performance.

At the close of the financial year the Company's net debt position amounted to US$194.3 million compared with US$198.3 million at end-December 2017. Accordingly, the ratio of net debt to EBITDA held steady at 1.27 versus 1.28 a year earlier, which remains well within your Directors' debt policy.

Our commitment to unlocking asset value is synonymous with our commitment to returning such value to shareholders. Our dividend policy, as declared in 2017, seeks to achieve a minimum annual distribution of 20% of net operating cash flow and underwrites your Company's consistent record in this regard.

In the light of the Company's strong cash position your Board has decided to exceed the minimum targeted distribution and is pleased to recommend a third interim dividend of £0.024 per share which, taking into account previous interim payments, will make a total distribution of £0.134 per share (2017: £0.104 per share) for the financial year to 31 December 2018.

Highland Mining has prioritised best corporate governance practice since the Company's incorporation in 2002 and in August 2018 the Board resolved to adopt the Quoted Companies' Alliance ("QCA") Corporate Governance Code. Details of how the Company complies with the Code's principles appear on page 30.

Other notable 'in-house' developments during 2018 included the introduction of new corporate branding, the formulation of a Mission Statement and a state-of-the-art drive to improve efficiency. These refinements are all associated with ATLAS, our operating system, and are further highlighted in the following pages.

It is with great regret that I must now record that on 29 December 2018 two mine rescue team contractors died while responding to an avalanche at MNV. On behalf of all my colleagues at Highland Gold Mining I would like to offer the families of the deceased our most sincere condolences. Further references to this deeply regrettable occurrence appear in the Sustainability section of this Report.

Looking to the future your Board has every confidence that the ongoing implementation of the strategies outlined here and elsewhere in our Annual Report, together with the maintenance of rigorous cost disciplines, will continue to serve shareholders well in the ensuing years.

Eugene Shvidler
Chairman

CORPORATE GOVERNANCE

The Board has developed and approved a set of important governance principles which set out how it will conduct its business and what people associated with the Company can expect from it.

The Group applies the **ten principles of the QCA Code** in support of the Group's medium to long-term success.

For more details, see Corporate Governance section
See page 30

FOCUSED ON DELIVERY

DENIS ALEXANDROV, CHIEF EXECUTIVE OFFICER

One of the dynamics of our strategy is to focus our development on those regions where we already enjoy a significant presence

The Company's recent corporate highlights, namely the purchase of the Valunisty gold mine and the seven-year 'Life of Mine' extension of MNV, are particularly gratifying in that both developments reflect key aspects of the overall strategy being brought to bear by management in order to fully capitalise on Highland's valuable and substantial asset base.

One of the dynamics of our strategy is to focus our development on those regions where we already enjoy a significant presence and the Valunisty acquisition, finalised in Q4 2018, extends our operations in the established gold producing region of Chukotka (parent to Kekura, our principal development undertaking, and the Klen project). This new asset raises annual production by c.11% to approximately 300,000 oz per annum, offers the prospect of corporate and operating synergies, and is immediately value accretive.

The key assets of the three companies acquired from the vendor, Aristus Holdings, are:

- Valunisty, an established gold mine with annual production of over 30,000 oz of gold and gold equivalent;
- The Kanchalano-Amguemskaya Square ('KAS') licence related to territory surrounding Valunisty which hosts various satellite deposits; and
- The Kayenmivaam ('Kayen') exploration licence which also holds several target deposits.

The Company envisages considerable potential at Valunisty and a tender has commenced to select a design contractor to facilitate the planned expansion of the operation. This will include an upgrading of the processing plant from 250,000 tonnes of ore per annum to 350,000 tonnes and the development of underground mining operations: the key to unlocking higher grade ore. The start date for the latter is estimated at 2020.

The neighbouring KAS licence includes the Gorny open-pit mine, where mining has already been initiated, and two greenfield projects, namely the Zhilny deposit and the

Shakh exploration area where 9 km of drilling has been completed. The additional Kayen licence, located near Kupol, Russia's second largest gold mine, encompasses five exploration targets with approximately 23 km of drilling recorded to date.

Accordingly, the Valunisty/KAS assets add 1.67 Moz at 3.0 g/t of gold and gold equivalent to the Company's Mineral Resource base and 503,279 oz at 5.2 g/t of gold and gold equivalent to Ore Reserves.

Another strategic dynamic within Highland is to optimise our operating assets to maximise their upside potential. The extension of MNV's life of mine, initially from 2018 to 2022 and now to 2029, comes in the wake of annual exploration budget allocations of US$3 million to US$5 million; an extensive near-mine exploration programme within existing licences; the acquisition of three greenfield sites – Zamanchivaya (4.2 sq km), Kulibinskaya (38 sq km) and, in Q3 2018, Vilkinskaya (33 sq km); and a waste rock evaluation programme initiated in 2016.

Almost 600,000 oz Au was added to MNV's reserves during 2017-18 and, since 2016, more than 675,000 tonnes of ore at an average grade of 1.09 g/t Au have been transported from historic rock dumps for processing at the mine's mill.

In keeping with such 'optimisation', near-mine exploration on both the principal licence areas and the greenfield sites will continue throughout 2019.

Confirmation of MNV's seven-year 'LoM' extension is particularly welcome in the wake of the mine's excellent performance in 2018, reflected in a near 10% increase in gold production to more than 112,000 oz representing 42% of total Group production. This performance was all the more impressive in the light of reduced processing capacity during Q1 due to technical problems.

Respective mine performances are detailed in the Operational Review that follows but, in broad terms, Belaya Gora fully maintained 2017's output levels with a 16% contribution to total production, while lower grades and recovery rates saw Novo's share of total output reduce to the same level as MNV.

Yet another of our maxims is to focus on operational efficiency and continuous improvement. Highland's significantly enhanced Website – an instrument which has become integral to best corporate governance practice – made a successful debut at the outset of Q4 and was accompanied by new corporate branding and the creation, by Highland employees, of a 'Vision', 'Mission', and 'Values' Statement which is highlighted on page 10.

These advancements are closely associated with our ATLAS (Assets, Technologies, Leadership and Strengths) programme for operational excellence which is currently being introduced throughout our facilities.

A prime example of our technological drive in pursuit of operational efficiency is the implementation of the Company's Business Analysis System, appropriately nicknamed 'GoldenEye', which allows us to monitor and control technological processes across various sites by providing real-time information flow in digital and graphical format.

VISION, MISSION AND VALUES

Highland Gold's vision, mission and values, which were developed and adopted over the course of 2018, are the result of a collaborative effort by team members from across the Company and its subsidiaries. More than a set of ideals, they are designed to encourage behaviours that will help Highland Gold achieve its goals.

OUR VISION

Gold holds eternal value on Earth. It is our honour to deliver it to people.

OUR MISSION

We unite achievers to carefully and responsibly mine the riches of the land, to develop regions, to improve the wellbeing of families, and to deliver returns for shareholders.

OUR VALUES

RESPONSIBILITY IS CONCERN

- Initiative and commitment
- People's health and safety
- Protect the environment
- Rationale use of mineral resources
- Concern for the Company

IMPROVE OTHERS, IMPROVE OURSELVES

- Self-awareness and openness
- Influence and contribution
- Training and mentoring
- Development of the regions of operations

TEAMWORK MEANS RESULTS

- Communication and trust
- Respect and feedback
- Conflict management
- Executive decision
- Positivity at work

UNATTAINABLE – COURAGE WITHOUT LIMITS

- Honesty
- Ambition
- Creativity
- Courage and determination

As a result we expect to:

- Reduce the time required for receipt and analysis of operational data and for decision making at all levels – operator, line manager, middle management, mine director, head office;
- Unify and digitise the reporting of primary data thereby eliminating the use of spreadsheets and paper;
- Achieve quicker and deeper analysis of cause and effect in relation to operations and incidents; and
- Unify key regulatory reference information.

Taken together, all of these measures are designed to (i) enhance internal and external communications (ii) create a cohesive corporate culture (iii) encourage employee initiative and (iv) streamline our technical and business processes. They represent important aspects of our quest for continuous improvement, a quest which, I am pleased to report, met with considerable success during 2018. Management is firmly of the opinion that such endeavours will yield significant rewards for all stakeholders in the years ahead.

On the development front, Kekura continues to hold the stage with several key infrastructure projects – the power substation, the assay laboratory, fuel storage facilities and the communications tower – either finalised or under construction.

As we progress towards the estimated 2023 start date, stripping and preliminary ore mining is due to commence in Q4 2019, followed by construction of the full processing plant. In terms of upside potential, drilling has commenced on several targets within the broader Kekura licence area with a view to identifying additional open-pit reserves.

Further references to the Company's exploration activities in 2018 can be found in the Operational Review.

I would now like to take this opportunity to thank all of our employees for the hard work and commitment that lies behind our achievements in 2018.

Denis Alexandrov
Chief Executive Officer

ATLAS

ATLAS is an operating system that provides for sustainable, balanced development of Assets, Technologies and Leaders to Achieve goals and Support values.

Introduced over the course of 2018, this framework serves as a foundation for a variety of continuous improvement initiatives currently being rolled out across the Company.

ASSETS
Mines, equipment, tools and software: What we use in our work to create value.

STRENGTHS
Goals and values through which we achieve results.

A

T

L

TECHNOLOGIES
Standards, regulations and procedures through which we perform our work in the most effective manner.

LEADERSHIP/PEOPLE
Offices and staff: Those who create by uniting assets and technologies. We encourage teamwork, proactivity, multi-functionality, delegation of responsibility.

PRODUCTION STATISTICS

HIGHLAND GOLD MINING LTD	Units	FY 2018	FY 2017	H2 2018	H1 2018	H2 2017	H1 2017
Waste stripping	t	9,464,138	9,450,392	4,903,781	4,560,357	4,353,629	5,096,763
Underground development	m	23,225	22,736	11,118	12,107	11,593	11,143
Open-pit ore mined	t	2,522,315	1,359,799	1,325,737	1,196,578	503,831	855,968
Open-pit ore grade	g/t	1.10	1.03	1.22	0.98	1.03	1.03
Underground ore mined	t	1,676,568	1,650,846	829,235	847,333	847,326	803,520
Underground ore grade	g/t	4.25	4.38	4.10	4.40	4.44	4.31
Waste dumps ore mined	t	69,469	327,358	22,173	47,296	146,293	181,065
Waste dumps ore grade	g/t	1.04	1.12	1.04	1.04	1.15	1.10
Total ore mined	t	4,268,352	3,338,003	2,177,145	2,091,207	1,497,450	1,840,553
Average grade	g/t	2.34	2.70	2.31	2.36	2.98	2.47
Ore processed	t	3,722,406	3,895,759	1,988,903	1,733,503	1,960,152	1,935,607
Average grade	g/t	2.69	2.57	2.59	2.79	2.62	2.52
Recovery rate	%	84	85	85	83	85	84
Gold and gold eq. produced	**oz**	**269,500**	**272,274**	**140,579**	**128,921**	**140,489**	**131,785**

MNOGOVERSHINNOYE (MNV)	Units	FY 2018	FY 2017	H2 2018	H1 2018	H2 2017	H1 2017
Waste stripping	t	4,255,199	6,514,859	2,157,753	2,097,446	2,808,059	3,706,800
Underground development	m	11,783	11,357	5,860	5,923	5,934	5,423
Open-pit ore mined	t	426,986	280,006	286,004	140,982	119,106	160,900
Open-pit ore grade	g/t	2.42	2.05	2.50	2.23	2.11	2.00
Underground ore mined	t	810,806	792,740	402,903	407,903	404,083	388,657
Underground ore grade	g/t	3.31	3.15	3.52	3.10	3.20	3.10
Waste dumps ore mined	t	69,469	327,358	22,173	47,296	146,293	181,065
Waste dumps ore grade	g/t	1.04	1.12	1.04	1.04	1.15	1.10
Total ore mined	t	1,307,261	1,400,104	711,080	596,181	669,482	730,622
Average grade	g/t	2.90	2.46	3.03	2.73	2.56	2.36
Ore processed	t	1,310,293	1,373,130	701,167	609,126	652,667	720,463
Average grade	g/t	2.92	2.55	3.07	2.75	2.67	2.43
Recovery rate	%	92	91	93	92	92	91
Gold produced	**oz**	**112,608**	**102,502**	**64 518**	**48 090**	**51,753**	**50,749**

BELAYA GORA	Units	FY 2018	FY 2017	H2 2018	H1 2018	H2 2017	H1 2017
Waste stripping	t	5,208,939	2,935,533	2,746,028	2,462,911	1,545,570	1,389,963
Ore mined	t	2,095,329	1,079,793	1,039,733	1,055,596	384,725	695,068
Average grade	g/t	0.84	0.77	0.86	0.81	0.70	0.81
Ore processed	t	1,578,890	1,696,810	860,022	718,868	886,261	810,549
Average grade	g/t	1.13	1.11	1.15	1.11	1.10	1.12
Recovery rate	%	75	73	77	75	73	72
Gold produced	**oz**	**44,085**	**43,166**	**24,281**	**19,804**	**23,132**	**20,034**

NOVOSHIROKINSKOYE (NOVO)	Units	FY 2018	FY 2017	H2 2018	H1 2018	H2 2017	H1 2017
Underground development	m	11,442	11,379	5,258	6,184	5,659	5,720
Ore mined	t	865,762	858,106	426,332	439,430	443,243	414,863
Average grade *	g/t	5.13	5.52	4.65	5.60	5.58	5.45
Ore processed	t	833,223	825,819	427,714	405,509	421,224	404,595
Average grade *	g/t	5.26	5.61	4.72	5.83	5.72	5.50
Recovery rate *	%	80	85	80	80	85	85
Gold eq. produced *	**oz**	**112,807**	**126,606**	**51,780**	**61,027**	**65,604**	**61,002**

* Calculated in gold equivalent (gold equivalent is calculated based on average factual prices for the period). Metal grade of mined ore = Au 3.12 g/t, Ag 48.20 g/t, Pb 1.24 %, Zn 0.48%).

KHABAROVSK REGION, RUSSIA

MNOGOVERSHINNOYE (MNV)

MNV recorded a near 10% increase in gold production to 112,607 oz in 2018 compared with 102,502 oz in 2017, thereby raising its share of the Company's overall production from 38% to close on 42%. This was achieved despite a 30% plus decrease in processed ore tonnage during Q1 due to a damaged feed trunnion that temporarily put one of the two mills out of commission. The decline was reduced to 4.6% in respect of the full year following an 18% year-on-year increase in Q4.

The average grade rose 14.5% to 2.92 g/t in 2018 although open-pit ore grade registered a 35% increase in Q4 versus Q4 2017 as grade-control drilling exposed higher grade blocks at the Central ore body. The recovery rate held firm at 92.3% (2017: 91.4%).

Management's focus on near-mine exploration continued throughout 2018, as did the evaluation programme in relation to the mine's historic rock waste dumps.

During 2018, over 69 thousand tonnes of ore at a grade of 1.04 g/t were taken from the waste dumps for processing. Since the programme commenced in 2016, a total of 1.12 M tonnes of ore has been identified and 675,000 tonnes processed at an average grade of 1.09 g/t.

Stage 1 of the mine's broad grade-control drilling programme was completed in 2018. Exploration activity involved drilling from the surface to confirm the location of mineralisation zones and also from the underground workings below such zones. Based on these drilling results, revised Russian-standard reserve estimates were developed, submitted to regulators GKZ and approved in December 2018.

Diamond exploration drilling in 2018 was performed at the Deep, Quiet, Intermediate, Northern and Deer ore bodies. Drilling totalled 15,355 metres, encompassing 230 holes. Geochemical prospecting work was completed during the year in respect of two of the Company's greenfield licences adjacent to MNV, namely Kulibinskaya and Zamanchivaya.

At Kulibinskaya, 56,245 m^3 of trenching and 1,054 metres of diamond drilling duly facilitated sample testing and logging.

Trenching activity at Zamanchivaya covered 15,324 m^3. Diamond drilling in areas with elevated gold grades, as identified by trench sampling, totalled 2,223 metres.

The avalanche that occurred in December blocked the entrance to the underground mine via Adit #1. As a result, mining activities were refocused on areas accessed by other entrances, and on open-pit operations.

Production costs

Total cash costs (US$)

600 per oz

(2017: US$617 per oz)

All-in sustaining costs (US$)

757 per oz

(2017: US$741 per oz)

Capital costs

Total investment in MNV (2018, US$)

20.2M

Included capitalised expenditures and construction (US$7.8 million), purchase of equipment (US$10.5 million) and exploration (US$1.9 million).

Outlook

Ongoing exploration activity and continuation of the waste appraisal programme during 2019 will be supported by budget allocation of over US$4 million.

Priority exploration targets for 2019 include the Deer, Central, Intermediate, and Deep ore bodies, the Burlivaya zone, the Kulibinskaya and Zamanchivaya licences and a third adjacent greenfield site, Vilkinskaya, acquired in Q3 2018.

Expectations are that MNV's JORC-compliant reserves will be further updated in 2019.

BELAYA GORA

Ore mining at Belaya Gora almost doubled to more than 2 million tonnes in 2018 as operations reverted from stockpiles to open-pit. Processing volume declined by circa 7% versus 2017, partly reflecting efforts to improve recovery rates which advanced from 2017's 72.5% to 74.8%.

Total production of gold and gold equivalent edged up 2% to 44,085 oz in 2018: a 16% contribution to the Company's overall output. An exploration programme on the Belaya Gora flanks licence was completed in 2018 with 105 holes and 8,268 metres drilled on the promising Kolchansky and Zayachy prospects. In addition, a further six holes totalling 600 metres were drilled in Q4 2018 to study the hydrogeological environment in the area.

Design work was initiated for the processing plant upgrade (see Outlook) which will include the addition of a carbon-in-pulp (CIP) circuit to improve recoveries.

Production costs

Total cash costs (US$)

724 per oz

(2017: US$861 per oz)

All-in sustaining costs (US$)

811 per oz

(2017: US$1,029 per oz)

Capital costs

Total investment in Belaya Gora (2018, US$)

4.8M

Included capitalised expenditures and construction (US$3.4 million), purchase of equipment (US$0.5 million) and exploration (US$0.9 million).

Outlook

A pre-feasibility study was published in early 2018 focused on new mining plans for Belaya Gora and Blagodatnoye. These included:

- A US$15 million upgrade to the processing plant designed to improve recoveries to a range of 86-91% for Belaya Gora ore and 90% for Blagodatnoye ore
- Estimated capex of US$21 million to transfer mining activity from Belaya Gora to Blagodatnoye in 2023
- Estimated annual production of over 55,000 oz of gold and gold equivalent.

Work in 2019 will focus on advancing the processing plant upgrade project. Meanwhile, a report on the exploratory activity on the Kolchansky and Zayachy prospects, including reserve estimates, is expected in Q2 2019.

BLAGODATNOYE

In line with the Belaya Gora pre-feasibility study, it is anticipated that the Blagodatnoye deposit will supply additional ore to the upgraded processing plant at a later date.

In order to satisfy regulatory requirements, the Company submitted a Russian-standard feasibility study covering exploration parameters and a reserve estimate for Blagodatnoye to regulators in Q3 2018.

Capital costs

Total investment in Blagodatnoye (2018, US$)

0.4M

This represented a capitalised exploration and evaluation asset.

ZABAIKALSKY REGION, RUSSIA

NOVOSHIROKINSKOYE (NOVO)

Lower grades and recovery rates, particularly during Q4 2018, impacted adversely on gold equivalent production, which registered a sharp deterioration in Q4 and a near 11% decline to 112,808 oz for the full year: effectively the same as MNV's 42% contribution. Q4 grades reduced from 5.97 g/t to 4.07 g/t year-on-year which saw the full year average decline from 2017's 5.61 g/t to 5.26 g/t. Recoveries in respect of the full year fell from 85% to slightly above 80%. Ore processing was stable at some 833,000 tonnes versus 2017's 825,000 tonnes.

The decline in mined ore grades during the year, particularly in terms of lead content, reflected the movement of mining operations to lower horizons where anticipated reserve grades were not confirmed in certain blocks. The lower lead content, combined with an increase in the proportion of gold associated with pyrite, had a negative effect on recovery rates.

Throughout 2018, work continued on the mine's 1.3 Mtpa expansion project, designed to compensate for the expected lower ore grades. Stage 1 of the project involves upgrades to the mining complex. Highlights for the year included:

- Completion of the construction of foundation frames for the main fan unit building
- Preparation, by way of underground development, for reconstruction of the skip hoist (loading boxes)
- Completion of the design for a water pumping station at the +637 m level followed by the commencement of assembly work
- Completion of underground development to facilitate the construction of mud settling ponds at the +637 m level.

Stage 2 of the expansion project will increase throughput at the processing plant and is currently in the design phase.

Production costs

Total cash costs (US$)

323 per oz

(2017: US$291 per oz)

All-in sustaining costs (US$)

388 per oz

(2017: US$342 per oz)

Capital costs

Total investment in Novo (2018, US$)

13.7M

Included capitalised expenditures and construction (US$10.7 million), and purchase of equipment (US$3.0 million).

Outlook

To address recent issues with metals grades, in-fill underground production drilling has been intensified alongside the completion of a reserve confirmation drilling programme projecting out five years. In order to improve recoveries, management is focusing on two fronts: 1) spiral flow separation, which would reduce the load on the gravity section and therefore increase recoveries, has been included in Novo's investment programme for 2019; and 2) ore sorting, utilising X-ray transmission (XRT) and/or dense media separation (DMS), which is under consideration as part of the design of Stage 2 of the expansion project. The latter would also serve to reduce capital costs.

BALEY ORE CLUSTER (TASEEVSKOYE, SREDNY GOLGOTAY AND ZIF-1)

Management continued to progress plans to design a heap leach facility with an annual processing capacity of 840,000 tonnes at its Baley ZIF-1 tailings licence. Public hearings, as part of an environmental impact study, were conducted in May 2018 and the project met with the unanimous approval of attendees. In the wake of this, a wide range of geological, environmental and archaeological studies have been conducted.

Design documentation was developed and subsequently approved by the Zabaikalsky region's supervisory authorities in September 2018. State environmental experts signed off on the project design in November and documentation has been prepared for submission to the State Expert Board for review.

At Taseevskoye, geophysical surveys were carried out in Q3 2018 for the purpose of delineating the outlines of the historic underground workings in order to achieve better-quality exploration planning. Analysis of the results carried out in Q4 2018 showed that additional study of polarisation parameters is necessary to complete the tomographic work. Amendments to stage-one of the mine development plan include the relocation of the processing water pond.

In October 2018, Wardell Armstrong (WAI-RU) was contracted to draft a trade-off study (Scoping Study level) to assist in the consideration of options for the development of the Sredny Golgotay deposit. A preliminary report was received at year-end and is currently under internal review.

Concurrently, contractor Vostokgeologia LLC developed a geological exploration programme for Sredny Golgotay which is currently being reviewed by state geological experts.

Capital costs

Total investment in Baley area licences (2018, US$)

2.5M

CHUKOTKA AUTONOMOUS DISTRICT, RUSSIA

News that the Kekura and Klen licences have been included on the list of projects which can be granted 'residency' in the Chukotka Advanced Special Economic Zone (ASEZ) – received post the period under review – augurs well for the progression of both projects, qualifying them for certain tax benefits and other incentives.

The Company's applications for residency followed the approval by a commission of the Ministry for Development of the Russian Far East in December 2018 of a proposal to expand the Beringovsky ASEZ, which previously covered only the south-eastern part of Chukotka, to include other parts of the region within which the Kekura and Klen licences are located. The Chukotka ASEZ, as it is now known, was approved by the Russian prime minister on 10 January, 2019.

KEKURA

Preparations for ongoing construction and mining continued throughout 2018 ahead of the estimated start date of 2023. Developments included:

- Approval in December by Rosnedra, the federal agency for mineral resources, of the Kekura mine design developed by GeoSolutions LLC
- Repair and maintenance activity in respect of the pilot processing plant
- The drafting by general design contractor SPb-Giproshakht of key aspects of the construction design for the main processing plant based on the pilot plant
- The development of specifications for construction materials and technical and processing equipment in respect of mining and processing facilities
- The completion by research specialist EngGeo LLC of the first stage of field studies required for construction of mining and processing facilities. Desktop studies are currently in progress
- The completion of equipment testing for the 110/6 kV substation which is designed to receive electricity from a new power line – under construction by the government – which will link Kekura to the regional electrical grid
- Following an inspection of the explosives storage facility, Rostekhnadzor, the industrial safety authority, issued appropriate certification
- The assembly of a BS-1 communications tower was completed in November 2018.

Construction of a winter road from Kekura to the administrative town of Bilibino was completed in December 2018. This will facilitate delivery of materials and equipment stored at the ports of Zeleny Mys and Pevek.

On the exploration front, 19 holes totalling 2,255 metres were drilled at the Zapadny prospect in the broader Kekura licence area during Q4 2018. Further drilling on this prospect is scheduled during 2019.

Capital costs

Total investment in Kekura (2018, US$)

17.7M

This included capitalised expenditures and construction (US$3.6 million), purchase of equipment (US$13.0 million) and exploration (US$1.1 million).

KLEN

Regulators signed and registered amendments to the Klen licence agreement in Q4 2018, thereby extending the period for development of the deposit.

The Company held a tender during the quarter to select a contractor to study X-ray transmission (XRT) ore pre-concentration as an option for ore processing and a contract was signed for the first stage of laboratory studies.

The development of design documentation for Klen was delayed until Q2 2019 ahead of the decision on residency within the Chukotka ASEZ and completion of the ore pre-concentration tests.

Construction of a winter road to Klen commenced in Q4 2018 in order to transport a drilling rig and miscellaneous equipment to the site prior to exploration drilling on the flanks of the Klen deposit and within the boundaries of the surrounding Verkhne-Krichalskaya licence area in 2019.

KYRGYZSTAN

UNKURTASH

The scoping study for the Unkurtash project that was completed and published in 2017 envisaged:

- 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
- Estimated capex of US$322 million to commence production.

This will now be progressed to a pre-feasibility study and talks will continue to be held with prospective development partners.

SOLID FINANCIAL PERFORMANCE

ALLA BARANOVSKAYA, CHIEF FINANCIAL OFFICER

Strong metal prices and largely maintained AISC delivered strong headroom of US$489 per oz, effectively underwriting the Company's development projects and dividend distribution.

In 2018, Highland Gold 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 sixth consecutive year.

Trends on global metals markets during 2018 remained similar to the year before and, by and large, were positive. Despite price fluctuations between US$1,178 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$1,268, an increase of 1% versus 2017. The prices for lead and zinc traded around their highest levels for three years. The weakening of the rouble favourably influenced the Company's financial indicators and drove costs down despite higher prices in respect of fuel and consumables.

On 27 December 2018, the Company acquired from Aristus Holdings Limited a 100% interest in three companies with assets in the Russian region of Chukotka: Rudnik Valunisty LLC, Kanchalano-Amguemskaya Square LLC and Severo-Vostochnaya Gorno-Geologicheskaya Company LLC. The assets include the Valunisty gold mine and processing plant, with annual production of 31 koz (2017), as well as the Kanchalano-Amguemskaya Square ("KAS") licence, which covers territory surrounding Valunisty and hosts several satellite deposits, and the Kayenmivaam ("Kayen") exploration licence. The Group determined that this transaction was a business combination and treated it under IFRS 3 applying a provisional accounting approach. The Company issued 38,621,343 ordinary shares to Aristus, valued at US$68.1 million at the time of closing in exchange for the acquired assets and liabilities, which were recognised in the consolidated balance sheet as at 31 December 2018 at fair value. No gain or loss was recognised on the acquisition.

CASH OPERATING COSTS – BREAKDOWN

	2018 US$000	2017 US$000	y-on-y change %
Cost of sales	**178,222**	**189,096**	**(5.8%)**
– depreciation, depletion and amortisation	(42,304)	(49,476)	(14.5%)
Cost of sales, net of depreciation, depletion and amortisation	**135,918**	**139,620**	**(2.7%)**
Breakdown per item:			
Labour	47,439	48,984	(3.2%)
Consumables and spares	39,494	39,417	0.2%
Power	10,725	11,451	(6.3%)
Movement in ore stockpiles, finished goods and stripping assets	(3,084)	(1,684)	83.1%
Maintenance and repairs	23,906	23,601	1.3%
Taxes other than income tax	17,438	17,851	(2.3%)

Total revenue amounted to US$311.2 million with US$196.6 million from sales of gold and silver generated at MNV and BG, and US$113.8 million from sales of lead and zinc concentrates at Novo (2017: total revenue US$316.7 million consisting of US$185.8 million and US$130.5 million respectively). During the reporting period, the Company sold 263,795 oz of gold and gold equivalent, representing a 2.4% volume decrease versus 2017. MNV increased its sales volume by 9.7% to 111,866 oz representing a 42.4% share of the total. Novo's contribution (108,738 oz of Au eq.), accounting for 41.2% of the total, decreased by 12.6% mainly due to lower Au eq. grade and lower recovery rates. Belaya Gora sold 43,191 oz showing a minor decline and accounted for a 16.4% share.

During 2018, the Company continued to pursue a "no hedge" policy. The Company's average realised price of gold and gold equivalent increased by 0.7% to US$1,171 per oz (2017: US$1,162 per oz). The average realised price of gold in respect of MNV and Belaya Gora (net of commission) was US$1,258 per oz (2017: US$1,259 per oz), which corresponded with the average market price.

The price of gold equivalent realised by Novo was US$1,047 per eq. oz against US$1,048 per eq. oz in 2017 (-0.2% y-o-y).

The Company's cost of sales net of depreciation decreased by 2.7% to US$135.9 million (2017: US$139.6 million). During 2018 the rouble weakened by 8.0%, resulting in an average rate of 62.93 roubles per dollar. The positive effect on costs was diminished by overall inflation (4.3%), wage revision, more expensive diesel and higher prices for imported consumables, reagents, and grinding balls.

Depreciation amounted to US$42.3 million, down 14.5% y-o-y, largely reflecting the life-of-mine extensions at all operational assets.

Total cash costs[2] (TCC) were practically unchanged at US$506 per oz, (2017: US$507 per oz) comfortably below the industry average. A breakdown by operating unit shows an increase of 11.1% in total cash costs at our lowest-cost producer Novo to US$323 per eq. oz (2017: US$291 per oz), reflecting the lower grade and, as a consequence, a decreased recovery rate. MNV, our oldest mine, succeeded in improving total cash costs to US$600 per oz (2017: US$617 per oz).

Belaya Gora's total cash costs reduced from US$861 per oz in 2017 to US$724 per oz in 2018, a reflection of processing higher-grade ore with a higher recovery rate which in turn led to a decrease in processing ore from low-grade stockpile (from 78% to 23% in 2018). All-in sustaining costs[3] (AISC) registered an increase of just 2.8% from US$664 per oz in 2017 to US$682 per oz in 2018.

Administrative expenses increased by 6.9% to US$17.2 million (2017: US$16.1 million), reflecting the increased costs for sustainable improvement projects and additional legal services related to the acquisition of Rudnik Valunisty.

Strong metal prices and largely maintained AISC delivered strong headroom of US$489 per oz, effectively underwriting the Company's development projects and dividend distribution.

In 2018, the Company's EBITDA amounted to US$153.1 million (2017: US$155.3 million). In line with this, the EBITDA margin[4] remained flat: 49.2% in 2018 (2017: 49.0%) – a ratio which underlines Highland's status as one of the most efficient gold producers.

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

	2018 US$000	2017 US$000	y-on-y change %
Cost of sales, net of depreciation, depletion and amortisation	**135,918**	**139,620**	**(2.7%)**
– cost of by-products and other sales	(1,986)	(2,261)	(12.2%)
– taxes other than income tax at non-operating entities	(355)	(363)	(2.2%)
Total cash costs (TCC)	**133,577**	**136,996**	**(2.5%)**
+ administrative expenses	17,163	16,054	(6.9%)
+ accretion and amortisation on site restoration provision	1,460	1,502	(2.8%)
+ movement in ore stockpiles obsolescence provision	722	3,185	(77.3%)
+ sustaining capital expenditure	27,018	21,698	24.5%
Total all-in sustaining costs (AISC)	**179,940**	**179,435**	**0.3%**
Gold sold (gold and gold eq.oz)	263,795	270,380	(2.4%)
TCC (US$/oz)	**506**	**507**	**(0.1%)**
AISC (US$/oz)	**682**	**664**	**(2.8%)**
Average realised price of GE (US$/oz)	**1,171**	**1,162**	**0.8%**
Headroom (US$/oz)	**489**	**499**	**(1.9%)**

EBITDA RECONCILIATION TO OPERATING PROFIT

	2018 US$000	2017 US$000
Operating profit	**109,186**	**102,202**
Depreciation of property, plant and equipment	42,304	49,476
Individual impairment	803	(4)
Movement in ore stockpiles obsolescence provision	722	3,185
Movement in raw materials and consumables obsolescence provision	45	416
EBITDA	**153,060**	**155,275**

The Company's management analysed internal and external indicators of impairment as of 31 December 2018. No impairment loss relating to CGUs was recognised in 2018. Two development projects located in Chukotka (Kekura and Klen) have both been included on the list of companies which can be granted 'residency' status within the Chukotka Advanced Special Economic Zone (ASEZ). Such status will lead to certain tax benefits and other incentives that will beneficially influence the projects' NPV.

In 2018, the Company recognised a net finance cost of US$1.8 million compared with US$2.5 million in 2017. The principal components were the accretion expense on site restoration provision for US$1.5 million in 2018 (2017: US$1.6 million) and the bank interest expense of US$0.4 million (2017: US$0.8 million).

A foreign exchange gain of US$0.8 million (2017: gain of US$0.7 million) resulted from the settlement of foreign currency transactions and the retranslation of monetary assets and liabilities denominated in Russian roubles into US Dollars.

The income tax charge in 2018 was 50% higher than in 2017: US$52.2 million versus US$34.5 million. The principal reason was a substantial increase in deferred tax expense of US$18.3 million (2017: gain of US$6.6 million) driven by future tax revaluation of the rouble's depreciation at the end of the year and an increase in dividend withholding tax expense of US$13.7 million (2017: US$7.7 million), reflecting the higher dividends.

Current tax expenses totalled US$20.2 million (2017: 33.3 million). This comprised income tax expense of US$10.3 million (2017: US$19.4 million) at Novo, US$9.8 million (2017: US$13.1 million) at MNV, US$0.1 million (2017: US$0.4 million) at BG and US$0.05 million (2017: US$0.4 million) at RDM.

Net profit, benefiting from strong operating results but adversely impacted by high deferred tax, decreased by 15% to US$56.1 million (2017: US$65.9 million). Consequently, earnings per share fell to US$0.154 for the year to 31 December 2018 (2017: US$0.201).

The Company's cash inflow from operating activities registered a 4.0% increase to US$136.2 million reflecting lower payments of income taxes (minus US$10.7 million). Capital expenditure for the reporting period amounted to US$62.3 million versus US$58.3 million in respect of 2017. This primarily related to near-mine exploration at MNV, designed to further extend the LOM, the expansion of Novo's processing capacity, the progression of the Kekura project and the replacement of obsolete equipment.

Specific capital expenditures included US$20.7 million at MNV, US$13.7 million at Novo, US$4.8 million at Belaya Gora, US$17.7 million at Kekura and US$5.4 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 amounted to US$230.1 million as of 31 December 2018 (2017: US$207.4 million). This amount was inclusive of the IFRS 9 modification impact. In addition to this, the Group acquired the loans of Valunisty amounting to US$17.7 million. The effective annual interest rate was 4.24%, inclusive of Valunisty debt (2017: 3.43%). To mitigate the rising cost of debt, management continued to refinance debt with floating interest rates to fixed-rate debt, thereby increasing the overall proportion of fixed-rate liabilities to 75% compared with 65% as of end December 2017.

At the end of the reporting period, cash and cash equivalents amounted to US$38.7 million compared with US$12.4 million as of 31 December 2017. The Company's net debt position, including lease liabilities, was US$194.3 million (free of Valunisty debt, cash and lease) as of 31 December 2018, compared with US$198.3 million as of 31 December 2017.

The ratio of net debt to EBITDA was 1.27 (free of Valunisty) as at the end of 2018 (2017: 1.28) which is well within the Board of Directors' debt policy.

Taking into account the Company's solid financial performance, the Board is pleased to recommend a third interim dividend of GBP 0.024 per share.

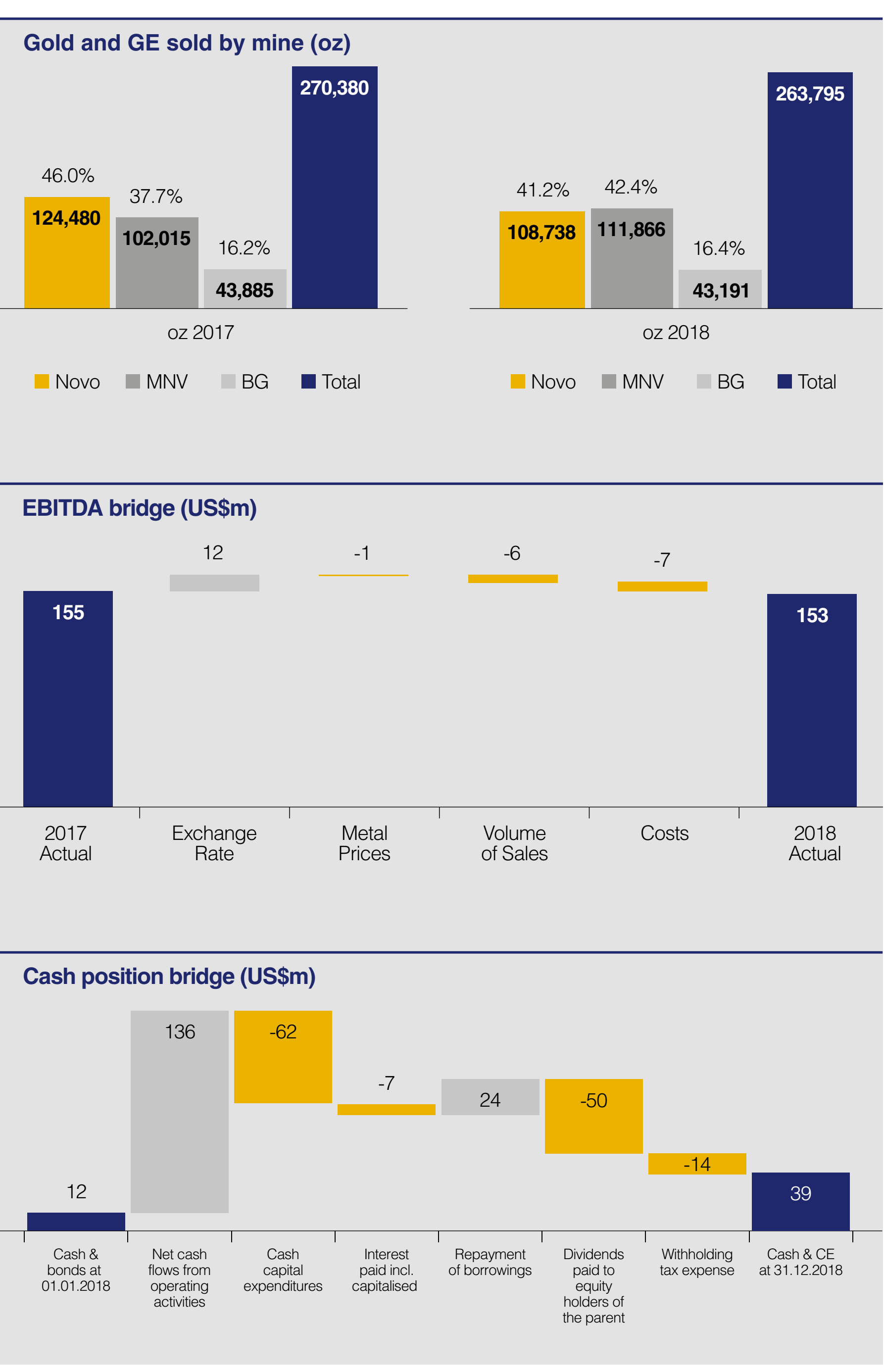
Payment of dividends

The second interim (final) dividend for the year ending 31 December 2017 in the amount of US$24.2 million was paid in May 2018.

The Company paid a first interim dividend of GBP 0.06 per share in respect of H1 2018 (2017: interim dividend of GBP 0.0498 per share) which resulted in an aggregate interim dividend payment of US$25.5 million (2017: US$21.3 million). The first interim dividend was paid on 24 September 2018.

DEBT DYNAMICS

	2018 excl. Valunisty	2018 incl. Valunisty	2017
Gross Debt (k US$)	**230,102**	**247,851**	207,400
Average Interest Rate	**4.18%**	**4.24%**	3.43%
LIBOR	**2.51%**	**2.51%**	1.56%
Net Debt	**194,286**	**211,433**	198,300
Net Debt/EBITDA	**1.27**	**1.38**	1.28



In December, the Board approved a second interim dividend of GBP 0.05 per share (2017: 0.0542 per share) which, taking into account the first interim dividend paid in September 2018, brings total dividends paid to GBP 0.11 per share for the year 2018 (2017: GBP 0.104 per share). The second interim dividend was paid to shareholders in January 2019 for US$20.9 million. 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 Board has approved a third interim dividend of GBP 0.024 per share (2017: nil) to be paid to shareholders on 7 June 2019, thereby bringing the total payout based on the 2018 financial year to GBP 0.134. The ex-dividend date was 25 April 2019 and the record date was 26 April 2019. A Scrip Dividend alternative has been offered in respect of the interim dividend.

The Company has introduced an option for shareholders to elect to receive their dividends in pounds sterling, US dollars, or in respect of such dividends as the Directors offer a Scrip Dividend alternative, via a sterling value Scrip Dividend alternative in accordance with the Company's Scrip Dividend Scheme approved by shareholders at the Annual General Meeting on 24 May 2018 which is available on the Company's website at www.highlandgold.com.

Payments of the interim cash dividend in US dollars will be fixed at an exchange rate of 0.765 GBP/US$, or US$ 0.031 per share. To receive payment in US dollars, shareholders should complete and file the Currency Election Form no later than 13 May 2019. The Currency Election Form and instructions for filing it are available on the Company's website at: https://www.highlandgold.com/home/investors/dividends

Belaya Gora

The Scrip Dividend alternative offered in respect of the interim dividend requires a Scrip Dividend Mandate to be completed and received by Link Asset Services by the Return Date of 13 May 2019. The value for the issue of new shares under the Scrip Dividend alternative will be calculated in accordance with the Scrip Dividend Scheme and announced on 2 May 2019. The value of the new shares offered by way of a Scrip Dividend alternative shall be calculated by reference to the average of the middle-market quotations for a fully paid ordinary share, for the day on which such ordinary shares are first quoted "ex" the relevant dividend and the four subsequent dealing days. The Scrip Dividend Mandate can be completed via www.signalshares.com for shareholders holdings their shares in certificated form and via the CREST system if shares are uncertificated.

A notice has been sent to all shareholders who are entitled to join the Company's Scrip Dividend Scheme notifying them of (amongst other matters) their right to elect to receive a Scrip Dividend.

Events after the reporting period

In early 2019, the Company's Kekura and Klen licences were included on the list of companies which can be granted 'residency' status within the Chukotka Advanced Special Economic Zone (ASEZ), a programme designed to encourage investment in the region. Such status will lead to certain tax benefits and other incentives and augurs well for the progression of both projects.

In March 2019, the Company repaid US$17.7 million of borrowings assumed as part of the Valunisty acquisition.

Alla Baranovskaya
Chief Financial Officer

Rounding of figures may result in computational discrepancies.

The Board has approved a third interim dividend of GBP 0.024 per share to be paid to shareholders on 7 June 2019, thereby bringing the total payout based on the 2018 financial year to GBP 0.134.

MANAGING RISKS

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

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

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

Executive management performs the risk identification, assessment and mitigation throughout various areas of the Group's business, ranging from detailed assessment of environmental risk at the operational level of each mine, to the monitoring of delivery risks with respect to each major capital project and the assessment and mitigation of risks at executive management and Board levels through the internal control system and specific risk management actions. At an operational level, all mines identify, prioritise and directly engage stakeholder groups that have the potential to affect their operational, sustainability or financial performance.

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

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

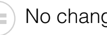
MARKET AND FINANCIAL RISKS

RISK	RISK DESCRIPTION	MITIGATION	MOVEMENT
Commodity prices	The Group's product prices are subject to international supply and demand and can be volatile. A significant and/or prolonged fall in the commodity prices of the metals produced by the Group (primarily Au and to a lesser extent Pb, Zn and Ag) could have an adverse impact on sales and profits. The Group did not utilise hedging in 2018 and prior periods and price fluctuations had an effect on the Group's profits. The capability to invest in growth projects is limited during periods of low commodity prices – which may, in turn, affect future performance. Furthermore, the financial viability of the Group's exploration, development projects and production operations is sensitive to price levels and may become questionable in an environment of decreasing prices. Management may have to reassess the economic model and recognise impairment losses.	The Group constantly monitors price trends and forecasts, maintains a cost cutting programme, checks the viability of exploration and development projects based on the current and projected price levels and, if necessary, revises specific investment plans and schedules.	

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

Increased

Decreased

 No change

MARKET AND FINANCIAL RISKS

RISK	RISK DESCRIPTION	MITIGATION	MOVEMENT
Financial risks	Adverse economic conditions or uncertainties that affect global and Russian financial markets can give rise to risks which may negatively impact the Group's operations and results. Please refer to Note 29 to the Consolidated Financial Statements for further details explaining the implications and management of financial risks.		=
Currency risk	Adverse fluctuations in Russian rouble/US dollar 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.	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.	=
Credit risks	Risk of loss related to a counterparty's failure to perform its contractual obligations or transactions in a certain time frame and, as a result, certain financial assets (including assets with high liquidity) may be impaired.	The Group places cash with reputable and highly rated financial institutions and constantly monitors the financial/economic situation. The Group sells commodities to creditworthy and reliable customers.	=
Interest rate risk	Interest rates are affected by geopolitical and macroeconomic events. An increase in interest rates may adversely affect the Group's financial results and its ability to demonstrate the economic viability of certain assets.	The majority of the Group's loans and borrowings have fixed rates at the date of debt drawdown.	=
Liquidity risk	Failure to accurately forecast, manage or maintain sufficient liquidity and credit could impact our ability to operate and result in financial loss. An event such as a significant operational incident or geopolitical events may potentially increase financing costs and limit access to financing that could put pressure on the Group's liquidity.	The Group uses a short-term, medium-term cash planning system and long-term cash flow forecasts are prepared in line with strategic planning. The Group's centralised treasury function ensures that there is sufficient liquidity for day-to-day operations at each location and reviews the need to attract additional external financing. Opportunities to secure loans at appropriate rates are constantly monitored by the Group.	=

OPERATING RISKS

RISK	RISK DESCRIPTION	MITIGATION	MOVEMENT
Risks associated with exploration activities	The Group's estimates of ore reserves and mineral resources are subject to a number of assumptions and approximations, including geological, metallurgical and technical factors, future commodity prices and production costs. Fluctuations in any of these variables could result in lower than expected revenues, higher costs and lower operating profits and could lead to reductions in estimated reserves and resources. The Group makes significant investments in exploration activities performed at greenfield sites to develop the business and at brownfield sites to extend the life of mines. For various reasons, including geological and economic factors, such activities may prove unsuccessful and may not result in an increase in Group resources. The failure to discover new resources could adversely affect the Group's future performance.	The Group conducts detailed exploration and assesses results in accordance with widely recognised methods of resources/ reserves evaluation. The Group engages internationally recognised external consultants to confirm its resources and reserves estimates (information regarding the Group's mineral resources and reserves, reported in accordance with JORC, is presented on page 87). The Board reviews exploration projects on a regular basis and approves all exploration activities and costs based on indicative economic probabilities. Details of exploration activities at each of the Group's assets are included in the Operational Review on page 12.	
The Group's deposits are subject to exploration and mining licences	Group companies must comply with mineral exploration and mining licence requirements. Non-compliance with licence requirements or major licence changes may result in a loss of licence and mineral rights or significant costs to ensure compliance with new requirements.	Compliance with licence requirements is constantly monitored at management level. To diminish risks, measures are developed to meet or renegotiate the terms and conditions of licence agreements. The Group's senior management and the Board are regularly informed as to compliance with licence agreements.	

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

Increased

Decreased

No change

OPERATING RISKS

RISK	RISK DESCRIPTION	MITIGATION	MOVEMENT
Production risks and failure to deliver production plans	The Group's mining operations are affected by numerous risk factors not wholly within the Group's control, including flooding, pit slope and rim slide, unexpected/unusual geological variations or technical issues, extreme weather conditions and natural disasters. Such factors could adversely affect production volumes and costs or damage electricity supply facilities and/or other necessary items of equipment or infrastructure. Group companies, in both open-pit and underground operations, may encounter unusual geological formations, including overly thin ore bodies, incidental deterioration in ore quality (lower grade) and dilution. Unexpected interruptions in processing and technological characteristics of the ore may result in lower recovery rates than expected. As a result of these factors, end-product unit costs may turn out to be considerably above budget and this might hinder the implementation of production plans and cause major losses in the form of impairment of various assets and goodwill.	The Group employs in-house planning experts who specialise in mine engineering and design and are responsible for developing optimal safe and commercially-viable mine plans. In turn, the in-house mine plans are reviewed by external consultants and state authorities. The mine plans include consideration of safe open-pit and underground mining operations, including smoke warning systems, personal protection kits (gas masks, self-rescue systems, etc.) and mine dewatering equipment. The Group implemented a number of processes to ensure that production is facilitated by the necessary machinery and equipment, and that relevant standby equipment is available. Regular maintenance is performed by qualified Group employees and contractors to ensure reliable machinery and equipment operations. Stocks of spare parts are maintained for urgent repairs. Details of the operational performance of each of the Group's assets are included in the Operational Review on page 12.	
New construction projects	The Group faces challenges in developing major projects, particularly in geographically remote locations and in technically challenging areas. Construction projects require significant resources and should be executed in accordance with planned costs and within defined terms. Cost overruns and timely execution in projects directly impact the capital, productivity and commercial performance of assets across the Group. Incorrect capital allocation and poor project management may result in a decrease in the profitability of a particular project and affect the Group's results.	The Group initiates new projects, mine extensions, etc., based on detailed investment plans and a review of management resources. Major projects are subject to external consultants' reports and JORC evaluation. Capital expenditure disciplines and controls are implemented to deliver on-budget performance for construction projects. Widely recognised project management techniques are employed. The Group applies a stage-gate process to ensure the cash generation potential of future growth projects. Management and the Board closely monitor the status of new projects, costs incurred and project issues.	

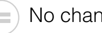
OPERATING RISKS

RISK	RISK DESCRIPTION	MITIGATION	MOVEMENT
Skilled workforce shortage	The Group experiences intense competition with other companies for the retention and engagement of mining and production staff, including geologists, engineers, production process managers and other mining specialists. The loss of key personnel or a failure to attract, retain and motivate qualified personnel could have a materially adverse effect on the Group's business, financial position and operational results.	The Group monitors the labour and salary markets and develops motivation systems to attract qualified personnel and retain key employees. One of the responsibilities of the Group's Remuneration Committee is to consider and approve remuneration for senior management.	
The Group is subject to extensive environmental, health and safety laws and regulations	Group companies are subject to various environmental, health and safety regulations stipulated by the relevant regulatory agencies. The Group's operations require various licences/permissions with regard to the use of industrial explosives, the operation of flammable, explosive and chemically aggressive production facilities and the use of hazardous structures. Stricter regulations could cause the Group to incur additional costs in order to comply with the new directives. State environmental agencies supervise and regulate the Group's operations in accordance with applicable laws and regulations regarding the use of such contaminants as cyanide-containing reagents. The Group monitors compliance with environmental requirements and incurs costs to achieve compliance but if environmental regulations change, Group companies may face heavy fines and waste removal claims which may become a significant burden on the Group and result in demands to cease operational activity. The absence of a final product would lead to a decrease in profitability. Inability to deliver appropriate levels of safety and environmental protection may result in loss of life, workplace injuries, pollution and lead to a stoppage of operations, significant fines and a threat to the Group's licence to operate.	The Group is focused on health and safety issues and environmental protection, both of which are prioritised. Safety and environmental policies are based on the applicable legislation. Changes in legislation are monitored. The Group purchases the necessary equipment to prevent fires, flooding, other accidents and pollution. The Group organises training and assessment programmes for all staff and regularly checks their compliance with HSE rules and regulations. An external provider of rescue services is contracted in accordance with legislation. The Group strives to implement international best practices, conducts regular internal and external environmental audits, and implements remedial actions where required. In 2014, it completed the certification of all major production sites under ISO 14001:2004 and, in 2018, successfully completed ISO 14001 recertification audits. At Board level the Group's HSE Committee considers and monitors all key HSE risks.	

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

Increased

Decreased

 No change

STRATEGIC RISKS

RISK	RISK DESCRIPTION	MITIGATION	MOVEMENT
An adequate resource base needs to be maintained for future operations and replacement of depleted mines	Due to the fact that the life of a mine is limited, the Group has to strategically seek to replenish its resource base through the development of organic projects or through M&A activity. Mine development from exploration to production is a prolonged process. There can be no guarantee that current or prospective exploration will lead to sustainable production in the future.	The Group undertakes exploration projects to sustain and increase the resource base. Comprehensive near-mine exploration plans are developed for all sites. The Group is actively looking for opportunities around its existing operational assets to create competitive advantages through synergies within the Group and with regard to competitors' projects.	
Regulatory changes and government actions	Risks related to changes in the political and economic situation and legislative regulation in the Russian Federation and Kyrgyzstan are significant for the Group in that its major operations are located in these jurisdictions. The Group's operations in these jurisdictions are regulated by numerous laws, standards and guides. The Group's approach is to strive to comply with all applicable laws and regulations. There is a risk that government and government agencies could perform actions, adopt new laws, taxes, regulations, rules, or other requirements which could have a negative impact on the Group's business and operations.	Senior management monitors political developments and new legislation, and assesses possible implications for the Group. In addition, the Group has established lines of communication with various governmental authorities in order to contribute to the thinking of such bodies and, when appropriate, to participate in relevant discussions with political and regulatory authorities. 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. The Group monitors further developments on an ongoing basis.	

CREATING SHARED PROSPERITY

Management will seek to heighten its endeavours to ensure safe labour conditions, manage operational risks, provide ongoing employee training programmes and, at the same time, encourage employees to develop a sense of accountability for their safety and the safety of others.

HEALTH AND SAFETY

The two fatalities experienced at MNV on 29 December 2018 bear sad witness to the importance of mine rescue teams and the dangers inherent in their work.

In the wake of an investigation it is apparent that two members of an auxiliary rescue team, having responded to an avalanche outside one of the entrances to MNV's underground mine, were killed by a second avalanche that fell in the same location. An employee of Highland Gold incurred non-life threatening injuries as a result of the first avalanche.

A series of measures is underway to mitigate future risk including the identification of a contractor to design an action plan to protect MNV's facilities and personnel from any recurrence of avalanche activity.

Meanwhile, auxiliary rescue teams remain on standby at each of the Company's mines and focus is being brought to bear on professional training with regard to avalanche search and rescue and avalanche mine rescue.

Against the background of this deeply regrettable event, management will seek to heighten its endeavours to ensure safe labour conditions, manage operational risks, provide ongoing employee training programmes and, at the same time, encourage employees to develop a sense of accountability for their safety and the safety of others.

One of the features of the Company's health & safety team's work in 2018 involved the development and introduction of new corporate standards covering the quality and use of personal protective equipment, contractors' safety management; audits and rating of labour safety; emergency medical response, leader inspections, and labour safety risk assessment. Tools for ensuring compliance with these standards were rolled out at MNV, Belaya Gora, Novo and Kekura. A new employee health management programme was also introduced across the Company's operations.

The management HSE Committee met in October 2018 to review the Company's updated labour safety strategy. This was followed by a review at the Board of Directors' HSE Committee meeting in November 2018.

The Lost Time Incident Frequency Rate (LTIFR), calculated as the number of incidents for every 1,000,000 man-hours, amounted to 4.02 in 2018 compared with 4.88 for the previous year.

Highland Gold spent US$1.5 million on charitable causes over the course of 2018.

This includes contributions to the construction of community and social infrastructure, cultural projects, sports sponsorships, local religious organisations, and other causes of importance to the communities in which we operate.

Kindergarten in Novoshirokinsky

A total of 22 incidents were registered during the 12 months – 12 at Novo, eight at MNV, one at Belaya Gora and one in the Moscow office – compared to 26 incidents in 2017 (14 at Novo, five at Belaya Gora and seven at MNV).

Training sessions conducted in Q4 2018 included a "Conscious Safety Management: Behavioural Safety Audit" course for 10 people in the Moscow office, 13 at Novo and six at MNV. This brought the total number of attendees during the year to more than 200 from the Moscow office, Novo, MNV, Belaya Gora and Kekura with a further 40 enrolled in the same course at Valunisty. In addition, a course on "Conscious Safety Attitude" was attended by 85 people from MNV and 47 people from Novo in December 2018.

Labour safety management system audits were performed in November/December 2018 at Novo and MNV. The audits provided data which were used to develop a full assessment of labour safety practices across the Company during the year.

ENVIRONMENT

Highland Gold continues to adhere to its stated policy of protecting the environment and operating in accordance with all relevant regulatory requirements. An environmental monitoring system is in place at each of the Company's operations. All aspects of operational activity that impact or could impact the environment are identified and analysed in order to outline the most significant associated risks and to develop programmes to minimise such hazards.

The standards of the Company's corporate environmental management systems were updated during the year in order to adhere to the latest revision of ISO 14001:2015.

Quality assurance and risk management company DNV GL carried out independent audits of environmental management systems at the Moscow office, Belaya Gora and Novo over the course of 2018 to ensure compliance with ISO 14001-2015. A new certificate valid until 1 March 2022 was issued as a result of the audit results, thereby confirming that the systems are functioning properly.

During the course of the year, 2,068 employees underwent environmental safety training and 436 employees received training and tests with regard to handling class I-IV hazard waste via the OlympOKS system. The Company sent 52 managers and specialists for skills improvement training in dedicated centres where they attended professional environmental courses.

SUSTAINABILITY REPORT

In an effort to strengthen its commitment to sustainable development and provide stakeholders with more transparency about the Company's efforts in this regard, Highland Gold is in the process of developing its first-ever Sustainability Report. The report, which is expected to be published in Q2 2019, will contain more details about the Company's efforts in the areas of health and safety, environmental protection, community investment, human resources, local purchasing, charity and payments to governments.

SETTING A HIGH STANDARD OF GOVERNANCE

EUGENE SHVIDLER, CHAIRMAN

> The Board and management have adopted a statement of vision, mission, and values, which are being promoted throughout the Company and its subsidiaries with a view toward creating a unified corporate culture and ensuring that staff at all levels are aligned with the Company's strategy and standards.

The Directors of Highland Gold Mining are committed to the principles of good governance.

The Board of Directors is led by the Chairman, who sets the Company's direction and ensures that the Board and management are working towards common goals and adhering to best practices. The Board regularly reviews key business risks, via a number of properly constituted committees, as well as the financial risks facing the Group in the operation of its business. These committees include the Audit Committee, the Health, Safety and Environment Committee, and the Remuneration and Nomination Committee.

The Directors have historically implemented many of the principles contained in the UK Corporate Governance Code issued in September 2016 by the Financial Reporting Council, having regard to the size of the Company and the nature of its activities.

In March 2018, the London Stock Exchange issued a revised set of rules requiring AIM listed companies to include on their website details of a recognised corporate governance code that the Company's Board of Directors had decided to apply with effect from September 2018, and a statement on how the Company complies with that code. In April 2018, the Board of Directors decided to apply the published Quoted Companies Alliance Code ("QCA Code") and this was officially adopted by the Board in September 2018.

The Board has adopted an Anti-Corruption Policy and an Internal Code of Business Conduct and Ethics. These extend across all of our businesses and apply to every employee and all our business partners, and a hotline is available for employees and stakeholders to report violations. The Company makes these documents, as well as a Corporate Governance Statement, available on its website, www.highlandgold.com.

Furthermore, in 2018, the Board and management adopted a statement of vision, mission, and values, which are being promoted throughout the Company and its subsidiaries. Our goal is to foster a unified corporate culture and ensure that employees at all levels are aligned with the Company's strategy and standards. This relates not only to how we work, but also to how we relate to our stakeholders and protect the environment in which we operate.

The following pages detail how Highland Gold manages its operations, controls risks, communicates with stakeholders, and complies with the principles of the QCA Code.

DIRECTORS' REPORT

The Directors of Highland Gold Mining Limited are pleased to submit their Directors' Report together with the audited financial statements for the year ended 31 December 2018.

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 and neighbouring territories. The Group's activities are detailed in the Strategic Report section of this Report on page 2, while its structure and operating companies are described more fully on page 90. The Chairman's Statement (page 6) and the Chief Executive Officer's Review (page 8) describe the Company's principal business developments during the year ended 31 December 2018 and prospective opportunities. The Company's shares are quoted on the AIM market of the London Stock Exchange.

FINANCIAL RESULTS

An overview of the Group's results for the financial year to 31 December 2018 appears in the Chief Financial Officer's Report on page 16 of this Annual Report. The Group achieved a net profit for the year of US$56.1 million (2017: net profit of US$65.9 million).

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.

GOING CONCERN

Having made relevant enquiries and following thorough review by the Board's 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.

DIVIDEND POLICY

The Board of Directors has 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 that the 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.

During the year, the Board proposed a Scrip Dividend Scheme and received authorisation to implement the proposal in respect of future dividends at the Company's Annual General Meeting (AGM) on 24 May 2018. The terms of the Scheme were circulated with the 2017 Annual Report and Notice of the AGM. To date, the Board had not resolved to implement the Scrip Dividend alternative under the approved scheme.

DIVIDENDS

The Directors have approved the payment of a third interim dividend on the Company's ordinary shares of GBP 0.024 per share, payable on 7 June 2019. This follows the approval of a first interim dividend in September 2018 of GBP 0.06 per share and a second interim dividend of GBP 0.05 per share in December 2018. Thus, the total of dividend payments based on the 2018 operating year is GBP 0.134 per share (2017: GBP 0.104).

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

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

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

In preparing these financial statements, the Directors should:

- select suitable accounting policies and apply them consistently;
- make judgements 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.

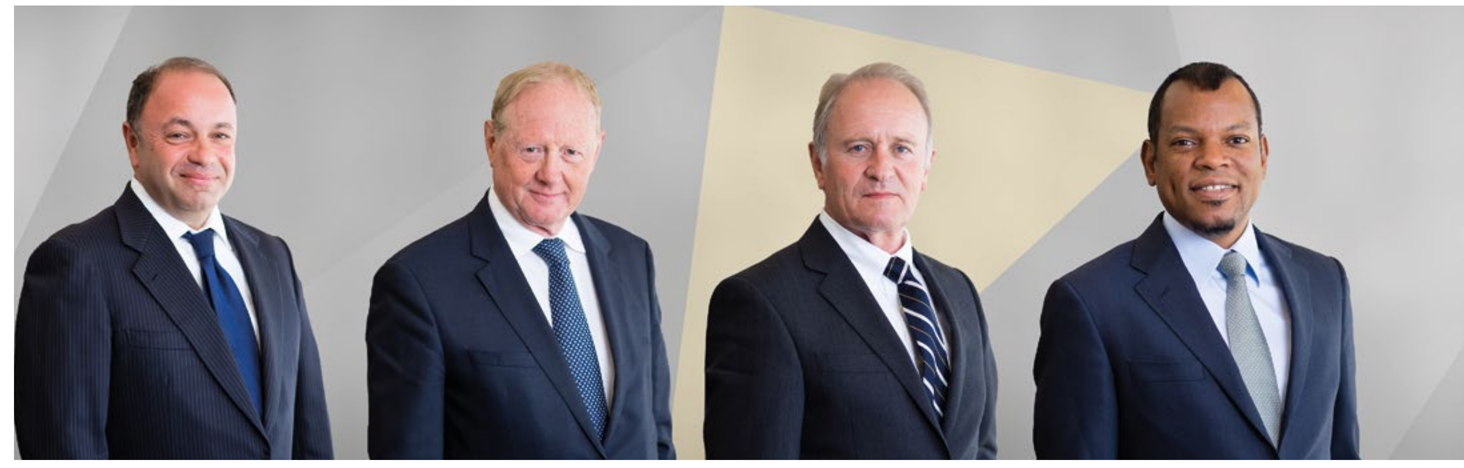
The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions to disclose with reasonable accuracy at any time the financial position of the Company, and to enable them to ensure that the financial statements prepared by the Company comply with 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.

Annual General Meeting Notice

The Annual General Meeting will be held at 11.00 am on 23 May 2019 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the AGM is set out on page 91 of this Report.

By Order of the Board
11 April 2019

OUR STRONG LEADERSHIP TEAM



1. 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 accounting 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.

2. 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.

3. 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). Mr Belshaw is a Fellow of the Institute of Materials Minerals and Mining (FIMMM), is registered as an Incorporated Engineer (IEng) with the Engineering Council of the UK, and holds the Mine Managers Certificate (Ghana). His formative years were spent on the Zambian Copperbelt at the Nkana Division and at the South Crofty Mine in Cornwall, and subsequently he 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. Mr Belshaw joined Highland Gold's Board of Directors in September 2013.

4. 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.

COMMITTEES

- A — Audit Committee Member
- R — Remuneration and Nomination Committee Member
- H — Health, Safety and Environment Committee Member
- ● Denotes Committee Chair

5. 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.

6. 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.

7. TERRY ROBINSON

SENIOR INDEPENDENT DIRECTOR

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

THE BOARD OF DIRECTORS

The Board is currently comprised of seven Directors, five of whom are Non-Executives. Three Non-Executive Directors, namely Duncan Baxter, Colin Belshaw and Terry Robinson, are considered by the Board to be independent in character and judgement and provide a balance to those Directors who cannot be regarded as independent. The two Executive Directors are the Chairman, Eugene Shvidler, and John Mann, the Company's Head of Communications.

Messrs Shvidler and Mann, and the remaining two Non-Executive Directors, Valery Oyf and Olga Pokrovskaya, are affiliated with Millhouse LLC, a company connected to individuals and entities holding a combined 43% of the issued share capital of the Company (including Eugene Shvidler's 12.3% shareholding and Valery Oyf's 4.5% interest).

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

STRATEGY AND BUSINESS MODEL

Highland Gold's business strategy revolves around unlocking the value of assets in its portfolio and delivering returns to shareholders through effective management, efficient operations, and paying dividends in line with the policy adopted by the Board. The Company describes its business strategy and goals in detail in the Strategic Report section (see page 2) of its Annual Report and Accounts. Additional information on these topics and how we aim to promote shareholder value are contained on the corporate website, www.highlandgold.com, and are communicated in regular contacts with the investor community.

UNDERSTANDING AND MEETING SHAREHOLDER NEEDS

Highland Gold's management holds semi-annual results conference calls, attends various industry and investment conferences, and meets regularly with institutional and private investors and other stakeholders to provide updates on the business and to elicit feedback on the Company's strategy and performance. The Company's management and investor relations team strive to respond quickly to inquiries and to process feedback from investors.

Management regularly reports to the Board on the results of investor relations outreach, and the Board is able to use this feedback in the decision making process and determine how the Company can best meet shareholder expectations. Independent Non-Executive Directors also make themselves available to speak to shareholders.

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.

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.

Shareholders passed an ordinary resolution at the AGM on 24 May 2018 whereby the Directors were authorised to offer to any holder 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 at the conclusion of the fifth Annual General Meeting of the Company to be held post 24 May 2018.

Shareholders passed at the AGM on 24 May 2018 an ordinary resolution approving the Company's Scrip Dividend Scheme (contained within the 2017 Annual Report), details of which were contained in the Scrip Dividend Scheme Circular which can be found on the Company's website at www.highlandgold.com.

WIDER STAKEHOLDER NEEDS AND SOCIAL RESPONSIBILITIES

Highland Gold is committed to operating in a sustainable and socially-responsible manner and the Board and management understand that the Company's success is enhanced by being a good corporate citizen. Management meets regularly with local government officials and community leaders to receive feedback and improve cooperation. Each year, the Company signs social contracts with municipal administrations in the regions where it operates that lay out a blueprint for assistance in funding pressing social needs in the regions.

Another key stakeholder group is Highland Gold's employees across Russia and Kyrgyzstan. Company management seeks to maintain an active dialogue with its employees, communicating key corporate objectives and soliciting comments and suggestions on ways to improve operations and workplace conditions.

BOARD COMMITTEES AND RISK MANAGEMENT

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 corporate website. Key risks faced by the Company are outlined on page 22 of the Annual Report.

The Board currently has three permanent committees: the Audit Committee, the Remuneration and Nomination Committee, and the Health, Safety and Environment Committee.

Audit Committee

The Audit Committee reviews the annual and interim financial statements and the internal and external audit programme. The Committee in 2018 consisted of two Non-Executive Directors, Olga Pokrovskaya and Terry Robinson, who chaired the Committee. Details of the Committee's activities during the year are outlined in the Audit Committee section on page 39 of the Annual Report.

Remuneration and Nomination Committee

The Remuneration and Nomination 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. In 2018, the Committee consisted of Duncan Baxter, as Chairman, Valery Oyf and Terry Robinson. Details of the Committee's activities during the year are outlined in the Remuneration and Nomination Committee section on page 38 of the Annual Report.

Health, Safety and Environment Committee

The Health, Safety and Environment Committee considers, in conjunction with management, development and training requirements and regulatory compliance matters related to health, safety and environmental issues.

The Committee is chaired by Olga Pokrovskaya. The other members of the Committee during 2018 were Terry Robinson and Colin Belshaw. The Committee met twice during the year.

The Committee makes recommendations to the Board, within agreed terms of reference, which the Board reviews at least annually. Details of the progress and performance of the Company in respect of health, safety and the environment are given in the Sustainability section of this Report on page 28.

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.

BALANCED AND WELL-FUNCTIONING BOARD

Highland Gold's Board of Directors 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 12 Board and Board Committee meetings were held during the year.

With three Independent Directors, two Executive Directors, and two Non-Executive Directors, the Board includes individuals with a range of professional backgrounds, skillsets and personalities, joined by a common goal of ensuring the growth and success of the Company. Board members receive from management monthly comprehensive reports on the Company's operational and financial performance, as well as regular updates on topics of vital interest when requested.

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. Eugene Shvidler, Valery Oyf and Duncan Baxter who retire by rotation will offer themselves for re-election at the AGM to be held on 23 May 2019. The Remuneration and Nomination Committee has agreed and recommended these reappointments.

Directors' interests and share dealing

The interests of the Directors in office, and of persons connected with them, in the Company's ordinary shares, as previously reported and with any subsequent changes up to the date of this Report, are shown below:

DIRECTOR	Ordinary shares At 31/12/2017	Ordinary shares At 31/12/2018	% Holding At 31/12/2018
Eugene Shvidler	40,853,660	44,714,829	12.29%
Valery Oyf	14,507,453	16,439,486	4.52%
Duncan Baxter	20,000	20,000	0.01%

During 2018, the Company undertook a related-party transaction with Aristus Holdings Limited ("Aristus") for the acquisition of the Valunisty mine and related assets, as referred to on page 5 of this Report. Two members of the Board, Eugene Shvidler and Valery Oyf (through his company Matteson Overseas Limited), held respective interests in Aristus representing indirect holdings in the Company. The transaction, which resulted in Aristus holding a 10.6% interest in the Company, concluded in December 2018. Subsequently, in February 2019, Aristus distributed its holding in the Company to its shareholders pursuant to which the aforementioned indirect holdings in the Company became direct holdings in the Company as reflected above. At an Extraordinary General Meeting of the Company held on 24 May 2018, shareholders approved a waiver as required by the Panel on Takeovers and Mergers that would otherwise have required a general offer to be made to shareholders of the Company pursuant to Rule 9 of the City Code on Takeovers and Mergers.

No Directors besides those listed in the table above have an interest in the share capital of Highland Gold.

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.

EXPERIENCE, SKILLS AND CAPABILITIES OF THE BOARD

Highland Gold is confident that its Directors have the requisite experience, skills and capabilities to perform the duties entrusted to them. Current Directors bring together decades of experience in natural resources industries, with backgrounds covering a range of capabilities including financial, technical, regulatory affairs and investor relations. Biographies of each Board member can be found on page 32 of this Annual Report.

Through continuous engagement in the Company's activities and, in some cases, their work on the boards of other public companies, Directors are able to keep their skillsets up to date and to bring their experience to bear on behalf of the Company.

The Company Secretary, Jersey-based Ocorian Limited, ensures that the Group is compliant with relevant legislation and regulatory requirements, and keeps the Board informed of its legal responsibilities.

BOARD EVALUATION

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. As such, there was no Board review in 2018. The next review will take place during 2019 and its results will be presented in the next Annual Report.

PROMOTING ETHICAL CORPORATE CULTURE

The Company is committed to implementing the highest ethical standards in respect of our stakeholders. The Board has adopted an Anti-Corruption Policy and an Internal Code of Business Conduct and Ethics. These extend across all of our businesses and apply to every employee and all our business partners. Both documents are available on the corporate website, and a hotline is available for employees and stakeholders to report violations.

Highland Gold believes that all injuries are preventable and care for our people and the environment is an integral and vital part of our business. As such, employees are expected to abide by the Company's Health, Safety and Environment policy, which likewise is available on the corporate website.

Furthermore, the Board and management have adopted a statement of vision, mission, and values, which are being promoted throughout the Company and its subsidiaries with a view toward creating a unified corporate culture and ensure that staff at all levels are aligned with the Company's strategy and standards.

MAINTAINING PROPER GOVERNANCE STRUCTURES AND PROCESSES

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

The functions and procedures of the Board of Directors and its committees are detailed earlier in this section of the Annual Report. The Board is assisted in its tasks by the Executive Committee. The Board is confident that its corporate governance structure is efficient and effective in carrying out the work necessary for the Company to achieve its stated goals.

SHAREHOLDER RELATIONS

Highland Gold'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. The Company also utilises investor and public relations functions, conference calls, webinars, investor conferences, and road shows arranged through its brokers and Nominated Adviser ("Nomad") to communicate with shareholders.

The Company regularly publishes news and information via the RNS system in addition to its corporate website. Contact information for one Executive and one Non-Executive Director is always included in regulatory news filings.

Substantial Shareholdings

As at the close of business on 31 March 2019, the Company had been notified of the following interests, other than Directors' interests shown above, which amounted to 3% or more of the issued share capital of the Company:

NAME OF HOLDER	Number	Percentage
Van Eck Global	39,357,754	10.82%
Roman Abramovich	37,608,816	10.34%
Prosperity Capital Management	25,955,134	7.13%
Denalot Worldwide Limited	25,950,883	7.13%
LSV Asset Management	13,136,765	3.62%
Miton Asset Management	13,136,765	3.61%
Erlinad Holdings Limited	11,578,628	3.18%

REMUNERATION AND NOMINATION COMMITTEE

During 2018, 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. The Committee held two meetings during the year.

The Committee makes recommendations, 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 Board reviews recommendations made by the Committee, within defined terms of reference, at least annually. The Committee, on the recommendations from management, examines fees in relation to Non-Executive remuneration and committee Chairmen.

Details of the Directors' remuneration are given below. The Committee has considered and recommended to the Board the re-election of Eugene Shvidler, Valery Oyf and Duncan Baxter respectively as Directors of the Company at the forthcoming AGM.

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 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. Other benefits are not available to Non-Executive Directors.

Directors' Remuneration

The remuneration paid to the Directors in the financial period to 31 December 2018 (no bonuses were paid) was as follows:

DIRECTOR	US$ 2017	US$ 2018
Eugene Shvidler	558,337	850,000
Duncan Baxter	159,996	160,000
Terry Robinson	159,996	160,000
Olga Pokrovskaya	125,000	125,000
Colin Belshaw	120,000	120,000
John Mann	120,000	120,000
Valery Oyf	100,000	100,000

No grants of options under the Unapproved Share Option Scheme were made during 2018 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 2018 (2017: 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.

AUDIT COMMITTEE

The Audit Committee in 2018 consisted of two Non-Executive Directors, Olga Pokrovskaya and Terry Robinson, who chaired the Committee. The Committee met three times during the year to consider the annual and interim financial statements, the internal and external audit programme, and the re-election of the external auditors. In April 2019, the Audit Committee considered and reviewed the 2018 financial statements and the sections of the Annual Report that related to the Company's principal risks and uncertainties, the Directors' Report, the CEO's Review and Operational Review, and the CFO's Report. Additionally, at its April 2019 meeting, the Audit Committee considered independent external advice on the accounting for the related-party acquisition of the Valunisty mine and related assets.

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. 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 management's estimates and judgements, the going concern basis of the preparation of the financial statements and the consideration for and the appropriateness of the inputs for an 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 forward Life-of-Mine financial models and thus calculations of recoverable amounts compared to the carrying book values.

The Audit Committee recommended the interim financial statements and the 2018 full year audited financial statements to the Board for approval. Further the Audit Committee recommended to the Board the reappointment of Ernst & Young LLP as the Company's auditors.

The Audit Committee undertakes a self-assessment of its own performance and that of the Internal Audit function and additionally an assessment of the external auditors.

OPINION

We have audited the financial statements of Highland Gold Mining Limited (the 'Company') and its subsidiaries (together the 'Group') for the year ended 31 December 2018 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 32 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 as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been 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.

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 12 months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Impairment of goodwill and other non-current assets • Accounting for the acquisition of three companies with mining assets in the Chukotka region of Russia
Materiality	• Overall Group materiality of $4.6 million which represents 3% of EBITDA

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
Impairment of goodwill and other non-current assets Refer to accounting policies (page 49); and Notes 16, 17 and 18 of the Consolidated Financial Statements (pages 72-75) At 31 December 2018 the aggregate carrying value of PP&E and goodwill was US$381 million (2017: US$347 million). The Group recognised no impairment loss during the year as a result of the impairment tests conducted for its Cash Generating Units (CGUs) (2017: US$nil). Market conditions in 2018 were slightly improved as compared to 2017. Combined with the impact of a lower tax rate anticipated to apply to future production from certain of the Group's mining assets, this resulted in an expected increase in headroom compared to the prior year. We focused on this area due to the significance of the carrying value of the assets being assessed, the potential for changes to the economic environment in the Group's operating jurisdictions and the likelihood of any impairment being material to the financial statements. In addition, where impairment indicators are identified the assessment of the recoverable amount of the Group's CGUs involves significant judgements about the future results of the business and the discount rates applied to future cash flow forecasts.	We performed the following procedures to address the risks identified: We understood management's process for impairment analysis through performing walkthroughs. For CGUs which have no goodwill, we evaluated whether potential indicators of impairment had been assessed by management up to the year end date including commodity prices, foreign exchange movements, production and reserve estimates. Management did not identify any impairment indicators for these CGUs. For CGUs which have goodwill allocated to them, 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 of the key assumptions including the sensitivity of the model to changes in these assumptions. 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. We engaged EY valuation specialists where appropriate to ensure certain specific assumptions applied in the impairment model are within an acceptable range. 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 the experts engaged in performing work on the estimates. 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.	We consider management's estimates to be reasonable for the current year with assumptions within an acceptable range. We concluded that the related disclosures provided in the financial statements are appropriate.
Accounting for the acquisition of three companies with mining assets in the Chukotka region of Russia (the Valunisty acquisition) Refer to accounting policies (page 49); and Notes 5 and 28 of the Consolidated Financial Statements (pages 62, 82) On 27 December 2018 the Company completed the acquisition of the Valunisty mine and related companies for which the consideration of $68.1 million took the form of new ordinary shares issued to the seller, Aristus Holdings Limited, which is a related party of the Company.	We performed the following procedures to address the risks identified: Reviewed the Sale and Purchase Agreement to understand the terms and conditions of the acquisition. Recomputed the purchase consideration with reference to the new shares issued and the Company's share price at the date of completion. We also assessed whether this share price showed any significant deviation from the share prices prevailing in the five days prior to and subsequent to the completion date. We engaged EY valuation experts to help us determine the appropriateness of the valuation approach adopted together with the reasonableness of certain inputs to the valuation models including commodity prices and discount rates.	We were satisfied that the consideration was appropriately valued, based on the Company's share price on the completion date. We concluded that the provisional fair values of the individual assets and liabilities acquired are appropriate, including the deferred tax liability arising as a result of the fair value adjustments. We are satisfied that the resulting goodwill has been correctly calculated.

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
Accounting for the acquisition of three companies with mining assets in the Chukotka region of Russia (the Valunisty acquisition) continued This represented a business combination to be accounted for in accordance with IFRS 3: Business Combinations (IFRS 3). The fair value of the net assets acquired was estimated by management to be $62.3 million, resulting in reported goodwill on acquisition of $5.8 million. Due to the proximity of the transaction to the balance sheet date, these fair values have been reported as provisional. There is a risk that the value of the equity consideration and the fair values attributed to the assets and liabilities acquired are not appropriate, not aligned with the Group's accounting policies and that the goodwill arising on acquisition is misstated.	We obtained the most recent JORC reserves and resources report prepared by third party consultants and compared this to the reserve estimates included in management's valuation model, noting there were no significant differences. We obtained and evaluated the appropriateness of the fair value adjustments to the assets and liabilities acquired, together with the accounting policy alignment adjustments identified by management. We performed audit procedures on certain asset and liability balances (including working capital items) as at 31 December 2018 which provided us with evidence as to the appropriateness of the values ascribed as at the acquisition date. We reviewed the disclosures in the consolidated financial statements to ensure they are consistent with the requirements of IFRS 3 and verify that the required related party disclosures have been made.	We concluded that the disclosures required by IFRS 3 and by IAS 24 Related Party Disclosures have been properly reflected in the consolidated financial statements.

In the prior year, our auditor's report included a key audit matter in relation to going concern. In the current year, the Group has continued to generate a high level of operating cash inflows and this trend is expected to continue based on the commodity price outlook and the Group's cost of production. As a result we assessed that the risk attached to going concern had decreased and was not deemed to be a key audit matter for our 2018 audit.

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 consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we selected 11 (2017: 10) components covering Russia, Jersey and Kyrgyzstan, which represent the principal business units within the Group.

Of the 11 components selected, we performed an audit of the complete financial information of three (2017: three) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining eight 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% (2017: 100%) of the Group's EBITDA, 100% (2017: 100%) of the Group's Revenue and 95% (2017: 95%) of the Group's Total assets. For the current year, the full scope components contributed 100% (2017: 100%) of the Group's EBITDA, 100% (2017: 100%) of the Group's Revenue and 34% (2017: 39%) of the Group's Total assets. The specific scope components contributed 61% (2017: 56%) 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 accounts tested for the Group.

Changes from the prior year

Our scope allocation in the current year is materially consistent with 2017 in terms of the resulting coverage of the Group's Revenue, EBITDA and Total assets. The number of full and specific scope entities has increased due to the acquisition of the Valunisty mine and related companies, which represents a single component for the purposes of our audit scope allocation. Since the acquisition occurred very close to 31 December 2018, we adopted a specific scope approach for this new component, focusing on the significant balance sheet accounts.

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 eight 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 primary audit team continued to follow a programme of planned visits that has been designed to ensure that the 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 primary 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 consolidated 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 $4.6 million (2017: $4.7 million), which is 3% (2017: 3%) of EBITDA. We believe that EBITDA provides us with 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.

During the course of our audit, we reassessed initial materiality and made no changes from our original assessment at planning.

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% (2017: 75%) of our planning materiality, namely $3.4 million (2017: $3.5 million). 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 $1.6 million to $3.1 million (2017: $1.6 million to $3.2 million).

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 $0.2 million (2017: $0.2 million), 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.

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.

Other information continued

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 set out on page 31, 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 Company'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 Company 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.

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.

Andrew Smyth
for and on behalf of Ernst & Young LLP, London
11 April 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

	Notes	2018 US$000	2017 US$000
Revenue	8	**311,153**	316,682
Cost of sales	9	**(178,222)**	(189,096)
GROSS PROFIT		**132,931**	127,586
Administrative expenses*	10	**(17,163)**	(15,341)
Other operating income	11	**449**	1,481
Other operating expenses*	11	**(7,031)**	(11,524)
OPERATING PROFIT		**109,186**	102,202
Foreign exchange gain	12	**834**	651
Finance income	13.1	**351**	177
Finance costs	13.2	**(2,123)**	(2,714)
PROFIT BEFORE INCOME TAX		**108,248**	100,316
Current income tax expense	14	**(20,166)**	(33,279)
Withholding tax expense	14	**(13,704)**	(7,742)
Deferred income tax (expense)/credit	14	**(18,294)**	6,560
TOTAL INCOME TAX EXPENSE	14	**(52,164)**	(34,461)
PROFIT FOR THE YEAR		**56,084**	65,855
TOTAL COMPREHENSIVE PROFIT FOR THE YEAR		**56,084**	65,855
ATTRIBUTABLE TO:			
Equity holders of the parent		**56,040**	65,275
Non-controlling interests		**44**	580
PROFIT PER SHARE (US$ PER SHARE)			
Basic, for the profit for the year attributable to ordinary equity holders of the parent	15	**0.154**	0.201
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	15	**0.154**	0.201

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

* Certain line items have been reclassified in the consolidated statement of comprehensive income for 2017. Refer to Note 10 and Note 11.2 for further details.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at:

	Notes	**31 December 2018 US$000**	31 December 2017 US$000
ASSETS			
NON-CURRENT ASSETS			
Exploration and evaluation assets	16	**92,972**	88,926
Mine properties	16	**649,716**	588,035
Property, plant and equipment	16	**316,928**	289,162
Intangible assets	17	**63,651**	57,802
Inventories	20	**2,566**	624
Other non-current assets	19	**12,338**	10,858
Deferred income tax asset	14	**2,163**	129
TOTAL NON-CURRENT ASSETS		**1,140,334**	1,035,536
CURRENT ASSETS			
Inventories	20	**70,459**	58,620
Trade and other receivables	21	**29,969**	27,687
Income tax prepaid		**3,074**	1,494
Prepayments		**2,429**	4,026
Cash and cash equivalents	22	**38,736**	12,388
Other current assets		**2,107**	2,401
TOTAL CURRENT ASSETS		**146,774**	106,616
TOTAL ASSETS		**1,287,108**	1,142,152
EQUITY AND LIABILITIES			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	23	**634**	585
Share premium		**786,496**	718,419
Assets revaluation reserve	23	**832**	832
Retained earnings		**40,905**	55,371
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**828,867**	775,207
Non-controlling interests		**2,331**	2,309
TOTAL EQUITY		**831,198**	777,516
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	24, 30	**153,674**	192,351
Liability under finance lease	30	**1,558**	2,260
Long-term accounts payable	25	**355**	331
Income tax payable		**1,600**	–
Provisions	26	**24,777**	20,830
Deferred income tax liability	14	**133,226**	107,614
TOTAL NON-CURRENT LIABILITIES		**315,190**	323,386
CURRENT LIABILITIES			
Trade and other payables	25	**45,412**	23,454
Interest-bearing loans and borrowings	24, 30	**94,177**	15,017
Income tax payable		**371**	1,699
Liability under finance lease	30	**760**	1,080
TOTAL CURRENT LIABILITIES		**140,720**	41,250
TOTAL LIABILITIES		**455,910**	364,636
TOTAL EQUITY AND LIABILITIES		**1,287,108**	1,142,152

The financial statements were approved by the Board of Directors on 11 April 2019 and signed on its behalf by:
John Mann and Olga Pokrovskaya.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December

	Notes	Issued capital US$000	Share premium US$000	Assets revaluation reserve US$000	Retained earnings US$000	Total US$000	Non-controlling interest US$000	Total equity US$000
		Attributable to equity holders of the parent						
AT 31 DECEMBER 2016		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	28	–	–	–	80	80	(130)	(50)
Dividends to equity holders of the parent	31	–	–	–	(43,931)	(43,931)	–	(43,931)
AT 31 DECEMBER 2017		585	718,419	832	55,371	775,207	2,309	777,516
Total comprehensive income for the year		–	–	–	56,040	56,040	44	56,084
Ordinary shares issued	23	49	68,077	–	–	68,126	–	68,126
Dividends to equity holders of the parent	31	–	–	–	(70,506)	(70,506)	–	(70,506)
Dividends paid to non-controlling interests		–	–	–	–	–	(22)	(22)
AT 31 DECEMBER 2018		**634**	**786,496**	**832**	**40,905**	**828,867**	**2,331**	**831,198**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

	Notes	**2018 US$000**	2017 US$000
OPERATING ACTIVITIES			
Profit before income tax		**108,248**	100,316
		108,248	100,316
ADJUSTMENTS TO RECONCILE PROFIT BEFORE INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES:			
Depreciation of mine properties and property, plant and equipment	6, 9, 16	**42,304**	49,476
Movement in ore stockpiles obsolescence provision	11.2.1	**722**	3,185
Movement in raw materials and consumables obsolescence provision	11.2	**45**	416
Write-off of mine properties and property, plant and equipment	11.2, 16	**235**	949
Individual impairment/(impairment reversal) – of property, plant and equipment and mine assets	11.2.2	**803**	(4)
Gain on disposal of property, plant and equipment	11	**–**	(391)
Bank interest received	13.1	**(350)**	(175)
Interest expense on bank loans	13.2	**400**	825
Accretion expense on site restoration provision	13.2	**1,500**	1,593
Net foreign exchange gain	12	**(834)**	(651)
Movement in allowance for doubtful prepayments and other receivables	11.2.3	**2,577**	713
Income tax paid		**(23,790)**	(34,510)
Other non-cash income		**–**	(3)
		131,860	121,739
WORKING CAPITAL ADJUSTMENTS:			
Decrease/(increase) in trade and other receivables and prepayments		**4,615**	(997)
Decrease in inventories		**4,096**	3,264
Decrease/(increase) in trade and other payables		**(4,324)**	6,984
NET CASH FLOWS FROM OPERATING ACTIVITIES		**136,247**	130,990
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**595**	879
Purchase of property, plant and equipment	6	**(62,347)**	(58,336)
Capitalised interest paid	6, 16	**(7,189)**	(7,378)
Increase in stripping activity assets	9, 16	**(1,304)**	(4,077)
Interest received from deposits		**350**	175
Novo shares purchase	28	**–**	(50)
Cash of acquired subsidiaries	5	**758**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(69,137)**	(68,787)
FINANCING ACTIVITIES			
Proceeds from borrowings		**135,711**	299,941
Repayment of borrowings		**(111,320)**	(304,310)
Dividends paid to equity holders of the parent		**(49,627)**	(43,931)
Dividends paid to non-controlling holders of Novo		**(22)**	–
Withholding tax expense	14	**(13,602)**	(7,683)
Payment under finance lease, including interest		**(1,300)**	(1,696)
Interest paid		**(178)**	(817)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(40,338)**	(58,496)
Net increase in cash and cash equivalents		**26,772**	3,707
Effects of exchange rate changes		**(424)**	(67)
Cash and cash equivalents at 1 January	22	**12,388**	8,748
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	**38,736**	12,388

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 11 April 2019.

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 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.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 is measured at fair value, with changes in fair value recognised in profit or loss in the statement of profit or loss and other comprehensive income in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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

3. Summary of significant accounting policies continued

Business combinations and goodwill continued

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

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

Further information is contained in Note 17.

Foreign currency and foreign currency translation

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

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

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

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

	31 December 2018	31 December 2017
AVERAGE		
RUR	**62.926**	58.279
GBP	**0.749**	0.777
CLOSING		
RUR	**69.471**	57.600
GBP	**0.785**	0.741

Property, plant and equipment

With the exception of those acquired through business combination, on initial acquisition land, 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.

3. Summary of significant accounting policies continued

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. The cost of mineral properties includes estimates of future capital expenditures necessary to produce the proven and probable 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.

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 property, 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.

3. Summary of significant accounting policies continued

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.

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 30.

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 30.

3. Summary of significant accounting policies continued

Impairment

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

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

Leases

Operating leases

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

Finance lease

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

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(a) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through OCI, or fair value through profit or loss.

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15. Refer to the revenue recognition accounting policy.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

3. Summary of significant accounting policies continued

Financial assets at fair value through profit or loss

This category is the most relevant to the Group. As IFRS 9 now has the SPPI test for financial assets, the requirement relating to the separation of embedded derivatives is no longer needed for financial assets. An embedded derivative will often make a financial asset fail the SPPI test thereby requiring the instrument to be measured at fair value through profit or loss in its entirety. This is applicable to the Group's trade receivables (subject to provisional pricing). These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price at the relevant QP stipulated in the contract. This exposure to the commodity price causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at fair value through profit or loss from the date of recognition of the corresponding sale, with subsequent movements being recognised in the statement of profit or loss and other comprehensive income.

Derecognition

A financial asset derecognised where the rights to receive cash flows from the asset have expired.

Impairment of financial assets

The standard also introduces the expected credit losses (ECL) impairment model, which means that anticipated as opposed to incurred credit losses will be recognised resulting in earlier recognition of impairment.

For trade receivables the Group applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date. The Group has established a provision matrix that is based on past historical credit loss experience, forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

(b) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings and trade and other payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss and other comprehensive income.

This category generally applies to interest-bearing loans and borrowings and trade and other payables.

Loan modification

The Group accounts for loan modifications under IFRS 9. The Group recalculates the amortised cost of the bank loans when the terms are modified. The estimated future cash flows under new terms (inflated at the new interest rate) are discounted at the original effective interest rate. As a result, bank loan liabilities accounted for under IFRS will differ from the liabilities under the bank loan agreements.

The effect of the loan recalculation is recognised in the statement of comprehensive income or in the cost of the qualified assets.

The Group applies the following when assessing the requirement to modify financial liabilities:

- A change in index (e.g. LIBOR) of the floating-rate loans does not represent a modification
- New tranches of the revolving agreements are treated as new loans under IFRS 9 and therefore do not represent a modification.

3. Summary of significant accounting policies continued

(b) Financial liabilities continued

Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires.

When 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 the derecognition of the original liability and the recognition of a new liability. 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 fair value through profit and loss. The Group accounted an allowance for ECLs (expected credit losses) for all debt instruments not held at fair value through profit or loss, which means that anticipated as opposed to incurred credit losses will be recognised resulting in earlier recognition of impairment.

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.

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 follows: 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 statement of comprehensive income.

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

Revenue recognition

The Group is principally engaged in the business of producing gold and silver bullion and lead and zinc concentrates. Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

(a) Gold bullion sales

For gold bullion sales, most of these are sold under spot sales contracts with banks. The Group initially sends its unrefined dore to the refiner for processing, but the refiner is not the customer, i.e., control of the product does not pass to the refiner, it is simply providing processing services to the Group. Once the dore is processed into bullion (i.e., outturned), the Group enters into arrangements with a range of different banks.

Revenue is recognised at a point in time when control passes to the bank. This generally occurs after the dore is outturned and when the Group advises the refiner to transfer the gold to the bank and credit the metal account of the bank. At this moment the bank receives title, is required to pay for the gold bullion and is able to direct the use of the gold bullion, and is exposed to the risks and rewards of the gold bullion.

With these arrangements, there are no advance payments received from the banks, no conditional rights to consideration, i.e., no contract assets are recognised. A trade receivable is recognised at the date of sale and there are only several days between recognition of revenue and payment. The contract is entered into and the transaction price is determined at outturn by virtue of the deal confirmation and there are no further adjustments to this price. Also, given each spot sale represents the enforceable contract and all performance obligations are satisfied at that time, there are no remaining performance obligations (unsatisfied or partially unsatisfied) requiring disclosure.

(b) Lead and zinc concentrate sales

Novo as a concentrate producer and seller has contracts where price risk is retained for a specified period after the sale has occurred. The price payable under the concentrate contract is determined by reference to prices quoted in an organised market (LME, 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 four months after the date of the shipment for Kazzinc and is settled in no more than three months after the date of the delivery for Hyosung, Trafigura, Hyosung TNC. For Kazzinc the title to the commodity passes to the buyer on shipment, for Hyosung, Trafigura 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, for Hyosung TNC the title to the commodity passes to the buyer upon arrival of the vessel ready for unloading to the port of discharge – Busan, South Korea.

The Group’s sales of metal in concentrate allow for price adjustments based on the market price at the end of the relevant quotation period stipulated in the contract. These are referred to as provisional pricing arrangements and are such that the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer. Adjustments to the sales price occur based on movements in quoted market prices up to the end of the quotation period. The period between provisional invoicing and the end of the quotation period can be between one and four months.

Revenue is recognised when control passes to the customer, which occurs at a point in time when the metal in concentrate is physically transferred onto a vessel, train, conveyor or other delivery mechanism. The revenue is measured at the amount to which the Group expects to be entitled, being the estimate of the price expected to be received at the end of the quotation period and a corresponding trade receivable is recognised.

3. Summary of significant accounting policies continued

(b) Lead and zinc concentrate sales continued

For these provisional pricing arrangements, any future changes that occur over the quotation period are embedded within the provisionally priced trade receivables and are, therefore, within the scope of IFRS 9 and not within the scope of IFRS 15. Given the exposure to the commodity price, these provisionally priced trade receivables will fail the cash flow characteristics test within IFRS 9 and will be required to be measured at fair value through profit or loss from initial recognition and until the date of settlement. These subsequent changes in fair value are recognised in the statement of comprehensive income each period and disclosed separately from revenue under IFRS 15. Changes in fair value over, and until the end of, the QP, are estimated by reference to updated market prices for sold metals.

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 declared 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, deferred tax and withholding 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. Income taxes paid are included within operating activities in the consolidated statement of cash flows other than where they can be specifically identified with financing or investing activities. Accordingly, payments of withholding tax that relate specifically to cash flows that fund the Group's dividend payments are classified as cash flows from financing activities.

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 differences 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;
- 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;
- in respect of site restoration as 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; and
- in respect of obsolescence provisions as these materials are unlikely to be used for production purposes in the future and therefore future tax relief is not assumed.

3. Summary of significant accounting policies continued

Income taxes continued

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

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

New standards, interpretations and amendments adopted by the Group

The Group applied IFRS 15 and IFRS 9 for the first time from 1 January 2018. The nature and effect of these changes as a result of the adoption of these new standards are described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year. Several other amendments and interpretations applied for the first time in 2018, but did not have an impact on the consolidated financial statements of the Group and, hence, have not been disclosed. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 and its related amendments supersede IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. It applies to all revenue arising from contracts with its customers and became effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognised when (or as) control of a good or service transfers to a customer 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires enhanced and extensive disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Group adopted IFRS 15 using a modified retrospective method of adoption on the required effective date. It means that the comparative information for each of the primary financial statements is presented based on the requirements of IAS 18 and related Interpretations.

The effect of adopting IFRS 15 is set out below.

Overall impact

The Group's revenue from contracts with customers comprises two main streams being the sale of gold bullion and lead and zinc concentrates. The Group undertook a comprehensive analysis of the impact of the new revenue standard based on a review of the contractual terms of its principal revenue streams with the primary focus being to understand whether the timing and amount of revenue recognised could differ under IFRS 15. For all of the Group's revenue streams the nature and timing of satisfaction of the performance obligations, and, hence, the amount and timing of revenue recognised under IFRS 15, is the same as that under IAS 18. There were neither adjustments to prior period comparative information, nor reclassifications or some other impact on presentation.

Impact on statement of comprehensive income

Gold bullion sales: there were no changes identified with respect to the timing or amount of revenue recognition. This was because all of the Group's gold bullion is sold under spot sales arrangements with various banks and the timing between contract inception and the satisfaction of the performance obligation (being gold bullion) is very short, i.e., several days, and the pricing is determined based on the gold price on the London Metal Exchange (LME) at the date specified in each spot contract.

Lead and zinc concentrates sales: there were no changes identified with respect to the timing of revenue recognition in relation to metal in concentrate, as control transfers to customers at the date which is consistent with the point in time when risks and rewards passed under IAS 18. There were neither reclassification changes arising from concentrates sales that have provisional pricing terms nor change in the amount of revenue recognised for some metal in concentrate sales. The Group provides no freight/shipping services.

Provisionally priced concentrates sales: concentrate sales at Novo contain terms which allow for price adjustments based on the market price at the end of a quotational period (QP) stipulated in the contract – these are referred to as "provisionally priced sales". Under previous accounting standards (IAS 18 Revenue and IAS 39 Financial Instruments: Recognition and Measurement), provisionally priced sales were considered to contain an embedded derivative (ED), which was required to be separated from the host contract for accounting purposes from the date of shipment. Revenue was initially recognised for these arrangements at the date when the risks and rewards passed and was based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the estimated price that the entity expected to receive at the end of the QP. Subsequent changes in the fair value of the ED were recognised in the statement of comprehensive income.

3. Summary of significant accounting policies continued

IFRS 15 Revenue from Contracts with Customers continued

Under IFRS 15, the accounting for this revenue will remain unchanged in that revenue will be recognised when control passes to the customer and will be measured at the amount to which the Group expects to be entitled. This will be the estimate of the price expected to be received at the end of the quotational period. It will be the impact of the requirements of IFRS 9 that will lead to a change to the Group's accounting. The Group will now present such movements after the date of sale in the statement of comprehensive income as part of concentrate revenue and will be disclosed separately.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group adopted the new standard on the required effective date using a modified retrospective method of adoption and did not restate comparative information, which follows the classification, measurement and disclosure requirements of IAS 39.

There was no impact on hedging as the Group does not apply hedge accounting.

The effects of adopting IFRS 9 are set out below.

(a) Classification and measurement

Under IFRS 9, there is a change in the classification and measurement requirements relating to financial assets. Previously, there were four categories of financial assets: loans and receivables, fair value through profit or loss, held to maturity and available for sale. Under IFRS 9, financial assets are either classified as amortised cost, fair value through profit or loss or fair value through other comprehensive income.

Financial assets

The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

The following are the changes in the classification of the Group's financial assets:

- Trade receivables (not subject to provisional pricing), Other current financial assets (i.e., Other receivables): these were assessed as being held to collect contractual cash flows and give rise to cash flows representing 'solely payments of principal and interest' SPPI.

These are now classified and measured as Debt instruments at amortised cost.

- Trade receivables (subject to provisional pricing) and Quotational period derivatives: prior to the adoption of IFRS 9, the exposure of provisionally priced sales to commodity price movements over the quotational period previously led to embedded derivatives (quotational period derivatives) being separated from the host trade receivable and accounted for separately. Under IFRS 9, embedded derivatives are no longer separated from financial assets. Instead, the exposure of the trade receivable to future commodity price movements will cause the trade receivable to fail the SPPI test. Therefore, the entire receivable is now required to be measured at fair value through profit or loss, with subsequent changes in fair value recognised in the statement of statement of comprehensive income each period until final settlement.

In summary, the Group had the following required or elected reclassifications for financial assets as at 31 December 2017:

	IAS 39 Carrying value US$000	IFRS 9 Fair value through profit or loss US$000
Trade receivables (subject to provisional pricing)	14,388	14,388

3. Summary of significant accounting policies continued

Financial liabilities

IFRS 9 changes requirements for accounting for modifications of contractual cash flows of financial liabilities, which the Group may experience from time to time.

According to the new requirements the Group should recalculate the amortised cost of the bank loans when the terms are modified. The estimated future cash flows under new terms (inflated at the new interest rate) should be discounted at the original effective interest rate. As a result, IFRS bank loan liabilities will differ from the liabilities under the bank loan agreements. The effect of the loans recalculation should be recognised in the statement of comprehensive income or in the cost of the qualified assets. The Group recognised the effect of the modified loans as at 1 January 2018 in the cost of the mining assets at Kekura due to the modified loans having been withdrawn in order to develop qualified assets at this project.

Impact of the loan modification on the statement of financial position at the recognition date is the following:

	Balance at 31.12.2017 published US$000	Loan modification under IFRS 9 US$000	Balance at 01.01.2018* US$000
Mining assets	588,035	(3,417)	584,618
Interest-bearing loans and borrowings	207,368	(3,417)	203,951

* Further information on fair values is described in Note 16.

(b) Impairment

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets in the scope of IFRS 15.

As all of the Group's trade receivables (not subject to provisional pricing) and other current receivables which the Group measures at amortised cost are short term (i.e., less than 12 months) and the Group's credit rating and risk management policies in place, the change to a forward-looking ECL approach did not have a material impact on the amounts recognised in the financial statements.

New Standards and Interpretations will be adopted in future periods

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.

Leases will also be 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 2018, the Group continued assessing the potential effect of IFRS 16 on its consolidated financial statements, and came to the following conclusions:

- There will be no change in accounting treatment for leases of machinery and equipment – the Company will continue recognising assets and related lease obligation of the balance sheet and depreciation and interest expenses in profit and loss.
- There will be no change in accounting treatment for leases of land used and exploring for mineral resources – following the exemption in IFRS 16, the Group will continue recognising the related rent expenses with no recognition of lease assets or liabilities.
- There will be a change in the treatment of office rental expenses (including the Group's Moscow office) – the Group will recognise a right-of-use asset and a lease liability on its balance sheet on 1 January 2019 and will start recognising depreciation and interest expenses in profit and loss starting from 1 January 2019.

3. Summary of significant accounting policies continued

New Standards and Interpretations will be adopted in future periods continued

Impact on statement of financial position:

- Recognition of right-of-use asset – separate presentation and disclosure in notes;
- Recognition of lease liability – separate presentation and disclosure in notes.

Impact on statement of comprehensive income:

- Recognition of lease expenses – depreciation of the right-of-use assets, and interest expenses as a component of financial cost.

Impact on statement of cash flows:

- Impact on operating activities – the operating lease payments for affected leases are no longer included in cash flows from operating activities;
- Impact on financing activities – cash payments for principal portion of lease liability;
- Other impact – cash payments for the interest portion are classified in accordance with other interest paid.

4. Critical accounting estimates and judgements in applying accounting policies

In the course of preparing financial statements, management necessarily makes judgements and estimates that can have a significant impact on the financial statements. 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. The stripping ratio is re-assessed in line with the LOM models.

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.

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

Estimations and assumptions

Fair value of assets and liabilities acquired with business combinations

The fair value of the assets and liabilities acquired are determined by the Directors at the date of acquisition. The allocation of these assets and liabilities across the aggregate of the identifiable assets, liabilities and contingent liabilities involves judgements, estimates and assumptions by the Directors across a range of key factors. The key estimates include:

- Reserve and resource estimates
- Forecasted gold prices
- Forecasted foreign exchange rates
- Discount rates.

The Company uses independent third-party experts in determining the fair value of the assets and liabilities acquired, which assures the Directors that their judgements, estimates and assumptions are materially accurate.

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. Recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal (FVLCD) and value in use (VIU) assessed using discounted cash flow models as explained in Note 18. 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 18.

The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated, based on the life-of-mine plans. The cash flows are significantly affected by a number of factors including ore reserves and mineral resources, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure. Future changes in these variables may differ from management's estimates and may materially change the recoverable amounts of the CGUs.

The valuation is inherently sensitive to changes in economic and operational assumptions which could materially increase or reduce the valuation. For example, a 5% change in the long-term price forecast for gold, with all other valuation assumptions remaining the same, would change the LOM valuation of BG by $12.5 million.

In determining the recoverable amount of a CGU, management applies judgement in determining the assumptions within an acceptable range that are considered to be reasonable. Sensitivity analysis is performed to analyse the impact of changing key assumptions which can lead to increases or decreases in the CGU recoverable amounts. Please refer to Note 18 for further details on the significant judgements and estimations made when preparing impairment tests of non-current assets, including post-tax discount rates.

Uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations. Please refer to Note 27 for details.

The Group establishes liabilities, based on reasonable estimates, for possible consequences of audits by the tax authorities in the countries in which it operates. The amounts of such liabilities 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 the life of the operating mine. Assumptions used to calculate the provision for site restoration are based on the government requirements applicable to site closure, and assumptions regarding the life of mine (which is assumed to close in 2029 at MNV, in 2034 for plant and infrastructure and in 2027 for open pit at BG, in 2033 at Novo, in 2031 at Klen, in 2038 at Kekura, in 2029 at Rudnik Valunisty, in 2023 KAS and Kayen in 2023), expected site restoration activities (removal of waste, restoration of mine sites), and current prices for similar activities. An increase in discount rates by 2%, with all other valuation assumptions remaining the same, would reduce the site restoration provision by $4.7 million and a decrease in discount rates by 2%, would raise the site restoration provision by $6.1 million.

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

Estimations and assumptions 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 is unlikely. Then the Group performs a turnover analysis for the remaining items of inventory by ageing. If the Group identifies obsolete inventory a provision is subsequently recognised in 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) are used in the unit of production calculation for depreciation in 2018 and impairment assessments. Management believe this assessment represents the most accurate quantity of reserves and resources which will generate future cash flows.

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. Acquisition of Rudnik Valunisty

On 27 December 2018, the Group acquired from Aristus Holdings Limited a 100% interest in three companies with assets in the Russian region of Chukotka: Rudnik Valunisty LLC, Kanchalano-Amguemskaya Square LLC and Severo-Vostochnaya Gorno-Geologicheskaya Company LLC. The assets include the Valunisty gold mine and processing plant, with annual production of 31 koz of gold (2017), as well as the Kanchalano-Amguemskaya Square ("KAS") licence, which covers territory surrounding Valunisty and hosts several satellite deposits, and the Kayenmivaam ("Kayen") exploration licence. It was a non-cash transaction during which the Group issued 38,621,343 ordinary shares of £0.001 each to Aristus.

Rudnik Valunisty and KAS hold total audited Proven and Probable Ore Reserves (JORC 2012) of 3.4 Mt at 5.1 g/t Au equivalent (4.6 g/t Au and 49.3 g/t Ag) (554 koz Au equivalent); and Indicated and Inferred Mineral Resources of 17.6 Mt at 3.0 g/t Au equivalent (2.4 g/t Au and 58.5 g/t Ag) (1.72 Moz Au equivalent), as at 1 January 2018.

This acquisition added a fourth operating mine to the Group's portfolio as well as positive upside potential in the surrounding area, all in a familiar region with existing mining infrastructure.

Costs incurred in relation to the acquisition amounted to US$0.8 million during 2018.

The Group determined that this transaction represents a business combination.

	US$000
PURCHASE CONSIDERATION	
Issued shares	68,126
Total consideration transferred	68,126

Fair value of issued shares was determined by multiplying the number of shares by market share price as at 27 December 2018.

5. Acquisition of Rudnik Valunisty continued

Assets acquired and liabilities assumed

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

	Fair value recognised on acquisition US$000
ASSETS	
NON-CURRENT ASSETS	
Exploration and evaluation assets	1,789
Mine properties	42,398
Property, plant and equipment	29,174
Deferred tax assets	2,066
Other non-current asset	2,820
TOTAL NON-CURRENT ASSETS ACQUIRED	**78,247**
CURRENT ASSETS	
Inventories	18,206
Trade and other receivables	1,516
Cash and cash equivalents	758
Other current assets	383
TOTAL CURRENT ASSETS ACQUIRED	**20,863**
TOTAL ASSETS ACQUIRED	**99,110**
LIABILITIES	
NON-CURRENT LIABILITIES	
Borrowings	(17,563)
Income tax payable	(1,600)
Provisions	(7,197)
Liability under finance lease	(145)
Deferred tax liabilities	(7,350)
TOTAL NON-CURRENT LIABILITIES ASSUMED	**(33,855)**
CURRENT LIABILITIES	
Borrowings	(186)
Trade accounts and notes payable	(2,791)
TOTAL CURRENT LIABILITIES ASSUMED	**(2,977)**
TOTAL LIABILITIES ASSUMED	**(36,832)**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**62,278**
GOODWILL ARISING ON ACQUISITION	**5,848**
TOTAL CONSIDERATION TRANSFERRED	**68,126**

The goodwill balance of US$5.8 million is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases. Goodwill is allocated entirely to the Chukotka region CGU. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group did not assess the amount of revenue and profit as if the combination had taken place at the beginning 2018 because of the absence of corresponding figures under IFRS.

The Group is applying the provisional accounting approach due to the complexity of the acquisition. The finalisation of the valuation work required to determine the fair values of the assets and liabilities acquired will be completed within 12 months of the acquisition date, at the latest.

6. Segment information

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

- Gold production of Khabarovsk region;
- Gold production of Chukotka region;
- Polymetallic concentrate production;
- Development and exploration; and
- Other.

The gold production of Khabarovsk region 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).

Following the acquisition of subsidiaries in late December 2018, we identified a new reportable segment – the gold production of Chukotka region. This new segment consists of three companies, namely Rudnik Valunisty (RV), Kanchalano-Amguemskaya Square (KAS) and Severo-Vostochnaya Gorno-Geologicheskaya Company (Kayen). All three companies operate in the same region and have similar economic characteristics. They produce gold and silver and perform exploration work with the aim of extending their reserves base.

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

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

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

The following tables present revenue, EBITDA and assets information for the Group's reportable segments. The segment information is reconciled to the Group's profit 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 2018 the gold and silver revenue reported in the gold production segment was received from sales to Gazprombank (US$196.6 million) in the territory of the Russian Federation.

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 2018 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US$40.0 million was received from sales to Kazzinc (2017: US$69.4 million) in the territory of the Republic of Kazakhstan, to Hyosung and Trafigura corporation in the territory of the People's Republic of China in the amount of US$72.8 million (2017: 61.1 million) and to Hyosung TNC in the territory of South Korea in the amount of US$1.0 million (2017: nil).

Other third-party revenues in both 2018 and 2017 were received in the territory of the Russian Federation.

Inter-segment revenues mostly represent management services.

6. Segment information continued

Year ended 31 December 2018	Gold production of Khabarovsk region US$000	Gold production of Chukotka region US$000	Polymetallic concentrate production segment US$000	Development & Exploration US$000	Other US$000	Eliminations US$000	Total US$000
REVENUE							
Gold revenue	195,138	–	–	–	–	–	195,138
Silver revenue	1,440	–	–	–	–	–	1,440
Concentrate revenue*	–	–	113,806	–	–	–	113,806
Other third-party	414	–	287	68	–	–	769
Inter-segment	61	–	–	–	14,034	(14,095)	–
TOTAL REVENUE	197,053	–	114,093	68	14,034	(14,095)	311,153
Cost of sales	126,735	–	50,929	484	74	–	178,222
EBITDA	86,685	–	70,499	(209)	(3,915)	–	153,060
OTHER SEGMENT INFORMATION							
Depreciation	(26,464)	–	(15,756)	(5)	(79)	–	(42,304)
Movement in ore stockpiles obsolescence provision	(722)	–	–	–	–	–	(722)
Movement in raw materials and consumables obsolescence provision	–	–	(45)	–	–	–	(45)
Individual impairment of property, plant and equipment and mine assets	(531)	–	–	(272)	–	–	(803)
Finance income							351
Finance costs							(2,123)
Foreign exchange gain							834
PROFIT BEFORE INCOME TAX							108,248
Income tax							(52,164)
PROFIT/(LOSS) FOR THE YEAR							56,084
SEGMENT ASSETS AT 31 DECEMBER 2018							
Non-current assets							
Capital expenditure**	171,544	73,361	157,549	656,111	1,051	–	1,059,616
Goodwill	9,690	5,848	5,134	42,978	–	–	63,651
Other non-current assets	4,981	4,886	3,845	5,847	508	–	17,067
Current assets***	64,063	25,523	39,481	3,637	24,391	(10,321)	146,774
TOTAL ASSETS							1,287,108
Capital expenditure – additions in 2018****, including:	25,613	73,361	14,087	29,709	706	–	143,476
Stripping activity assets	1,304	–	–	–	–	–	1,304
Capitalised bank interest	–	–	–	5,633	–	–	5,633
Unpaid/ (settled) accounts payable	(1,122)	–	390	1,604	(41)	–	831
Acquisition of subsidairies	–	73,361	–	–	–	–	73,361
Cash capital expenditure	25,431	–	13,697	22,472	747	–	62,347

* Concentrate revenue contains US$118.8 million of IFRS 15 revenue, a negative provisional price adjustment of US$4.5 million which represents changes in the fair value of embedded derivatives in respect of 2018, and a negative price adjustment of US$0.5 million related to 2017.

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

*** Current assets include corporate cash and cash equivalents of US$38.7 million, inventories of US$70.5 million, trade and other receivables of US$33.1 million and other assets of US$4.5 million. Eliminations relate to intercompany accounts receivable.

**** Capital expenditure – additions in 2018 – includes additions to property, plant and equipment of US$63.6 million (Note 16), capitalised interest of US$5.6 million (including US$7.2 million of 2018 interest expense, increased by US$1.7 million of the modification effect of 2018 according to IFRS 9, decreased by US$3.4 million of the retained earnings effect following the adoption of new IFRS 9 as at 1 January 2018 (Note 3), and capitalised upfront commission US$0.1 million (Note 16)), acquisition of subsidiaries of US$73.4 million and prepayments made for property, plant and equipment of US$0.9 million.

Non-current assets for 2018 are located in the Russian Federation (US$1,094.3 million) and in the Kyrgyz Republic (US$46.0 million). Current assets for 2018 are located in the Russian Federation.

6. 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
REVENUE						
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)	–
TOTAL REVENUE	185,976	130,698	61	12,195	(12,248)	316,682
Cost of sales	135,105	53,452	477	62	–	189,096
EBITDA	71,854	87,814	(1,723)	(2,670)	–	155,275
OTHER SEGMENT INFORMATION						
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/(loss)						651
PROFIT BEFORE INCOME TAX						100,316
Income tax						(34,461)
PROFIT/(LOSS) FOR THE YEAR						65,855
SEGMENT ASSETS AT 31 DECEMBER 2017						
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
TOTAL ASSETS						1,142,152
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 of 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.

7. Auditor's 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	
	2018 US$000	2017 US$000	**2018 US$000**	2017 US$000	**2018 US$000**	2017 US$000
Audit of the Group financial statements	**572**	546	**–**	–	**572**	546
Local statutory audits for subsidiaries	**16**	11	**43**	69	**59**	80
	588	557	**43**	69	**631**	626

8. Revenue

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

	2018 US$000	2017 US$000
Gold sales	**195,138**	183,756
Concentrate sales*	**113,806**	130,492
Silver sales	**1,440**	2,088
Other sales	**769**	346
	311,153	316,682

* Refer to Note 6 for further details.

9. Cost of sales

	2018 US$000	2017 US$000
Operating costs	**34,630**	35,052
Movement in ore stockpiles and gold in progress	**(1,038)**	2,872
Movement in finished goods	**(741)**	(479)
Capitalised to stripping activity assets	**(1,304)**	(4,077)
Employee benefits expense	**47,439**	48,984
Depreciation, depletion and amortisation	**42,304**	49,476
Raw materials and consumables used	**39,494**	39,417
Taxes other than income tax*	**17,438**	17,851
TOTAL COST OF SALES	**178,222**	189,096

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

10. Administrative expenses

	2018 US$000	2017* US$000
Management company administrative expenses	**11,617**	10,782
Minimum lease payments recognised as an operating lease expense	**844**	955
Salaries and wages of parent company	**1,635**	1,343
Auditor's remuneration (Note 7)	**631**	626
Legal and professional fees	**1,810**	859
Bank charges	**134**	268
Travel expenses of parent company	**237**	278
Other administrative expenses	**255**	230
TOTAL ADMINISTRATIVE EXPENSES	**17,163**	15,341

* Allowance for doubtful prepayments and other receivables have been reclassified from Administrative expenses to Other operating expenses.

11. Other operating income and expenses

11.1. Other operating income

	2018 US$000	2017 US$000
Other operating income	**442**	1,058
Gain on fixed assets sale	**–**	391
Accounts payable write-off	**7**	32
TOTAL OTHER OPERATING INCOME	**449**	1,481

11.2. Other operating expenses

		2018 US$000	2017 US$000
Movement in ore stockpiles obsolescence provision (Note 20)	11.2.1	**722**	3,185
Mine properties and property, plant and equipment write-off		**235**	949
Individual impairment of property, plant and equipment and mine assets	11.2.2	**803**	(4)
Allowance for doubtful prepayments and other receivables	11.2.3	**2,577**	713*
Donations to local communities		**1,370**	1,940
Loss on disposal of inventory		**931**	1,279
Movement in raw materials and consumables obsolescence provision		**45**	416
Mineral extraction tax correction and tax penalties		**(1,088)**	1,590
Other operating expenses		**1,436**	1,456
TOTAL OTHER OPERATING EXPENSES		**7,031**	11,524

* Allowance for doubtful prepayments and other receivables have been reclassified from Administrative expenses to Other operating expenses in 2017.

11.2.1. Movement in ore stockpiles obsolescence provision

Stock-piled low grade ore at BG is tested for impairment annually. During 2018 a portion of ore stockpiles in the amount of US$0.7 million was written down (2017: US$3.2 million).

11.2.2. Individual impairment of property, plant and equipment and mine assets

It was determined that the recoverable amounts of some non-current assets determined were lower than their carrying amounts as at 31 December 2018. The individual impairments totalled US$0.8 million, including US$0.5 million relating to negative drilling results at the "Medvezhye" exploration asset (MNV) and $US0.3 million relating to the Kekura construction in progress asset.

In 2017, the Group recognised minor reversals of previously recognised impairment losses.

11.2.3 Allowance for doubtful prepayments and other receivables

Doubtful prepayment relating to capital development at Novo was impaired for US$2.4 million.

12. Foreign exchange gains and losses

The total amount of foreign exchange gain for the year ended 31 December 2018 was US$0.8 million (2017: gain of US$0.7 million) resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies such as Russian roubles and British pounds into the functional currency.

13. Finance income and costs

13.1. Finance income

	2018 US$000	2017 US$000
Bank interest	**350**	175
Other finance income	**1**	2
TOTAL FINANCE INCOME	**351**	177

13.2. Finance costs

	2018 US$000	2017 US$000
Accretion expense on site restoration provision (Note 26)	**1,500**	1,593
Interest expense on bank loans	**400**	825
Interest expense on finance lease	**223**	296
TOTAL FINANCE COSTS	**2,123**	2,714

14. Income tax

The major components of income tax expense for the years ended 31 December 2018 and 2017 are:

	2018 US$000	2017 US$000
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Current income tax:		
Current income tax charge	**20,166**	33,279
Withholding tax on dividends*	**13,704**	7,742
	33,870	41,021
Deferred income tax:		
Deferred income tax expense/(reversal of temporary differences)	**18,294**	(6,560)
INCOME TAX EXPENSE REPORTED IN THE STATEMENT OF COMPREHENSIVE INCOME	**52,164**	34,461

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 2018 and 2017 is as follows:

	2018 US$000	2017 US$000
ACCOUNTING PROFIT BEFORE INCOME TAX	**108,248**	100,316
At Russian statutory income tax rate of 20%	**21,650**	20,063
Non-deductible expenses	**2,135**	3,678
Effect of translation of tax base denominated in foreign currency	**16,698**	(3,539)
Withholding tax on dividends*	**13,704**	7,742
Lower tax rates on overseas (income)/losses	**(2,718)**	3,350
(Recognised)/unrecognised losses	**(185)**	435
Loss from other unrecognised temporary differences	**880**	2,732
INCOME TAX EXPENSE AT THE EFFECTIVE TAX RATE OF 36% (2017: 27%)	**52,164**	34,461
INCOME TAX EXPENSE REPORTED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	**52,164**	34,461

* Withholding tax on dividends represents 15% of dividends paid by Russian subsidiaries to the holding company.

Effective tax rate increased from 27% to 36% due to future tax revaluation of the rouble's depreciation as at 31 December 2018.

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		Acquisition of Valunisty	Consolidated statement of comprehensive income	
	2018 US$000	2017 US$000	2018 US$000	2018 US$000	2017 US$000
DEFERRED INCOME TAX LIABILITY					
Property, plant and equipment	**(163,287)**	(138,133)	**(13,673)**	**11,481**	(621)
Inventory	**(5,692)**	(3,300)	**–**	**2,392**	(77)
Accounts receivable and other debtors	**(727)**	(1,012)	**–**	**(285)**	19
Deferred financing costs	**(364)**	(53)	**–**	**311**	(30)
	(170,070)	(142,498)	**(13,673)**	**13,899**	(709)
DEFERRED INCOME TAX ASSETS					
Accounts receivable and other debtors	**–**	96	**–**	**96**	116
Finance lease obligations	**433**	602	**–**	**169**	(268)
Trade accounts and notes payable	**767**	1,417	**–**	**650**	(127)
Tax losses	**37,807**	32,898	**8,389**	**3,480**	(5,572)
	39,007	35,013	**8,389**	**4,395**	(5,851)
Net deferred income tax liabilities	**(131,063)**	(107,485)	**(5,284)**	**18,294**	(6,560)

14. Income tax continued

Deferred income tax continued

Reconciliation to the statement of financial position:

	2018 US$000	2017 US$000
Deferred income tax assets	**2,163**	129
Deferred income tax liabilities	**(133,226)**	(107,614)
DEFERRED TAX LIABILITIES NET	**(131,063)**	(107,485)

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 2018 is US$20.2 million (31 December 2017: US$18.7 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 2018 is US$30.8 million (31 December 2017: US$27.8 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 2018 is US$22.8 million (31 December 2017: US$23.3 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

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$476.6 million (2017: US$588.8 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is 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$71.5 million (2017: US$0 and US$88.3 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2018 and 2017 years of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

15. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued, for no consideration, on the exercise of share options into ordinary shares. There is no effect of dilution in 2018 (2017: none).

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

	2018 US$000	2017 US$000
Net profit/(loss) attributable to ordinary equity holders of the parent	**56,040**	65,275
	Thousands	Thousands
Weighted average number of ordinary shares	**363,843**	325,222

In December 2018, the Group issued 38,621,343 ordinary shares of £0.001 each to Aristus. As a result, the number of issued shares increased to 363,843,441.

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.

16. 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 2018

	Exploration and evaluation assets US$000	Mine assets US$000	Stripping activity assets US$000	Freehold building US$000	Plant and equipment* US$000	Construction in progress US$000	Total US$000
COST							
AT 31 DECEMBER 2017	**88,926**	**768,181**	**19,724**	**218,474**	**237,103**	**76,852**	**1,409,260**
Effect of adoption of new accounting standards (Note 3)	–	(3,417)	–	–	–	–	(3,417)
ADJUSTED AS AT 1 JANUARY 2018	**88,926**	**764,764**	**19,724**	**218,474**	**237,103**	**76,852**	**1,405,843**
Additions	5,742	18,106	1,304	–	1,106	37,349	63,607
Transfers	(3,210)	13,310	–	574	13,850	(24,524)	–
Write-off**	–	–	(2,243)	(602)	(3,609)	–	(6,454)
Disposals	–	–	–	(261)	(1,005)	(422)	(1,688)
Capitalised depreciation	256	5,791	–	–	–	1,026	7,073
Capitalised interest***	–	9,050	–	–	–	–	9,050
Change in estimation – site restoration asset	–	(4,731)	–	–	–	–	(4,731)
Acquisition of subsidiaries	1,789	42,398	–	15,217	13,138	819	73,361
Other movement	–	–	–	–	(106)	59	(47)
AT 31 DECEMBER 2018	**93,503**	**848,688**	**18,785**	**233,402**	**260,477**	**91,159**	**1,546,014**
DEPRECIATION AND IMPAIRMENT							
AT 31 DECEMBER 2017	**–**	**191,223**	**8,647**	**96,375**	**145,302**	**1,590**	**443,137**
Provided during the year	–	16,403	4,007	5,955	15,939	–	42,304
Transfers	–	(888)	–	888	–	–	–
Write-off**	–	–	(2,243)	(596)	(3,380)	–	(6,219)
Disposals	–	–	–	(236)	(857)	–	(1,093)
Capitalised depreciation	–	605	–	3,363	3,105	–	7,073
Reclass to inventory	–	3	–	390	–	–	393
Impairment	531	–	–	–	–	272	803
AT 31 DECEMBER 2018	**531**	**207,346**	**10,411**	**106,139**	**160,109**	**1,862**	**486,398**
Net book value:							
AT 31 DECEMBER 2017	88,926	576,958	11,077	122,099	91,801	75,262	966,123
AT 31 DECEMBER 2018	**92,972**	**641,342**	**8,374**	**127,263**	**100,368**	**89,297**	**1,059,616**

* Net book value of plant and equipment in the amount of US$2.5 million at 31 December 2018 relates to assets under finance lease at MNV: cost of US$4.1 million less accumulated depreciation of US$1.6 million.

** Write-off for 2018 in the amount of US$0.2 million relates to retirement of old, inefficient equipment and some buildings.

*** Borrowing costs were capitalised at Kekura mining assets in the amount of US$9.0 million. They are comprised of US$7.2 million of interest expense as per agreement, a portion of the modification effect (US$1.7 million) and capitalised upfront commission of US$0.1 million. The effect of IFRS 9 on the retained earnings in respect of the capitalised interest at Kekura was a negative impact of US$3.4 million. The modified effective interest rates were between 3.42% and 6.2% (actual effective interest rates as per agreements: 3.42% and 4.64%).

No plant and equipment has been pledged as security for bank loans in 2018.

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.

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

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
COST							
AT 31 DECEMBER 2016	**85,459**	**737,342**	**21,638**	**214,538**	**229,191**	**63,997**	**1,352,165**
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)
AT 31 DECEMBER 2017	**88,926**	**768,181**	**19,724**	**218,474**	**237,103**	**76,852**	**1,409,260**
DEPRECIATION AND IMPAIRMENT							
AT 31 DECEMBER 2016	**–**	**180,465**	**10,753**	**84,223**	**126,861**	**1,623**	**403,925**
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
AT 31 DECEMBER 2017	**–**	**191,223**	**8,647**	**96,375**	**145,302**	**1,590**	**443,137**
Net book value:							
AT 31 DECEMBER 2016	**85,459**	**556,877**	**10,885**	**130,315**	**102,330**	**62,374**	**948,240**
AT 31 DECEMBER 2017	**88,926**	**576,958**	**11,077**	**122,099**	**91,801**	**75,262**	**966,123**

* 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.

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:

	2018 US$000	2017 US$000
Operating expenses	**(354)**	(1,047)
Net cash used in investing activities	**3,336**	8,620

17. 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 2018, 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), from the acquisition of Novo (US$5.1 million) and from the acquisition of Valunisty (US$5.8 million). Goodwill is allocated to a single or group of cash-generating units as appropriate, representing the lowest level at which it is monitored for management purposes. Goodwill is allocated to the following groups of cash-generating units:

	2018 US$000	2017 US$000
Goodwill allocated to the operating gold mining company (MNV)	**9,690**	9,690
Goodwill allocated to the operating gold mining company (Valunisty)	**5,848**	–
Goodwill allocated to the polymetallic mining company (Novo)	**5,134**	5,134
Goodwill allocated to the group of development and exploration assets (Taseevskoye, Unkurtash and Lubov)	**42,978**	42,978
BALANCE AT 31 DECEMBER	**63,651**	57,802

18. 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 2018 and 2017 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 2034 (31 December 2017: 2032);
- BG* – 2034 (31 December 2017: 2032);
- Novo – 2033 (31 December 2017: 2033);
- Klen – 2031 (31 December 2017: 2030);
- Kekura – 2038 (31 December 2017: 2036);
- Taseevskoye – 2030 (31 December 2017: 2029);
- Unkurtash – 2038 (31 December 2017: 2037);
- Lubov – 2029 (31 December 2017: 2028);
- Rudnik Valunisty – 2029

* 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.

18. Impairment testing of non-current assets continued

The table below shows the key assumptions used in the fair value calculation at 31 December 2018 and 2017.

	2018	2017
Post-tax discount rate for cash flows in the operating gold mining company (MNV), %	**6.81**	6.75
Post-tax discount rate for cash flows in the operating gold mining company (BG), %	**7.81**	7.75
Post-tax discount rate for cash flows in the polymetallic mining company (Novo), %	**6.81**	6.75
Post-tax discount rate for cash flows in the gold mining company being at development stage (Klen), %	**8.81**	8.75
Post-tax discount rate for cash flows in the gold mining company being at development stage (Taseevskoye), %	**8.81**	8.75
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Kekura), %	**8.81**	8.75
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Unkurtash), %	**8.81**	8.75
Post-tax discount rate for cash flows in the gold mining company being at exploration stage (Lubov), %	**8.81**	8.75
Gold price, US$ per ounce in year 1	**1,250**	1,250
Gold price, US$ per ounce in year 2 and beyond	**1,300**	1,270
Silver price, US$ per ounce in year 1	**15**	17
Silver price, US$ per ounce in year 2 and beyond	**17**	17
Lead price, US$ per tonne in year 1	**1,990**	2,000
Lead price, US$ per tonne in year 2 and beyond	**1,920**	2,000
Zinc price, US$ per tonne in year 1	**2,430**	2,500
Zinc price, US$ per tonne in year 2 and beyond	**2,370**	2,500

As a result of the recoverable amount analysis performed during the year, no impairment losses were recognised in 2018 (2017: no impairment losses).

A 27% increase in the post-tax discount rate, a 6% decrease in gold price or a 13% decrease in the foreign exchange rate or significant increase in operating or capital costs at Belaya Gora, would result in the impairment of its mine properties and property, plant and equipment.

Management believe that Kekura and Klen will be granted certain tax benefits and other incentives for residents within the Chukotka Advanced Special Economic Zone (ASEZ), a programme designed to encourage investment in the region. Removing the ASEZ assumption from the cash flow model would result in an impairment charge.

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.

19. Other non-current assets

	2018 US$000	2017 US$000
Non-current prepayments*	**9,279**	10,656
Other non-current assets**	**3,059**	202
TOTAL OTHER NON-CURRENT ASSETS	**12,338**	10,858

* Non-current prepayments include advances issued to suppliers for equipment and construction works.
** Other non-current assets include US$2.8 million of indemnity from Aristus, the seller of the acquired companies, in respect of probable tax and environmental risks.

20. Inventories

Non-current*

	2018 US$000	2017 US$000
Ore stockpiles	**21,072**	16,256
Ore stockpile obsolescence provision***	**(18,506)**	(15,632)
TOTAL INVENTORIES	**2,566**	624

Current

	2018 US$000	2017 US$000
Raw materials and consumables	**59,371**	51,108
Ore stockpiles	**14,785**	15,709
Gold in progress	**5,202**	5,004
Finished goods	**3,351**	1,156
	82,709	72,977
Raw materials and consumables obsolescence provision**	**(12,250)**	(12,205)
Ore stockpile obsolescence provision***	**–**	(2,152)
TOTAL INVENTORIES	**70,459**	58,620

* 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.
** Movement in raw materials and consumables obsolescence provision amounted to US$0.04 million in 2018 (2017: US$0.4 million). No inventory has been pledged as security.
*** Ore stockpile obsolescence provision at BG increased by US$0.7 million in 2018 (2017: US$3.2 million). Stockpiled low-grade ore is tested for impairment twice a year.

21. Trade and other receivables

	2018 US$000	2017 US$000
VAT receivable	**10,775**	11,878
Other taxes receivable	**125**	9
Related party receivables (Note 28)	**6**	6
Trade receivables	**17,718**	14,388
Other receivables	**1,345**	1,406
	29,969	27,687

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:

	2018 US$000	2017 US$000
At 1 January	**3**	25
Addition/ (Utilisation)	**23**	(22)
At 31 December	**26**	3

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

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

22. 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.

	2018 US$000	2017 US$000
Cash in hand and at bank	**8,291**	10,565
Short-term deposits	**30,445**	1,823
	38,736	12,388

23. Issued capital and reserves

(a) Issued share capital

Authorised	**2018 Shares**	2017 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 2016	325,222,098	585
Ordinary shares issued	–	–
At 31 December 2017	325,222,098	585
Ordinary shares issued	38,621,343	49
AT 31 DECEMBER 2018	**363,843,441**	**634**

(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.

24. Interest-bearing loans and borrowings

	Effective interest rate as per agreement %	Effective interest rate under IFRS 9 %	Modification	Maturity	**2018 US$000**	2017 US$000
CURRENT						
UniCredit loan (3)	4.58 (2017: 3.6)	6.2	Modified	June 2020	**25,000**	–
Raiffeisen loan (4)	4.6 (2017: 3.7)	5.64	Modified	November 2019	**10,865**	11,000
UniCredit loan (5)	3.4 (2017: 3.63)	3.78	Modified	October 2020	**24,887**	4,017
Sberbank loan (9)	1.5	1.5	Non-modified	May 2022	**239**	–
Rosbank (11)	3.96	3.96	Non-modified	September 2019	**25,000**	–
Rosbank (12)	3.97	3.97	Non-modified	September 2019	**8,000**	–
Sberbank loan (15)	1.5	1.5	Non-modified	July 2022	**186**	–
					94,177	15,017
NON-CURRENT						
Gazprombank loan (1)	3.1	3.1	Non-modified	March 2020	**–**	43,630
Sberbank loan (2)	3.4	3.4	Non-modified	August 2021	**20,000**	20,000
UniCredit loan (3)	4.58 (2017: 3.6)	6.2 (2017: 3.6)	Modified	June 2020	**23,515**	50,000
Raiffeisen loan (4)	4.6 (2017: 3.7)	5.64 (2017: 3.7)	Modified	November 2019	**–**	11,000
UniCredit loan (5)	3.4 (2017: 3.63)	3.78 (2017: 3.63)	Modified	October 2020	**20,747**	45,721
Alfa-Bank loan (6)	3.0	3.0	Non-modified	December 2019	**–**	22,000
Raiffeisen loan (8)	4.9	4.9	Non-modified	September 2022	**6,250**	–
Sberbank loan (9)	1.5	1.5	Non-modified	May 2022	**598**	–
Raiffeisen loan (7)	4.8; 3.97	4.8; 3.97	Non-modified	September 2022	**40,000**	–
UniCredit loan (10)	4.8	4.8	Non-modified	December 2023	**25,000**	–
Gazprombank loan (13)	5.55	5.55	Non-modified	April 2021	**7,329**	–
Expobank loan (14)	5.0	5.0	Non-modified	April 2022	**9,770**	–
Sberbank loan (15)	1.5	1.5	Non-modified	July 2022	**465**	–
					153,674	192,351
TOTAL					**247,851**	207,368

(1) The loan was repaid in September 2018.

(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 2018 is US$20.0 million (31 December 2017: US$20.0 million). 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) 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. Due to implementation of new requirement of IFRS 9 effective rate is LIBOR 1M at the date of modification + 5%. 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 2018 is US$50.0 million (2017: US$50.0). Due to implementation of new requirement of IFRS 9 book value of the loan was modified and at 31 December 2018 is US$48.5 million (31 December 2017: US$50.0 million). For more information about transition adjustment, please see Note 3. 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.

(4) In August 2016, the Group raised financing with Raiffeisen bank 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. Due to implementation of new requirement of IFRS 9 effective rate is LIBOR 1M at the date of modification + 4.4%. The loan is repayable in November 2019. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$11.0 million (2017: US$22.0). Due to implementation of new requirement of IFRS 9 book value of the loan was modified and at 31 December 2018 is US$10.9 million (31 December 2017:US$22.0 million). For more information about transition adjustment, please see Note 3. 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.

(5) 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. Due to implementation of new requirement of IFRS 9 effective rate is 3.8%. The loan is repayable October 2020 (2016: October 2019). The drawn down payable balance obtained under the agreement at 31 December 2018 is US$45.8 million (2017: US$49.7). Due to implementation of IFRS 9 book value of the loan was modified and at 31 December 2018 is US$45.6 million (31 December 2017: US$49.7). 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.

(6) The loan was repaid in September 2018.

(7) In September 2018, the Group (MNV) secured a revolving facility with Raiffeisen Bank with the draw period set until 09 January 2019. The interest rate is set for every instalment separately. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$40.0 million (31 December 2017: Nil). The outstanding bank debt is subject to the following covenants: the ratio of total net debt to EBITDA should be equal to or lower than 4.0; the ratio of EBITDA to interest expense should be equal to or higher than 4.0; the ratio of total net debt to Equity should be lower than 0.6.

(8) In September 2018, the Group secured a revolving facility with Raiffeisen Bank with the draw period set until 14 January 2019. The interest rate is set for every instalment separately. The loan is repayable in instalments until 14 September 2022. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$6.3 million (31 December 2017: Nil). The outstanding bank debt is subject to the following covenants: the ratio of total net debt to EBITDA should be equal to or lower than 4.0; the ratio of EBITDA to interest expense should be equal to or higher than 4.0; the ratio of total net debt to Equity should be lower than 0.6.

(9) In May 2018, the Group raised financing with Sberbank with the draw period set until 31 August 2018. The rouble-based interest rate of 8.75% was decreased to 1.50% upon receipt of Belarus governmental compensation. The loan is repayable in instalments between September 2018 and May 2022. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$0.8 million (31 December 2017: 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.

(10) In December 2018, the Group secured a revolving facility with UniCredit Bank with the draw period set until 27 November 2023. The interest rate is set for every instalment separately. The loan is repayable in instalments between December 2018 and December 2023. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$25.0 million (31 December 2017: Nil). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5; the ratio of EBITDA to interest expense should be equal to or higher than 4.0.

(11) In September 2017, the Group (MNV) secured a revolving facility with Rosbank. The interest rate is set for every instalment separately. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$25.0 million (31 December 2017: Nil). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5; the ratio of EBITDA to interest expense should be equal to or higher than 4.0.

(12) In September 2017, the Group (BG) secured a revolving facility with Rosbank. The interest rate is set for every instalment separately. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$8.0 million (31 December 2017: Nil). The outstanding bank debt is subject to the following covenants: the ratio of net debt to EBITDA should be equal to or lower than 3.5; the ratio of EBITDA to interest expense should be equal to or higher than 4.0. On 27 December 2018, the Group acquired under Sale-Purchase Agreement three finance obligations with banks (13), (14) and (15).

24. Interest-bearing loans and borrowings continued

(13) Revolving facility with Gazprombank signed on 25 July 2017 with the draw period set until 15 April 2021. The interest rate is set for every instalment separately in range lower than 7.0%. The loan is repayable in instalments between July 2017 and April 2021. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$7.3 million (31 December 2017: Nil).

(14) Revolving facility with Expobank signed on 9 April 2018 with the draw period set until 09 August 2021. The interest rate is set for every instalment separately. The loan is repayable in instalments between April 2018 and April 2022. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$9.8 million (31 December 2017: 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 4.0; the ratio of EBIT to interest expenses should be equal to or higher than 1.5, positive cash flow should be equal to or higher than 15.0% from plan; negative cash flow should be equal to or lower than 15.0% from plan.

(15) Loan agreement with Sberbank signed on 06 July 2018 with the draw period set until 20 October 2018. The rouble-based interest rate of 8.75% was decreased to 1.50% upon receipt of Belarus governmental compensation. The loan is repayable in instalments between 25 October 2018 and 05 July 2022. The drawn down payable balance obtained under the agreement at 31 December 2018 is US$0.7 million (31 December 2017: Nil). The outstanding bank debt is subject to the following covenant: the ratio of net debt to EBITDA should be equal to or lower than 3.5.

25. Trade and other payables

Non-current

	2018 US$000	2017 US$000
Non-current portion of pension liabilities	**355**	331
	355	331

Current

	2018 US$000	2017 US$000
Trade payables	**8,560**	7,675
Salaries payable	**9,159**	8,381
Other taxes payable	**5,689**	6,958
Announced but unpaid dividends	**20,879**	–
Other current payables	**1,125**	440
	45,412	23,454

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.
- Dividends announced in December 2018 were paid in January 2019.

26. Provisions

	Site restoration provision US$000	Environmental and social provision US$000	Total US$000
AT 31 DECEMBER 2016	**17,199**	**–**	**17,199**
Accretion	1,593	–	1,593
Utilisation of provision	(27)	–	(27)
Effect of changes in the discount and inflation rates	(1,323)	–	(1,323)
Effect of changes in estimated costs	1,938	–	1,938
Effect of exchange rate changes	1,450	–	1,450
AT 31 DECEMBER 2017	**20,830**	**–**	**20,830**
Accretion	1,500	–	1,500
Utilisation of provision	(19)	–	(19)
Effect of changes in the discount and inflation rates	(2,236)	–	(2,236)
Effect of changes in estimated costs	2,760	–	2,760
Acquisition	5,976	1,220	7,196
Effect of exchange rate changes	(5,254)	–	(5,254)
AT 31 DECEMBER 2018	**23,557**	**1,220**	**24,777**

Site restoration provision

In 2018 the Group performed a re-assessment of the site restoration provision at MNV, Novo, BG, Kekura, Klen, Rudnik Valunisty, KAS and Kayen. 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 2029, 2033, 2034 for plant and infrastructure (2027 for open pit), 2038, 2031, 2029, 2023 and 2023 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 7.9% (2017: 7.1%) have been used to calculate the site restoration liability at MNV assuming its closure in 2029 (2017: 2023).

A risk-free RUR-denominated government bonds discount rate of 8.7% (2017: RUR-denominated government bonds rate of 7.8%) have 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 8.0% and for plant and infrastructure of 8.1% (2017: RUR-denominated government bonds discount rate for open pit at BG of 7.3% and for plant and infrastructure of 8.29%) has been used to calculate the site restoration liability at BG assuming its closure in 2027 and 2034 accordingly.

A risk-free RUR-denominated government bonds discount rate of 8.7% (2017: RUR-denominated government bonds rate of 7.8%) has been used to calculate the site restoration liability at Klen assuming site closure in 2031.

A risk-free RUR-denominated government bonds discount rate of 8.8% (2017: RUR-denominated government bonds rate of 7.7%) has been used to calculate the site restoration liability at Kekura assuming site closure in 2038.

A risk-free RUR-denominated government bonds discount rate of 7.9% has been used to calculate the site restoration liability at Rudnik Valunisty assuming site closure in 2029.

A risk-free RUR-denominated government bonds discount rate of 8.1% has been used to calculate the site restoration liability at KAS assuming site closure in 2023.

A risk-free RUR-denominated government bonds discount rate of 8.1% has been used to calculate the site restoration liability at Kayen assuming site closure in 2023.

The decrease in site restoration liability in the amount of US$5.3 million was due to depreciation of RUR against USD in 2018 (2017: increase of US$1.5 million).

The total increase in estimation of site restoration liability amounts to US$2.8 million in 2018 (2017: increase US$1.9 million).

Environmental and social provision

The Group created an environmental and social provision at Rudnik Valunisty for US$1.2 million as at 31 December 2018 following the business combination in the year. US$1.1 million relates to an environmental claim and US$0.1 million relates to a social claim against the Company. The environmental and social provision is fully indemnified if the payment occurs within two years after the closing date of the transaction (27 December 2018). The indemnity is currently accounted for within other non-current assets.

27. 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 five 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 2018 was US$0.7 million (2017: US$0.8 million).

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

	2018 US$000	2017 US$000
Within one year	**693**	835
After one year but not more than five years	**2,044**	3,236
	2,737	4,071

Capital commitments

At 31 December 2018 the Group had commitments of US$8.2 million (2017: US$14.2 million) principally relating to development assets and US$3.2 million (2017: US$3.0 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 at interest rates between 6.4% and 7.9% for USD lease contracts, 12.8% for RUB lease contracts and at Rudnik Valunisty at interest rate 8.4%. Finance lease at Novo repaid in December 2018. 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	
	2018 US$000	2017 US$000	**2018 US$000**	2017 US$000
Within one year	**760**	1,080	**530**	915
After one year but not more than five years	**1,558**	2,260	**723**	1,314
Total minimum lease payments	**2,318**	3,340	**1,254**	2,229
Less amounts representing finance charges	**(1,065)**	(1,111)	**–**	–
Present value of minimum lease payments	**1,253**	2,229	**1,254**	2,229

Contingent liabilities

Management has identified possible tax claims within the various jurisdictions in which the Group operates totalling US$0.3 million as at 31 December 2018 (at 31 December 2017: US$2.2 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.

28. Related party disclosures

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

Name	Country of incorporation	Effective shareholding %
SUBSIDIARY UNDERTAKINGS HELD BY THE ULTIMATE PARENT		
Stanmix Holding Limited	Cyprus	100
Highland Exploration Kyrgyzstan LLC (Unkurtash)	Kyrgyzstan	100
Rudnik Valunisty LLC (RV)	Russia	100
Kanchalano-Amguemskaya Square LLC (KAP)	Russia	100
Severo-Vostochnaya Gorno-Geologicheskaya Company LLC (SVGK)	Russia	100
HELD INDIRECTLY VIA SUBSIDIARIES		
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 Russdragmet (RDM)	Russia	100
OOO BSC	Russia	100
OOO Zabaykalzolotoproyekt (ZZP)	Russia	100
OOO RDM Trade House	Russia	100

* Direct shareholding in OJSC Novo-Shironkinsky Rudnik is 99.19%. 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

The Valunisty acquisition has been classified as a related party transaction. Following the completion of the acquisition of the mine and related companies on 27 December 2018, the Company issued 38,621,343 ordinary shares of £0.001 as part of consideration for the acquisition. The issued share capital of Highland Gold increased to 363,843,441 from 325,222,098 ordinary shares of £0.001 per share.

As part of the Valunisty acquisition there is an indemnity against certain tax, environmental and social liabilities. This is disclosed within Note 19 as Other non-current assets and represents a receivable from a related party.

As a result of this share issue, a group of individuals and entities, considered to be acting in concert, increased its stake in the Company from 37.41% to 43.77%. These parties, and their shareholdings (direct and indirect) as of 31 December 2018, included: Mr Eugene Shvidler (12.29%), Mr Roman Abramovich (9.73%), Denalot Worldwide Limited (7.13%), Matteson Overseas Limited (4.52%), Erlinad Holdings Limited (3.79%), New Evolution Trading Limited (2.40%), Ms Irina Panchenko (2.32%), Mr Andrey Gorodilov (1.06%), and Mr Efim Malkin (0.53%). All of the above parties have agreed to be bound by the terms of the relationship agreement with Highland Gold entered into by parties affiliated with them in January 2008.

Among officers and Directors with substantial shareholdings, Eugene Shvidler, Executive Chairman of the Company, owned 44,714,829 shares representing 12.29% of the total issued share capital of the Company as of 31 December 2018. Through his ownership of Matteson Overseas Limited, Non-Executive Director Valery Oyf controlled 16,439,486 shares representing 4.52% of total issued share capital.

Other large shareholders unaffiliated with the parties mentioned above include Prosperity Capital Management and affiliated entities, which held 10.12% of Highland Gold’s issued shares at 31 December 2018. No other shareholder held in excess of 5% of the issued share capital of the Company.

Terms and conditions of transactions with related parties

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 2018 (2017: Nil). There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2017: 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.

28. Related party disclosures continued

Compensation of key management personnel of the Group

	2018 US$000	2017 US$000
Short-term employee benefits	**5,823**	5,467
Total compensation paid to key management personnel	**5,823**	5,467

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.

29. 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 2018 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".

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 2018 US$000	Effect on derivative 2017 US$000
Lead	5%	**259**	167
	-5%	**(259)**	(167)
Zinc	5%	**95**	–
	-5%	**(95)**	–
Gold	5%	**1,053**	553
	-5%	**(1,053)**	(553)
Silver	5%	**238**	131
	-5%	**(238)**	(131)
Copper	5%	**82**	–
	-5%	**(82)**	–

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 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
2017	10%	422	5%	30
	-10%	(422)	-5%	(30)
2018	**10%**	**(315)**	**5%**	**49**
	-10%	**315**	**-5%**	**(49)**

There is no other foreign currency impact on equity.

29. Financial risk management objectives and policies continued

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.

Trade and other receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. The Group sells the produced gold mainly to recognised, creditworthy banks, and is usually paid immediately after the sale. For remaining sales the Group trades only with recognised creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, which are based on an extensive credit rating scorecard, short-term liquidity and financial position. Individual credit limits are defined in accordance with this assessment. In addition, outstanding receivable balances are regularly monitored on an ongoing basis, with the result that the Group's exposure to credit-impaired balances and bad debts is not significant.

At 31 December 2018, the Group had four customers (2017: two customers) that owed the Group more than US$17 million and accounted for approximately 99% (2017: 99%) of all receivables owing.

An impairment analysis is performed at each reporting date using an individual analysis of each counterparty to measure expected credit losses. All major customers are highly creditworthy and have no negative historical credit loss experience. The Group has established a provision matrix that is based on past historical credit loss experience, forward-looking factors specific to the debtors and the economic environment. As a result at the reporting date the Group did not identify any significant expected credit loss.

The maximum exposure to credit risk for trade receivables at the reporting date is the carrying value disclosed in Note 21.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only in creditworthy banks and within credit limits assigned to each subsidiary. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2018 and 2017 is the carrying amounts as per the statement of financial position.

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 24 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 2017 and 31 December 2018 based on contractual undiscounted payments.

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	–	86,806	84,254	46,381	–	217,441
Trade and other payables	–	16,350	–	–	–	16,350
Liability under finance lease	–	1,080	783	1,477		3,340
	–	104,236	85,037	47,858	–	237,131

Year ended 31 December 2018	**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	**–**	**170,149**	**53,950**	**40,198**	**–**	**264,297**
Trade and other payables	**–**	**39,200**	**–**	**–**	**–**	**39,200**
Liability under finance lease	**–**	**760**	**688**	**870**		**2,318**
	–	**210,109**	**54,638**	**41,068**	**–**	**305,815**

29. Financial risk management objectives and policies continued

Liquidity risk continued

Interest bearing loans and borrowings for the year ended 31 December 2018 with maturity of less than one year include revolving facilities secured with Sberbank, Gazprombank, Unicredit Bank, Raiffeisen and Expobank: the amount of US$66.7 million outstanding at 31 December 2018 has been presented as non-current liabilities in the consolidated statement of financial position. Refer to Note 24 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 the consolidated statement of changes in equity. For information on debt financing refer to Note 24. 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 2018 the Group has outstanding bank debt of US$247.9 million including an IFRS 9 modification impact of US$1.7 million (2017: US$207.4 million).

30. 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.

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.

The Group held the following financial instruments measured at fair value:

Assets measured at fair value

	31 December 2018 US$000	Level 1 US$000	Level 2 US$000
Trade receivables (incl.embedded derivative)	**17,718**	–	17,718

Assets measured at fair value

	31 December 2018 US$000	Level 1 US$000	Level 2 US$000
Trade receivables (embedded derivative only)	**1,463**	–	1,463

In 2018, concentrate sales include a positive fair value movement of US$1.5 (2017: US$0.2) relating to an embedded derivative.

30. Financial assets and liabilities continued

Changes in liabilities arising from financing activities

	1 January 2018 US$000	Cash flow US$000	Accrued interest US$000	Foreign exchange movement US$000	Acquisition of subsidiary US$000	Modification US$000	Other US$000	31 December 2018 US$000
Interest bearing loans and borrowings (excluding items listed below)	**207,368**	**17,024**	**7,589**	**(101)**	**17,749**	**(1,706)**	**(72)**	**247,851**
Obligations under finance leases and hire purchase contracts	**3,340**	**(1,300)**	**223**	**(100)**	**155**	**–**	**–**	**2,318**
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	**210,708**	**15,724**	**7,812**	**(201)**	**17,904**	**(1,706)**	**(72)**	**250,169**

	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
Current interest bearing loans and borrowings (excluding items listed below)	211,587	(12,564)	8,203	–	–	142	207,368
Current obligations under finance leases and hire purchase contracts	2,626	(1,696)	296	42	2,072	–	3,340
TOTAL LIABILITIES FROM FINANCING ACTIVITIES	214,213	(14,260)	8,499	42	2,072	142	210,708

The ‘Other’ column includes the effect of various other adjustments.

31. Dividends

The final dividend for the year ending 31 December 2017 in the amount of US$24.2 million was paid in May 2018.

The Group paid a first interim dividend of GBP 0.06 per share in respect of H1 2018 (2017: interim dividend of GBP 0.0498 per share) which resulted in an aggregate interim dividend payment of US$25.5 million (2017: US$21.3 million). The first interim dividend was paid on 24 September 2018.

The Board has recommended a second interim dividend of GBP 0.05 per share (2017: 0.0542 per share) which, taking into account the first interim dividend paid in September 2018, gives a total dividend of GBP 0.11 per share for the year 2018 (2017: 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 Board has recommended a third interim dividend of GBP 0.024 per share (2017: nil).

32. Events after the reporting period

In February 2019, the Company’s Kekura and Klen licences have both been included in the list of companies which can be granted ‘residency’ status within the Chukotka Advanced Special Economic Zone (ASEZ), a programme designed to encourage investment in the region. Such status will lead to certain significant tax benefits and other incentives and augurs well for the progression of both projects. The Company is in the process of finalising the administrative and other procedures which, once completed, will secure these benefits in respect of these two licences.

In March 2019, the Company repaid US$17.7 million of borrowings assumed as part of the Valunisty acquisition in 2018.

The second interim dividend was paid in January 2019 to shareholders for US$20.9 million.

MINERAL RESOURCES, AS AT 31 DECEMBER 2018

Reported in accordance with JORC

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Indicated	8,155,994	3.3	856,169	100%	856,169
	Measured +Indicated	**8,155,994**	**3.3**	**856,169**	**100%**	**856,169**
	Inferred	6,034,231	3.2	621,225	100%	621,225
	Total	**14,190,225**	**3.2**	**1,477,394**	**100%**	**1,477,394**
TASEEVSKOYE	Indicated	25,785,000	4.9	4,057,587	100%	4,057,587
	Inferred	5,278,000	6.1	1,030,766	100%	1,030,766
	Total	**31,063,000**	**5.1**	**5,088,353**	**100%**	**5,088,353**
UNKURTASH	Measured	21,024,000	1.7	1,179,836	100%	1,179,836
	Indicated	32,870,000	1.8	1,860,917	100%	1,860,917
	Measured +Indicated	**53,894,000**	**1.8**	**3,040,753**	**100%**	**3,040,753**
	Inferred	12,291,000	1.7	656,004	100%	656,004
	Total	**66,185,000**	**1.7**	**3,696,757**	**100%**	**3,696,757**
NOVOSHIROKINSKOYE	Measured	14,777,793	4.3	2,062,695	99.0%	2,042,068
	Indicated	3,357,249	2.9	313,447	99.0%	310,312
	Measured +Indicated	**18,135,042**	**4.1**	**2,376,142**	**99.0%**	**2,352,380**
	Inferred	4,462,000	2.6	375,298	99.0%	371,545
	Total	**22,597,042**	**3.8**	**2,751,441**	**99.0%**	**2,723,925**
BELAYA GORA	Measured					
	Indicated	11,533,396	1.5	564,223	100%	564,223
	Measured +Indicated	**11,533,396**	**1.5**	**564,223**	**100%**	**564,223**
	Inferred	142,976	2.3	10,519	100%	10,519
	Total	**11,676,372**	**1.5**	**574,742**	**100%**	**574,742**
BLAGODATNOE	Indicated	19,200,000	1.3	776,000	100%	776,000
	Inferred	49,000	0.8	1,286	100%	1,286
	Total	**19,249,000**	**1.3**	**776,119**	**100%**	**776,119**
KLEN	Indicated	2,850,000	5.8	530,809	100%	530,809
	Inferred	1,020,000	2.9	96,452	100%	96,452
	Total	**3,870,000**	**5.0**	**627,261**	**100%**	**627,261**
KEKURA	Measured	580,000	11.0	205,765	100%	205,765
	Indicated	8,720,000	8.0	2,234,477	100%	2,234,477
	Measured +Indicated	**9,300,000**	**8.2**	**2,440,242**	**100%**	**2,440,242**
	Inferred	160,000	3.1	16,075	100%	16,075
	Total	**9,460,000**	**8.1**	**2,456,317**	**100%**	**2,456,317**
LYUBAVINSKOYE	Measured	1,304,990	1.5	62,758	100%	62,758
	Indicated	9,802,700	1.3	413,330	100%	413,330
	Measured +Indicated	**11,107,690**	**1.3**	**476,088**	**100%**	**476,088**
	Inferred	139,540	1.8	8,198	100%	8,198
	Total	**11,247,230**	**1.3**	**484,287**	**100%**	**484,287**
VALUNISTY	Indicated	8,543,093	3.3	912,425	100%	912,425
	Inferred	2,773,554	2.3	202,464	100%	202,464
	Total	**11,316,647**	**3.1**	**1,114,888**	**100%**	**1,114,888**
GORNY (KAS)	Indicated	562,944	3.4	62,369	100%	62,369
	Inferred	3,053,305	2.4	231,757	100%	231,757
	Total	**3,616,249**	**2.5**	**294,126**	**100%**	**294,126**
ZHILNY (KAS)	Inferred	2,330,000	3.5	261,868	100%	261,868
	Total	**2,330,000**	**3.5**	**261,868**	**100%**	**261,868**
TOTAL	Measured	37,686,783	2.9	3,511,054		3,490,427
	Indicated	131,380,375	3.0	12,581,753		12,578,617
	Measured +Indicated	**169,067,158**	**3.0**	**16,092,807**		**16,069,045**
	Inferred	37,733,607	2.9	3,511,912		3,508,159
	Total	**206,800,765**	**2.9**	**19,604,720**		**19,577,205**

MINERAL RESOURCES, AS AT 31 DECEMBER 2018 CONTINUED

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, Kekura, Valunisty and Gorny Mineral Resources are inclusive of Mineable Reserves.
3. MNV Mineral Resources are undiluted and based upon a gold price of US$1,250 per ounce. Resources were evaluated with specific cutoff grade > 0.7 g/t for open cut mining, and > 1.0 g/t for underground mining
   Taseevskoe Mineral Resources are undiluted and based upon a gold price of US$ 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 > 0.85 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 > 0.4g/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 > 0.5g/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.
   Valunisty and Gorny Mineral Resources were evaluated with specific cutoff grade > 0.5 g/t.
   Zhilny Mineral Resources were evaluated with specific Ag cutoff grade > 40 g/t.
4. Resource estimate 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 were 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.
   Resource estimate for Valunisty, Gorny and Zhilny was reconfirmed by CSA Global PTY, 2018.
5. Highland Gold internal gold-equivalent resource and reserve estimates are based on the following data:
   Novo – 2017 WAI JORC-compliant MRE and ORE, conversion coefficients calculated using WAI 2017 metal prices and recovery parameters. Au Eq. (g/t) = Au(g/t)+0,017096Ag(g/t)+0,559710Pb(%)+0.538668Zn(%).
   Valunisty, Gorny and Zhilny – 2018 CSA Global JORC-compliant MRE and ORE, conversion coefficient calculated using CSA 2018 metal prices and recovery parameters:
   – Valunisty Au Eq. (g/t) = Au (g/t) + 0.01011*Ag (g/t)
   – Gorny Au Eq. (g/t) = Au (g/t) + 0.01032*Ag (g/t)
   – Zhilny Au Eq. (g/t) = Au (g/t) + 0.01196*Ag (g/t)
6. Mineral resources at MNV, Belaya Gora, Novo, Valunisty, Gorny and Zhilny have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the resources with annual production.

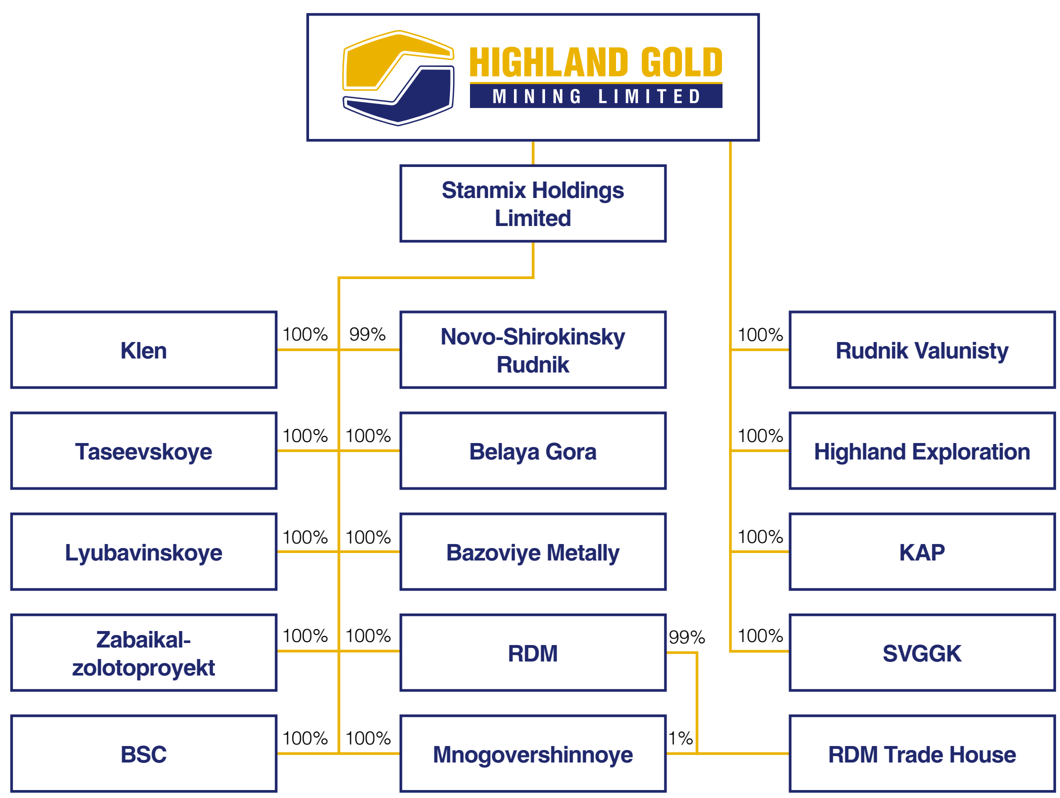
ORE RESERVES, AS AT 31 DECEMBER 2018

Reported in accordance with JORC

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland's interest (%)	Gold ounces attributable to Highland
MNOGOVERSHINNOYE	Proven					
	Probable	9,118,994	2.68	786,997	100%	786,997
	Proven + Probable	**9,118,994**	**2.68**	**786,997**	**100%**	**786,997**
NOVOSHIROKINSKOYE	Proven	13,672,131	3.2	1,400,024	99.0%	1,386,024
	Probable	2,595,001	2.2	186,797	99.0%	184,929
	Proven + Probable	**16,267,132**	**3.0**	**1,586,821**	**99.0%**	**1,570,953**
BELAYA GORA	Proven					
	Probable	8,989,812	1.5	433,744	100%	433,744
	Proven + Probable	**8,989,812**	**1.5**	**433,744**	**100%**	**433,744**
BLAGODATNOE	Proven					
	Probable	10,200,000	1.4	472,000	100%	472,000
	Proven + Probable	**10,200,000**	**1.4**	**472,000**	**100%**	**472,000**
KEKURA	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**
VALUNISTY	Probable	2,878,949	5.2	483,365	100%	483,365
	Proven + Probable	**2,878,949**	**5.2**	**483,365**	**100%**	**483,365**
GORNY (KAS)	Proven	31,621	5.4	5,468	100%	5,468
	Probable	118,580	3.8	14,446	100%	14,446
	Proven + Probable	**150,201**	**4.1**	**19,914**	**100%**	**19,914**
TOTAL	Proven	14,353,752	3.5	1,598,396		1,584,396
	Probable	42,131,335	3.1	4,193,866		4,191,998
	Proven + Probable	**56,485,088**	**3.2**	**5,792,262**		**5,776,394**

Notes:
- MNV, Belaya Gora, Blagodatnoe and Kekura reserves estimate does not include a silver assessment.
- Novo reserves are calculated for Au equivalent and include Pb, Zn and Ag assessment.
- Valunisty and Gorny reserves are calculated for Au equivalent and include Ag assessment.
- MNV Mineable Reserves are diluted and based upon a gold price of US$1250 per ounce and marginal cut-off.
- g/t for underground mining (1.2 g/t for the Northern ore body) and 0.7 g/t for open cut.
- Novo Mineable Reserves are diluted and based upon a gold price of US$1279.2 per ounce and marginal cut-off.
- 1.6 % Pb Eq.
- Belaya Gora Mineable Reserves are based upon a gold price of US$1200 per ounce and marginal cut-offs in between 0.4 and 2.05 g/t.
- Blagodatnoe Mineable Reserves are based upon a gold price of US$1200 per ounce and marginal cut-off 0.77 g/t .
- Kekura Mineable Reserves are diluted and based upon a gold price of US$1150 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.
- Valunisty and Gorny Mineable Reserves are diluted and based upon a gold price of US$1250 per ounce and marginal cut-offs 1.49 g/t AuEq (Valunisty) and 1.0 g/t AuEq (Gorny) for open pit.
- Mineable reserves at MNV, Novo, Belaya Gora, Valunisty and Gorny have been estimated in accordance with JORC guidelines and include adjustments that have been made to reconcile the reserves with annual production.

GROUP COMPANIES



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
Rudnik Valunistiy LLC	100	Russia	Holder of Valunisty licence
KAP LLC	100	Russia	Holder of Kanchalan-Amguema Square licence
SVGGK LLC	100	Russia	Holder of Kayenmivaam (Kayen) licence

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

Name	%	Country of incorporation	Principal activity and place of business
RDM LLC (Russdragmet)	100	Russia	Management company
Mnogovershinnoye JSC	100	Russia	Holder of Mnogovershinnoye (MNV) and Blagodatnoye licences
Taseevskoye LLC	100	Russia	Holder of Taseevskoye, ZIF-1 and Sredny Golgotay licences
Zabaykalzolotoproyekt LLC	100	Russia	Project engineering
Novo-Shirokinsky Rudnik JSC	99[1]	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 LLC holds equity share capital in the following companies:

Name	%	Country of incorporation	Principal activity and place of business
RDM Trade House	99[2]	Russia	Vladivostok logistics center

1. The remaining 1% is held by unaffiliated individual shareholders.
2. The remaining 1% is held by Mnogovershinnoye JSC.

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 23 May, 2019 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 2018 (each as contained within the 2018 Annual Report circulated with this AGM Notice), be received.
2. THAT Eugene Shvidler who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
3. THAT Valery Oyf who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
4. THAT Duncan Baxter who retires by rotation as a Director of the Company be re-elected as a Director of the Company.
5. THAT Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
6. THAT the Directors be authorised to fix the Auditor's remuneration.

By Order of the Board
30 April 2019

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 (or show of hands), 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 21 May 2019 (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, JE2 3RA
Jersey

COMPANY SECRETARY

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

NOMINATED ADVISER AND BROKER

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

JOINT BROKER

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

JOINT BROKER

Peat & Co
118 Piccadilly
London, W1J 7NW
United Kingdom

AUDITORS TO THE COMPANY AND GROUP

Ernst & Young LLP
1 More London Place
London, SE1 2AF
United Kingdom

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, JE4 8PP
Jersey

REGISTRARS

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

TRANSFER AGENT

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

FINANCIAL CALENDAR

EX-DIVIDEND DATE:
25 April 2019

RECORD DATE:
26 April 2019

POST 2018 ANNUAL REPORT:
30 April 2019

ANNUAL GENERAL MEETING:
23 May 2019

DIVIDEND PAYMENT DATE:
7 June 2019

LISTING SECTOR/TICKER REUTERS:
HGM.L

NUMBER OF SHARES IN ISSUE:
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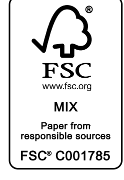

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