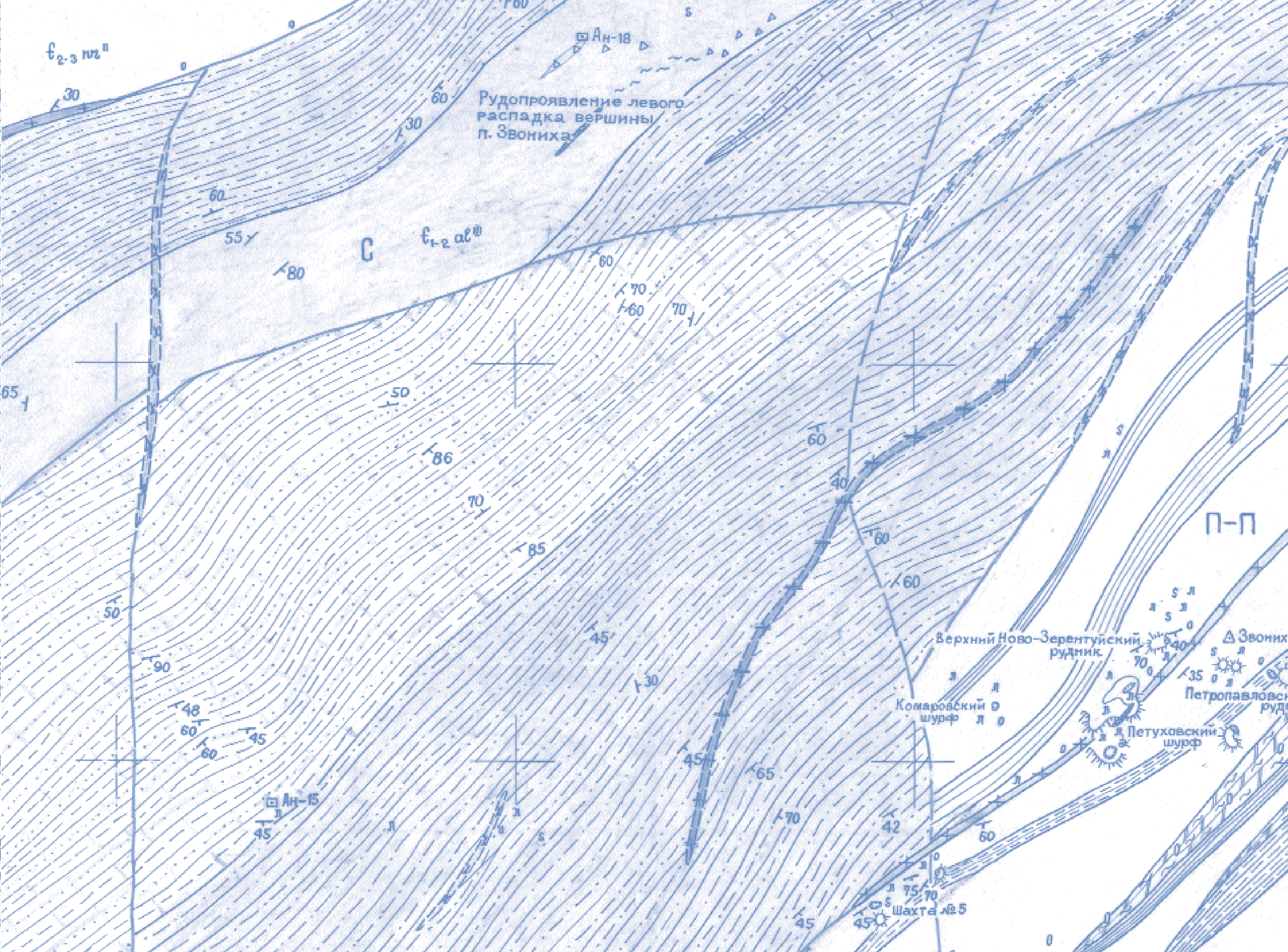

Highland Gold Mining Limited
Annual Report & Accounts 2005

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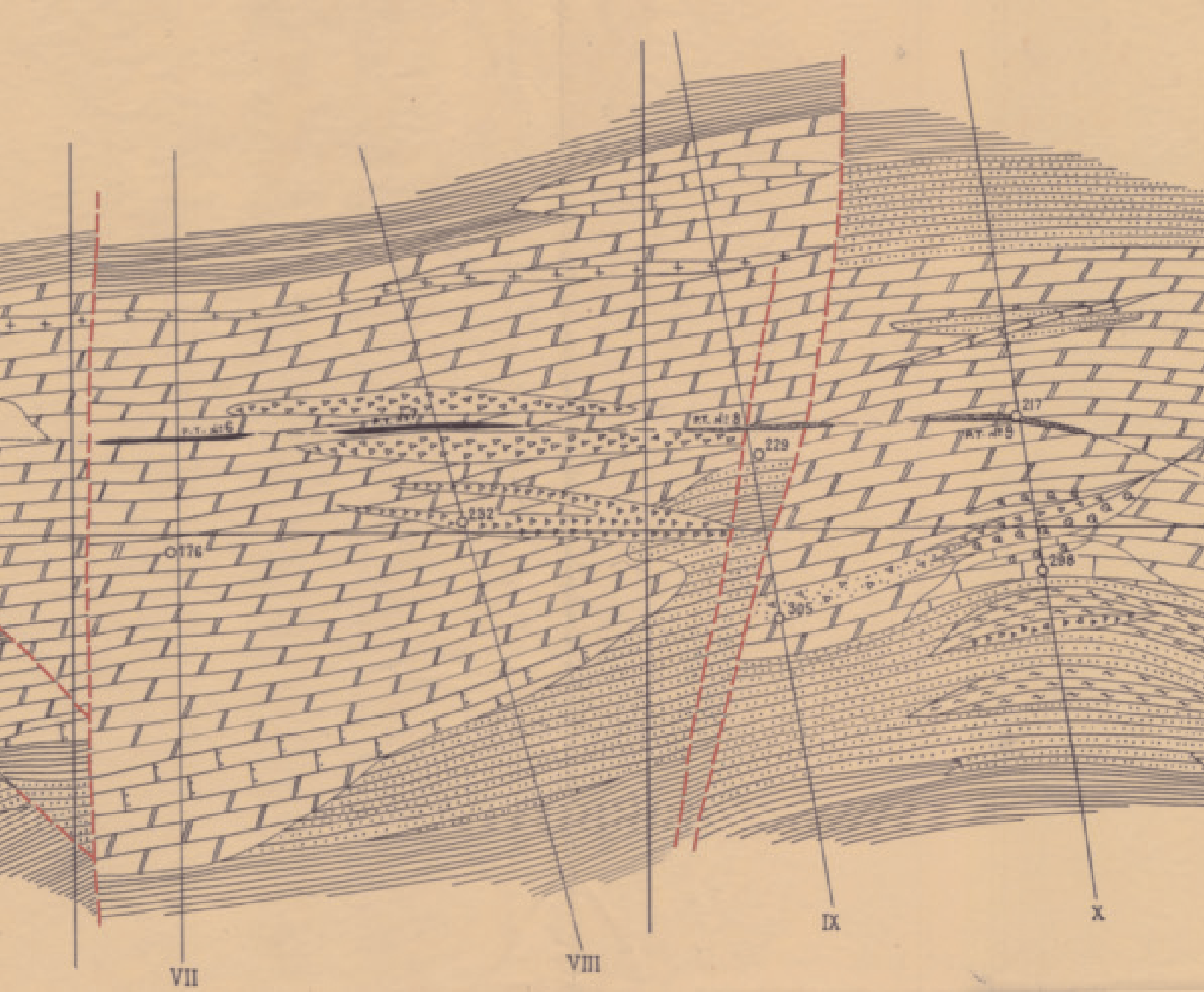


Creating a solid base for the future

The Company focuses on growth opportunities in Russia and the FSU

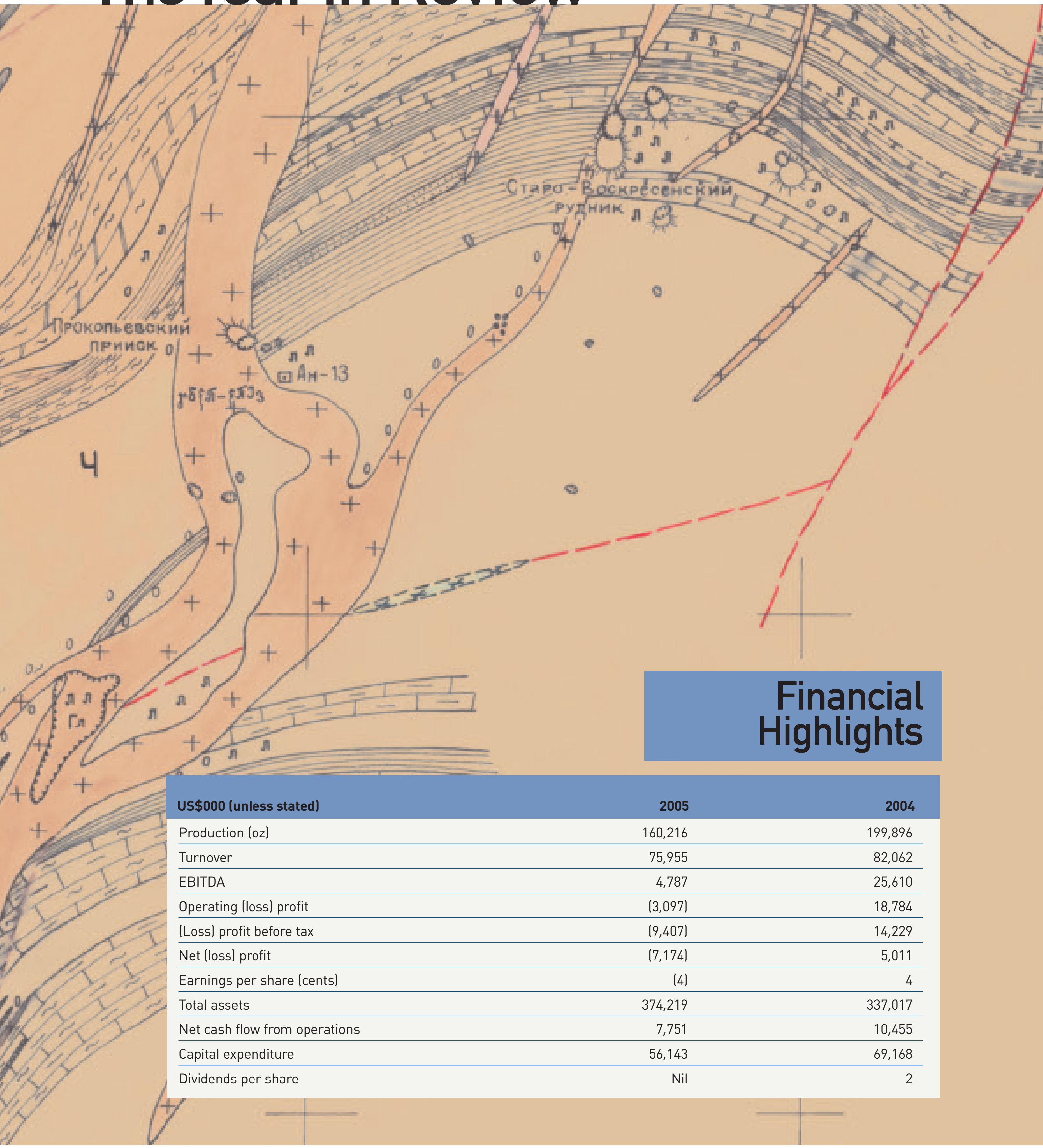
We have a world-class asset base of producing, development and exploration projects

Highland Gold Mining Limited is a gold producer with significant reserves and strong growth potential based on a portfolio that comprises two producing assets, a number of development projects and several exploration sites, all of which are located in Russia.

Our core strengths are a world-class asset base; extensive local knowledge, enabling early identification of new opportunities; a strong and growing partnership with Barrick Gold; access to global capital markets; and a commitment to international standards of corporate governance and disclosure.

Our strategy is focused on maximising the efficiency of mines already in production; developing existing projects to bring them into production; exploring selected sites we consider to have good development potential; and acquiring further suitable development opportunities in Russia and the FSU.

The Year in Review



Financial Highlights

US$000 (unless stated)	2005	2004
Production (oz)	160,216	199,896
Turnover	75,955	82,062
EBITDA	4,787	25,610
Operating (loss) profit	(3,097)	18,784
(Loss) profit before tax	(9,407)	14,229
Net (loss) profit	(7,174)	5,011
Earnings per share (cents)	(4)	4
Total assets	374,219	337,017
Net cash flow from operations	7,751	10,455
Capital expenditure	56,143	69,168
Dividends per share	Nil	2

2005 Key Events

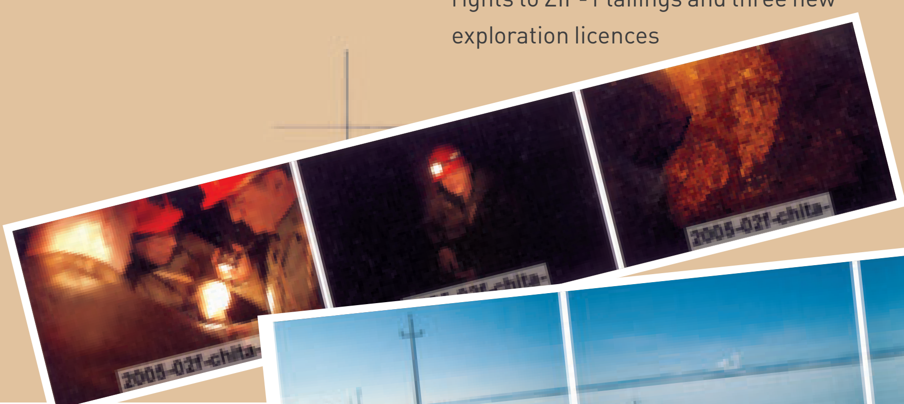
- Gold production for 2005 was 160,216 ounces (MNV 140,038; Darasun 20,178)
- Significant turnaround during the second half at MNV
- Commissioned the Darasun mill in September 2005
- Expanded partnership with Barrick Gold. The Taseevskoye JV was established subject to certain Russian regulatory approval
- Taseevskoye production capacity extended by licences for Sredne-Golgotayskoye and ZIF-1 tailings
- Obtained exploration licences for Belaya Gora, Sovinoye and Malo-Fedorovskoye
- JORC resource calculations for Mayskoye and Taseevskoye completed
- US$50 million equity subscription by Barrick Gold
- Rouble bond equivalent to US$26.8 million issued to fund further development
- Strengthened Board and management team

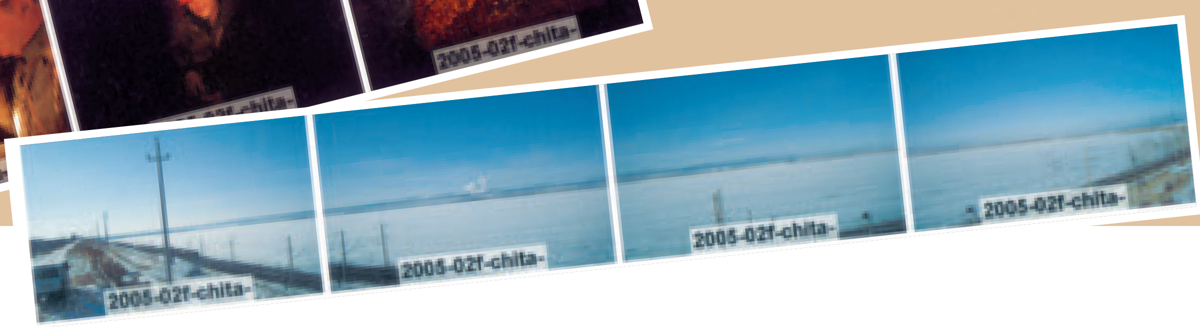
POST YEAR END

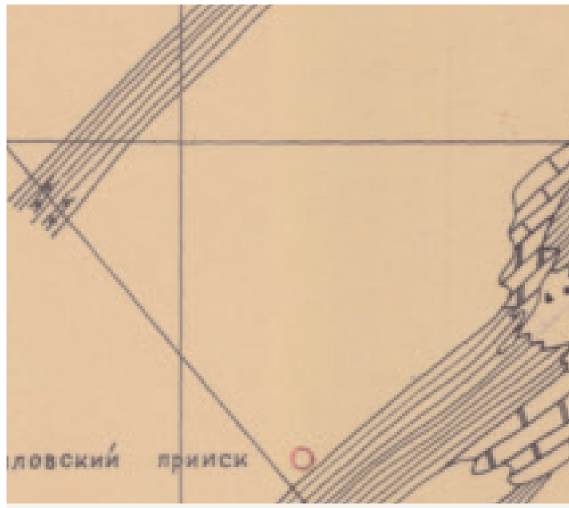
- Barrick Gold exercised participation rights to ZIF-1 tailings and three new exploration licences

2006 Goals

- Implement Highland Gold's new HSE Policy and Safety Management Plan
- Produce 200,000–215,000 ounces of gold from MNV and Darasun
- Reach profitability at Darasun
- Obtain JORC classification for MNV and Darasun
- Finalise feasibility study for Mayskoye
- Complete Taseevskoye pre-feasibility study
- Finalise plans for Novoshirokinskoye
- Expand exploration activity
- Continue to strengthen relationship with Barrick Gold







We have substantially strengthened our senior management team

IN 2005 Highland Gold focused primarily on improving the performance of existing operations and progressing work on our future projects. The Company furthered its acquisition programme with considerable success.

Production

For our core asset MNV, located in the Khabarovsk region, the year started poorly with a serious drop in production. The Board considered it necessary to issue a production update in June. An independent assessment of the mining operations highlighted a significant lack of underground development and over burden stripping at both MNV and Darasun. After the implementation of new procedures and cost controls in the second half of 2005, coupled with the appointment of managerial personnel with world wide experience, we were able to recover from the first-half operating setbacks. Although the overall production at MNV fell by approximately 25% when compared to 2004, production in the second half was almost 70% higher than the first half of 2005. Based on this performance we are confident of this mine's future and have set a production range of between 150,000 to 160,000 ounces for 2006.

Throughout 2005 our management team persisted in its efforts to bring Darasun, our second major operation located in the Chita region, into full production. Though this work is still not complete and will continue in 2006, the Darasun mill was successfully commissioned after rectifying the initial technical difficulties in the second half of the year. Key staff with mining and metallurgical skills have been appointed at Darasun and an experienced geologist will join the team in May. This will complete the implementation of our management restructuring plans for 2006 and should result in a marked improvement of production at the mine. The problems experienced earlier resulted in lower than expected production, most of which was achieved during the last few months of 2005. This resulted in a significant cash drain on the Company and productivity improvements especially in the underground operations, are now an immediate priority. Furthermore, in addition to production shortfalls problems in reconciling mill throughput were experienced. This prompted the Board to commission an independent security audit in addition to appointing new security personnel.

Project Development

Further progress has been made on assessing our three major projects, Taseevskoye, Mayskoye and Novoshirokinskoye. At Taseevskoye, good progress was made with the preparatory work. We are in the process of finalising the joint venture arrangements with Barrick Gold and have progressed towards a detailed development plan and budget for 2006. Last year we were successful in obtaining exploration and production licences for the Sredne-Golgotayskoye deposit located near Taseevskoye which we hope will enhance the overall potential of the operation. In addition we acquired the rights to retreat mill tailings from previous production.

Further data was received regarding the future development of our two other projects, at Mayskoye and Novoshirokinskoye. For Mayskoye we received an independent JORC resource estimate, carried out additional drilling on the site and continued with camp construction.

At Novoshirokinskoye, external consultants and a newly appointed in-house specialist are reviewing the development of this deposit. The outcome of this process will be announced in the foreseeable future.

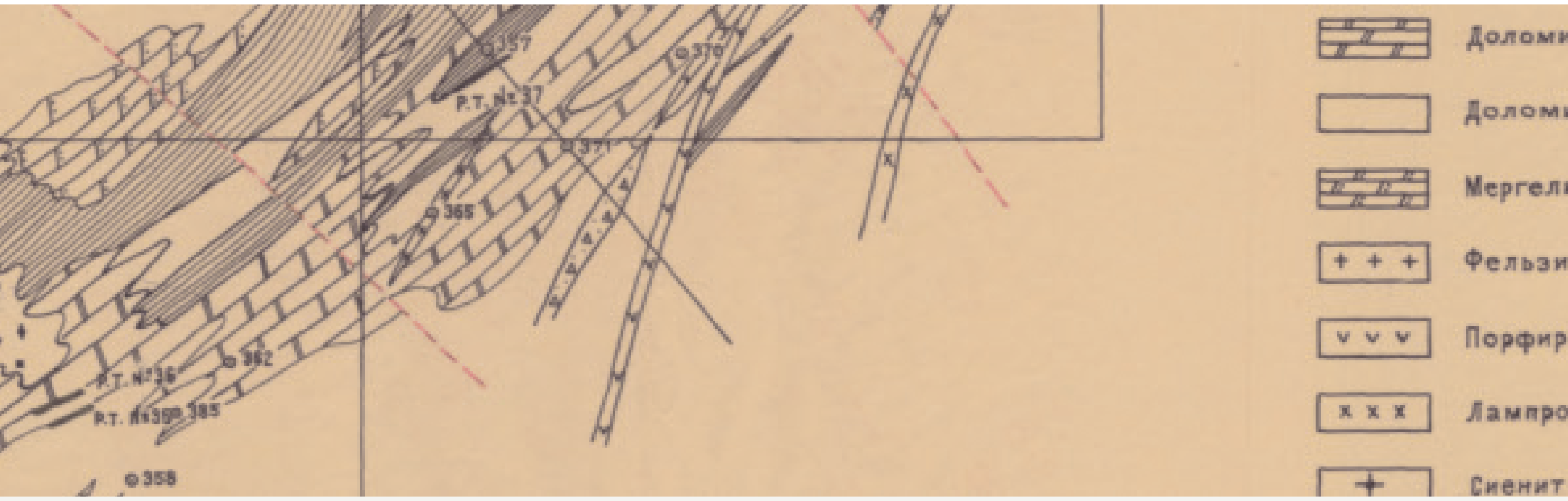
Exploration

During the year we made further progress in the development of our exploration portfolio by acquiring 3 sites with future potential in each of the gold-producing districts where we are currently operating. This process has strengthened our presence in these areas and Barrick Gold have confirmed their participation rights in all of these prospects.

Results

In 2005 Highland Gold has shown an after tax loss of US$7.2 million as a result of difficulties experienced at MNV and the delay in the production build-up at Darasun. Furthermore, production costs particularly consumables and energy have continued to increase. Whilst we are likely to continue to see cost inflation at MNV, costs at Darasun should start to improve as production increases and overall production costs for the Company should show an improving trend.

Administration expenses increased mainly as a result of the appointment of a



number of experienced executives. From a cash flow perspective, although, the Company generated almost US$20.8 million less cash from operations when compared to 2004, a total of US$128.0 million was raised which enhanced the financial position. These funds were raised by the issue of new shares to Barrick Gold at a value of US$48.9million, medium-term debt of US$65.8 million and US$ 13.3 million received from the partial disposal of the Taseevskoye project to Barrick Gold.

The Board has reviewed a dividend policy which remains unchanged and the Board is unable to recommend a final dividend in respect of the financial year 2005.

The Company has formulated a restructuring plan, which is being implemented during 2006. This plan is designed to improve productive processes, cut costs, add additional world class expertise and concentrate on improving the infrastructure of the current operations. It is further intended to finalise mine plans and feasibility studies for those projects we assess worthy of continued development.

Changes to the Board

In February 2006, Henry Horne was appointed as the new managing director. At the same time Henry became a director of our Moscow-based operating company RUSSDRAGMET.

Henry Horne, with 25 years of experience in the mining industry, succeeded Dmitry Korobov, who had been with our Company since its inception in 2002. Dmitry played an important role over the years in the group's progress and in providing the operational infrastructure necessary for developing our assets in Russia. Dmitry left the Company to pursue other interests. I would like on behalf of the Board to express our gratitude to Dmitry for his contribution to the Company and for his loyal and professional work over many years.

Barrick Gold

The blend of Russian with Western expertise has been successfully demonstrated in the development in 2005 of our relations with our strategic partner Barrick Gold. As I noted earlier we are optimistic about the prospects of our Taseevskoye joint venture. Barrick Gold is actively participating with us in constructing and implementing a programme to develop a number of social projects in the town of Baley, which will be the centre of the Taseevskoye operation. On behalf of the Board and management I wish to extend our thanks to Barrick Gold for the technical assistance afforded us during 2005.

Health, Safety and Environment

A priority for our Company remains the need to increase the safety awareness of all our employees about safety regulations by building a culture of responsibility and involvement in safety, health and the environment. Despite these efforts, it is with regret that I report that we had two fatalities one at MNV in 2005 and another at Darasun in 2006. I wish to convey on behalf of the Board and management our condolences to the families of these employees.

In all our mining projects we strive to support and sustain the communities in the environs of our operations. This is a core priority for us as a Company and serves as a basis for constructive and open dialogue with regional and local authorities. In support of the Federal Government's policy to promote the economic and social development of Eastern Siberia and Russia's Far East, Highland Gold has increased its direct investment in these regions.

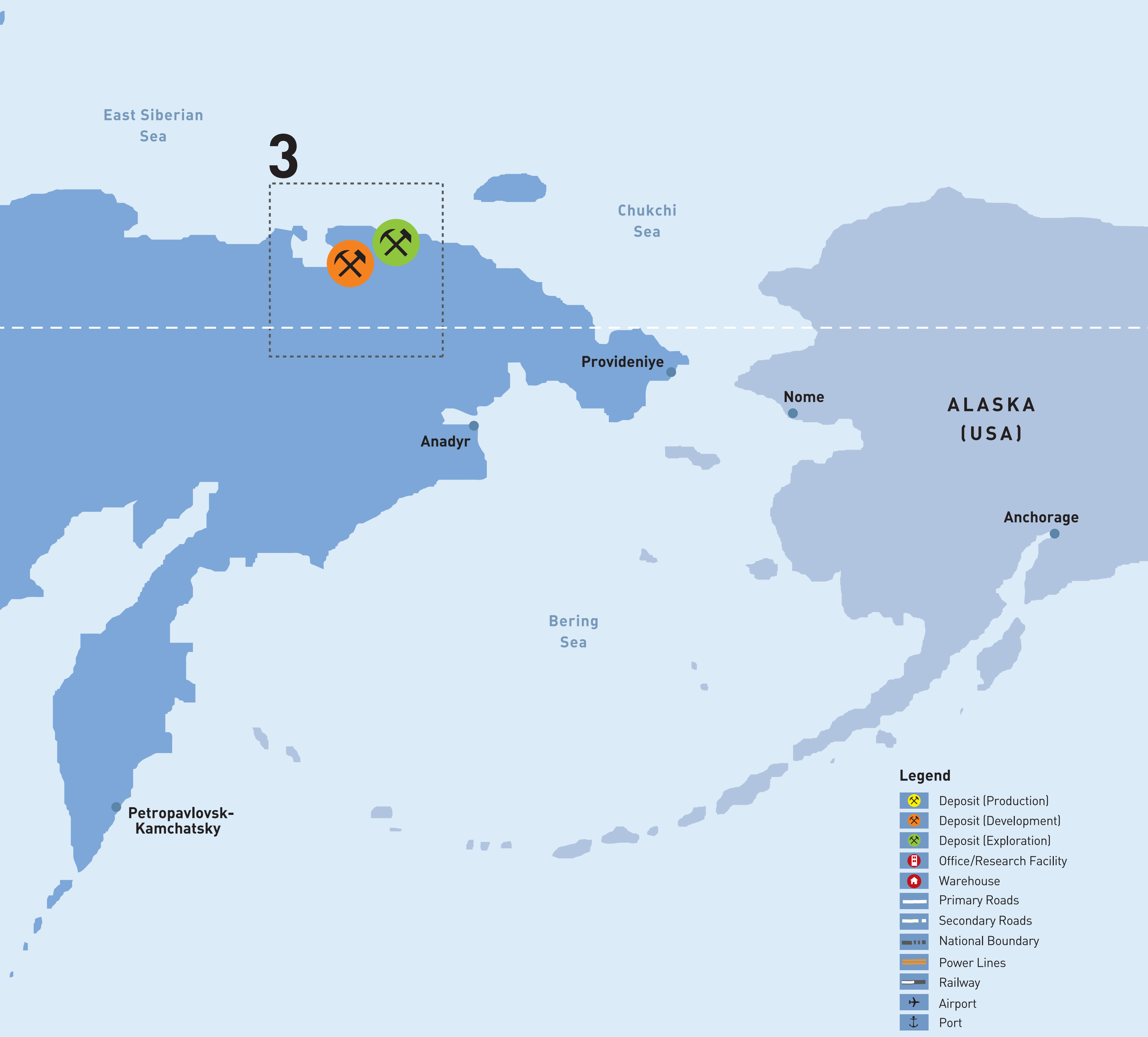
In summary, we had a disappointing start to 2005, as detailed in the Annual Report. With the remedial action now taken Highland Gold's second half has seen improved results and this trend is continuing. A number of new people have and are due to join us in the near future, with a strong emphasis on world wide expertise, whose efforts will initially be focused on the Darasun operation. We anticipate further positive developments with our strategic partner, Barrick Gold, in a number of joint ventures, including progressing Taseevskoye. We are formulating plans on the Mayskoye project, and now have a small team developing our exploration projects. With the continued improvements in the economic climate in Russia and the gold price, Highland Gold is well placed to benefit from these developments in the future.

Lastly I would like to thank the Board for their invaluable input and support during a most difficult period in the development of the Company.

James Cross
Chairman

Mine Locations

Highland Gold currently holds mining assets in three key gold-bearing regions of the Russian Federation.


East Siberian Sea
3
Chukchi Sea
Provideniye
Nome
ALASKA (USA)
Anadyr
Anchorage
Bering Sea
Petropavlovsk-Kamchatsky
Legend
Deposit (Production)
Deposit (Development)
Deposit (Exploration)
Office/Research Facility
Warehouse
Primary Roads
Secondary Roads
National Boundary
Power Lines
Railway
Airport
Port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Olochi
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Nikolaevsk Na Amur
Komsomolsk Na Amur
Sakhalin Island
Khabarovsk
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East Siberian Sea
Billings
Cape Schmidt
Pevek
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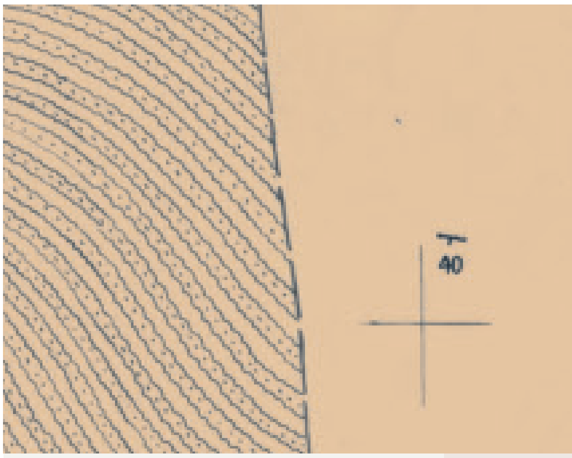
Rytkuchi
To Bilibino Nuclear Power Station
Kupol Deposit
Arctic Circle



In 2006, we expect to complete our restructuring programme

THE YEAR 2005 was for Highland Gold a difficult year with important changes in mining and management. These were aimed at achieving recovery from production setbacks in the first half of the year whilst creating a solid base for future development and growth of the Company. The changes already implemented during the latter part of 2005 brought encouraging results and we will continue implementing further improvements throughout 2006.

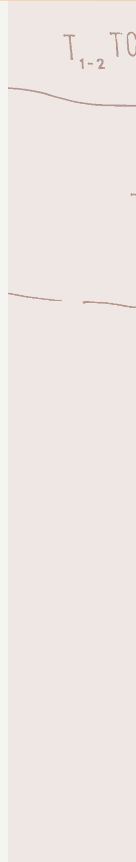
Our people

In order to build a team capable of meeting the present, as well as the future challenges facing the Company we strengthened our management team by employing new managers with proven track records to key positions. In this respect, I would like to note the appointments which have already taken place.

- Mr. Scott Yelland joined the Company in June 2005 as Chief Operating Officer. Mr. Yelland holds a Masters Degree in Mining Engineering from the Camborne School of Mines and has experience over 22 years at mines in the UK, Ghana, Spain, Brazil, Australia and Russia where he has been employed by companies such as Rio Tinto, Ashanti Goldfields and Kinross Gold.
- Mr. Russell Tremayne joined in August 2005 as Group Mining Engineer. Mr. Tremayne is a mining engineer with over 30 years experience, and has held positions at mines in the UK, Portugal, Zimbabwe, Greece, Bulgaria and Brazil.
- Mr. Nigel Clark joined in September 2005 as Group Planning Engineer. He has over 15 years experience in the mining and civil engineering industries and has worked in the UK, Australia, Canada and Eastern Europe being recently awarded a Masters Degree in Mining Geomechanics from the University of New South Wales, Australia.
- Mr. Alexander Gorbunov was promoted to Managing Director at the Darasun mine. He has over 20 years experience in the mining industry. Prior to this appointment Mr. Gorbunov was the Metallurgical Manager at MNV.
- Having been employed as a consultant for Highland Gold Mr. Noel Devine has joined the Company from April 2006 as Director Projects. His responsibilities will be managing and developing all present and future Highland Gold projects.
- Mr. Rob Wienand has joined Highland Gold in April 2006 as Head of Mining at Darasun. He graduated as a mining engineer from Witwatersrand University, South Africa and acquired his mining experience in South Africa, Peru and Bulgaria in such companies as Anglo Gold and Dundee Precious Metals.
- Mr. Paul Clarke will be joining us in May as Group Technical Director. He has a Bachelors degree in mining engineering from Cardiff University, Wales, with 32-years worldwide mining experience. He held the position of Mine Manager at Kumtor mine in Kyrgyzstan and was also instrumental in the design and construction of the mine.
- Mr. Alexander Arisanov will be joining us shortly as Highland Gold's Ore Reserve Manager. He has a Masters degree in geology and has been the Chief Geologist at Chelopech Mining EAD – a copper-gold operation situated in central Bulgaria.

In order to add expertise within the group we will continue to attract capable professionals to join our Company in management positions at all levels.

As of 31 December 2005, Highland Gold employed a total of 3,616 employees. A cost optimisation program was launched late 2005 at MNV where the headcount is being reduced and we are currently in the process of implementing the same at our Darasun operation as well as at the various Highland Gold administration offices. Our staff optimisation plan for 2006 includes reducing employees at MNV by approximately 14% and at Darasun by 10%. The headcount at RDM Management Company will also be reduced by approximately 30%.



During 2005 we implemented various programmes to improve the professional development and skills of our employees. We have successfully launched a Career Development programme at MNV where we have selected promising, talented young specialists with the aim to develop and then promote them into management positions. A similar programme will be implemented at the Darasun mine in 2006.

As a result of all these changes, we are looking with confidence at the future of our mining operations and projects across Russia.

Operations

During 2005 the Company operated two mines, MNV in the Khabarovsk region and Darasun in the Chita region.

Mnogovershinnoye

Serious and focused efforts undertaken by management led to the reestablishment of MNV as a stable functioning operation by the end of the second half of 2005 which partially offset the weak performance during the first half of the year.

Mine development

MNV, our core asset and main producing mine, located in the north of the Khabarovsk region experienced operating setbacks in the first half of the year. During the latter part of 2004 and the first half of 2005 there were significant shortfalls in critical mine development in both the open pit and underground operations. This was due to lack of planning, improper use of equipment, shortage of critical spares and consumables and personnel qualification issues. All these factors were reinforced by extremely bad weather during the first months of 2005. This led to a shortfall in production in the first half of 2005 – an almost 50% decrease compared to the same period in 2004.

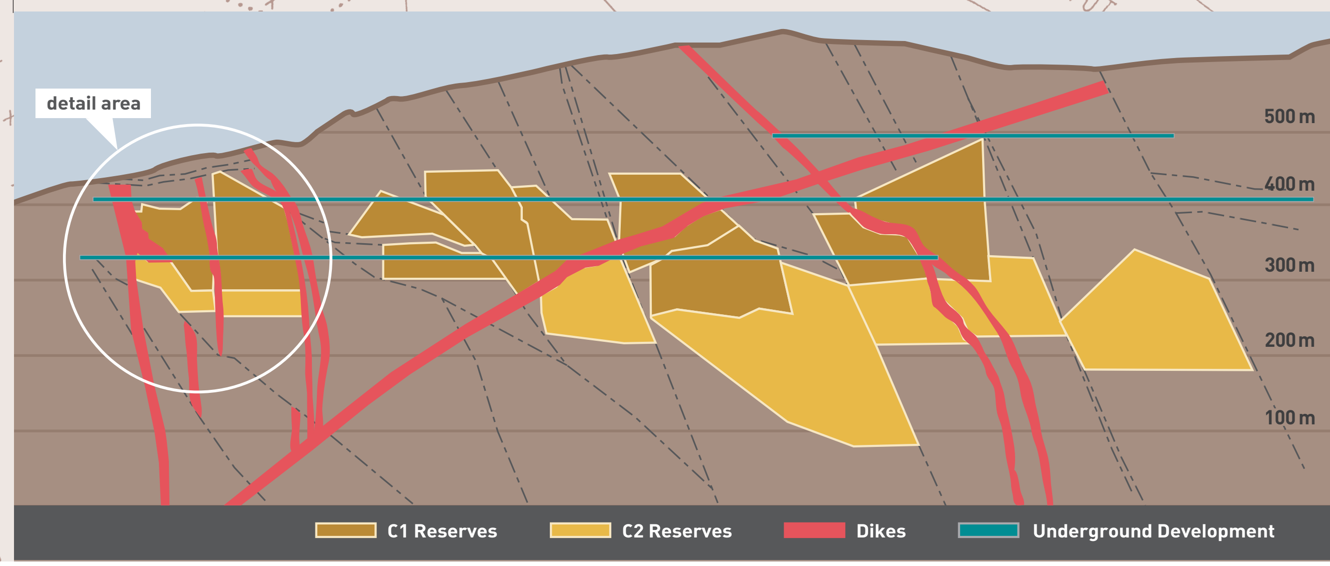
Led by a new management team, the focus in the second half of 2005 was to review and reassess the short and medium term production schedules and to ensure that realistic recovery plans were established and implemented, the main objective being to return MNV to the original budgeted production levels by the end of 2005 and ensuring consistent production levels in 2006.

Following a review by Highland Gold and Barrick Gold specialists of the MNV open pit operations, a recovery plan was established, incorporating a significant waste development programme, ensuring that the open pit was developed in a safe and productive manner. During the second half of the year, over 2.1Mt of waste and 217Kt of ore were mined at an average grade of just under 6.0g/t Au. Encouraging signs were also observed in the improvement of the open pit equipment utilisation and productivity, with a significant improvement in production drilling.

The underground operation performed well in the second half of the year, producing over 215Kt at 7.2g/t Au (Budget: 6.4g/t Au). One of the main reasons for this improvement was the introduction of

MNV MINING ACTIVITIES (tonnes)	2005	2004
Underground		
Southern	-	101,736
Northern	184,496	-
Central	156,559	108,631
Deer	20,467	27,649
Flank	28,265	38,237
Intermediate	6,543	61,082
Ore from development	incl. in above	52,171
Total underground ore	**396,330**	**389,506**
Underground % of total mined ore	51.4%	48.5%
Open pit		
Upper	374,387	413,543
Flank	-	-
Total open pit ore	**374,387**	**413,543**
Open pit % of total mined ore	48.6%	51,5%
Total	**770,717**	**803,049**

MNV Northern Ore Body



a Boart Longyear Stopemaster underground drill rig, which enables parallel drilling with small diameter holes, effectively reducing damage to the host rock and decreasing dilution. Underground development plans have been reviewed and revised accordingly, ensuring that "critical path" development headings are prioritised, to meet the 2006 production targets.

Processed tonnes for 2005 were 9.2% below budget, with 875,361 tonnes processed against a budget of 965,000 tonnes. There were encouraging signs in the second half of the year, with an average of 84,000tpm processed. Processed grades for the year averaged 5.5g/t Au against a target of 6.5g/t Au, the shortfall being partially attributed to the processing of lower-grade, oxidised stockpile ore, resulting in a lower feed grade to the mill and poorer recoveries, primarily in the first part of the year.

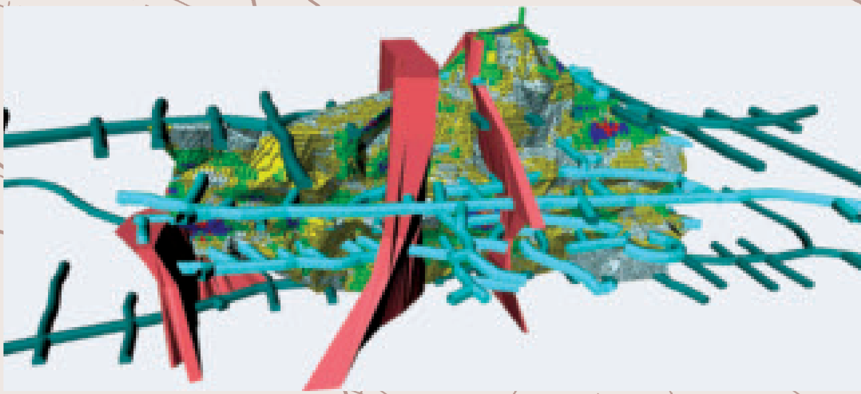
The implementation of new procedures and controls at MNV had already started showing positive results at the beginning of the second half of the year and by the end of 2005 the mine achieved a recovery in production. Recovered gold in the last five months increased more than 70% on a monthly basis compared to the first seven months.

Production Costs

Our Cash Operating Costs of US$275 per ounce rose by 46.5% compared with 2004. This was mainly attributable to the decrease in production in the first half of the year, lower than planned grades due to lack of development to access higher-grade mining blocks, increased overburden stripping and continued increase in prices for materials, mostly mill reagents and fuel. These increases affected total cash costs (US$306), which rose due to higher royalties as a result of the increased gold prices (average price US$450 per ounce). Our total production cost was US$357 per ounce.

Capital Costs

During 2005 the Company invested US$8.0 million at MNV. This included US$5.8 million for the purchase of additional production equipment including dump trucks for the open pit, underground trucks, loaders and drill rigs including a Stopemaster drill rig. US$0.2 million was spent on the replacement of IT equipment, US$1.1 million for capital exploration works and US$0.9 million related to other construction work at the site.



MNV Northern Ore Body: 3D Detail

MNV OPERATIONS SUMMARY	Unit	2005	2004
Mine development			
Underground	000 m3	79.9	86.6
Underground	metres	8,461	8,377
Open pit / waste stripping	000 m3	1,464	1,509
Open pit / waste stripping	000 tonnes	3,865	3,984
Ore mined			
Underground	tonnes	396,330	389,506
Open pit	tonnes	374,387	413,543
Total ore mined	tonnes	**770,717**	**803,049**
Stockpiled ore	tonnes	104,644	124,320
Ore processed	tonnes	875,361	927,369
Gold grade			
Underground	g/tonne	6.39	8.51
Open pit	g/tonne	5.42	6.43
Stockpile	g/tonne	2.49	4.83
Average grade	g/tonne	**5.51**	**7.09**
Recovery rate	%	90.3	92.2
Gold produced	ounces	**140,038**	**195,026**

Outlook

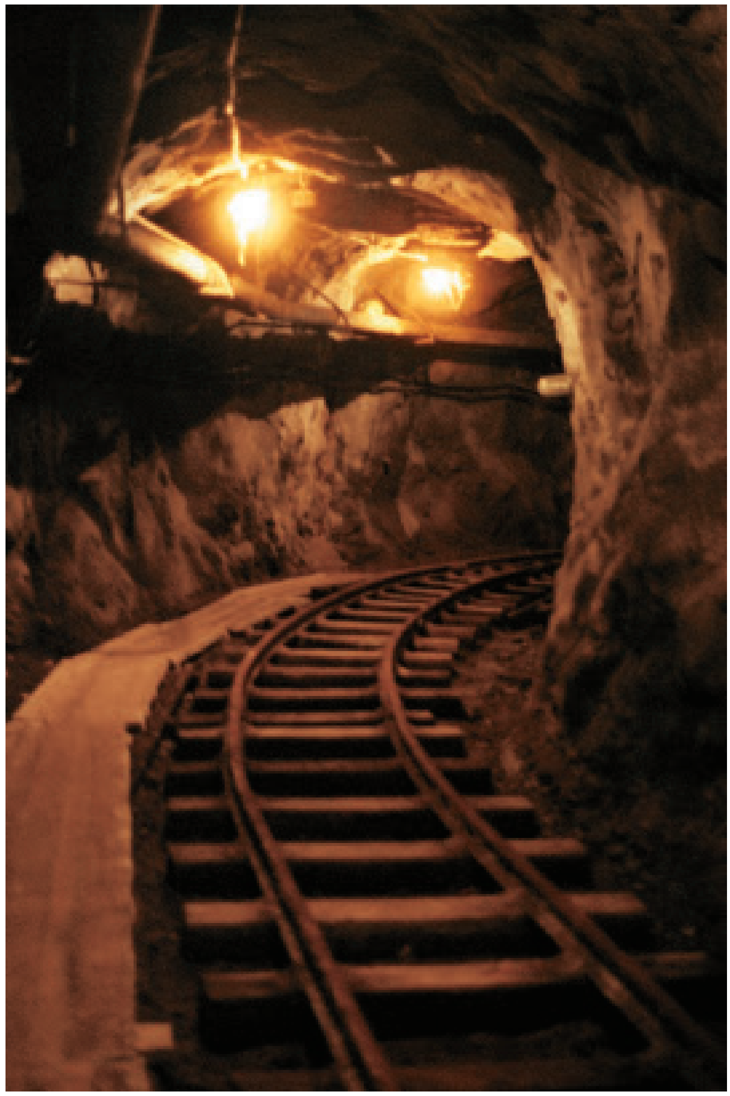
MNV will remain the main source of cash flow for the Company in 2006. In order to maintain stable production at the mine, our team will continue to implement various improvement measures in areas of safety, supervision, maintenance and logistics. Notably we count on increasing productivity from present available equipment and bringing in new efficient machines, improving rock control techniques and stockpiling medium grade ore in the mill stockyard to ensure process continuity during bad weather. A second Boart Longyear Stopemaster drill rig has been ordered and is due on site in June, which will increase the underground production drilling capacity. This year's underground development programme also includes ramp development down to new horizons, identified by exploration drilling in the Northern and Reindeer zones.

Open pit optimisation studies and associated open pit design works have been started in 2006, and will incorporate optimisation studies at a gold price of US$500. This study will be completed by late April.

Other initiatives include, the construction of a central workshop, replacing the large number of small, poorly equipped workshops scattered all over the site, and the introduction of a number of mobile equipment maintenance contracts, all of which should help to further reduce the operational costs in 2006. During 2006 the warehouse at Nikolaevsk-na-Amur will be consolidated and relocated to MNV, which will increase efficiencies and reduce labour and stockholding.

Special attention will be paid to increasing awareness of health and safety issues followed by proper training, tuition and guidance of our employees. We will continue with our team building efforts on all levels and improve personnel qualifications and skills whilst at the same time reducing the number of employees by continuing our manpower optimisation plan.

We continue to experience cost inflation and there is ongoing development required to access the higher grade ore blocks. Our gold production target for the mine in 2006 is in the range of 150,000 to 160,000 ounces. The production for the second half of 2005 and first three months in 2006 has confirmed that this target is realistic and achievable.



Darasun

Production problems at Darasun were identified and addressed by our new management team and partially resolved during the fourth quarter of 2005. This approach will be intensified during 2006 and all efforts will be made to achieve profitability.

Mine Development

After several shut downs over the course of 2005, the installation of new mill motors, a number of technological changes including changes to the grinding circuit configuration we were able to complete the commissioning of the Darasun Mill late in the second half of 2005. The processing plant started running stably from mid-January 2006.

Another area of attention at Darasun was overall mine supervision. As a result of the shortfall in development in the second half of 2004 and in 2005, planned production levels in the underground and open pits were not achieved, resulting in the mill processing large quantities of low-grade, heavily oxidised historical stockpile material.

In order to implement up-to-date mining standards and controls a new management team has been established at Darasun, using some expertise from MNV. We have also enlisted the close support from two Barrick Gold specialists to assist the Darasun management in addressing technical problems at the metallurgical plant and analytical laboratory.

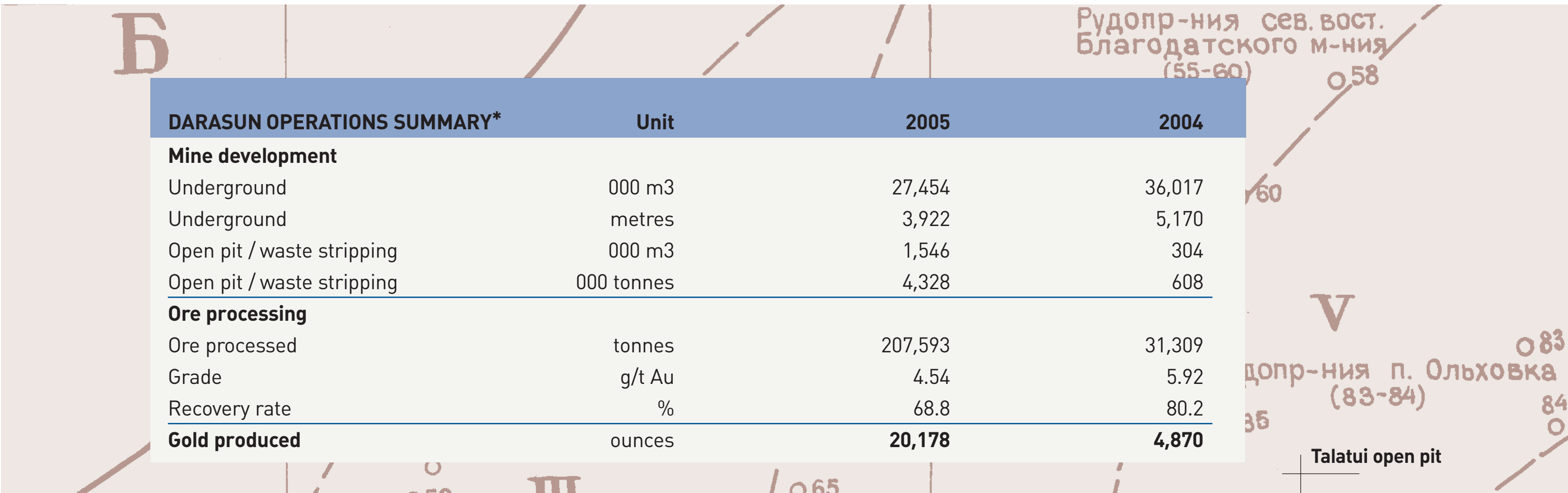
A number of initiatives were started in the underground operations including, the backfilling of waste underground, the replacement of timber support with mechanised support, using ammonium nitrate based explosives and the replacement of old hand-held drilling equipment with modern equipment and drilling consumables.

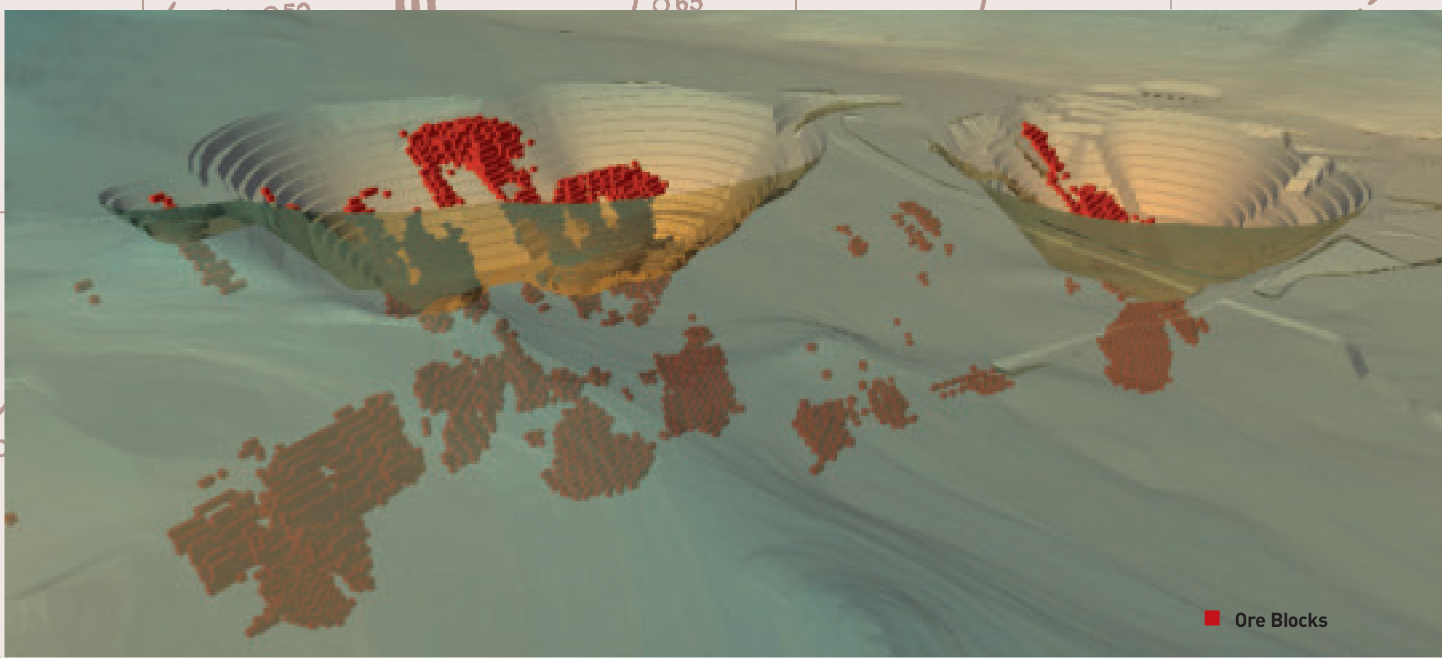
We also completed an open pit optimisation study of the Talatui deposit in co-operation with Barrick Gold specialists which showed some encouraging results. The block model has provisionally identified over 1.4Mt of ore, at mineable grades of over 6 g/t Au which will equate to a mine life in excess of seven years.

Production Costs

Our Cash Operating Costs for the last four production months of 2005 at Darasun averaged US$1,171 per ounce. This was due to Darasun's low production, very high mining costs and fixed administrative costs. Low grades in the milling circuit contributed considerably to the increase in cost per ounce of gold pro-

DARASUN OPERATIONS SUMMARY*	Unit	2005	2004
Mine development			
Underground	000 m3	27,454	36,017
Underground	metres	3,922	5,170
Open pit / waste stripping	000 m3	1,546	304
Open pit / waste stripping	000 tonnes	4,328	608
Ore processing			
Ore processed	tonnes	207,593	31,309
Grade	g/t Au	4.54	5.92
Recovery rate	%	68.8	80.2
Gold produced	ounces	**20,178**	**4,870**





duced. Total cash costs were US$1,214 per ounce and total costs were US$1,326 per ounce of gold produced.

Capital Costs

During 2005 we invested US$17.7 million in the Darasun operations. The major items included US$9.2 million of development costs that were capitalised (salaries, electricity, fuel and overheads), US$6.2 million for the purchase of equipment and machinery, US$1.0 million for mill reconstruction, US$0.5 million for exploration and US$0.8 million for other capital expenditures.

Outlook

The all important objective during 2006 is to turn the Darasun operation to profitability in the second half of the year.

Our 2006 production target for Darasun is in the range of 50,000 to 55,000 ounces of gold. We will continue to address all aspects of the operation, rectifying any unresolved problems and strengthening the local management team by introducing two mining and one geology expatriate to the operation during mid-April and May. We will continue with management changes and increase our employee skills development efforts.

The main objectives for 2006 are to achieve our underground targets, ensuring that minimum mining widths are maintained and, that the planned modifications to the existing stoping methods are implemented.

We plan to add two Knelson concentrators to the processing circuit during April 2006, which will help improve recoveries of the coarser gold fractions present in the Teremki underground ore and the Talatui open pit ore.

Our already introduced manpower optimisation plan will be enhanced whilst various identified and easy-to-implement cost control measures, which will provide quick returns, will be pursued and implemented.

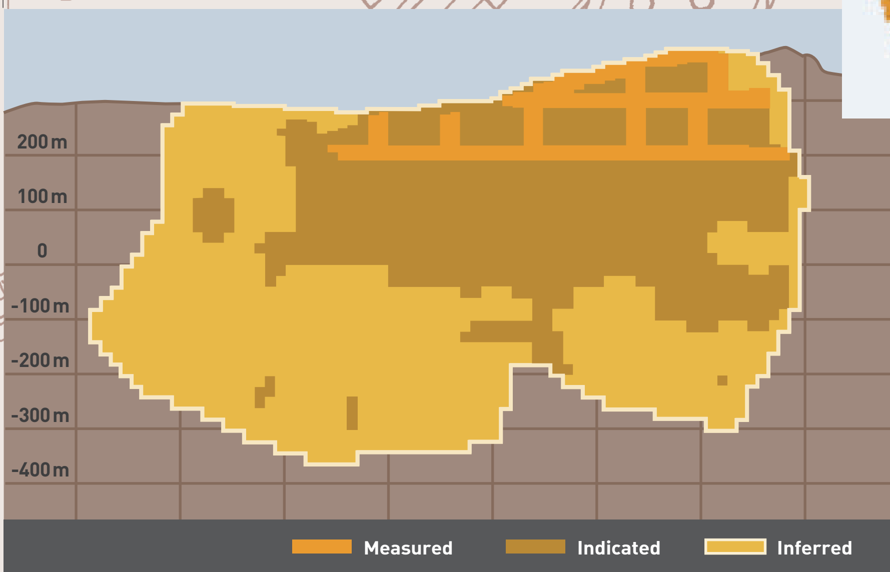
*** Notes to Operations Summary Table**

Completion of the 2005 metallurgical balance identified discrepancies between the geological and processing grades. Further investigations revealed that part of the discrepancy related to the previous year, therefore the 2005 opening ore stockpile grades were adjusted. Additional adjustments to correct the gold in process were made which impacted on the headgrade and recovery figures previously reported. One of the main reasons was inaccurate geological sampling, which is currently being addressed.

MAYSKOYE JORC RESOURCES AS AT 31 DECEMBER 2005

Classification	Ore (tonnes)	Gold (g/t)	Contained Gold (ounces)
Measured	1,742,000	16.2	910,000
Indicated	5,151,000	9.9	1,643,000
Measured+Indicated	6,893,000	11.5	2,553,000
Inferred	15,020,000	9.9	4,769,000

Mayskoye Ore Body 1 Cross Section



Mayskoye 3D View

Mayskoye

The bankable feasibility study on the Mayskoye project is to be completed by next year.

Ore Resources

Micon International reclassified the Russian resource estimates according to the JORC requirements. A total of 6.89 million tonnes, at an average grade of 11.52g/t (2.553 million ounces), were classified according to JORC standards as measured and indicated resources with 15.02 million tonnes, at an average grade 9.88g/t (4.77 million ounces), being classified as inferred resources, at cut-off grades of 5.0 g/t.

The potential of converting a considerable amount of the inferred resources into indicated resources, as well as the potential of identifying additional mineable orebodies was provided by Micon International, who has recommended an infill drilling programme. This infill drilling programme commenced in the latter part of 2005 and the initial drill cores are being sent to an accredited assay laboratory for analysis, results of which we expect to announce soon.

The orebodies included in the reclassification exercise are relatively shallow, generally less than 600 metres below surface and all are open-ended at depth. Most of the orebodies being investigated are also open-ended on strike. A number of additional orebodies have been identified, but were not included in the exercise as insufficient information was available on these additional orebodies. These will be explored at a later date.

Micon International carried out twin-drilling and chip sampling exercises to verify the Russian assay results. Even though, as is to be expected, there were variations in individual check assay results, the overall average assay results obtained by Micon International compared closely with those obtained with the Russian drilling and chip sampling.

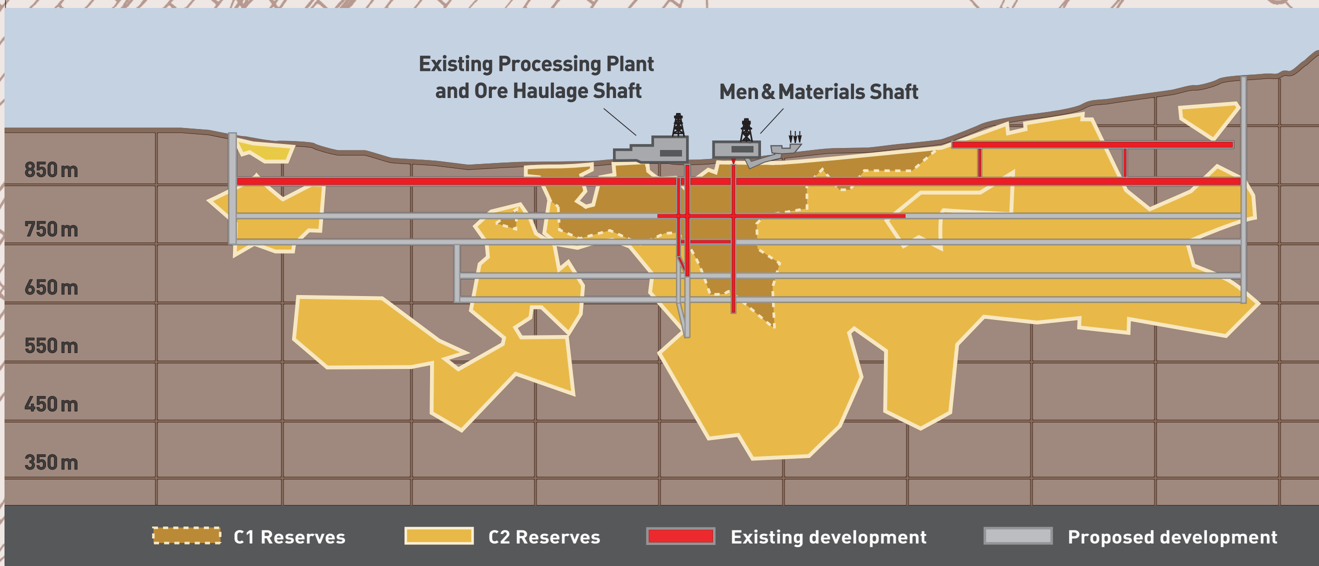
Capital Costs

We have invested US$15.0 million in 2005 at Mayskoye. The major items included US$9.8 million of development costs (salaries, electricity, fuel and overheads), US$2.7 million for the purchase of bulldozers, trucks and a DIAMEC 252 exploration drill rig, US$1.1 million for exploration works in preparation of the feasibility study and US$1.4 million for capital construction of the mine infrastructure.

Outlook

A considerable amount of work has been done over the years on evaluating alternative mining and metallurgical options

Novoshirokinskoye Longitudinal Section



Novoshirokinskoye

for Mayskoye. This work has been analysed in detail by management and will form a valuable base for the feasibility study and will also assist in fast-tracking the study. Extensive metallurgical testwork has been carried out on Mayskoye ore in Russia, China, Australia and South Africa. All of these tests have confirmed that the Mayskoye ore responds exceptionally well to a Bi-oxidation process, with an average of 95% of the contained gold in the sulphide ore reporting to a sulphide float concentrate, with gold recoveries from the oxidised ore ranging from 94% to 96%. The bankable feasibility study is being compiled by Akver Kvaerner.

Emphasis will continue to be placed on the infilling drilling programme currently underway, in order to increase the volume of measured and indicated resources to a target of between 10 and 12 million tonnes by the end of 2006.

Review of the revenue realisation scenarios for Novoshirokinskoye to be completed soon whilst various other options are being considered.

At the end of 2005, the Board decided to conduct a review of the strategic options available for Novoshirokinskoye. The economic viability of the mine depends on optimising the revenue realisation from the gold-polymetallic deposit and the review is focusing on various scenarios including the possibility of exporting the lead and zinc concentrates produced. This would require a grant of annual government export quotas. The export of concentrate is an alternative to the construction of a capital intensive and high operating cost Flash Smelter.

During 2005 we took the opportunity to increase the potential of Novoshirokinskoye by acquiring at a cost of US$141,000 a similar deposit, Vosdvizhenskoye which is located 60 km from Novoshirokinskoye. The C1 Russian resources of Vosdvizhenskoye are estimated at 850,000 tonnes of ore grading at 5.0% lead, 4.6% zinc, 100 g/t silver and 0.4 g/t gold. The strategic review for Novoshirokinskoye is ongoing and no conclusions have yet been reached.

Capital costs

We invested US$15.0 million at Novoshirokinskoye during 2005. The major items included US$7.5 million in development costs (salaries, electricity, fuel and overheads), US$1.2 million for the purchase of equipment including a DIAMEC 252 exploration drill rig, US$2 million for exploration drilling and US$4.3 million for capital construction of mine infrastructure (buildings, water reticulation system, electricity supply network, boiler-houses and others).

TASEEVSKOYE JORC RESOURCES AS AT 31 DECEMBER 2005

Classification	Ore (tonnes)	Gold (g/t)	Contained Gold (ounces)	HG Interest (%)	Ounces attributed to Highland Gold
Indicated	25,211,000	3.4	2,718,000	50%	1,359,000
Inferred	4,774,000	4.2	645,000	50%	322,500

Taseevskoye 2006
Drilling Programme

Taseevskoye

The Taseevskoye project progressed well and according to plan in 2005, in close cooperation with our joint venture partner Barrick Gold.

Site Development

At the beginning of the year Highland Gold's strategic partner Barrick Gold, exercised their participation rights to the project and acquired 50% of the asset. The licence of the deposit was transferred to a new company OOO Taseevskoye which will be owned by Highland Gold and Barrick Gold once certain Russian regulatory approvals have been received. A company office was set up in the town of Baley to oversee the development of the project and to develop relationships with the local community. Several public hearings and meetings with townspeople have been organised in order to approach and resolve various social, housing and environmental issues linked to the restarting of mining and mining-related operations.

Consultants have provided a resource estimate in accordance with JORC requirements. After the review of the previous feasibility study, undertaken by the former licence holders, this updated resource figure gave an indicated resource of 25.2 million tonnes at a grade of 3.35 g/t Au and an inferred resource of 4.8 million tonnes at a grade of 4.2 g/t Au at a 1 g/t Au cut-off grade.

We have started a scoping study which will be finalised by an external contractor Akver Kvaerner and have also confirmed the ore treatment process. We expect to release the results of the scoping study during 2006.

Additional potential was added to the Taseevskoye project with the acquisition in 2005 by Highland Gold of the Sredne-Golgotayskoye deposit, which is located only 13 kilometres from the present project, as well as the tailings of the previous Baley ZIF-1 processing plant.

Again Barrick Gold has exercised its 50% participation rights in both acquisitions. Sredne Golgotayskoye contains Russian C1-C2 resources of 646,000 tonnes grading 15.5 g/t Au, whilst the ZIF-1 tailings contain an estimated gold resource of 485,000 ounces at a grade of 1.02 g/t Au.

Capital Costs

We invested US$0.2 million at Taseevskoye in 2005. These expenses were related to work done on the recalculation of the resource base to JORC standards, setting up the Company's office in the town of Baley and preparation works for exploration drilling to better define the Taseevskoye resources.

Outlook

In 2006 we plan to complete and finalise the scoping study of the project and start work on the pre-feasibility study.

Two phases of exploration drilling works are planned:

- The first phase is necessary for the scoping study and will be carried out during the first half of 2006, which will consist of 4,500 metres of diamond drilling.
- The second phase will consist of

25,500 metres of diamond drilling, and the results of this work will be used for the pre-feasibility study.

We will also start pit de-watering tests and preparations. This includes 5,000 metres of drilling and test pumping for hydrological study purposes.

At present we have a 3D model of the Taseevskoye ore body designed by Snowden Mining Industry Consultants, which is based on assay results from a combination of recent and historical samples. A 3D model of the ZIF-1 tailings and the Sredne Golgotayskoye deposit will be designed and the resources converted to JORC Standards. A more detailed 3D model based on historical and new samples will be developed for the pre-feasibility study.

In order to address the social and environmental issues at Taseevskoye we are preparing a Resettlement Action Plan (RAP) and an Environmental Impact Assessment (EIA). An outside consultant, Synergy Strategies Group, have been engaged to assist us in this process.

Exploration

During 2005 Highland Gold acquired various quality exploration projects. For each of these acquisitions, Barrick Gold exercised their 50% participation rights according to the 2004 Participation Agreement between Highland Gold and Barrick Gold.

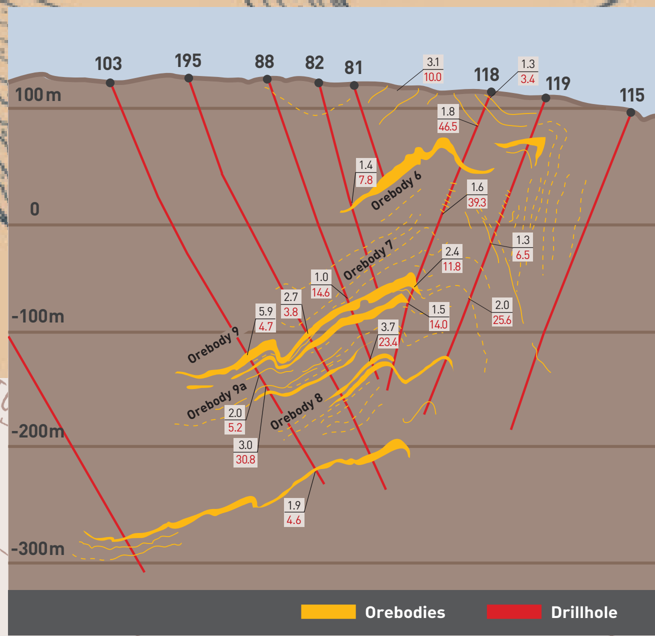
BELAYA GORA
Khabarovsk region

The Belaya Gora gold deposit is located 55 kilometers north of the town of Nikolaevsk-na-Amur and 66 kilometres to the south of our present MNV operation. The acquisition was made pursuant to a public auction at a price of RUR 16.5 million (US$580,000). The deposit lies within 5 kilometres of an existing high voltage power line and is accessible all year around by a well maintained road that connects MNV to the town of Nikolaevsk-na-Amur and its port and airport facilities. The project has a long history of exploration and was explored during the 1970s and early 1980s with geophysics, trenching and a large amount of drilling and underground development on three horizons. The C2 resources of the deposit, estimated in accordance with Russian methodologies at a cut-off grade of 2.73 g/t Au, amount to 466,000 ounces of gold at a grade of 3.0 g/t Au. Highland Gold considers this resource to be highly sensitive to the choice of cut-off grade. Our preliminary target for Belaya Gora is to develop a near surface, bulk tonnage resource that is amenable to heap leaching.

Outlook. We will conduct topography, geophysics and geochemical mapping in the area, complete 500 metres of trenching and 1,200 metres of diamond drilling. The results of the drilling will be assessed and will form the basis of a newly created database.

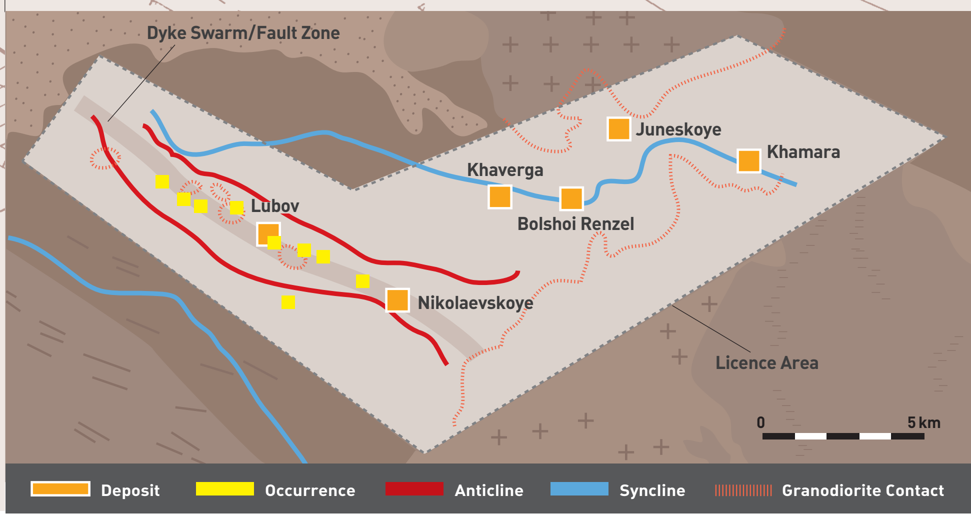
LUBOV
Chita region

This project combines the exploration and mining rights for the Malo-Fedorovskoye deposit which we acquired ourselves, with the rights for the contiguous



Sovinoye Cross Section

Lubov Project



Lubavinskoye deposit which was offered to us by Barrick Gold, to be included in a joint venture. These two deposits form the Lubov Project, located in the Chita region, 400 kilometres to the southwest of the city of Chita and 25 kilometres north of the Mongolian border. These acquisitions were made pursuant to public auctions at a total cost of RUR 66.4 million (US$2.33 million). The project is accessible by road and links to the State electrical power grid.

Historic exploration and mining activities had always been oriented towards high-grade veins, though in the late 1990s the exploration focus on the property was shifted towards developing a near surface, bulk tonnage resource that would be amenable to heap leaching. This work was conducted on a 350-metre portion of a 10-kilometre strike length and resulted in Russian C2+P1 resources to a depth of 120 metres of 230,000 ounces of gold at a grade of 2.1 g/t Au.

Outlook. Works will consist of geophysical and geochemical research in the area of approximately 130 square kilometres, 1,200 meters of diamond drilling and 1,000 metres of trenching. Bulk samples from deep horizons will be taken for heap leach test works.

SOVINOYE

Chukotka region

The Sovinoye deposit is located in the Chukotka region, 100 kilometres west of the village of Cape Shmidt (Population: 570) and 350 kilometres to the east of Pevek. The acquisition was made pursuant to a public auction at a price of RUR 5.0 million (US$177,000). The project has a long history of exploration and was extensively explored for high-grade veins from the 1970s through to the mid-1980s with 25,000 metres of trenching, 96 drill holes and 2,700 metres of underground development. The P1 resources of the deposit estimated in accordance with Russian methodologies amount to 11 million ounces of gold at a grade of 2.2 g/t Au.

Following a review of the historic data on Sovinoye, Highland Gold has reinterpreted the geological model away from the high-grade vein system into a bulk tonnage, open pit model.

Outlook. Our plans for 2006 include 2,183 metres of trenching and 3,000 metres of diamond drilling. We plan to take three bulk samples for assaying, reassess results and continue building an accurate database.

Safety, Health & Environment

Though we were able to decrease the number of work-related accidents in 2005, it is with deep regret that we report two fatalities, one of which occurred at MNV during 2005 and the other at Darasun in February 2006. We are determined to do all we can to ensure the safety of our employees in order to avoid such tragedies in the future.

During 2005 we increased the responsibility of our managers concerning safety issues and started implementing a safety awareness program throughout our organization. Based on current Russian legislature, international safety standards and world best practice, as well as cooperation and assistance from our Barrick Gold partners, we have formalised a safety policy and adopted a Safety Management Plan (SMP).

During 2005 more than 1,300 of our employees attended special courses on safety and over 120 employees participated in the "Courageous Leadership Training" course together with our colleagues from Barrick Gold. These courses provided valuable insight to best practices and laid a solid foundation for the rollout of the Highland Gold Safety Action Plan.

We will continue to improve Health, Safety and Environmental standards at all our operations and projects, ensuring that our employees receive suitable training and guidance and that we exceed the minimum compliance laid down by Russian legislation.

We are also focusing on continuously improving healthcare for our employees by providing them with regular medical check-ups and vaccinations. Additional medical equipment was purchased to assist in meeting the basic primary healthcare needs of our employees at each of our operations.

We in Highland Gold believe that it is our obligation to have a sound environmental policy and we therefore have applied strict controls to enforce compliance with all existing Russian regulations by all our operations.

There were no environment-related incidents at MNV during 2005. We continued to increase the height of the tailing dam on site, decreased the industrial use of fresh water by 20% and were able to considerably improve the use of recycled water at our processing facility to 91%.

At Darasun we received official authorization for work at the Talatui pit in accordance with environment standards, as well as a permit to work with hazardous waste. We were also able to increase the use of recycled water at the operation to 77%.

Our work on the implementation of a new environmental risk management programme for the Company continued and should be fully implemented during 2006. The objective is to minimize the possibility of accidents, introduce an action plan in case of emergencies and to rollout an environmental monitoring program.

Corporate & Social Responsibility

We also continued our strategic support of different forms of social activity in the regions where we operate. We provided financial aid to a specialist school for blind and visually impaired children in the Moscow region; to the general school and a children's school of art at Mnogovershinnoye in the Khabarovsk region. In 2004-2005 we also donated money to the UN/UNESCO programme "Illustrated Books for Blind Children." In the city and region of Chita, in line with the social partnership agreement between our Company and the regional administration, we provided financial help to a number of non-profit organisations such as the Chita municipal social orphanage, the Chita volleyball team, the regional theater union and the boarding school for visually impaired children in the city of Petrovsk-Zabaikalsky. We also contributed to the regional programme "2005 – A Year of Sport and Physical Culture." We are also proud to be one of the sponsors and corporate members of the newly founded Society of Friends of the Moscow Kremlin Museums, one of the major historical and cultural centres of Russia.

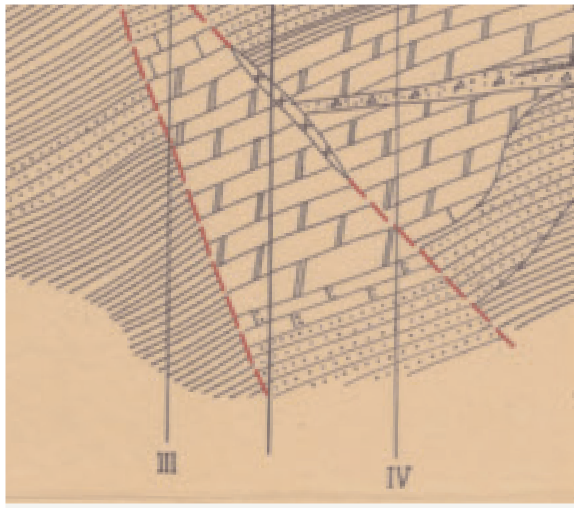
The role of the Company in the development of the local economy and infrastructure is also reflected by the US$15.5 million (US$11.3 million in 2004) in cumulative taxes which were paid to the local budgets in the regions where we operate.

Conclusion

Although 2005 was a difficult year for Highland Gold we are confident that we have laid the foundation to secure the long term future of the business.
We have almost overcome many of our operational and technical challenges and have positioned ourselves positively within the Russian gold mining industry.
The exploration assets we obtained during 2005 will broaden our future operational base and will add critical mass to our existing operations.
We have also forged a closer relationship with our strategic partners, Barrick Gold, and the interchange of technical expertise and know-how is flowing freely between the two parties.

My management team and I sincerely thank all our employees for their support and dedication during the last year and we are confident in our ability to master the future challenges.

Henry Horne
Managing Director



Cash from operations decreased sharply, but working capital was tightly managed

TURNOVER IN 2005 decreased by US$6.0 million (7.4%) from US$82.0 million to US$76.0 million. The Group sold 162,179 oz of gold at an average price of US$451 per oz compared with 197,306 oz sold in 2004 at an average price of US$406 per oz. Together with revenues coming from other Group entities of US$2.8 million in 2005 (US$1.9 million in 2004) this resulted in consolidated turnover of US$76.0 million in 2005 and US$82.0 million in 2004.

The reduction in turnover was attributed to the following factors: a decrease in MNV gold sales resulting in a US$20.5 million drop in revenue, partially offset by an 11% increase in the average gold price resulting in an additional US$6.4 million of turnover; Darasun contributed US$8.1 million of turnover (US$0.9 million in 2004); and an increase in other sales of US$0.9 million. At the same time, cost of sales and administrative expenses increased by 28.6% and 8.5% respectively leading to a decrease in operating profit from a profit of US$18.8 million in 2004 to a loss of US$3.1 million in 2005. The majority of the increase in costs is attributable to the commissioning of the Darasun operation which contributed a net operating loss of US$9.1 million for 2005 compared with a loss of US$5.2 million in 2004.

The cost of sales increase by US$14.8 million was driven primarily by an increase in costs related to MNV production of US$2.4 million (from US$41.0 million in 2004 to US$43.4 million in 2005), an increase in cost of sales related to the Darasun operation of US$11.0 million (from US$3.1 million in 2004 to US$14.1 million in 2005), an increase in royalties of US$0.4 million due to better gold prices and an increase to other expenses of US$1.0 million including VAT write off. During 2005 US$0.9 million of VAT balances relating to years prior to 2003 were identified as not recoverable, and were written off.

The increase in MNV cost of sales of US$2.4 million is mostly explained by an increase in the cost of materials of US$1.0 million, the cost of electricity of US$0.6 million, increase in amortisation of US$0.7 and other expenses of US$0.4 million. That was partially offset by a reduction in wages of US$0.3 million.

Prior to the commissioning of the Darasun mill in September 2005, the majority of operating expenses in excess of revenues were capitalized. Following the commissioning and the commencement of the production phase, all operating expenses are recorded through cost of sales. Such treatment resulted in US$3.2 million of operating expenses being recorded during the first eight months of 2005, compared to US$10.9 million during the last 4 months.

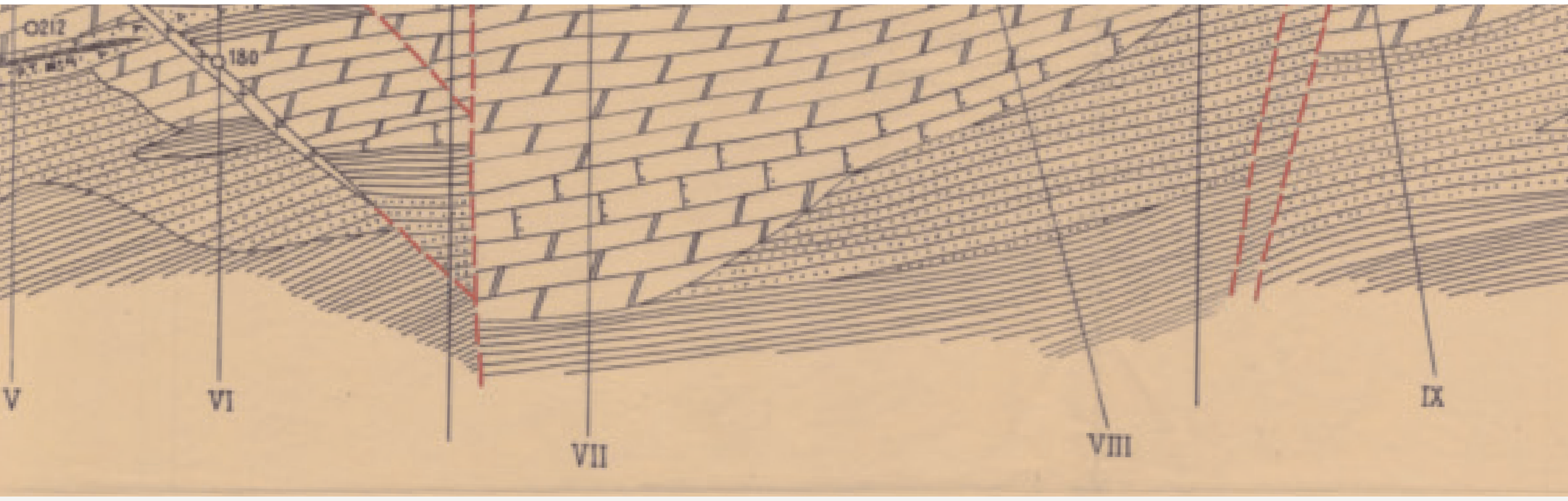
Administrative cost increased by US$0.9 million from US$11.5 million to US$12.4 million. This increase includes US$1.5 million of expenses accrued in relation to the share option scheme adopted by the Group in the second half of 2005. There were no such expenses included into 2004 profit and loss.

During 2005 the Group generated US$4.8 million cash from operations compared with US$25.6 million in 2004 – a decrease of 81%. At the same time, net cash from operating activities decreased by only 26% to US$7.8 million compared to US$10.5 million in 2004. This was achieved through a reduction in working capital of US$3.0 million in 2005 compared to an increase of US$15.2 million in 2004.

In 2005 the Group incurred US$6.8 million of interest compared with US$5.8 million in 2004, reflecting the higher average debt levels during 2005. Cash interest paid increased to US$5.2 million from US$4.9 million. In 2005 the Group earned US$1.8 million of interest on cash placed in short term deposits. This resulted in a net interest expense of US$3.4 million in 2005 compared to US$4.8 million in 2004.

As a result of the changes outlined above, the profit before tax decreased from a profit of US$14.2 million to loss of US$9.4 million. The tax on profit amounted to an income of US$2.2 million in 2005 compared with a tax expense of US$9.2 million in 2004, resulting in a net loss after tax of US$7.2 million for the year ended 31 December 2005 (net profit of US$5.0 million for 2004).

The 2004 profit tax charge included a write-off of US$2.9 million of deferred tax



assets relating to tax losses accumulated at Darasun during 2004. Under Russian tax rules at that time the Group would be able to offset accumulated tax losses against future taxable profits over a 10-year period, but the recovery in each year would be restricted to 30% of taxable profits. Given the early stage of Darasun's development and in line with general accounting practice, management did not consider it was prudent to carry the full amount of deferred tax asset. Consequently, the portion of the asset which was not expected to be recovered within three years was written off. Similar write-offs totaling US$1.0 million related to deferred tax assets accumulated at Mayskoye and Novo were made during 2004. Together these write-offs amounted to US$4.0 million and raised the effective rate by 27.4% in 2004.

During 2005 tax legislation has changed, allowing companies to offset accumulated tax losses against 50% of taxable profits in 2005, 70% in 2006, and 100% thereafter, compared with just 30% before that. Following this change in legislation, management now believes that the Group will be able to recover further accumulated taxable losses, resulting in the recognition of US$4.0 million of prior year losses previously not recognised.

The Group did not declare any dividends for the 2005 financial year, but in accordance with new UK GAAP rules dividends must be recorded in the period they are approved by the shareholders, as opposed to when they are proposed. Accordingly, changes have been made to Financial Statements of 2004 and 2005 to reflect this change in accounting rules.

During 2005 the Group invested US$56.1 million into the construction and acquisition of assets (US$69.2 million in 2004). This includes investments into Mayskoye of US$15.0 million, Novo of US$15.0 million, Darasun of US$17.7 million, MNV of US$8.0 million and other group entities of US$0.4 million.
In addition the Group made its last payment for the acquisition of the Mayskoye licence totaling US$11.5 million, paid US$2.0 million for acquisition of other exploration licences, repaid US$62.8 million of debt, paid US$2.5 million of profit tax, paid US$1.5 million of dividends and US$5.3 million of net interest, bringing total cash outflow for other than on operating activities to US$141.7 million for the year 2005.

This outflow was financed by existing cash reserves of US$6.0 million and US$135.7 million of cash inflow that included US$7.7 million coming from operating activity, a US$13.3 million prepayment received for the partial disposal of the Taseevskoye project to Barrick Gold, and US$48.9 million of net proceeds from new share issue. In addition the Group received US$65.8 million of new debt including US$26.8 million (RUR 750 million) of rouble denominated corporate bond and US$39.0 million of the Commerzbank syndicated loan arranged at the end of 2004.

The net debt of the Group increased from US$37.7 million at the end of 2004 to US$47.0 million at the end of 2005. This increase in net debt was caused by a decrease in cash balances of US$6.0 million, an increase in loans and other creditors of US$7.2 million, the repayment of US$4.2 million of the capital element of finance leases and other movements of US$0.2 million.

In 2005 the Group continued to concentrate on changing its debt profile and improving the quality of its Balance Sheet. In April 2005 the Group issued a Russian rouble bond for 750 million roubles, which equals to US$26.8 million at that date. The bond has a three-year life with a put option given to bond holders at the end of 18-month period when a new interest rate will be set up by the Group. The existence of this put option, which is excisable in October 2006, has resulted in this bond being classified as short-term. Should any bond-holders exercise this option, the Group would seek to on-sell the bonds.

As the Group spent roubles raised through the bond issue it entered into a series of forward contracts to hedge its net rouble liability position into US dollars. This hedge resulted in the rouble denominated liability of the corporate bond being carried at to US$26.3 million at year end. At the same time the Group continued its no hedge policy in relation to the gold price.

Denis Alexandrov
Finance Director

JAMES CROSS
Chairman

James Cross has been a Non-Executive Director of Highland Gold since the company was incorporated in 2002. He graduated from the faculty of commerce at the University of Witwatersrand. He has been involved in banking since 1968. Appointed head of trading for UBS in London in 1985, he returned to South Africa in 1987 as General Manager of the South African Reserve Bank. He became deputy governor in 1997 and senior deputy governor in 1999. Since retiring from the bank he has pursued various consultancy roles. He is a Fellow of the Institute of Bankers in South Africa.

HENRY HORNE
Managing Director

Henry Horne holds a degree in Financial Accounting and Business Economics from the University of Stellenbosch (South Africa) and has more than 25 years experience in the mining industry. This experience has been gained around the world and includes postings at mines in Namibia, South Africa, Ghana, Bulgaria, Chile and Russia. The majority of Henry Horne's career has then been spent in the Gold Fields Group where he worked at the Leeudoorn and Deelkraal deep-level gold mines in South Africa as Financial Manager. His most recent position has been as Deputy General Director and Chief Finance Officer for Omolon Gold Mining Company, Kinross Gold's Kubaka operation in the Magadan Region of North East Russia.

CHRISTOPHER PALMER-TOMKINSON
Senior Independent Director

Christopher Palmer-Tomkinson graduated from Oxford University with a degree in jurisprudence and joined Cazenove in 1963. He served as a partner from 1972 until 2001 and as a managing director of corporate finance until May 2002. He was responsible at various times for Cazenove's African & Australasian businesses, which enabled him to focus on the resources sector. He is a director of Henderson Electric and General Trust plc.

IVAN KOULAKOV
Deputy Chairman

Ivan Koulakov graduated as a mechanical engineer from the Moscow State Technical University (Bauman) and as an economist from the Department of Finance and Banking at the Financial Academy of Government of the Russian Federation. He became Chairman of ZAO Oil Finance, a company of the Sibneft group, in 1995, then Chairman of ZAO MNV in 1998. Since then he has led the management team in the development of MNV and the expansion into further projects.

DENIS ALEXANDROV
Finance Director

Denis Alexandrov graduated from both the University of Maryland and Russia's Far Eastern State University where he studied Global Economic Relations and Management. He qualified as an accountant and is a member of the Association of Chartered Certified Accountants (ACCA). He spent five years with PricewaterhouseCoopers' Natural Resources Group before joining Crown Resources AG (London), a subsidiary of Alfa Group. He was appointed Finance Director in October 2003.

DUNCAN BAXTER
Corporate Affairs Director

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

DAVID FISH
Non-Executive Director
David GK Fish graduated from the University of Witwatersrand. He started his professional career as a chartered accountant in 1969 at Peat Marwick Mitchell & Co, which became KPMG. He was appointed a partner in 1980 and was Chairman of the Banking and Finance practice. In 1988 Mr. Fish joined Anglo American Corporation of South Africa Ltd as the Finance Manager in the Chairman's office.Whilst at Anglo American Mr. Fish was involved on the finance, legal and commercial side of various South African projects from early exploration, through feasibility, construction and final commissioning.

TIM WADESON
Non-Executive Director
Tim Wadeson has held a variety of senior mining positions. He was Technical Director, Anglo Zimbabwe 1980-1985; Deputy Technical Director (Mining) Anglo American Corp. from 1985-1989; Director and Executive Director, Anglo American Corp. & AA plc; CEO, Konkola Copper Mines, Zambia 2000-2001. He is currently a Non-Executive Director of Cluff Gold plc, Bindura Nickel Corp, Trojan Nickel Mine Ltd and BSR Ltd.

ALEX DAVIDSON
Non-Executive Director
Alex Davidson has a Masters Degree in Economic Geology from McGill University. He has been a senior officer of Barrick Gold Corporation of Canada since October, 1993 and currently holds the title of Executive Vice President responsible for exploration and corporate development. Prior to that, he was Vice President of Metal Mining Corporation. He is currently a Non-Executive of QGX Ltd of Canada.

The Directors of Highland Gold Mining Limited have pleasure in submitting their Report together with the audited financial statements for the year ended 31 December 2005.

REVIEW OF ACTIVITIES

Highland Gold Mining Limited ("Highland Gold" or the "Company") was incorporated in Jersey on 23 May 2002 for the principal activity of building a portfolio of gold mining operations within the Russian Federation. These activities, group structure and operating companies are described more fully in the section on page 62 of this report. The Chairman's Statement, the Managing Director's Review and Financial Review all explain in detail the business developments during 2005 and the future prospects.

RESULTS AND DIVIDENDS

The overview of the Group's results for the period to 31 December 2005 are given in the Financial Review on page 6 of this report. The Group's retained loss for the year of US$ 7.2 million (2004: profit $5.0 million) will be taken to reserves. The Directors do not recommend the payment of a dividend on the ordinary shares.

ACCOUNTING POLICIES

Highland Gold's consolidated financial statements are presented in accordance with UK Generally Accepted Accounting Practices with the US dollar as its principal functional and reporting currency. The Directors propose to change to International Financial Reporting Standards (IFRS) with effect from 2007, as required by the London Stock Exchange.

DIRECTORS AND THEIR INTERESTS

The Directors in office during the year and their interests, and of persons connected with them, in the ordinary shares of £0.001 per share of the Company, and any changes since then to the date of this report are shown below:

DIRECTOR	Ordinary shares at 31.12.2004	Ordinary shares at 31.12.2005	Available Options at 31.12.2005
JAMES CROSS	-	10,000	1,000,000
IVAN KOULAKOV	22,372,500	20,372,500	-
CHRISTOPHER PALMER-TOMKINSON	634,649	634,649	-
HENRY HORNE (appointed 13/02/2006)	-	-	250,000
DMITRY KOROBOV (resigned 12/02/2006)	3,000	3,000	1,200,000
DENIS ALEXANDROV (resigned 1/05/2006)	2,500	2,500	250,000
GENNADY NEVIDOMI (resigned 2/08/2005)	2,500	2,500	-
DUNCAN BAXTER	14,000	20,000	200,000

During the year the Company established an Unapproved share option scheme and the Executive Directors were granted options on 22 September 2005 as shown above at an exercise price of 211 pence per new ordinary share, with an expiry date of 22 September 2012. James Cross was granted an option over 500,000 new ordinary shares in the Company exercisable at par after 9 December 2005 and a further 500,000 new ordinary shares in the company at a price of 160.45 pence per new ordinary share and exercisable after 9 December 2007 with an expiry date of 8 December 2014.

The Company has adopted a share dealing code for Directors and relevant employees, which follows a strict permission procedure. It should be noted that since 31 December 2005 one million shares previously included in Mr Koulakov's holding have now been removed as he has no further interest in them, Mr Korobov has exercised his options and Mr Alexandrov has sold his shares.

REPORT ON DIRECTORS' REMUNERATION

Remuneration of Executive Directors currently comprises basic salary and bonus. In addition there is the Unapproved share option scheme and the Long Term Incentive Plan which includes stock appreciation rights (SARs) and other benefits for Executive Directors and other key personnel and are managed by the Remuneration Committee. The Company does not operate a pension scheme for its employees or the executive Directors.

Under the terms of the SARs scheme, Directors are granted SARs, with the number of SARs granted being based on a multiple (range of 0.5 to 2.5) of salary, divided by the twenty-day average of the share price to 1 December of the year the SAR is granted (the grant price of the SAR). After three years following the granting of the SAR, the Directors then have thirteen months in which to exercise their SARs, and either receive a cash payment, or reinvest the proceeds in further SARs (the date of reinvestment is limited to 1 December in any year within the thirteen month exercise limit). The cash entitlement is calculated with reference to the difference between the grant price of the SAR and the share price on the day the SAR is exercised. The scheme is at the sole discretion of the Remuneration Committee which has authority in respect of any leavers. No SARs have been issued to Directors in 2005 (2004: 777,151).

The remuneration paid to the Directors in the financial period to 31 December 2005 was as follows:

The highest paid Director was Ivan Koulakov, US$360,000. The total remuneration of the five Executive Directors, who were employed during the year was US$1,411,250 and the total remuneration of the four Non Executive Directors who acted during the year was US$492,917 including the Chairman who received US$250,000. Mr Korobov, who resigned in February, as Managing Director, received total remuneration of US$666,250 including a fee of US$335,000 relating to the cessation of his employment. It was agreed that he retain his share options. He exercised all his share options on 16 February 2006 and the 173,683 SARs awarded to him during his time with the Company, may continue to be exercised under the scheme rules.

SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

The Group has entered into the following arrangements with:

- James Cross as non-executive director and Chairman commencing on 1 January 2005. Mr Cross's fees are reviewed annually by the Company's Remuneration Committee. Mr Cross may terminate the agreement by giving twelve months' notice in writing. The Company may terminate the agreement either by giving twelve months' notice in writing or a payment of twelve months' fees in lieu of notice equivalent to such period of notice together with any bonus payable.

- Mr Ivan Koulakov, Deputy Chairman, commencing on 18 June 2002. Mr Koulakov's salary is reviewed annually by the Company's Remuneration Committee. Mr Koulakov may terminate the agreement by giving twelve months' notice in writing. The Company may terminate the agreement either by giving twelve months' notice in writing, or a payment of twelve months' salary in lieu of notice equivalent to such period of notice together with any bonus payable. On termination Mr Koulakov has covenanted with the Company that he will not directly or indirectly seek to procure orders from or do business with any individual, firm or company who has done business with the Company during the period of one year preceding termination or endeavour to entice away any of the Company's employees employed by the Company during the period of one year immediately preceding such termination. Mr Koulakov has a labour contract with the Company's subsidiary, RDM, for a term of 2 years in respect of his services. He was appointed Deputy Chairman from 1 February 2005.

- Mr Henry Horne, Managing Director, commencing with the Company on 1 October 2005, appointed Managing Director on 13 February 2006. Mr Horne's salary is reviewed annually by the Company's Remuneration Committee. Mr Horne has a labour contract with the Company's subsidiary, RDM, in respect of his services as Managing Director and General Director of RDM, which may be terminated by either party giving twelve months' notice in writing.

- Mr Duncan Baxter, Corporate Affairs Director, commencing on 8 December 2002. Mr Baxter's salary is reviewed annually by the Company's Remuneration Committee. Mr Baxter may terminate the agreement by giving six months' notice in writing. The Company may terminate the agreement either by giving six months' notice in writing, or a payment of six month's salary in lieu of notice equivalent to such period of notice together with any bonus payable.

- Mr Denis Alexandrov, Finance Director, commencing 13 October 2003 (resigned from 1 May 2006). Mr Alexandrov's salary is reviewed annually by the Company's Remuneration Committee. Mr Alexandrov may terminate the agreement by giving twelve months' notice in writing. The Company may terminate the agreement either by giving twelve months' notice in writing or a payment of twelve months' salary in lieu of notice equivalent to such period of notice together with any bonus payable. Mr Alexandrov has a labour contract with the Company's subsidiary, RDM, in respect of his services as Deputy General Director (Finance) of RDM.

- Non-Executive Directors have letters of appointment concerning their terms, a general overview of their role and responsibilities and the fees they will receive as a non-executive directors, and where appropriate their fees as a chairman of a board committee. Their terms are reviewed from time to time.

CORPORATE GOVERNANCE

The Directors support the principles of good governance. Whilst not mandatory for an AIM company, the Directors have implemented, where practicable for a company of this size and nature, the main provisions of the principles of good governance and code of best practice under the New Combined Code.

The Board has also considered the guidance published by the Institute of Chartered Accountants in England and Wales concerning the internal control requirements of the Combined Code, in line with the Turnbull Report. The Board regularly reviews key business risks, via a number of properly constituted committees, in addition to the financial risks facing the Group in the operations of its business.

THE BOARD

The Board currently has nine directors of which five are non-executive. The Non-Executive Directors bring an independent outlook to the Board and provide a balance to the Executive Directors. It is noted that Alex Davidson is Executive Vice President of Barrick Gold Corporation of Canada, a substantial shareholder, and cannot be regarded as independent. The Chairman is a non-executive Chairman.

The Board has determined and formalised matters reserved for its consideration and where appropriate have delegated certain matters under a chart of authority to Board appointed committees. The Board meets on a regular basis, at least five times a year, to review the performance and the business of the Group, ensure that funding needs are appropriate, consider development and acquisition opportunities. All Directors have an exceptionally good attendance record for Board and Committee meetings. 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 insurance cover in respect of legal action against its Directors and Officers.

The Board agreed to undertake a self assessment review, with the assistance of an external consultant, of the Board and Committees, at least on a bi-annual basis, the first being finalised in February 2006. A number of features were highlighted and remedial action has been taken. The non-executive Directors also met during the year without the Executive Directors to evaluate the Chairman's performance and will do so on an annual basis.

Alex Davidson was appointed a non-executive Director on 18 April, Gennady Nevidomi resigned as Production Director on 2 August, Dmitry Korobov resigned as Managing Director on 12 February 2006 and Henry Horne was appointed Managing Director on 13 February 2006.

The Board considers it appropriate and has appointed a senior Non-Executive Director who is available to meet with major shareholders.

It is a requirement that all Directors retire by rotation at least every three years and new appointments at the earliest opportunity. Ivan Koulakov is due to retire by rotation and offer himself for re-election and Henry Horne be elected, at the forthcoming Annual General Meeting. The directors contracts have no fixed terms.

The profiles of the Non-Executive and Executive Directors are to be found on pages 26 and 27 of this report.

AUDIT COMMITTEE

The Audit Committee consists of three Non-Executive Directors and is chaired by David Fish and meet three times in 2005 to consider the annual, interim financial statements and audit programme. The Executive Directors attend meetings as appropriate. The Terms of Reference of the Audit Committee are reviewed by the Board at least once a year and are available at the Annual General Meeting. It is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, and for meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit Committee is responsible for monitoring key risks and has implemented through the internal audit department a process of reporting on and monitoring those risks. The members are Mr Fish, Mr Palmer-Tomkinson and Mr Cross. The Audit Committee meets with the Auditors on a regular basis.

REMUNERATION COMMITTEE

The Remuneration Committee consists of all the Non-Executive Directors, and is chaired by Mr. Palmer-Tomkinson and includes the Chairman of the Board. It is responsible for reviewing the performance of the Executive Directors and, where appropriate, other senior executives, and for determining their appropriate levels of remuneration. The Committee makes recommendations to the Board, within agreed terms of reference, which the Board review at least annually, the remuneration and benefits including participation in the Company's share plans.

The Committee also examines fees in relation to non-executive remuneration and committee Chairman. The Committee had four meetings during the year at which all members were present.

NOMINATIONS COMMITTEE

The Nominations Committee consists of Mr Cross, Mr Fish, Mr Wadeson and Mr Palmer-Tomkinson. The Committee meets at least once a year and considers and makes recommendations on the appointment of Directors, Chairman of Committees, senior management and directors to Group subsidiary companies as appropriate and keeps the composition of the Board under review. The Committee makes recommendations to the Board, within agreed terms of reference, which the Board review at least annually. The Nominations Committee is chaired by Mr. Palmer-Tomkinson in addition to his role as Chairman of the Remuneration Committee and senior independent director. During the year the Committee had one meeting to review the re-election and election of directors in respect of the Annual General meeting at which all members were present.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Board has established a Health and Safety Committee and is chaired by Tim Wadeson. The other current members of the Committee are Mr Palmer-Tomkinson and Mr Henry Horne who has replaced Dmitry Korobov. The Committee considers with management the development and training aides and regulatory compliance of health, safety and environmental issues. The Committee makes recommendations to the Board, within agreed terms of reference which the Board review at least annually. The Committee meet twice during the year and all members were present.

OTHER COMMITTEES

In addition, the Group management company, OOO Russdragmet ("RDM"), in Russia has established a risk and control platform through the:

- RDM BOARD
  The Board of the management company meets monthly and prepares strategic and investment decisions for the Board of Directors. It is chaired by Ivan Koukalov and includes the most senior executives of RDM.

- EXECUTIVE COMMITTEE
  The Executive Committee meets weekly. The members include management of RDM functional departments and the General Directors of the mine sites and is chaired by Henry Horne the General Director of RDM. Its role is to ensure the implementation of decisions taken by the Group boards and committees, to manage the day to day operational activities and to make recommen dations to the Board of RDM. It delegates part of its duties to three internal RDM committees; the Risk Committee; Budget Committee and Investment Committee.

INTERNAL CONTROLS

The Directors have overall responsibility for the Group's internal control and effectiveness in safeguarding the assets of the Group. Internal control systems are designed to reflect the particular type of business, operations and safety risks and to identify and manage risks, but not entirely all risks to which the business is exposed. As a result internal controls can only provide a rea sonable, but not absolute, assurance against material misstatements or loss. The processes used by the Board to review the effectiveness of the internal controls are through the Audit Committee, internal audit function and the executive management reporting to the Board on a regular basis where business plans, budgets and authorisation limits for the approval of significant expenditure, including investments are appraised and agreed. The Board also seeks to ensure that there is a proper organisa tional and management structure with clear responsibilities and accountability. The Board is also at liberty to engage independent professional advice on risk assessment matters. It is the Board's policy to ensure that the management structure and the quality and integrity of the personnel are compatible with the requirements of the Group.

RELATIONS WITH SHAREHOLDERS

One of the Board's main objectives is to establish a constructive dialogue with major shareholders and with the financial markets at large to present an accurate picture of corporate performance and prospects so as to allow the investment community to determine a realistic valuation for the Company. The Group's website has been providing full information on the business, results and personnel and is used for updating shareholders and the market with key developments and announcements (www.highland gold.com). Shareholders are encouraged to use the Annual General Meeting as a forum in which to communicate and participate and due notice of the Annual General Meeting is provided to all Shareholders. The senior independent director and the Chairman met with major shareholders during the year.

SUBSTANTIAL SHAREHOLDINGS

As of 25 April 2006, the Company had been notified of the following interests, other than Director's interests, which amounted to three per cent or more of the issued share capital of the Company.

Name of Holder	Number	Percentage
Barrick Gold Corporation of Canada	31,742,959	19.93%
Fidelity International Limited	14,963,557	9.35%
Fleming Family & Partners (Liechtenstein) AG	10,947,369	6.84%
Morgan Stanley Investment Management Limited	10,745,741	6.71%
Julius Baer Investment Management	10,047,918	6.27%
Merrill Lynch Investment Managers Ltd	7,700,750	4.81%
NY Nominees Limited	4,996,321	3.12%
Hightops Gold Limited	4,907,563	3.07%

GOING CONCERN
The Directors believe that it is appropriate to adopt the going concern basis in preparing the financial statements as, having made suitable enquiries, the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

AUDITORS
A resolution for the re-appointment of Ernst & Young LLP as auditors of the Company will be proposed at the Annual General Meeting. Ernst & Young LLP provided non-audit services in relation to the group in respect of the unapproved share option scheme and compliance with the combined code.

ANNUAL GENERAL MEETING
The Annual General Meeting will be held at 12.00 pm on Wednesday 7 June 2006 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is as set out on page 66 of this Report.

DIRECTORS' RESPONSIBILITY STATEMENT
The Directors are required to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit and loss of the Group for that period. In preparing these financial statements, the Directors have;

- selected suitable accounting policies and have applied them consistently
- have made judgements and estimates that are reasonable and prudent
- have stated whether applicable accounting standards have been followed and
- prepared the financial statements on the going concern basis.

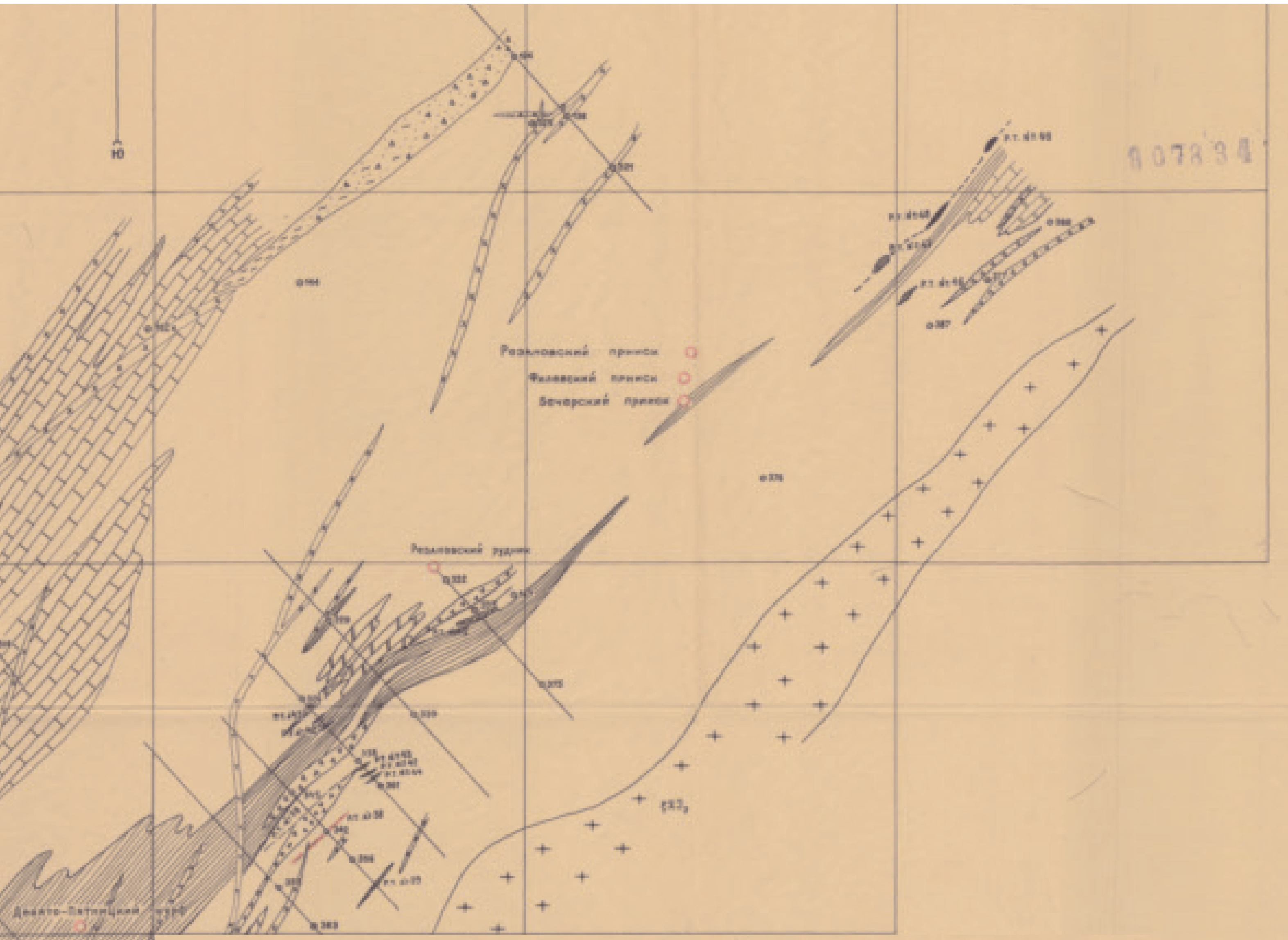
The Directors are responsible for ensuring that proper accounting records are kept, which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the accounts comply with the Companies (Jersey) Law 1991, as amended. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors acknowledge that their responsibility to present a balanced and understandable assessment extends to interim and other price sensitive public reports.

By Order of the Board

Duncan Baxter
Corporate Affairs Director
25 April 2006

Accounts 2005



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HIGHLAND GOLD LIMITED

We have audited the Group's Financial Statements for the year ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement, and the related notes 1 to 32. These Financial Statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report, including the Financial Statements which are required to be prepared in accordance with applicable Jersey law and United Kingdom accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the AIM Rules issued by the London Stock Exchange.

We report to you our opinion as to whether the Financial Statements, which have been prepared in accordance with United Kingdom accounting standards, give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the AIM Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. This other information comprises the Director's Report, Chairman's Statement, Operating Review, Financial Review, and the Unaudited Historic Summary. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2005 and of the profit of the group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Ernst & Young LLP
Registered Auditor
London
25 April 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	12 months ended 31 December 2005 US $000	12 months ended 31 December 2004 US $000 (restated)
Turnover	2	75,955	82,062
Cost of sales	3	(66,605)	(51,810)
GROSS PROFIT		9,350	30,252
Administrative costs		(12,447)	(11,468)
GROUP OPERATING (LOSS) /PROFIT		(3,097)	18,784
Bank interest receivable		1,849	56
Interest payable and similar charges	5	(6,804)	(5,843)
Foreign exchange gains /(losses)		(1,355)	1,232
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(9,407)	14,229
Tax credit / (charge) on profit on ordinary activities	6	2,233	(9,218)
[LOSS]/PROFIT FOR THE FINANCIAL PERIOD		**(7,174)**	**5,011**
Basic earnings per share (US$)	24	(0.047)	0.042
Diluted earnings per share (US$)	24	(0.047)	0.042

The Group does not have any recognised gains and losses other than the loss of US$7,174,000 (2004: profit US$5,011,000).

CONSOLIDATED BALANCE SHEET

	Notes	12 months ended 31 December 2005 US $000	12 months ended 31 December 2004 US $000 (restated)
FIXED ASSETS			
Intangible assets - negative goodwill	8	(8,796)	(8,796)
Tangible assets	7	277, 174	226,099
		268,378	**217,303**
CURRENT ASSETS			
Stocks	10	41,930	40,068
Debtors	11	28,198	37,356
Deferred costs		2,143	1,526
Cash at bank and in hand	23(b)	33,570	40,764
		105,841	**119,714**
CREDITORS			
Amounts falling due within one year	12	(101,716)	(82,458)
NET CURRENT ASSETS /(LIABILITIES)		4,125	37,256
TOTAL ASSETS LESS CURRENT LIABILITIES		272,503	254,559
CREDITORS			
Amounts falling due after more than one year	13	(610)	(23,098)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(17,572)	(19,714)
MINORITY INTERESTS – EQUITY		(282)	(338)
		254,039	**211,409**
EQUITY SHAREHOLDERS' FUNDS			
Called up share capital	19	255	233
Share premium	20	236,483	186,704
Profit and loss account	20	17,301	24,472
		254,039	**211,409**

Approved by the Board on 25 April 2006

James Cross
Chairman

Henry Horne
Managing Director

COMPANY BALANCE SHEET

	Notes	12 months ended 31 December 2005 US $000	12 months ended 31 December 2004 US $000 (restated)
FIXED ASSETS			
Investments	29	30,754	30,722
		30,754	**30,722**
CURRENT ASSETS			
Debtors	30	218,729	123,992
Short term deposit		5,000	
Cash at bank and in hand		10,800	37,206
		234,529	**161,198**
CREDITORS			
Amounts falling due within one year	31	(14,165)	(2,019)
NET CURRENT ASSETS		220,364	159,179
NET ASSETS		**251,118**	**189,901**
EQUITY SHAREHOLDERS' FUNDS			
Called up share capital	19	255	233
Share premium	32	236,483	186,704
Profit and loss account	32	14,380	2,964
		251,118	**189,901**

Profit for the period for the Company was US$11,413,000.

Approved by the Board on 25 April 2006

James Cross
Chairman

Henry Horne
Managing Director

CONSOLIDATED CASH FLOW STATEMENT

	Notes	12 months ended 31 December 2005 US $000	12 months ended 31 December 2004 US $000
CASH GENERATED FROM OPERATING ACTIVITY	23(a)	4,787	25,610
Changes in working capital	23(a)	2,964	(15,155)
NET CASH INFLOW FROM OPERATING ACTIVITIES	23(a)	7,751	10,455
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		1,849	56
Interest paid on bank loans		(4,792)	(4,386)
Loan arrangement fees		(1,960)	
Interest paid on finance leases		(452)	(468)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(5,355)	(4,798)
TAXATION			
Russian profits tax refund (paid)		(2,521)	491
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(56,143)	(69,168)
NET CASH OUTFLOW ON CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(56,143)	(69,168)
ACQUISITIONS AND DISPOSALS			
Payment of deferred consideration for subsidiary undertakings		(11,500)	(11,885)
Payments for acquisition of new geological licenses		(2,015)	-
Acquisition of Taseevskoye rights		-	(26,785)
Pre-payment received for partial disposal of Taseevskoe		13,340	-
NET CASH OUTFLOW ON ACQUISITIONS AND DISPOSALS		(175)	(38,670)
EQUITY DIVIDENDS PAID		(1,473)	(2,997)
NET CASH OUTFLOW BEFORE FINANCING AND MANAGEMENT OF LIQUID RESOURCES		(57,916)	(104,687)
MANAGEMENT OF LIQUID RESOURCES			
Increase in short term deposits		(1,464)	-
FINANCING			
Issue of ordinary share	19, 20	50,562	140,515
Share issue costs		(1,687)	(7,261)
Receipt of short term loans		-	105,788
Receipt of long term loans*		65,849	31,000
Repayment of borrowings		(58,624)	(131,770)
Receipt from sale and leaseback transactions		-	5,264
Repayment of capital element of finance leases		(4,195)	(3,485)
CASH INFLOW FROM FINANCING		51,905	140,051
INCREASE /(DECREASE) IN CASH		(7,475)	35,364
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash and short-term deposits		(7,475)	35,364
Receipt from sale and leaseback transactions		-	(5,264)
Repayment of capital element of finance leases		4,195	3,485
Cash inflow from short-term deposits		1,464	-
Movements in loans and other creditors		(7,225)	(5,018)
MOVEMENTS IN NET DEBT ARISING FROM CASH FLOWS		(9,041)	28,567
Other movement in long term payables		199	1,717
New finance leases and other		(618)	(1,580)
Exchange differences		188	39
MOVEMENT IN NET DEBT		(9,272)	28,743
NET (DEBT) AT BEGINNING OF PERIOD		(37,694)	(66,437)
NET (DEBT) AT END OF PERIOD	23(b)	(46,966)	(37,694)

*Includes US$39 million long-term loan from Commerzbank, which was reclassified to short-term loan due to breach of covenants as at 31 December 2005. A waiver has subsequently been received in respect of this breach.

1. ACCOUNTING POLICIES

Basis of consolidation

The Financial Statements present the accounts of Highland Gold Mining Limited (the "Company") and its subsidiary undertakings, (the "Group") drawn up for the year ended 31 December 2005. The results of subsidiaries acquired are consolidated for the periods from the date on which control passes. On the acquisition of a subsidiary, or an associate, fair values reflecting conditions at the date of acquisition are attributed to the identifiable net assets acquired.

Basis of preparation

These Financial Statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Russian political and economic risks

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and rouble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. Furthermore, substantially all privatisations in Russia in the early 1990s were flawed in some manner, and even the most minor and administrative flaw in the privatisation documents may be invoked as a basis for challenging the validity of the privatization process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the state, local authorities and administration, the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Russian economy, and the Group's business, will depend upon the Government's ability to institute supervisory, judicial and other regulatory reforms.

Foreign currency

United States dollar ("US$") is the functional and reporting currency. All transactions are translated into dollars at the historic exchange rate, and by retranslating monetary assets and liabilities into dollars at the current rate at each balance sheet date. All differences are taken to the profit and loss account. The accounting records of the Company's subsidiary undertakings are maintained in local currencies. The following exchange rates have been applied:

The principal exchange rates against US dollars were:

	12 months ended 31 December 2005	12 months ended 31 December 2004
AVERAGE		
RUR	28.34	28.81
GBP	0.550	0.546
CLOSING		
RUR	28.78	27.75
GBP	0.581	0.519

Turnover

Revenue is recognised when the legal title of the asset sold is transferred. Sales revenue represents proceeds receivable from the customer, net of value added tax (VAT) and sales discounts.

Cost of sales

Cost of sales represents material cost, determined by the weighted average method, and by applying full absorption costing, plus any other costs directly attributable to the acquisition of materials as well as manufacturing overheads.

Investments

Fixed assests investments in subsidiaries and associates, are measured at cost less any impairment losses. All other fixed asset investments are stated in the financial statements of the company and the Group at cost less provisions for permanent diminution in value. All current asset investments arestated at the lower of cost and net realisable value.

Goodwill
In an acquisition, the excess of fair value of the identifiable net assets acquired over the consideration paid, is accounted for as negative goodwill. This negative goodwill is then amortised on a straight-line basis over the estimated useful life of the non-monetary assets acquired.

Other financial assets
Other financial assets originated by the Group are stated at cost less a provision for doubtful debts.

Tangible fixed assets
Tangible fixed assets comprise mainly mining assets including mineral rights, development expenditure, shafts, buildings, equipment, vehicles and incremental unavoidable costs. Tangible fixed assets are stated at cost less accumulated depreciation.

Mineral properties and mine development expenditure
Once a mining project has been established as commercially viable, expenditure other than that on buildings, plant and equipment is capitalised under mineral properties and mine development expenditure account.
Interest on borrowings to specifically finance the establishment of mining assets is capitalized until commercial levels of production are achieved.
Mineral properties, deferred costs and capitalized interest are, upon commencement of production, amortised using the unit of production method based on the volumes of proved and probable reserves of ore and are written off if the property is abandoned.
All existing mine sites are established as commercially viable and hence are included in tangible fixed assets.

Other tangible assets
The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Costs associated with a start up period are capitalised where the asset is available for use but incapable of operating at normal levels without a commissioning period.

Depreciation, depletion and amortisation
Depreciation of tangible fixed assets, other than mineral properties and mine development expenditure, is calculated on a straight line basis. Assets are fully depreciated over their economic lives. The estimated useful lives of the assets are as follows:

Buildings	17 years
Plant and equipment	7-17 years

Changes in estimates are accounted for over the estimated remaining economic life.

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 tangible fixed assets.
No depreciation is charged on assets in the capital work in progress account. These assets are depreciated upon their transfer to the appropriate category of tangible fixed assets.

Impairment
If the carrying amount of a fixed asset exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. In assessing recoverable amount for property, plant and equipment and investments, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal have been discounted to their present value using a market determined, risk-adjusted discount rate.

Stocks
Stocks are stated at the lower of cost and net realisable value, less any provision for slow moving and obsolete items. Cost includes all costs incurred in bringing each product to its present location and condition. Stock is categorised as follows:

- Raw materials and consumables: Materials, goods or supplies to be either directly or indirectly consumed in the production process.
- Work in progress: Items stored in an intermediate state that have not yet passed through all stages of production.
- Finished goods: Products and materials that have passed all stages of the manufacturing process.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Deferred stripping costs
Stripping costs incurred during the production phase to remove waste ore are deferred to the balance sheet and charged to operating costs on the basis of the average life of the mine stripping ratio. The average stripping ratio is calculated as the number of cubic meters of waste material removed per tonne of ore mined. The average life of the mine ratio is revised annually in the light of additional knowledge and change in estimates. The cost of “excess stripping” is deferred to”deferred costs” on the balance sheet when the actual stripping ratio exceeds the average life of the mine stripping ratio.

Deferred financing costs
Financing costs, incurred on issuance of debt, are deferred and charged against earnings over the term of the indebtedness except for those capitalized to mineral properties.

Provisions for liabilities and charges
Provisions are recognised when the Group has a present obligation, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle such obligation.

Environmental protection, rehabilitation and closure costs
Provision is made for close down and restoration and for environmental clean up costs, where there is a legal or constructive obligation to do so, (which includes the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on the estimated future costs. The provision is discounted where material and the unwinding of the discount is shown as a finance cost in the profit and loss account. At the time of establishing the provision, a corresponding asset, is capitalised and depreciated on a unit of production basis.
The provision is reviewed on an annual basis for changes in cost estimates or lives of operations.

Deferred taxation
The tax charge is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing and hire purchase commitments
Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.
Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions
Contributions to the pension funds are expensed as incurred. The Group does not contribute to any defined benefit pension schemes.

Capital instruments
Equity shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefit and if not they are included in shareholders' funds.

Accounting for foreign currency hedges
The group uses forward foreign currency contracts to reduce exposure to foreign exchange rates. The group considers its derivative instruments qualify for hedge accounting when certain criteria are met.

The criteria for forward foreign currency contracts are:

- It must involve the same currency as the hedged item.
- It must reduce the risk of foreign currency exchange movements on the group's operations.

Foreign currency balances are translated into US dollars at the rates ruling at the balance sheet date, except for certain loan repayment installments and interests which are translated at the forward contract rates where installmentshave been covered forward at the balance sheet date.

Accounting for share options and share appreciation rights

The costs of awards to employees, in the form of shares or the rights to shares, under the long-term incentive plan (LTIP) are recognised over the period to which the employees' performance relates. The amount recognised is based on the fair value of the shares at the date of the award and on a reasonable expectation of the extent to which the performance criteria will be met.

Changes in accounting policies

As required by UK GAAP, starting from 1 January 2005 the Group has adopted the following new accounting standards:

- FRS 21 – Events after the balance sheet date
- FRS 22 – Earnings per share
- FRS 25*– Financial instruments disclosure and presentation
- FRS 28 – Corresponding amounts

FRS 21–Events after the balance sheet date

This standard requires dividends, which are proposed and approved after the balance sheet date to be disclosed and not recognized as a liability. As a result of adopting this accounting standard, retained earnings have been increased by US$1,473,000 as at 31 December 2004. Liabilities have been decreased by US$1,473,000 as at 31 December 2004.

FRS 22, FRS 25 and FRS 28 have not resulted in the restatement of retained earnings and have had no impact on the results or net assets for the current or prior year.

* The Group has only adopted the presentation requirements of this standard, as it does not have to comply with the disclosure requirements this year.

Reclass of materials and advances for capital construction

Materials advances for capital construction are recognized at the purchased cost as part of Assets Under Construction. For comparative purposes materials and advances for capital construction of US$1,885,000 were reclassed from current assets to Fixed Assets in 2004.

2. TURNOVER AND SEGMENTAL ANALYSIS

The Group operates in one principal area of activity, that of exploration and production of gold. Starting from April 2005 the Group made export sales to Western Europe countries using agent agreements with Russian banks. There were no discontinued operations during the period.

	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
TURNOVER		
Domestic sales	48,928	82,062
Export sales	27,027	-
	75,955	**82,062**

3. COST OF SALES	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
OPERATING COSTS	51,872	39,258
Depreciation depletion and amortisation	8,639	6,826
Taxes other than income tax	6,094	5,726
	66,605	**51,810**
Depreciation of owned assets	6,504	5,349
Depreciation of leased assets	2,135	1,477
	8,639	**6,826**

4. AUDITORS' REMUNERATION	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
GROUP AUDIT	794	500
FEES FOR OTHER SERVICES	120	300
	914	**800**

5. INTEREST PAYABLE AND SIMILAR CHARGES	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
Bank Loans	5,843	4,659
Finance charges payable under finance leases	452	468
Unwinding of discount on provisions for liabilities and charges	509	716
	6,804	**5,843**

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of tax (credit)/charge in the period	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
CURRENT TAX		
Russian profit tax for the period	418	2,212
Total current tax (note 6 (b))	**418**	**2,212**
DEFERRED TAX		
Adjustment to prior period	(3,644)	1,183
Origination and reversal of timing differences	993	5,823
Total deferred tax	**(2,651)**	**7,006**
Tax (credit)/ charge on profit on ordinary activities	(2,233)	9,218

(b) Factors affecting tax charge for the period

The differences between the effective provision for Russian profits tax and the statutory tax provision at the statutory rate is reconciled as follows:

	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	(9,407)	14,229
STANDARD TAX RATE	24%	24%
PROFIT ON ORDINARY ACTIVITIES MULTIPLIED BY STANDARD RATE	(2,258)	3,415
EFFECTS OF:		
PERMANENT DIFFERENCES		
• Foreign exchange differences	(1,492)	1,254
• Lower tax rates on overseas earnings	(2,517)	(990)
• Non deductible expenses	3,917	884
• Other permanent differences	436	119
	344	**1,267**
TIMING DIFFERENCES		
• Fixed asset timing differences	(7,154)	(6,900)
• Tax losses	6,329	1,464
• Other	(168)	(387)
	(993)	**(5,823)**
UNRECOGNISED TAX LOSSES AND OTHER UNRECOGNISED TIMING DIFFERENCES	4,151	3,353
CURRENT TAX CHARGE FOR THE PERIOD	**418**	**2,212**

(c) Factors affecting tax charges

Russia has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover based taxes, and payroll (social) taxes, together with others. In addition, the subsidiaries of the Company are also subject to various industry taxes including mineral extraction taxes. Laws related to some of these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, regulations are often unclear or non-existent. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations (like the Ministry of Taxes and Levies and various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters), are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years. As of 31 December 2005, a substantial portion of the tax declarations of the Group have been reviewed through to 31 December 2003. Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

7.TANGIBLE FIXED ASSETS

Tangible fixed assets comprise mining assets:

	Freehold buildings US$000	Plant and equipment US$000	Mineral properties and mine development expenditure US$000	Construction in progress US$000	Total US$000
COST					
At 31 December 2004	13,684	37,497	151,159	36,400	238,740
Additions	2,267	7,487	22,025	25,920	57,699
Acquisitions	-	-	2,015	-	2,015
TRANSFERS	9,605	15,015	3,397	(28,017)	-
At 31 December 2005	25,556	59,999	178,596	34,303	298,454
ACCUMULATED DEPRECIATION					
At 31 December 2004	(1,159)	(3,897)	(7,585)	-	(12,641)
Provided during the period	(764)	(3,518)	(4,357)	-	(8,639)
At 31 December 2005	(1,923)	(7,415)	(11,942)	-	(21,280)
NET BOOK VALUE					
At 31 December 2005	23,633	52,584	166,654	34,303	277,174
At 31 December 2004	12,525	33,600	143,574	36,400	226,099

The net book value of plant and equipment above includes an amount of US$11,483,000 (at 31 December 2004 – US$16,682,000), relating to leased assets. Acquisitions of US$2,015,000 relate to new geological licences acquired in 2005 (Note 9). During 2005, the Group capitalized interest of US$1,715,864 on corporate bonds related to the construction works at the Mayskoye mine site.

8. NEGATIVE GOODWILL	Total US$000
COST	
At 1 January 2005	(8,796)
Additions	-
At 31 December 2005	**(8,796)**

Negative goodwill was recognized on the Novo acquisition in 2003 and 2004. There were no other movements in negative good will during 2005. The negative goodwill will be amortized over a period of 15 years on a straight-line basis when the production of the field commences.

9. INVESTMENTS

Details of the investments in which the Group and the Company controls 20% or more of the nominal value of ordinary share capital are as follows:

Name of Company	Country of incorporation	Proportion of voting rights	Nature of Business
Held indirectly via 100% owned subsidiaries			
ZAO Mnogovershinnoe (MNV)	Russia	100%	Gold exploration and production
OOO Darasunsky Rudnik (Darasun)	Russia	100%	Gold exploration and production
OAO Novoshirokinskoye Rudnik (Novo)	Russia	96.51%	Gold exploration and production
OOO ZK Mayskoye	Russia	100%	Gold exploration and production
ZAO Talatui (Talatui)	Russia	100%	Gold exploration and production
OOO Russdragmet (RDM)	Russia	100%	Management company
OOO Highlandgold Finance	Russia	100%	Financial services company
ZAO Trade House Mnogovershinnoe (THM)	Russia	100%	Services company
OOO Trade House Dauria (THD)	Russia	100%	Services company
OOO Zabaikalzolotoproekt (ZZP)	Russia	100%	Construction design
OOO Investment Mining and Geological Company (IMGC)	Russia	80%	Gold exploration
OOO Zabaikalgeologiya	Russia	100%	New licenses acquisition
OOO Zabaikalzolotorazvedka	Russia	100%	New licenses acquisition
OOO Zabaikalgeologorazvedka	Russia	100%	New licenses acquisition
OOO Zabaikalskoe Geologorazvedochnoe Predpriyatie	Russia	100%	New licenses acquisition
OOO Chukotgeologorazvedka	Russia	100%	New licenses acquisition
OAO Vostokgeologodobycha	Russia	50%	New licenses acquisition
OOO Dalnevostochnoe geologorazvedochnoe Predpriyatie	Russia	100%	New licenses acquisition
OOO Taseevskoe	Russia	100%	Gold exploration and production
OOO RDM – Logistika	Russia	100%	Purchases and Logistics
OOO RDM – Engineering	Russia	100%	Dormant
OOO RDM – InformService	Russia	100%	Dormant
Held directly by the Company			
Stanmix Holding Limited (Stanmix)	Cyprus	100%	Holding company
Stanmix Investments Limited (STIL)	Cyprus	100%	Financing company
Stanmix Venture Limited	Cyprus	100%	Holding company

Acquisitions during 2005

During 2005 the Group won in a series of open auctions the rights for a number of exploration licenses in Chita, Chukotka and Khabarovsk regions:

- Sredne-Golgotayskoe
- Lubavinskoe project: Malo-Fedorovskoe deposit
- Belaya Gora
- Vozdvizhenskoe
- Sovinoe
- Baleyskoe deposit – ZIF-1 project

The total price paid for all of the above licenses is US$2,015,000 included in acquisitions under Mineral properties and mine development expenditure in Tangible fixed assets.

All of the above are mainly gold ore deposits, except for Vozdvizhenskoye, which is lead and zinc deposit.
Management of the Group believes that the fair value of the new acquisitions is equal to the purchase consideration.

During 2005 the Group established several entities for the purpose of participation in auctions for geological licenses. These entities are:

- OOO Zabaikalgeologiya
- OOO Zabaikalzolotorazvedka
- OOO Zabaikalgeologorazvedka
- OOO Zabaikalskoe Geologorazvedochnoe Predpriyatie
- OOO Chukotgeologorazvedka
- OAO Vostokgeologodobycha
- OOO Dalnevostochnoe geologorazvedochnoe Predpriyatie

Taseevskoye

As permitted by FRS7 "Fair values in acquisition accounting," the fair values of the assets and liabilities of Taseevskoye included in the financial statements for the period ended 31 December 2004 have been finalised as outlined below:

	Fair value as previously reported US$000	Revisions US$000	Final fair value US$000
FAIR VALUE OF NET ASSETS ACQUIRED	26,785	-	26,785
DISCHARGED BY CASH	26,785	-	26,785

The Group received US$13,340,000 from Barrick Gold as a consideration for a pending 50% stake in the Taseevskoye project. In October 2005, the Group made a final payment at amount US$11,500,000 in relation to the Mayskoye acquisition.

10. STOCKS	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
RAW MATERIALS AND CONSUMABLES	23,877	21,778
FUEL	3,754	3,487
SPARE PARTS	7,627	7,876
WORK IN PROGRESS	6,425	6,703
FINISHED GOODS	253	229
	41,936	**40,073**
LESS PROVISION FOR OBSOLETE ITEMS	(6)	(5)
	41,930	**40,068**

The difference between the purchase price or production cost of stocks, and their replacement cost is not material.

11. DEBTORS	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
RECOVERABLE VALUE ADDED TAX	24,050	19,950
PREPAYMENTS	2,067	14,615
OTHER DEBTORS*	2,284	2,987
	28,401	**37,552**
LESS PROVISION FOR DOUBTFUL DEBTS	(203)	(196)
	28,198	**37,356**

Included in the figures above, is an amount of US$6,809,000 (2004: US$4,090,000) due in more than one year.
*Included in "Other debtors" is an amount of US$0 (2004: US$88,264) representing advances to Directors.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
TRADE CREDITORS	3,985	5,605
PROFIT TAX	565	2,758
TAXES OTHER THAN PROFIT TAX	2,122	2,452
SALARIES PAYABLE	1,482	2,344
PREPAYMENT OF PARTIAL DISPOSAL OF TASEEVSKOYE	13,340	-
OTHER CREDITORS	295	3,054
SHORT TERM LOANS (Note 16)	77,527	50,877
DEFERRED CONSIDERATION	-	11,500
OBLIGATION UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS (Note 17)	2,400	3,868
	101,716	**82,458**

Short-term loans are US dollar denominated, and are partly secured by the Group's assets and future gold sales other than corporate bonds denominated in Russian roubles and partly hedged by US Dollar forward sale contracts of US$22,142,000.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
OTHER CREDITORS (Note 16)	0	20,378
OBLIGATION UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS (Note 17)	610	2,720
	610	**23,098**

14. PROVISIONS FOR LIABILITIES AND CHARGES	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
DEFERRED TAX (Note 15)	6,886	9,537
SITE RESTORATION PROVISION (Note 18)	10,686	10,177
	17,572	**19,714**

15. DEFERRED TAX

Deferred tax included in the balance sheet is as follows:	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
DEFERRED TAX BALANCE AT THE BEGINNING OF PERIOD	9,537	2,530
ADJUSTMENT TO PRIOR PERIOD	(3,644)	1,183
REVERSAL AND ORIGINATION OF TIMING DIFFERENCES	993	5,823
DEFERRED TAX BALANCE AT THE END OF PERIOD	**6,886**	**9,537**

Deferred tax comprises:	31 December 2005 US$000	31 December 2004 US$000
FIXED ASSET TIMING DIFFERENCES	19,204	12,189
TAX LOSSES	(12,572)	(3,034)
OTHER TIMING DIFFERENCES	254	382
TOTAL DEFERRED TAX LIABILITY	**6,886**	**9,537**

No deferred tax benefit is recognised in relation to the site restoration provision. 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 related deferred tax asset not recognized at 31 December 2005 is US$1,056,000 (at 31 December 2004 – US$866,000).

As a result of the change in the tax legislation, which increases the amounts of taxable profits allowed to be offset by tax losses in any one year from 30% in 2004 increasing to 100% in 2007, tax losses can now be recognised if they are to be utilized within 10 years. This resulted in the recognition by the Group this year of US$3,015,000 losses which arose in previous periods. Total amount of unrecognised tax losses was US$4,606,000 at 31 December 2005.

16. LOANS AND OTHER CREDITORS

	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
AMOUNTS FALLING DUE:		
Within one year	78,743	50,877
In one to two years	-	6,399
In two to five years	-	14,595
	78,743	**71,871**
LESS: BANK ARRANGEMENT FEES	(1,216)	(616)
	77,527	**71,255**
LESS: INCLUDED IN CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (Note 12)	(77,527)	(50,877)
	0	**20,378**

The total amount of secured loans as at 31 December 2005 is US$51,200,000 (At 31 December 2004 – US$70,877,000).
The loans are secured over fixed assets,stock and future gold sales.

17. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under finance leases and hire purchase contracts:

	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
AMOUNTS FALLING DUE:		
Within one year	2,400	3,868
In one to two years	610	2,245
In two to five years	-	475
TOTAL OBLIGATIONS UNDER LEASE	3,010	6,588
Less: included in obligations under lease:		
amounts falling due within one year	(2,400)	(3,868)
TOTAL	**610**	**2,720**

18. SITE RESTORATION PROVISION

Provisions for environmental restoration comprise:

	2005 US$000	2004 US$000
AT 1 JANUARY	10,177	9,692
UNWINDING OF DISCOUNT	509	485
AT 31 DECEMBER	10,686	10,177

Environmental restoration provisions relate to obligations to repair and make safe mines after use and the estimated costs of cleaning up any chemical leakage. Most of these costs are expected to be incurred at the end of the mines' useful operations, approximately between 2015 - 2022. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination and the timing and extent of corrective actions. The provision has been estimated using existing technology, current prices, and prudent interpretations of the relevant legislation and discounted at 5%.

19. SHARE CAPITAL: AUTHORISED, ALLOTTED, CALLED UP AND FULLY PAID

	31 December 2005 US$000	31 December 2004 US$000
AUTHORISED		
300,000,000 Ordinary shares of £0.001 each	440	440
ALLOTTED, CALLED UP AND FULLY PAID		
158 904 793 Ord shares £0.001 each		
(2004: 147 336 856 Ord shares £0.001 each)	255	233

On 10 May 2005 the Company issued 11,377,937 new ordinary shares at a price of 230p per share with a nominal value of 0.1p per share to Barrick Gold Corporation ("Barrick Gold") of Canada. The net proceeds amounted to approximately US$50 million. The share issue took Barrick Gold's total shareholding from approximately 17% to approximately 20% of the Company's enlarged issued share capital.

On 16 May 2005 50,000 ordinary shares were issued to WH Ireland Limited in respect of their warrant agreement for up to 276,315 ordinary shares with a nominal value of 0.1p per share in the Company under terms agreed at the time of the Company's admission to AIM in December 2002.

On 10 October 2005 140,000 ordinary shares were issued to WH Ireland Limited in respect of their warrant agreement for up to 276,315 ordinary shares with a nominal value of 0.1p per share in the Company under terms agreed at the time of the Company's admission to AIM in December 2002. The Issued share capital of the Company is now 158 904 793 ordinary shares.

On 29 June 2005 the Group and Barrick Gold Corporation ("Barrick Gold") have reached an agreement whereby Barrick Gold will make an advance payment of US$13.3 million (representing half of the original purchase price paid by the Group) for its 50% interest in the project and will also contribute to its share of future project related expenditures. As the payments by Barrick Gold are being made in advance of the final ownership structure for the project being established, the Group has agreed to grant Barrick Gold warrants to purchase unissued shares at an exercise price of US$3.10 per share covering the full value of the payments. The warrants are exercisable at the option of Barrick Gold if the ownership structure is not established by 1 June 2006 (or such later date as Barrick Gold may determine) and the Group has not repaid the full value of the payments in cash. The warrants expire on 1 June 2011.

20. RESERVES

	Share capital account US$000	Share premium account US$000	Profit and loss account US$000
BALANCE AT 1 JANUARY 2004, as originally reported	162	54,735	20,660
Prior year adjustment*	-	-	1,798
BALANCE AT 1 JANUARY 2004, as restated	**162**	**54,735**	**22,458**
Dividends	-	-	(2,997)
Arising on share issues	71	140,444	-
Share issue costs		(8,475)	-
Retained profit/(loss) for the period			5,011
BALANCE AT 1 JANUARY 2005	**233**	**186,704**	**24,472**
As originally reported	233	186,704	22,999
Prior year adjustment*			1,473
Dividends			(1,473)
Share options	-	-	1,476
Arising on share issues	22	50,540	
Share issue costs		(761)	
Retained profit/(loss) for the period			(7,174)
BALANCE AT 31 DECEMBER 2005	**255**	**236,483**	**17,301**

*The prior year adjustment represents the reversal of the final 2004 dividend accrual following the change in accounting policy required by the adoption of FRS21– Events after the Balance Sheet Date.

21. DIVIDENDS AND OTHER APPROPRIATIONS

Declared and paid during the year:	2005 US$000	2004 US$000
EQUITY DIVIDENDS ON ORDINARY SHARES		
Final dividend for 2004: 1.0p (2003 – 1.5p)	1,473	1,798
Interim for 2005: nil (2004 – 1.0p)	-	1,199
DIVIDENDS PAID	1,473	2,997
Proposed for approval by shareholders at AGM:		
Final dividends for 2005: nil (2004 - 1.0p)	-	1,473

22. RECONCILIATION OF SHAREHOLDERS' FUNDS

	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
SHAREHOLDERS' FUNDS AT THE BEGINNING OF PERIOD, as originally reported	209,936	75,557
Prior year adjustment*	1,473	1,798
SHAREHOLDERS' FUNDS AT THE BEGINNING OF PERIOD, as restated	211,409	77,355
Shares issued during the period	50,562	140,000
Share issue costs	(761)	(7,960)
Profit (loss) retained for the period	(7,171)	2,014
SHAREHOLDERS' FUNDS AT END OF PERIOD	**254,039**	**211,409**

*The prior year adjustment represents the reversal of the final 2004 dividend accrual following the change in accounting policy required by the adoption of FRS21 – Events after the Balance Sheet Date.

23. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities

	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
OPERATING (LOSS)/PROFIT	(3,097)	18,784
DEPRECIATION, DEPLETION AND AMORTISATION	8,639	6,826
OTHER NON CASH	(755)	-
CASH GENERATED FROM OPERATING ACTIVITY	**4,787**	**25,610**
CHANGES IN WORKING CAPITAL:		
Decrease/(increase) in debtors	7,098	(2,426)
Decrease/(increase) in stock	(1,862)	(8,637)
Decrease/(increase) in deferred costs	(617)	225
Increase/(decrease) in creditors	1,469	(186)
Decrease/(increase) in VAT receivable	(4,101)	(5,032)
Decrease in provisions	977	901
TOTAL CHANGES IN WORKING CAPITAL	**2,964**	**(15,155)**
NET CASH INFLOW FROM OPERATING ACTIVITIES	**7,751**	**10,455**

b) Analysis of net debt

	As at December 2004 US$000	Cash flow US$000	Exchange difference US$000	Other non cash US$000	As at December 2005 US$000
CASH IN BANK AND IN HAND	25,764	(7,475)	(1,183)	-	17,106
SHORT-TERM DEPOSIT*	15,000	1,464	-	-	16,464
CAPITAL ELEMENT OF FINANCE LEASES	(6,587)	4,195	-	(618)	(3,010)
LOANS AND OTHER LONG-TERM CREDITORS	(71,871)	(7,225)	1,371	199	(77,526)
TOTAL	**(37,694)**	**(9,041)**	**188**	**(419)**	**(46,966)**

* Short-term deposits at 31 December 2005 and 2004 are included within cash at bank and in hand in the balance sheet

24. EARNINGS PER SHARE

	12 months ended 31 December 2005 US$000	12 months ended 31 December 2004 US$000
PROFIT FOR THE PERIOD ATTRIBUTABLE TO SHAREHOLDERS	(7,174)	5,011
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE	153,012,018	120,351,004
BASIC EARNINGS PER SHARE	(0.047)	0.042
WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE AND SHARES THAT WOULD BE ISSUED ON CONVERSION	156,442,467	120,351,004
DILUTED EARNINGS PER SHARE	(0.047)	0.042

	12 months ended 31 December 2005 000's	12 months ended 31 December 2004 000's
BASIC WEIGHTED AVERAGE NUMBER OF SHARES	153,012	120,351
DILUTIVE POTENTIAL ORDINARY SHARES		
Employee share options	1,292	-
Warrants (Barrick Gold)	2,139	-
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	156,443	120,351

Diluted loss per ordinary share has not been disclosed as inclusion of unexercised options and warrants would be anti-dilutive in 2005.

25. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, investments, cash, deposits, foreign exchange hedges and various items, such as trade debtors, trade creditors and contractual provisions arising in the ordinary course of its operations. The Group does not acquire, hold or issue derivative instruments for trading purposes.

The main risks arising from the Group's financial instruments are interest rate and foreign currency risk.

In April 2005, Highland Gold Finance (a 100% subsidiary of the Group) issued rouble denominated bonds in the amount of Rb750,000,000 (US$26.8m). The bonds were priced at par (Rb1000) with a 12% annual interest rate, payable quarterly, and a 3 year maturity with an 18 month option for bond-holders to sell the bonds back to Highland whoc can then resell the bonds. The bonds are issued by Highland Gold Finance Limited and guaranteed by the Company. Interest payments on the bond are to be made in roubles on a quarterly basis. The Group functional currency is US$ and the Group earns income from gold sales in US$. Therefore, in order to minimize the effect of changes in RUR/US$ rates on the liability arising on future payments of interest and the repayment of the principal, the Group made a decision to hedge the quarterly interest payments on bonds and part of the principal that had been already spent by selling US$ forward at a fixed rate.

During 2005, the Company entered into the contract with BNP Paribas for a number of non-deliverable forward transactions on RR/USD. As a result of hedge transaction the Group recognised a gain of US$591,000 included in exchange gains/losses in the profit and loss account for the year ended 31 December 2005.

Unrecognised exchange gains and losses on the FX hedges	US$000
AT 1 JANUARY 2005	0
ARISING IN PREVIOUS YEARS, RECOGNISED IN CURRENT YEAR	0
ARISING IN PREVIOUS YEARS THAT WERE NOT RECOGNISED IN YEAR	0
LOSS ARISING IN CURRENT YEAR THAT WERE NOT RECOGNISED IN CURRENT YEAR (for Coupon Payment)	125
LOSS ARISING IN CURRENT YEAR THAT WERE NOT RECOGNISED IN CURRENT YEAR (for Corporate Bonds)	254
AT 31 DECEMBER 2005	379

Of which expected to be recognised	
NEXT YEAR	379
IN SUBSEQUENT YEARS	-

Interest rate risk

The Group finances its operations through a mixture of retained earnings and bank borrowings. Borrowings are denominated in Russian roubles and US dollars. These borrowings bear interest at both fixed rates and variable as disclosed below.
With the exception of the analysis of currency exposure, the analysis below excludes short term debtors and creditors.

Financial liabilities : interest rate profile for the Group as at 31 December 2005

	Currency	Bearing interest at fixed rate US$000	Bearing interest at variable rate US$000	Weighted average rate (%)	Interest free US$000	Total US$000
SHORT-TERM LOANS	USD	-	51,200	7.30	-	51,200
SHORT-TERM LOANS	RUR	26,613	-	12.00	-	26,613
SHORT-TERM LOANS	USD	15	-	-	-	15
LONG-TERM LOANS	USD	-	-	-	-	-
OTHER LONG TERM CREDITORS	RUR	-	-	-	-	-
CAPITAL ELEMENT OF FINANCE LEASES	USD	3,010	-	10.00	-	3,010
		29,638	**51,200**			**80,838**

The weighted average period for the loans bearing interest at fixed rates is less than one year.
The floating rate financial liabilities comprise US dollar denominated bank loans that bear interest at rates based on the one month LIBOR.
The weighted average period of the capital element of finance leases is two years.

Financial liabilities: interest rate profile for the Group as at 31 December 2004

	Currency	Bearing interest at fixed rate US$000	Bearing interest at variable rate US$000	Weighted average rate [%]	Interest free US$000	Total US$000
SHORT-TERM LOANS	USD	18,935	-	7.00	-	18,935
SHORT-TERM LOANS	RUR	4,685	-	9.88	-	4,685
SHORT-TERM LOANS	EURO	285	-	8.50	-	285
LONG-TERM LOANS	USD	6,000	40,919	7.91	-	46,919
OTHER LONG TERM CREDITORS	RUR	-	-	-	838	838
CAPITAL ELEMENT OF FINANCE LEASES	USD	6,587	-	10.34	-	6,587
		36,492	**40,919**		**838**	**78,249**

The weighted average period of the capital element of finance leases is one year.

Financial assets : interest rate profile for the Group as at 31 December 2005

	Currency	Fixed rate financial assets US$000	Variable rate financial assets US$000	Weighted average rate (%)	Interest free US$000	Total Total US$000
CASH AT BANK AND IN HAND	RUR, USD, GBP	17,106	-	1.0	-	17,106
CASH DEPOSITS	RUR	-	9,033	5.94	-	9,033
CASH DEPOSITS	USD	-	7,431	4.03	-	7,431
		17,106	**16,464**			**33,570**

The weighted average period during which interest rates are fixed on financial assets is less than one year. Cash deposits represent a 81-day deposit in the amount of RUR 120 million bearing interest at fixed rate of 5.4%, 18-day deposit in the amount of RUR 140 million bearing interest at fixed rate of 6.4%, 33-day deposit in the amount of US$5 million bearing interest at fixed rate of 4% and a 24-day deposit in the amount of US$2.4 million bearing interest at fixed rate of 4.1%.

Financial assets: interest rate profile for the Group as at 31 December 2004

	Currency	Fixed rate financial assets	Weighted average rate (%)	Interest free US $000	Total US $000
CASH AT BANK AND IN HAND	RUR, USD, GBR	25,764	1.00	-	25,764
CASH DEPOSITS	USD	15,000	3.83	-	15,000
		40,764		**-**	**40,764**

The weighted average period for the financial assets with fixed interest rates is less than one year.

Currency exposures

The table below shows the Group's net currency exposures on the monetary assets and liabilities of the Group that are not denominated in US$.

	At 31 December 2005 US$000	At 31 December 2004 US$000
NET MONETARY ASSETS/(LIABILITIES)		
RUR	7,485	4,990
EURO	3	(309)
GPB	607	21,214
	8,095	**25,895**

Borrowing facilities

The undrawn committed facilities available at 31 December in respect of which all conditions precedent had been met at that date are as follows:

	At 31 December 2005 US$000	At 31 December 2004 US$000
EXPIRING IN ONE YEAR OR LESS	-	7,800
EXPIRING IN MORE THAN ONE YEAR BUT NOT MORE THAN TWO YEARS	-	12,477
EXPIRING IN MORE THAN TWO YEARS	-	18,723
	-	**39,000**

Fair Values of Financial assets and liabilities:

	Book value At 31 December 2005 US $000	Fair value At 31 December 2005 US $000	Book value At 31 December 2004 US $000	Fair value At 31 December 2004 US $000
SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS	77,527	70,516	50,877	49,941
OTHER SHORT TERM CREDITORS	24,182	23,416	33,054	26,576
CREDITORS DUE AFTER MORE THAN ONE YEAR	610	515	23,098	19,892
DEBTORS	28,789	26,236	37,356	36,424
SHORT-TERM DEPOSITS	16,464	16,464	-	-
CASH AND SHORT-TERM DEPOSITS	17,106	17,106	40,764	40,764

The fair values USD denominated items have been calculated by discounting the expected future cash flows at prevailing interest rates of 10% (2004:10%). The fair values Rouble denominated items have been calculated by discounting the expected future cash flows at prevailing interest rates of 12% (2004:12%).

26. POST BALANCE SHEET EVENTS

Breach of loan covenants

As at 31 December 2005, the Group was in breach of one of the loan covenants attached to its long-term loan facility, and accordingly the US$30.8 million long-term portion of the facility was reclassified to "Creditors: amounts falling due within one year." On 20 April 2006, a waiver in respect of the breach was obtained for the relevant period ended 31 December 2005.

Additional share issue

On 14 February 2006 3,454,000 ordinary shares were issued under the Company's Unapproved Share Option Scheme, to trade AIM market option issuance. The shares shall rank pari passu with the existing issued shares of the Company.

Gazprombank facility

On 6 April 2006 Gazprombank approved US$15 million loan facility for two years that will be available to the Group upon fulfillment of certain preconditions.

Transactions with Barrick Gold

Barrick Gold has exercised its rights to acquire a 50% interest in two recently acquired mineral licenses for a total amount of US$ 431,000. These rights were granted to Barrick Gold pursuant to the January 2004 Participation Agreement between the two companies and cover the Belaya Gora and Sovinoye exploration projects.

The Group has acquired the exploration and mining rights for the Malo Fedorovskoye deposit and has conditionally accepted an offer from Barrick Gold to joint-venture the contiguous Lubavinskoye deposit.

On 20 January 2006 Taseevskoye Netherlands B.V. and H.B.Netherlands B.V. were established for managing the joint venture projects of Barrick Gold and the Group.

27. RELATED PARTY TRANSACTIONS

Fleming Family & Partners ("FF&P") and Highland Gold Mining Limited are companies with common shareholders. During the year ended 31 December 2003, an agreement was entered into with FF&P for the provision of corporate consultancy services, for which FF&P charge US$10,000 per month. For the year ended 31 December 2005, FF&P charged US$120,000 under this agreement (2004: US$120,000), in addition to US$1,700,000 for services provided in relation to share issues to Barrick Gold in February 2004 and placing at AIM in December 2004. The amounts outstanding to FF&P as at 31 December 2005 was nil (2004: US$1,700,000).

In addition to the advances to Directors disclosed in Note 11, in 2004 the Group also guaranteed certain loans to Directors, totaling US$0.67 million.

Barrick Gold Corporation own 20 percent of the ordinary share capital of the Group. In February 2005 Barrick Gold had confirmed its intention to exercise its early participation rights on the Taseevskoye project under the Participation Agreement entered into in early 2004. Under the Participation Agreement, Barrick Gold is only required to pay for its share of Highland Gold's acquisition costs associated with acquiring the project once a joint venture corporation has been established to own and operate the Taseevskoye project. While this legal work is progressing, in an effort to advance the scoping study and other aspects of the project, the Grop and Barrick Gold have reached an agreement whereby Barrick Gold will make an advance payment of US$13.3 million (representing half of the original purchase price paid by Highland Gold) for its 50% interest in the project and will also contribute to its share of future project related expenditures. As the payments by Barrick Gold are being made in advance of the final ownership structure for the project being established, the Group has agreed to grant Barrick Gold warrants to purchase unissued shares at an exercise price of US$3.10 per share covering the full value of the payments. The warrants are exercisable at the option of Barrick Gold if the ownership structure is not established by 1 June 2006 (or such later date as Barrick Gold may determine) and Highland Gold has not repaid the full value of the payments in cash. The warrants expire on 1 June 2011.

During the year ended 31 December 2005 Barrick Gold Services, a company controlled by Barrick Gold, provided consultancy services at mining operations for Darasun at US$81,375 and Mnogovershinnoye at US$15,188.

Employee stock option plan

On 7 July 2005 the Group approved an employee share option scheme in line with the statement made at the time of Admission to the Alternative Investment Market in December 2002. The scheme will run in conjunction with the Company's Share Appreciation Rights scheme to allow flexibility when considering the employment incentives for executives. The scheme is managed by the Remuneration Committee.

Currently there are 22 participants of the scheme representing board members, directors and executive management of the Group. According to the scheme, the Group would be issuing approximately 4.2 million new ordinary shares during the period of 2006 – 2009.

All share options, except 1,000,000 share options granted to the non-executive chairman, are exercisable at a price of 211p, which was based on the current market value at the date of grant. The 500,000 option issued to the non-executive chairman as part of his remuneration are exercisable at par after 9 December 2005, and a further 500,000 new ordinary shares in the company at a price of 160.45 pence per new ordinary share and exercisable after 9 December 2007 with an expiry date of 8 December 2014.

28. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

Amounts contracted for but not provided for in the financial statements amounted to US$4,876,000 for the Group (at 31 December 2004 – US$5,106,000).

During 2005 the tax authorities completed their audit of MNV, one of the Company's producing subsidiaries for the period 1 January 2002 to 31 December 2004. Certain claims have been raised by the tax authorities totaling approximately US$1.5 million, which the Group is challenging through a lawsuit, as management does not believe these claims are justified. No amount has been provided for this amount.

29. INVESTMENTS

	At 31 December 2005 US$000	At 31 December 2004 US$000
COST AND NET BOOK VALUE		
At 31 December 2004	30,754	30,722
	30,754	**30,722**

Refer to Note 9 for details of the investments held by the Company.

30. DEBTORS

	At 31 December 2005 US$000	At 31 December 2004 US$000
AMOUNT DUE FROM GROUP UNDERTAKINGS	218,134	123,170
PREPAYMENTS	595	822
TOTAL DEBTORS	**218,729**	**123,992**

Amounts due from the group undertakings include nil (2003 –US$23.5 million) receivable in greater than 1 year.

31. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 31 December 2005 US$000	At 31 December 2004 US$000
PREPAYMENT FOR PARTIAL DISPOSAL		
OF TASEEVSKOYE	13,340	-
OTHER CREDITORS	825	2,019
	14,165	**2,019**

32. RESERVES

	Share capital account US$000	Share premium account US$000	Profit and loss account US$000
BALANCE AT 1 JANUARY 2004	162	54,735	17
Prior year adjustment*	-	-	1,798
BALANCE AT 1 JANUARY 2004, as restated	**162**	**54,735**	**1,815**
Share issue, net of issue costs	71	131,969	-
Dividends	-	-	(2,997)
retained profit for the period	-	-	4,146
BALANCE AT 1 JANUARY 2005	**233**	**186,704**	**2,964**
As originally reported	233	186,704	1,491
Prior period adjustment	-	-	1,473
Share issue, net of issue costs	-	49,779	-
Dividends	-	-	(1,473)
Share options	-	-	1,476
Retained profit for the period		-	11,413
BALANCE AT 31 DECEMBER 2005	**233**	**236,483**	**14,380**

*The prior year adjustment represents the reversal of the final 2004 dividend accrual following the change in accounting policy required by the adoption of FRS21 – Events after the Balance Sheet Date.

UNAUDITED HISTORIC SUMMARY

Balance sheet	12 months ended 31 December 2005 US$000	6 months ended 31 December 2005 US$000	6 months ended 30 June 2005 US$000
Non-current assets	268,378	268,378	238,861
Current assets	105,841	105,841	160,097
TOTAL ASSETS	**374,219**	**374,219**	**398,958**
Non-current liabilities	18,182	18,182	46,369
Current liabilities	101,716	101,716	99,934
Minority interests	282	282	338
Equity	254,039	254,039	252,317
TOTAL LIABILITIES AND EQUITY	**374,219**	**374,219**	**398,958**
PRODUCTION (OZ)	**165,486**	**101,737**	**63,749**

Profit and Loss Account			
Sales	75,955	47,704	28,251
Operating profit	(3,097)	(1,673)	(1,424)
Other gains and losses including interest net	(6,310)	(2,221)	(4,089)
Profit before taxation	(9,407)	(3,894)	(5,513)
Tax	2,233	3,672	(1,439)
Profit after taxation	(7,174)	(222)	(6,952)
Dividends	(1,473)	-	(1,473)
Retained earnings	(8,647)	(222)	(8,425)

Statistical			
Shares issued, average	153,012,018	150,618,363	150,618,363
EPS	(0.047)	(0.001)	(0.046)
Dividends per share	0.01	-	0.01
Dividend cover	(4.9)	-	(4.7)
Interest cover	(0.46)	(0.61)	(0.35)

RECONCILIATION OF MNV TOTAL CASH COST PER OZ TO FINANCIAL STATEMENTS

	12 months ended 31 December 2005 US$000	6 months ended 31 December 2005 US$000	6 months ended 30 June 2005 US$000
Cost of sales	66,605	41,210	25,395
Administration expenses	12,447	8,167	4,280
Depreciation, depletion and amortisation	(8,639)	(5,564)	(3,075)
Management expenses not related to production at MNV	(8,930)	(6,337)	(2,593)
Non cash adjustments (fair value, movement in provisions)	-	-	-
TOTAL OPERATING CASH EXPENSES INCLUDING PRODUCTION TAX	**61,483**	**37,476**	**24,007**
Operating cost other than gold production	(2,415)	(1,618)	(797)
Operating cost of Darasun mine	(14,643)	(10,885)	(3,758)
Silver credits	(319)	(190)	(129)
TOTAL CASH COSTS	**44,106**	**24,783**	**19,323**
OUNCES SOLD	**144,371**	**88,945**	**55,426**
TOTAL CASH COSTS PER OUNCE	**306**	**279**	**349**

6 months ended 31 December 2004 US$000	6 months ended 30 June 2004 US$000	6 months ended 31 December 2003 US$000	6 months ended 30 June 2003 US$000	6 months ended 31 December 2002 US$000
215,418	154,977	137,943	60,618	51,779
121,599	76,691	58,532	44,463	51,312
337,017	**231,668**	**196,475**	**105,081**	**103,091**
42,812	42,027	42,956	19,730	17,442
82,458	68,572	74,719	15,587	23,137
338	1,024	1,445	347	482
211,409	120,045	77,355	69,417	62,030
337,017	**231,668**	**196,475**	**105,081**	**103,091**
102,910	**96,986**	**103,866**	**90,133**	**87,281**

43,903	38,159	40,199	31,379	27,420
7,965	10,819	15,651	12,241	6,370
(2,042)	(2,513)	(2,757)	(503)	822
5,923	8,306	12,894	11,738	7,192
(7,400)	(1,818)	(3,337)	(3,246)	(1,840)
(1,477)	6,488	9,557	8,492	5,352
(1,199)	(1,798)	(1,658)	(1,105)	-
(2,676)	4,690	7,899	7,387	5,352

122,528,340	118,149,741	110,525,821	110,525,821	100,858,083
(0.012)	0.055	0.086	0.077	0.052
0.01	0.02	0.02	0.01	-
(1.2)	3.6	5.8	7.7	-
2.71	5.60	6.93	10.94	7.00

6 months ended 31 December 2004 US$000	6 months ended 30 June 2004 US$000	6 months ended 31 December 2003 US$000	6 months ended 30 June 2003 US$000	6 months ended 31 December 2002 US$000
29,010	22,800	19,662	15,738	17,751
6,928	4,540	4,886	3,400	3,479
(3,760)	(3,066)	(2,423)	(1,949)	(1,381)
(5,377)	(3,545)	(3,219)	(1,401)	(819)
(901)	-	2,103	-	(2,476)
25,900	**20,729**	**21,009**	**15,789**	**16,554**
(481)	(683)	(992)	(95)	(474)
(3,236)	-	-	-	-
(91)	(99)	(102)	(72)	(209)
22,092	**19,947**	**19,915**	**15,622**	**15,871**
101,258	**94,055**	**103,950**	**88,928**	**88,817**
218	**212**	**192**	**176**	**179**

GKZ RESOURCES AS AT 31 DECEMBER 2005

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland Gold Interest (%)	Ounces attributable to Highland Gold
MNOGOVERSHINNOYE	B+C1	5,822,000	10.0	1,818,000		1,818,000
	C2	2,198,000	10.7	729,000		729,000
	Total	8,027,000	10.2	2,547,000	100%	2,547,000
DARASUN COMPLEX						
Darasun	B	172,000	15.0	83,000		83,000
	C1	1,997,000	14.7	944,000		944,000
	C2	1,520,000	16.7	814,000		814,000
	Total Darasun	3,689,000	15.5	1,841,000	100%	1,841,000
Teremki	B	1,000	4.0	129		129
	C1	386,000	11.0	137,000		137,000
	C2	141,000	15.2	69,000		69,000
	Total Teremki	528,000	12.1	206,129	100%	206,129
Talatui	C1	3,022,000	8.6	831,000		831,000
	C2	851,000	8.6	234,000		234,000
	Total Talatui	3,873,000	8.6	1,065,000	100%	1,065,000
DARASUN COMPLEX	B	173,000	15.0	83,000		83,000
	C1	5,405,000	11.1	1,912,000		1,912,000
	C2	2,512,000	13.8	1,117,000		1,117,000
	Total	8,090,000	12.0	3,112,000	100%	3,112,000
NOVOSHIROKINSKOYE	B	680,000	9.1	199,000		192,000
	C1	5,200,000	5.1	857,000		827,000
	C2	3,480,000	3.3	370,000		357,000
	Total	9,360,000	4.7	1,426,000	96.5%	1,376,000
MAYSKOYE	C1	5,582,000	11.6	2,016,000		2,016,000
	C2	17,153,000	10.7	5,689,000		5,689,000
	Total	22,735,000	10.9	7,705,000	100%	7,705,000
TASEEVSKOYE	C1	7,111, 000	3.5	790,000		395,000
	C2	7,066, 000	2.8	627,000		313,000
	Total	14,177,000	3.1	1,417,000	50%	708,000
SREDNE-GOLGOTAYSKOYE	B+C1	471,000	16.7	253,000		126,500
	C2	175,000	12.1	68,000		34,00
	Total	646,000	15.4	321,000	50%	160,500
TOTAL				**16,528,129**		**15,658,629**

Resource Notes

1. All resources reported are approved by the Russian State Committee for Reserves (GKZ).
2. The Company does not include any "P" Category Russian Resources into its Resource Statement.
3. Estimates in the table are generally rounded to 3 significant figures.
4. Resources include mineable ore reserves.
5. All of the Resources included in the Annual Report have been approved by the Russian State Committee for Reserves (GKZ).
6. Novoshirokinksoye is a polymetallic deposit containing Gold, Silver, Lead, and Zinc in commercial quantities.
7. Mayskoye resources have been approved in December 2005 and includes out balance resources in the C1 and C2 categories.
8. Ounces means troy ounces.

RESERVES AS AT 31 DECEMBER 2005

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, Troy ounces	Highland Gold Interest (%)	Ounces attributable to Highland Gold
MNOGOVERSHINNOYE	B(Proven)	762,600	7.3	178,000		178,000
	C1(Probable)	6,255,700	7.7	1,549,000		1,549,000
	Total	7,017,300	7.7	1,727,000	100%	1,727,000
DARASUN COMPLEX:						
Darasun	C1	1,530,402	10.5	516,000		516,000
	C2	1,300,497	10.7	445,000		445,000
	Total Darasun	2,830,899	10.6	961,000	100%	961,000
Teremki	C1	168,289	9.9	53,500		53,500
	C2	63,834	9.9	20,000		20,000
	Total Teremki	232,123	9.9	73,500	100%	73,500
Talatui	C1	2,447,148	7.1	560,000		560,000
	C2	1,048,778	7.1	240,000		240,000
	Total Talatui	3,495,927	7.1	800,000	100%	800,000
DARASUN COMPLEX	C1	4,145,839	8.5	1,129,500		1,129,500
	C2	2,413,109	9.1	705,000		705,000
	Total	6,558,949	8.7	1,834,500	100%	1,834,500
NOVOSHIROKINSKOYE	B(Proven)	820,000	6.7	177,300		171,000
	C1(Probable)	4,700,000	4.5	673,700		650,000
	Total	5,520,000	4.8	851,000	96.5%	821,000
MAYSKOYE	C1+C2(Probable)	9,950,000	11.5	3,679,000		3,679,000
	Total	9,950,000	11.5	3,679,000	100%	3,679,000
TOTAL				**8,091,500**		**8,061,500**

Reserve Notes

1. Reserves are converted from Resources subject to mine planning and financial investigation and include estimates for dilution and losses.
2. Reserves for Mnogovershinnoye are based on a 1.0g/t Au cut-off grade for the open pit operations and 2.0g/t Au cut off grade for the underground operations.
3. Mayskoye Reserves include 5.4 million tonnes of C2 resources that have been cut from 16.9g/t to C1 grades of 15.1g/t, prior to allowing for dilution and losses.
4. Highland Gold Mining Limited have enlisted the services of Donald Earnest (Resource Evaluation Inc) and Mike Lechner (Resource Modeling Inc) from the United States to complete an audit of Taseevskoye, Darasun and Mnogovershinnoye, with the objective of reviewing current resource estimates, reviewing resource estimates that will be updated after incorporating new data, and performing reserve evaluations in accordance with JORC and Canada NI 43-101 standards. Because these audits are in progress, Mr Earnest and Mr Lechner are not able at this time to comment on or endorse the resources and reserves stated in this Annual Report.

MINERAL RESOURCES AS AT 31 DECEMBER, 2005 REPORTED IN ACCORDANCE WITH JORC

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, Troy ounces	Highland Gold Interest (%)	Ounces attributable to Highland Gold
MAYSKOYE	Measured	1,742,000	16.2	910,000	100%	910,000
	Indicated	5,151,000	9.9	1,643,000	100%	1,643,000
	Measured+Indicated	6,893,000	11.5	2,553,000	100%	2,553,000
	Inferred	15,020,000	9.9	4,769,000	100%	4,769,000
TASEEVSKOYE	Indicated	25,211,000	3.4	2,718,00	50%	1,359,000
	Inferred	4,774,000	4.2	645,000	50%	322,500

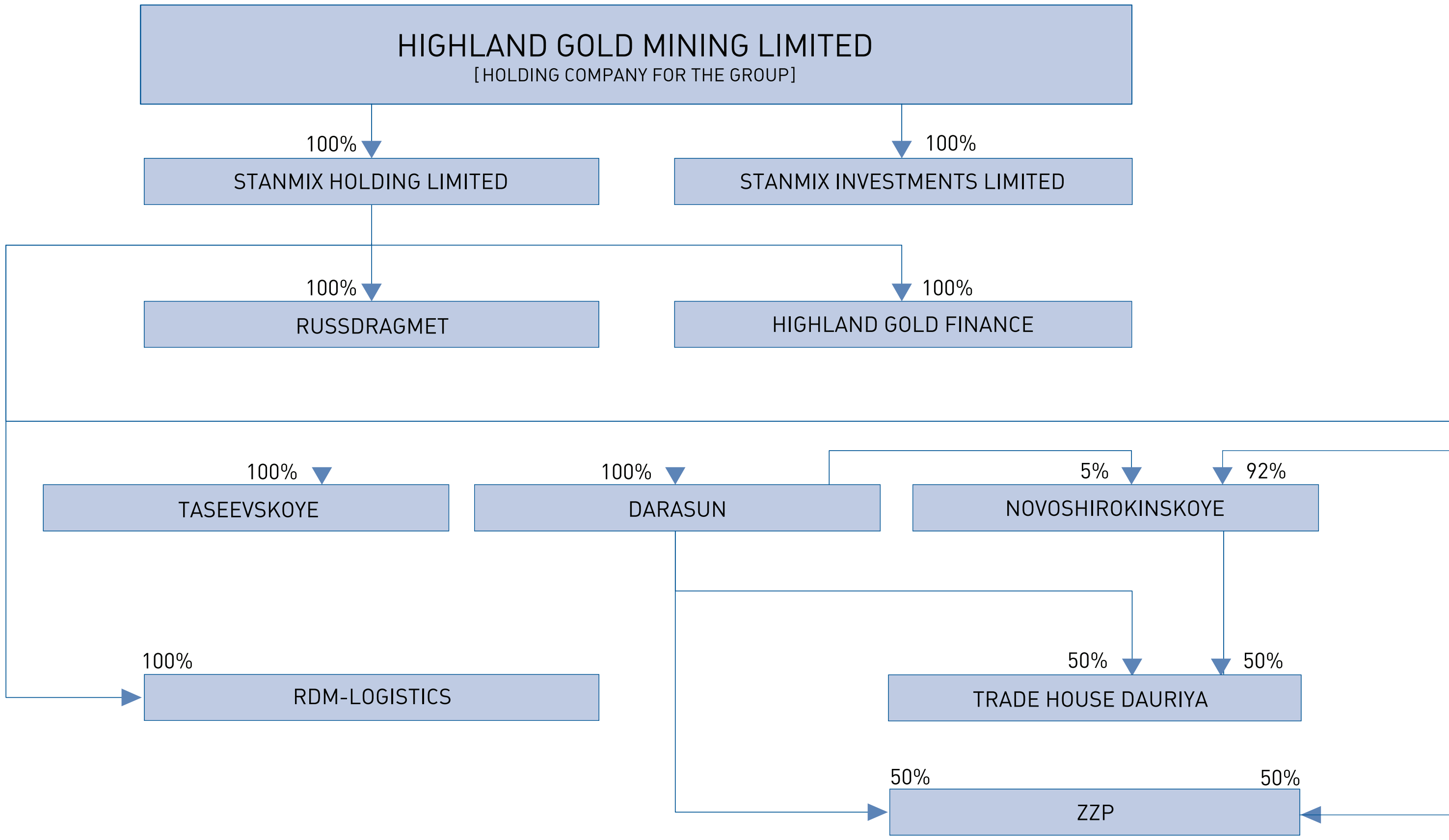
The resources reported in accordance with JORC include all data available at the time of the estimate. This includes the data set used for the GKZ resource and potentially additional data made available after approval of the GKZ resource. Consequently the GKZ resource should not be added to the resources reported above.

Micon Notes to Mayskoye JORC Resources

1. Mayskoye mineral resources have been prepared and classified following the guidelines of The JORC Code (2004 edition). The Competent person responsible for the mineral resource estimate is Stanley C. Bartlett, PGeo., Senior Economic Geologist and Managing Director of Micon International Co Ltd, Norwich, UK.
2. Gold mineral resources were estimated using a gold price of US$375 per ounce, metallurgical recovery of 85% and a cut-off grade of 5 g/t Au.
3. Measured mineral resources are defined as those resources that occur within 25 metres of between 2 and 5 borehole or channel composites. Indicated mineral resources are defined as those resources that occur within 50 metres of between 2 and 5 borehole composites. Inferred mineral resources are defined as those resources that occur further than 50 metres from the nearest borehole composite.

Snowden Notes to Taseevskoye JORC Resources

1. Taseevskoye mineral resources have been reported in accordance with the guidelines of The JORC Code (2004 edition). The Competent Person for the mineral resource reporting is Andrew F. Ross, FAusIMM (CP), PGeo., of Snowden Mining Industry Consultants Inc, Vancouver, Canada.
2. Mineral resources are reported at a cut-off grade of 1 g/t Au within a pit designed in 1997 by Snowden using a gold price of US$385 per ounce and metallurgical recovery of 86%.
3. The resource estimate is based on sampling conducted by the mine operators during the period 1940's to 1980's and by Armada Gold Corporation in the 1990's. Underground channel sampling occurred on drifts, cross-cuts and on levels of the former underground mine at a maximum spacing of 40 m and more frequently 20 m or less. Drilling by the mine operator during the period 1940's to 1980's was from both underground and surface, at basic intervals of 40 to 50 m on section and from 40 to 80 m down dip. The Armada drill holes from surface were also drilled along sections spaced at 40 m intervals.



Highland Gold Mining Limited holds 100 % of the equity share capital of the following companies:

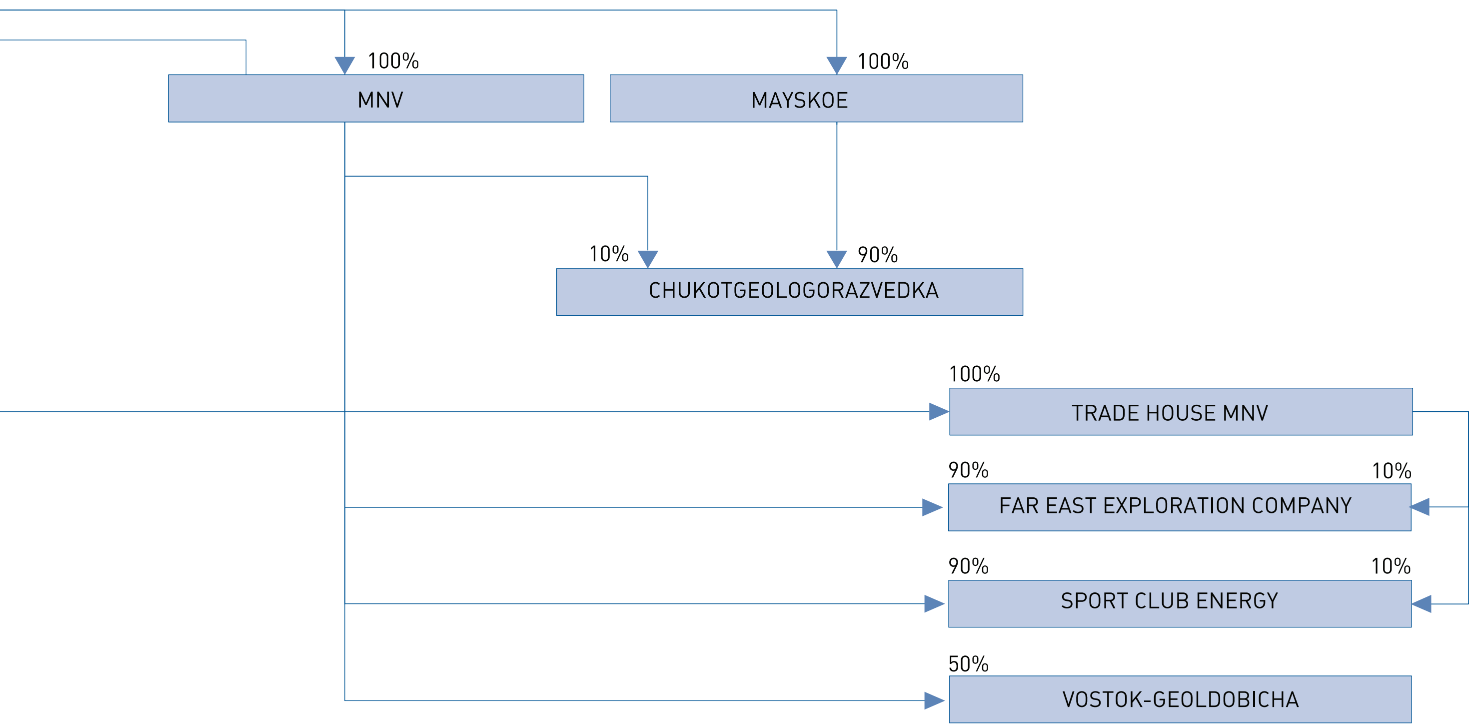
Name	Country of incorporation	Principal activity and place of business
Stanmix Holding Limited	Cyprus	Holding Company, Cyprus
Stanmix Investments Limited	Cyprus	Finance Company, Cyprus

Stanmix Holding Limited holds 100 per cent of the equity share capital of the following companies:

Name	Country of incorporation	Principal activity and place of business
OOO Russdragmet (RDM)	Russia	Management services, Moscow
OOO RDM-Logistics	Russia	Logistic services, Moscow
OOO Highland Gold Finance	Russia	Investment company, Moscow
ZAO Mnogovershinnoye (MNV)	Russia	Mining and mineral exploration, Mnogovershinnoye
OOO Darasun Rudnik (Darasun)	Russia	Mineral exploration, Darasun
OOO ZK Mayskoye (Mayskoye)	Russia	Mining and mineral exploration, Mayskoye
OOO Taseyevskoye	Russia	Mining and mineral exploration, Baley

MNV holds the following interests in the equity share capital of the following companies:

Name	[%]	Country of incorporation	Principal activity and place of business
OAO Novoshirokinskoye Rudnik (Novo)	91.63%	Russia	Mineral exploration, Novoshirokinskoye
OOO ChukotGeologoRazvedka	10%	Russia	Exploration, Pevek
ZAO Trade House Mnogovershinnoye (THM)	100%	Russia	Consumer durables for MNV employees
OOO SK "Energy"	90%	Russia	Sports club and hotel at MNV
OOO Zabaikalzoloto Project	50%	Russia	Project Engineering, Chita
OOO Far East Exploration Company	90%	Russia	Exploration, Khabarovsk
OAO Vostokgeoldobycha	50%	Russia	Exploration, Khabarovsk



Darasun holds the following interests in the equity share capital of the following companies:

Name	[%]	Country of incorporation	Principal activity and place of business
OAO Novoshirokinskoye Rudnik (Novo)	4.88%	Russia	Mineral exploration, Novoshirokinskoye
OOO Trade House "Dauria"	50%	Russia	Consumer durables for Darasun employees
OOO Zabaikalzoloto Project	50%	Russia	Project Engineering, Chita

Novo holds the following interests in the equity share capital of the following companies:

Name	[%]	Country of incorporation	Principal activity and place of business
OOO Trade House "Dauria"	50%	Russia	Consumer durables for Darasun employees

Mayskoye holds the following interests in the equity share capital of the following companies:

Name	[%]	Country of incorporation	Principal activity and place of business
OOO ChukotGeologoRazvedka	90%	Russia	Exploration, Pevek

Trade House MNV holds the following interests in the equity share capital of the following companies

Name	[%]	Country of incorporation	Principal activity and place of business
OOO Far East Exploration Company	10%	Russia	Exploration, Khabarovsk
OOO SK "Energy"	10%	Russia	Sports club and hotel at MNV

DIRECTORS

James Havelock Cross
(Non-Executive Chairman)

Ivan Koulakov
(Deputy Chairman)

Henry Horne
(Managing Director)
(appointed 13 February 2006)

Denis Alexandrov
(Finance Director)
(resigned 1 May 2006)

Duncan Antony Hilder Baxter
(Corporate Affairs Director)

Christopher David Palmer-Tomkinson
(Non-Executive and Senior Independant Director)*

Timothy Charles Wadeson
(Non-Executive Director)**

David Glanville Fish
(Non-Executive Director)***
(appointed 1 February, 2005)

Alexander John Davidson
(Non-Executive Director)
(appointed 18 April, 2005)

Dmitri Korobov
(Managing Director)
(resigned 12 February, 2006)

Gennady Nevidomi
(Production Director)
(resigned 2 August, 2005)

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

HEAD OFFICE AND REGISTERED OFFICE

26 New Street
St Helier
Jersey JE2 3RA

COMPANY SECRETARY

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

NOMINATED ADVISER AND BROKER

JP Morgan Cazenove
20 Moorgate
London EC2R 6D8

AUDITORS TO THE COMPANY AND GROUP

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

SOLICITORS TO THE COMPANY

as to English Law
Cobbetts
Ship Canal House
King Street
Manchester M2 4WD

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

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

BANKERS

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

REGISTRARS

Capita IRG Offshore Limited
Victoria Chambers
Liberation Square
1-3 The Esplanade
St Helier
Jersey JE4 0FF

TRANSFER AGENT

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

* Chairman of both the Remuneration Committee and Nominations Committee
** Chairman of the Health, Safety and Environmental Committee
*** Chairman of the Audit Committee

SHAREHOLDER INFORMATION

SHAREHOLDING STRUCTURE AT 24 APRIL 2006

Stock Information

Listing sector/ticker	HGM.L			
Number of shares in issue	160,104,793			
Market capitalisation	US$884,883,180			
	Last updated at market closing 24 April, 2006 with £1=US$1.78			
Price high/low	High	7 February, 2006	£3.32	US$5.83
	Low	3 August, 2005	£1.48	US$2.60
Liquidity	Average daily volume in 2005 380,000 (380,000 - 2004)			
	(excluding OTC trading)			

FINANCIAL CALENDAR

Post 2005 Annual Report	12 May 2006
Annual General Meeting	07 June 2006
2006 Interim Announcement	September 2006
2006 Interim Report and Accounts	October 2006

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Highland Gold Mining Limited (the Company) will be held on Wednesday, 7 June 2006 at 26 New Street, St Helier, Jersey JE2 3RA at 12.00 pm to transact the following business;

ORDINARY BUSINESS

1. To receive and adopt the Report of the Directors, the Audited Financial Statements and Auditor's report for the year ended 31 December 2005.
2. That Ivan Koulakov who retires by rotation as a Director of the Company be re-elected.
3. That Henry Horne who retires as a Director of the Company be elected.
4. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting.
5. That the Directors be authorised to fix the Auditor's remuneration.
6. That in accordance with Article 19 (3) of the Company's Articles of Association, the aggregate remuneration of all non-executive directors in any twelve month period, or pro-rata for any lesser period, shall not exceed £500,000.

By Order of the Board
Duncan Baxter
Director
25 April 2006

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice.
2. The form of proxy, the power of attorney or other authority (if any) under which it is signed or an office or notarially certified copy of it, should be lodged with the Transfer Agents, Capita Registrars (Proxies), PO Box 25, Beckenham, Kent BR3 4TU, no later than 48 hours before the time fixed for the holding of the meeting.
3. Completing and returning a form of proxy will not prevent a member from attending the meeting and voting in person should he so wish.
4. Director's 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.


Горизонт 700 м.

Highland Gold Mining Limited
26 New Street
St. Helier, Jersey JE2 3RA
Registered № 83208