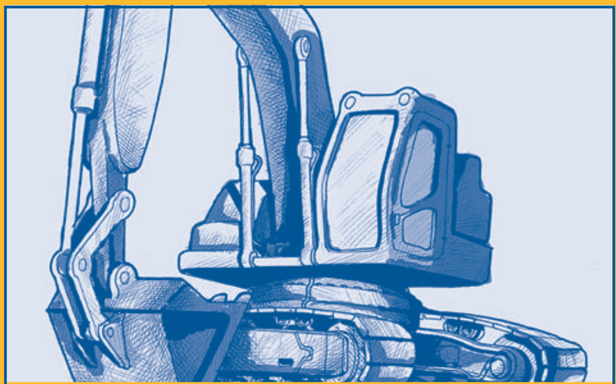
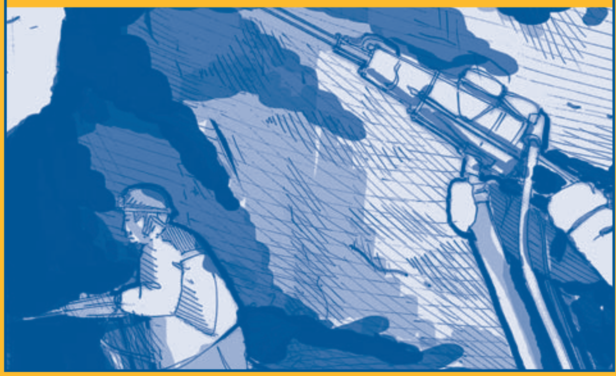
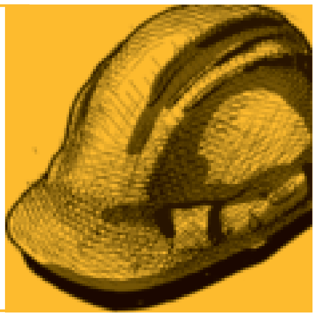


HIGHLAND GOLD MINING LIMITED ANNUAL REPORT & ACCOUNTS 2007



REALISING OUR POTENTIAL

HIGHLAND GOLD'S VISION IS TO
SAFELY BECOME THE MOST PROFITABLE
GOLD MINING COMPANY
FOCUSED ON RUSSIA AND CENTRAL ASIA,
WHILE BALANCING THE NEEDS OF THE COMMUNITIES
WE OPERATE IN AND OUR EMPLOYEES.



HIGHLAND GOLD MINING LIMITED

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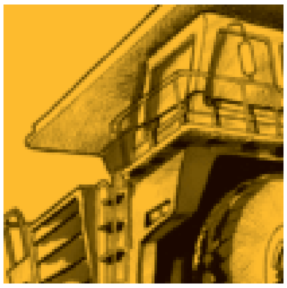
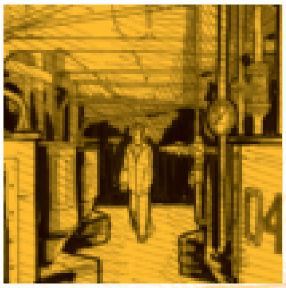
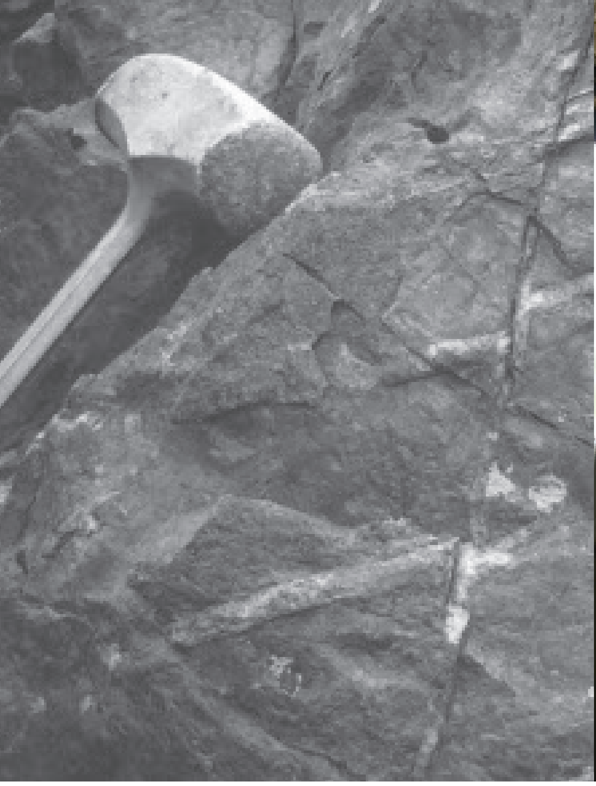
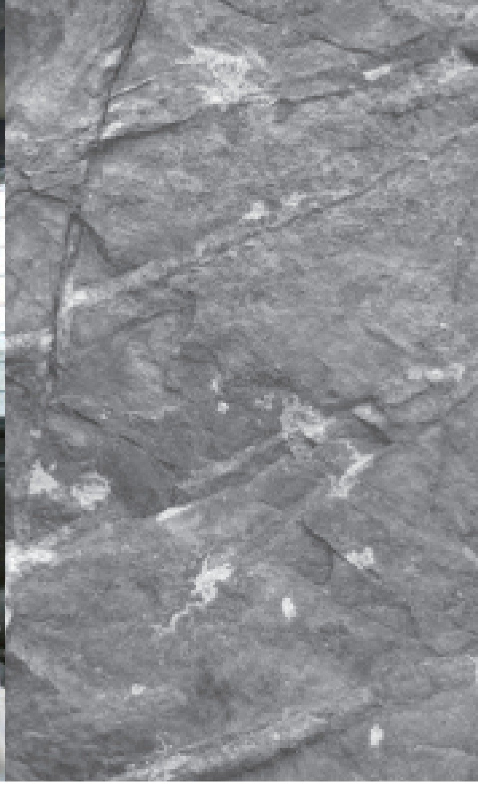
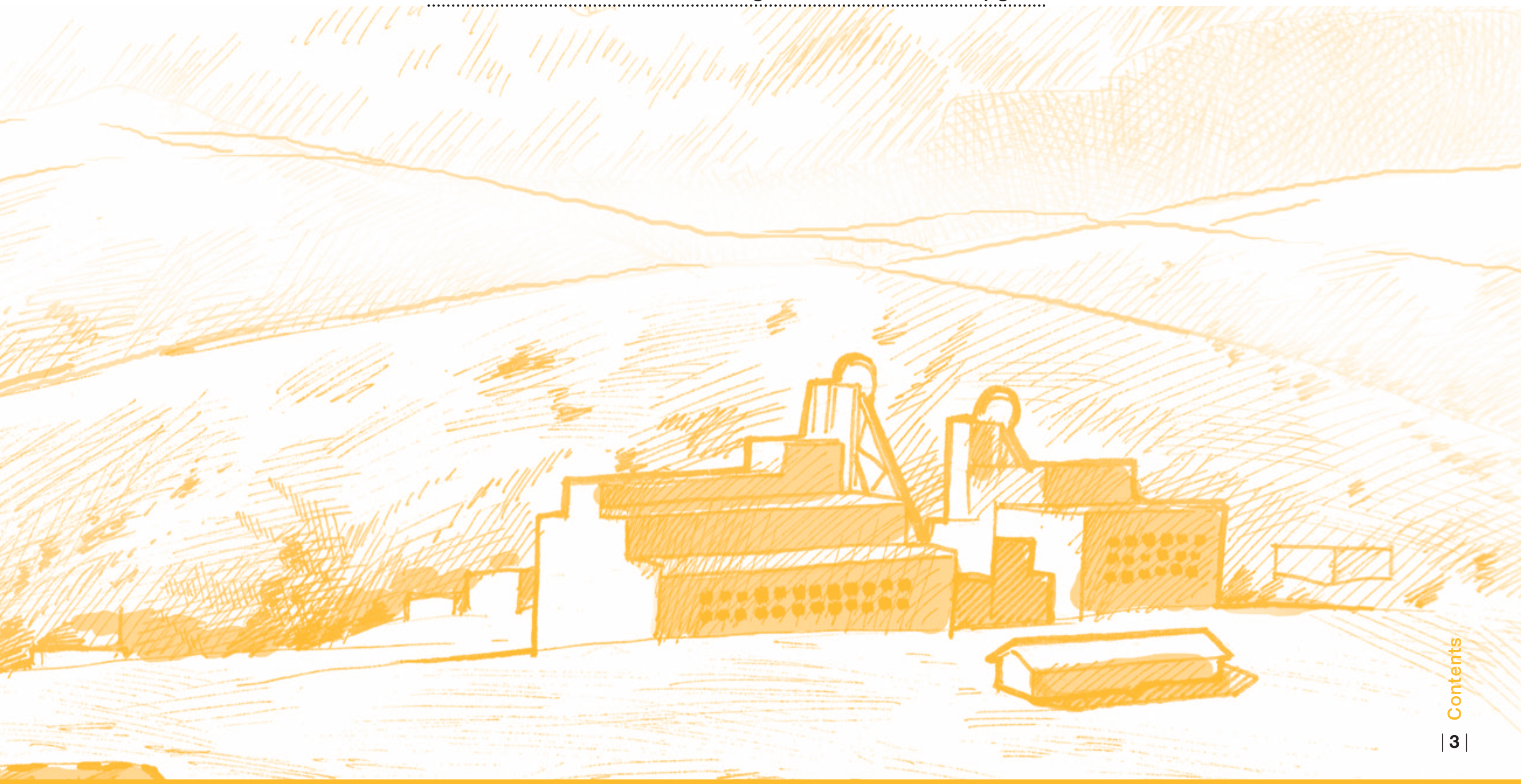


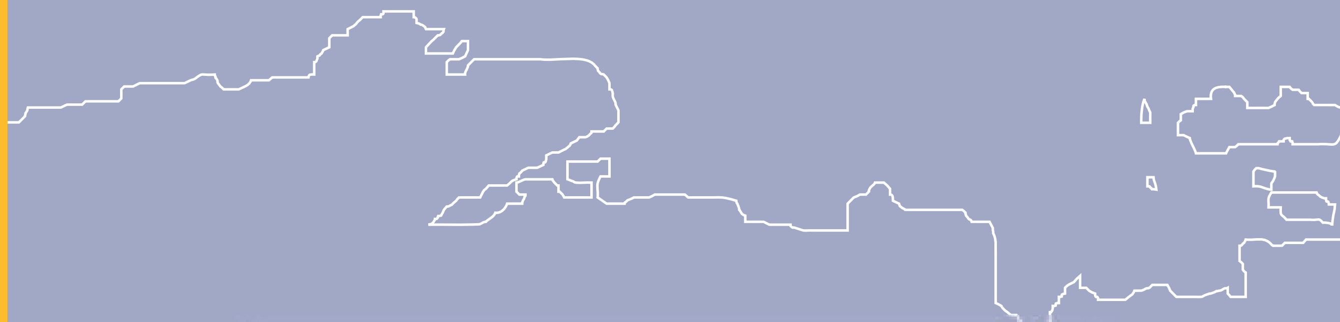








THE YEAR IN REVIEW

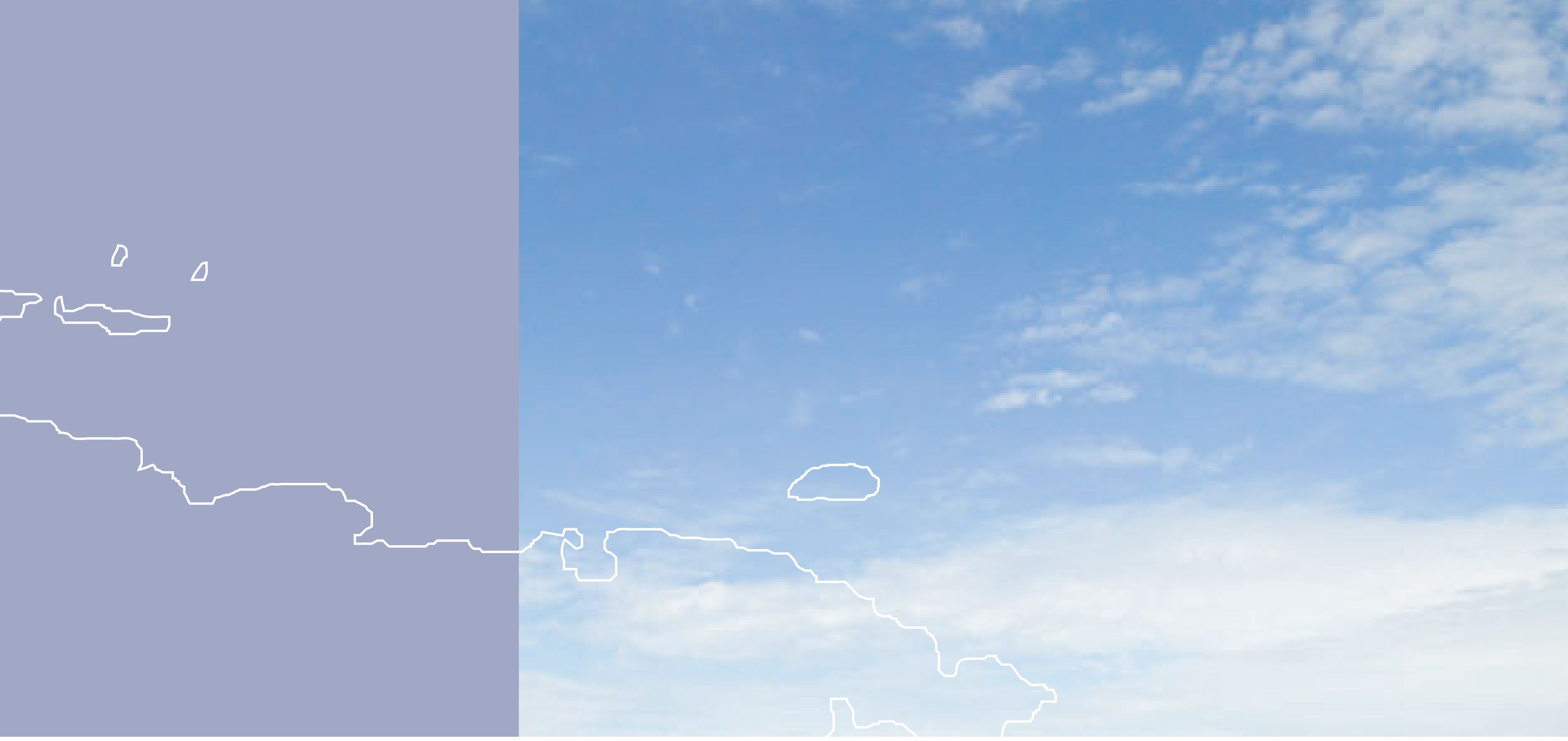


KEY FINANCIALS

IFRS, US$000 (unless stated)[1]	2007	2006
Production (oz)	156,474	151,146[2]
Total cash costs	480	402
Turnover	112,100	91,980
Profit before tax	17,417	25,141
Profit from continuing operations	12,216	13,629
Profit (loss) from a discontinued operation	5,883	(108,518)
Profit (loss) for the year	18,099	(94,889)
Earnings (loss) per share (US$)	0.091	(0.587)
Net cash outflow from operations	(30,198)	(2,321)
Capital expenditure	68,603	38,911
Net cash flow (outflow)	179,699	(1,994)

[1] For comparison consistency the table presents only results from continuing operations.

[2] Production only at MNV.



KEY EVENTS '07

- Mnogovershinnoye (MNV) produced 156,474 ounces of gold in 2007, an 3.5% increase from 2006
- Millhouse LLC becomes a new major shareholder owning 40%
- Taseevskoye pre-feasibility study completed
- Successful debt refinancing – US$120 million new low cost credit facilities
- Operational and advanced engineering audits completed at MNV and Novoshirokinskoye (Novo)
- Novo and Mayskoye licences successfully extended
- Darasun divestment completed
- Encouraging exploration results at Belaya Gora

POST YEAR END

- Mayskoye feasibility study completed and awaiting Board review and approval

GOALS '08

- Commissioning of Novoshirokinskoye in Q4 2008
- Continued investment in the optimisation of production at MNV
- Taseevskoye feasibility study to commence in H1 2008
- Advanced drilling programme at Belaya Gora, Lyubov and Unkurtash

STRATEGIC AND OPERATIONAL PROGRESS ON ALL FRONTS

At the outset of 2007 the Board set the management team a number of objectives, which, amongst others, included:

- Restructuring and expanding the Company's banking lines of credit
- Optimising operations at our producing property Mnogovershinnoye
- Further developing Novoshirokinskoye, Mayskoye and Taseevskoye
- Accelerating our exploration activities utilising the highly experienced staff acquired by Highland following the increased participation of Barrick

We achieved these goals through hard work and outstanding contributions from the Highland Gold staff and Barrick Gold secondees.

STRONG PARTNERS

In December 2007 we concluded a deal whereby Millhouse LLC subscribed in cash for a total of 130,100,000 Ordinary Shares amounting to 40% of the increased capital of the Company and with proceeds amounting to approximately US$400 million.

Millhouse LLC is a Moscow-based asset management company overseeing investments in a variety of industries including mining and metallurgy, real estate, consumer products and media. Assets under management include a significant stake in the steel and mining major, Evraz Group, and a majority interest in the Dvoinoe gold project. Millhouse LLC is a management company with a proven track record of developing large industrial companies. This transaction gives the Company sufficient capital in the medium term for the development of Mayskoye and Taseevskoye and to meet its 50% contribution towards its joint venture with Kazzinc at Novoshirokinskoye.

Through our strategic alliances with Millhouse LLC and Barrick Gold, Highland Gold is now well positioned to achieve its long term objectives. Barrick Gold has been a significant partner in Highland Gold since 2004. In December 2006 we extended our collaboration with them to take advantage of their strengths as a world-leader in building and operating mines. Combining their technical expertise with our own world-class assets and experience in the Russian gold-mining sector has allowed us to increase the efficiency of our current operations and accelerate our development projects. Furthermore, our alliance with Kazzinc at Novoshirokinskoye, who have extensive experience with polymetalic plant operations, enables Highland Gold to maximise the potential of this mine.

MINING ENVIRONMENT IN RUSSIA

During 2007 Russia experienced yet another year of sustained economic growth. Although inflation increased, the macro-economic environment in Russia continued to improve. Russia continues to benefit from high oil and gas prices and initial indications are that the new political leadership favours a more open and efficient economy.

Highland Gold was successful in extending two of its mining licences during 2007 – those of Novoshirokinskoye and Mayskoye. On behalf of the Board and Management I wish to extend our thanks to the Federal and Regional Government officials for supporting and processing our applications in a timely and efficient manner. Highland Gold continues to strive to develop projects in

remote locations in Russia thereby creating new job opportunities and improving the social infrastructure. The Russian Government requires strict compliance with extensive regulations covering such areas as legal, technological, environmental, labour and safety aspects of mining. Our Company is making every effort to ensure full compliance with both the spirit and the letter of these regulations.

RESULTS

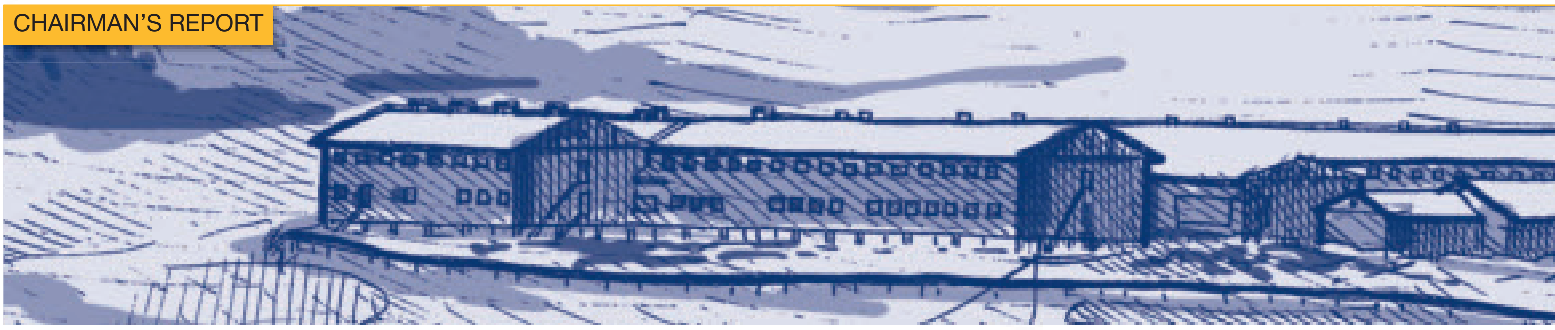
Profit from continuing operations was US$12.2 million. Profit from the discontinued operation at Darasun in 2007 was US$5.9 million. During 2007 we disposed of OOO Darasunsky Rudnik, the owner of the Darasun, Teremky and Talatui mines in the Chita Region of Russia, which was sold for total cash proceeds of US$15 million. US$10 million was received in 2007, while the second tranche of US$5 million was received by the Group in the first quarter of 2008.

In 2007 we are reporting a higher turnover of US$112.1 million as compared with US$92.0 million in 2006 – a reflection of our 'no hedge' policy which allowed the Group to fully participate in stronger gold prices. In 2007, the Group sold 150,427 ounces of gold at an average price of US$708 per ounce.

Highland Gold continued to advance its development project pipeline investing US$68.6 million in capital expenditures (US$38.9 million in 2006) comprising US$15.5 million at Mayskoye, US$18.3 million at Novoshirokinskoye (representing our 50% share) and US$7.0 million at Taseevskoye. In addition to our development project pipeline, the Group invested expenditures of US$19.2 million at MNV and US$8.6 million in advancing the Company's exploration assets and other entities in the Group.

As at 31 December 2007 cash and short term deposits were US$211.3 million while the net debt position of the Group was positive at US$34.9 million. During the year Highland Gold completed significant debt restructuring whereby US$120 million in new financing facilities were raised through two large Russian banks comprising a US$60 million facility with MDM Bank and two facilities with GazpromBank of US$30 million each. In the first quarter of 2007 the Group utilised US$30.7 million of these new funds to complete the early repayment of the Commerzbank Syndicated Loan Facility.

After the year end, the Group made an early repayment of the US$15 million short term loan received from Gazprombank in 2006, and fully repaid the Rouble corporate bond in the amount of US$31 million. This restructuring has extended the effective maturity profile of all of Highland Gold's corporate banking facilities to late 2010 and 2011.



PRODUCTION

We have had a successful year at our main production site, Mnogovershinnoye (MNV), where total gold production for 2007 was 156,474oz Au. This was within the forecast range for the year and includes a strong fourth-quarter performance with 67,143oz of gold recovered.

In 2007 we spent US$19.2 million on capital expenditure at MNV in addition to transferring much of the mobile production equipment from Darasun to the mine. We look forward to this investment continuing to bear fruit through the coming years.

DARASUN

In August 2007 we completed the sale of the Darasun mine to the Uzhuralzoloto Group of Companies for a total consideration amounting to US$15 million.

The fire at Darasun was the most tragic event in Highland's history and a charitable trust has been created which will benefit the children of the deceased employees of the Company. We have received substantial contributions to the charity and I wish to thank all the donors concerned.

PROJECT DEVELOPMENT

We made good progress during the year at our three key development sites.

Novoshirokinskoye. We are on track to commission the mine during the fourth quarter of 2008. With our joint venture partner, Kazzinc, detailed engineering for the process plant and the rest of the project has been completed. Once Novoshiokinskoye is in operation, we estimate that production will be in the order of two tonnes per annum of gold equivalent. With by-product credits we expect production costs to be competitive.

Mayskoye. The feasibility study has been completed and will be submitted for review by the Board. The study is centred on an underground operation that will feed an 850,000 tonne per year flotation plant and a Biomin Biox leach plant. During 2007 the mining license for Mayskoye was successfully extended and now stipulates operational start-up by 31 December, 2010.

Taseevskoye. A pre-feasibility study was completed and work on the feasibility study will start in 2008. Work is continuing with the Chita Regional Government and the local community on resettlement plans which are required to enable the development of the mine.

In total some US$41 million was invested in these three projects during 2007.

EXPLORATION

As part of the alliance with Barrick Gold, Highland Gold acquired an experienced exploration team that had been operating in Russia for many years. Our exploration efforts were appreciably increased as a result and, at our most advanced exploration projects, we completed some 22,000 metres of drilling. The overall result corroborated the strong development potential of these projects. In July 2007 we were able to publish promising results from the diamond drilling programme at Belaya Gora ("White Mountain"). This prospect is close in proximity to MNV which greatly enhances its development potential.

Full details of the exploration programmes at our various sites are contained further on in this report and we intend to significantly increase the budgeted capital expenditure on exploration during 2008.

HEALTH AND SAFETY ENVIRONMENT

Safety in our operations, and protecting the environment and the wellbeing of the communities in which the Group operates, continue to be a priority. The Group is committed to conducting business in an accountable and transparent way, reflecting the interests of all stakeholders who may be affected by our activities. In so doing, it demands honesty, integrity and responsibility from those who carry out its affairs. It seeks to ensure that the human rights, customs and values of its employees and those affected by its activities are respected, that information about Group activities is properly communicated and that environmental matters are properly considered. I can confirm that we have made real progress in achieving our goals in these areas during 2007 and later in this report we comment more fully on our activities in this regard.

CHANGES TO THE BOARD

Following the conclusion of the successful transaction with Millhouse LLC, who now has an interest of 40% in the Company, and in accordance with the terms of the agreements with them and with Barrick Gold Corporation who, following the transaction, still has a 20% interest, it was decided that the Board should comprise nine directors, all of whom are non-executive. At present it is agreed by the Board that we have ten members, three Millhouse LLC appointed directors, two from Barrick and five independent directors. Any further changes to the Board will be advised to the market as they occur.

Millhouse LLC nominated Eugene Shvidler, Eugene Tenenbaum and Olga Pokrovskaya as directors and we were pleased to welcome them to the Board as non-executive directors with effect from 28 January, 2008. With the tragic death of David Fish in December 2007, it was important to consider the replacement for Chairman of the Audit Committee. I am pleased to advise that Terry Robinson, who has extensive experience in resource businesses, has agreed to become a non-executive director and Chairman of the Audit Committee with effect from 25 April, 2008. Ivan Koulakov has stepped down from his role as Executive Deputy Chairman, but continues as a non-executive director.

We have set ourselves a priority to utilise the management expertise of Millhouse LLC in examining and restructuring the head office and regional office functions of the Company. This exercise will form part of a critical examination of our general and administrative expenses in order to ensure that the overall level of these expenditures is competitive within the industry.

Henry Horne, Managing Director, and Scott Perry, Finance Director, stepped down from the Board on 28 January, 2008, on which date Scott Perry also left the Company. In addition Duncan Baxter, Corporate Affairs Director, stepped down on 29 April, 2008 following agreement that the Board should comprise only non-executive directors. Rene Marion who was Chief Operating Officer from 1 January, 2007 resigned from the Company on 25 October, 2007. Both Henry Horne and Duncan Baxter remain part of the executive.

I would like to take this opportunity to thank the past and present Board members for their contribution to the success of the Company in 2007 and I look forward to working with the new Board in developing our strategy going forward.

Lastly, we wish to record the sad passing of our director David Fish, in December last year. David made an outstanding contribution to the Board of the Company by ensuring that our Audit Committee conformed to the highest possible professional standards. He will be sorely missed by us all.

SUMMARY

Highland Gold has the financial resources as well as the technical, operational and managerial expertise to maximise production from its MNV mine and to take significant steps towards realising the potential of its development and exploration assets.

Through its strong partnerships with Millhouse LLC, Barrick Gold and Kazzinc, the Company is now able to achieve its long held ambition to become a significant gold mining company focusing on Russia and Central Asia – and to achieve this safely whilst respecting the environment and the communities in which it operates.

Lastly, I would like to thank our Managing Director and all of our employees for their continued dedication and contribution as well as take this opportunity to thank all of our shareholders for the loyalty shown to us during this very important year for our Company.

James Cross
Chairman

MINE LOCATIONS


ARCTIC OCEAN
East Siberian Sea
Chukchin Sea
Sovinoye
Mayskoye
Provideniye
Anadyr
Magadan
Bering Sea
Maya-Inikan
MNV
Belaya Gora
Iska
Khabarovsk
Petropavlovsk-Kamchatsky
NORTH PACIFIC OCEAN
Operating Mine
Development Project
Exploration Project
Sea of Japan

2007: STRONG PRODUCTION, ADVANCED DEVELOPMENT, EXCITING POTENTIAL

Our operational priorities during 2007 were to ensure that our producing mine was working to its maximum capacity, to harness the potential of our development projects and to ensure that we have a strong pipeline of potential sites for development going forward. All of these objectives require technical skills and strong management to achieve, so I would like to start by talking about our people.

OUR PEOPLE

The benefits of our closer collaboration with Barrick Gold in Russia were realised in full in 2007. Since Barrick Gold first began to work with us in 2004, adding their valuable technical expertise and experience to our own established team, we have worked together jointly to achieve the goals set by the Board of Directors. Of particular importance were the contributions made by our joint operational and financial managerial teams.

Subsequently new key appointments have taken place:

John McDonough joined the Company as Chief Operating Officer on 3 December, 2007. He graduated from the Colorado School of Mines with a PE in Geological Engineering. John started his professional life in 1973 as a tunnel geologist at the Henderson Mine in Colorado. Since 1985 John has been with Barrick Gold working as General Manager of the Goldstrike Mine in Nevada for 8 years. In 1994 he was promoted to the position of Corporate Vice President, Environment, which he held for 10 years until in 2004 when he was appointed Regional Vice President for the Chile/Argentina Business Unit of Barrick Gold based in Santiago. His most recent position was Corporate Vice President, Engineering/EIT (Engineer-In-Training) in Barrick's Corporate Office in Toronto.

Bella Panina was appointed Director of Internal Audit and Risk Management of the Company on 29 January, 2008. She graduated from the Moscow Management Institute and has been working in accounting and internal and external audits since 1993. Her career has been associated with such companies as Deloitte & Touche, Yunikon, Sibneft and Millhouse. In 2003 Bella was elected a Member of the State Duma of the Russian Federation where she dealt with tax and financial legislation issues.

Eugene Kolos was appointed Managing Director of RDM Logistics on 1 February, 2008. He graduated from the Kazan High Military School and has been working in warehousing, logistics and supply chain management since 1999. Prior to joining the Highland Group, Eugene headed the Russian-American supply chain management company Wilson Eurasia. Before that he held a number of senior positions in logistics in Russian oil companies Slavneft and Sibneft.

Tatyana Breeva joined the Company as Chief Financial Officer on 1 April, 2008. She obtained her degree in accounting from the Plekhanov Academy in Moscow. During 1990-1996, she worked in the Moscow office of Deloitte & Touche and after that as Deputy Chief Accountant for the Sovmortrans shipping company. In 1997 Tatyana joined the Russian oil major Sibneft as Director of Internal Audit, then in 1999 she was appointed Chief Accountant. From 2001 to 2007 Tatyana held the position of Vice President Finance and member of the Board of Directors of Sibneft/Gazpromneft.

We are grateful to Nina Leonova, Head of Corporate Finance, who acted as CFO pending Ms. Breeva's appointment.

As at 31 December, 2007 the Highland Gold Group employed a total of 2,890 employees compared to 3,019 at the end of 2006.

CORPORATE & SOCIAL RESPONSIBILITY

Our main contribution to the regions where we operate comes in the form of taxes which we pay to local, regional and federal authorities. Since we conduct our business in remote and predominantly underdeveloped areas of Russia's Far East and Eastern Siberia, these payments represent an important influx of capital for the local governments and, in the long run, affect positively the quality of local life. This involvement lays the foundation for good and constructive relations with the authorities on all levels and provides stability in our business planning.

Beyond this contribution, we also undertake additional social development programmes to maximise the net benefit to local residents.

Although we divested our Darasun mine in October 2007, we continued to implement the Darasun community development programme which includes such initiatives as local heating infrastructure repairs, purchase of modern equipment for the local hospital, playground construction and others. A competition for grants organised by the Company allowed for more than twenty local initiative groups to secure financing for projects aimed at addressing the most pressing community issues such as road safety, juvenile delinquency, and lack of recreation opportunities.

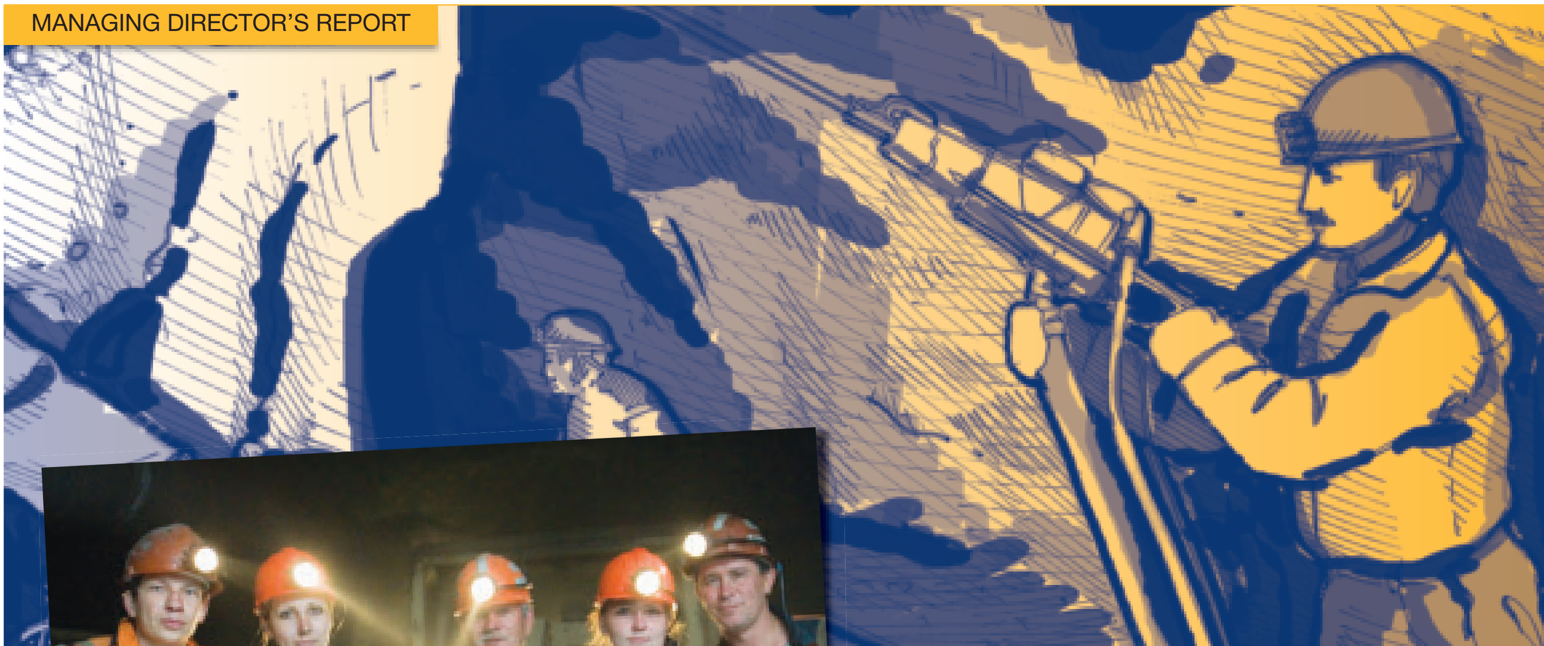
At our Taseevskoye project site in the Chita region, we continued to expand our community development programme aimed at mobilising the local community's capacity to tackle various social and economic issues. We implemented this programme in cooperation with the United States Agency for International Development.

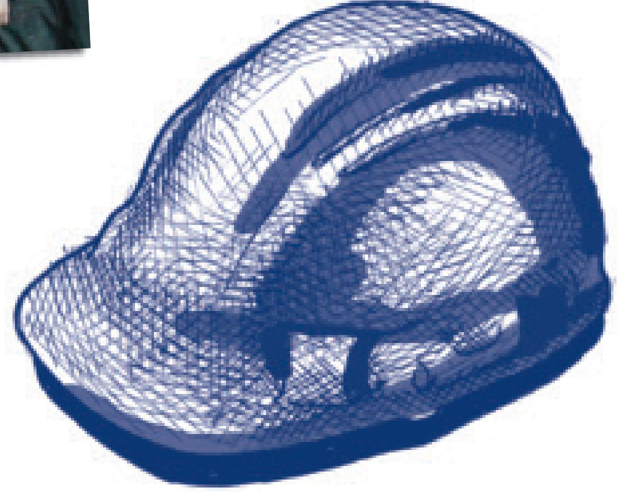
At the Novoshirokinskoye site, we repaired the local kindergarten which allowed it to double its capacity and assist families where both parents work. Significant contributions were also made to the improvement of local health services.

Our activity in the Chita region brought the Company recognition from the Chita Regional Social Forum, where all significant local non-governmental organisations, charities and civic groups were represented. In October 2007 the Forum gave an award to Highland Gold for work in the social sphere.

Strong financial and operating performance enables us to increase our participation in the development of the communities where we conduct our operations. In the Nikolaevsk district of the Khabarovsk region, where our producing mine Mnogovershinnoye is located, we contributed to road repairs, purchase of road equipment and a number of other initiatives. We were also able to support initiatives at the regional level in addition to pursuing local activities.

Another important dimension is the personal involvement of our employees in the delivery of community programmes. In 2007 Highland Gold employees privately contributed to a number of community and charitable initiatives in Darasun, Baley, Novoshirokinskoye, Mnogovershinnoye and Moscow.





HEALTH, SAFETY & ENVIRONMENT

We were able to further improve on our safety awareness campaign which had a very positive impact throughout the Group during 2007. The lost time incident (LTI) frequency rate (the LTI frequency rate is calculated as a number of LTI's for every 200,000 man hours worked) was 0.46 representing a 29% improvement over the annual target of 0.65. The achieved rate was also significantly better than our performance in 2006. For three consecutive months during 2007, all sites of the Group had zero LTI's. Two sites of the Group – Mayskoye and Taseevskoye achieved zero LTI's during the entire course of 2007.

Despite these positive achievements, it is with deep regret that we announce three fatalities which occurred in 2007 and 2008. On 8 August, 2007 there was a fatal underground accident at Mnogovershinnoye involving a load-haul-dump machine operator. On 9 January, 2008 at the Novoshirokinskoye mine a raise miner was fatally injured while carrying out his working duties. On 5 April, 2008, also at Novoshirokinskoye, a repairman suffered a fatal wound when struck by equipment. Investigations into the root causes behind these three accidents were carried out with the participation of the state regulatory authorities. Actions are being implemented to prevent such accidents in the future at all mine sites of the Group.

As planned, we bolstered the strength of our site personnel in the Health & Safety Departments by adding two specialists at Novoshirokinskoye, one at Mnogovershinnoye and one at Mayskoye.The Company's Safety Award Programme has been put into action to recognise outstanding safety performance by sites and individuals.

Our approach to safety is an ongoing commitment to excellence. We will continue to place an emphasis on the safety training of site personnel in the form of our Field Level Risk Assessment Programme, fire training and drills, safe driver training and basic first aid training courses.

Another priority for the Company is to protect the environment and minimise our impact on it.

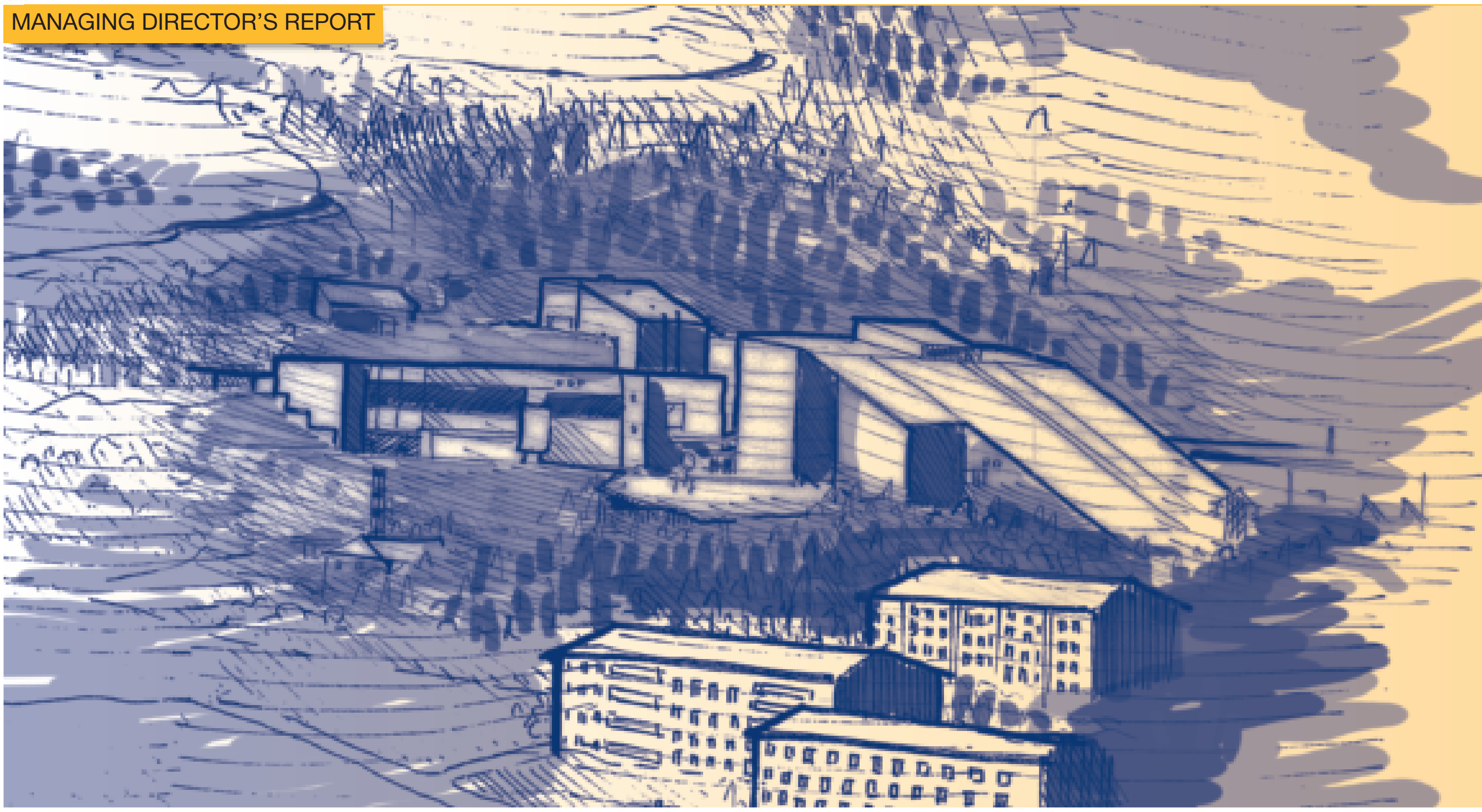
At Mnogovershinnoye, an environment management system is in place to protect the quality of air, surface and ground water and soil. There were no environmental related reportable incidents at the mine in 2007. Waste water recirculation reached 90.4%. Data obtained by the certified MNV Analytical Laboratory shows no negative impact on the environment of cyanide-containing reagents used at the plant. This is confirmed by systematic inspections of the regulating authorities. Various other environmental protection initiatives were developed and implemented. Among them was the strengthening of the tailings dam; start of the construction of the Central ore body shaft water treatment facilites as well as treatment facilities for mine flood waters at adit №11 and in the area where the transport shops are located. During the year, the surface area disturbed by the Southern ore body open pit was successfully reclaimed.

At Novoshirokinskoye, permits covering the period of mine construction were obtained for emissions of polluting agents and disposal of production wastes. Work on the commissioning and certification of the environmental control laboratory is underway.

At Mayskoye, an environmental monitoring programme was developed and approved by the federal authorities. An Environmental Impact Assessment which is being conducted to international standards is in progress and is due to be completed in the second quarter of 2008.

At Taseevskoye, the first public hearings took place to discuss the terms of the Environmental Impact Assessment for the mining project and the village resettlement plan. A baseline survey to determine the potential impact of the Taseevskoye development project on the environment is underway.

In 2007 we accomplished 130 internal environmental inspections compared to 115 in 2006. 120 managers and specialists of the Company attended various Environmental Protection and Safety Training courses.



MNOGOVERSHINNOYE (MNV)

At our MNV mine, 2007 was a year when we successfully implemented a whole series of short and long term initiatives to improve efficiency and reduce costs.

MNV MINE DEVELOPMENT

These initiatives were identified early in the year as part of a detailed operational review and optimisation audit (ORT). Their successful implementation contributed to a significant increase in production quarter-on-quarter throughout the year. These initiatives included:

- the recapitalisation and optimal mining sequencing of the mines;
- an upgrade of the processing facility in order to increase the grinding circuit capacity by splitting it into two trains and increasing the mine's processing throughput by 25%;
- modifications to the resin regeneration facility which reduced the time for resin regeneration from 200 hours to less than 50 hours;
- installation and commissioning of a gravity circuit (Knelson concentrators and flotation cells) which allowed the coarse gold to be recovered prior to the RIL circuit. Results thus far have shown the circuit to be effective in capturing as much as 30% of the total contained gold, which in turn allows greater residence time of the remaining fine gold in the RIL circuit leading to higher overall recoveries;
- an upgrade of the open-pit and underground mobile production fleets;
- commissioning of a centralised warehouse and mobile equipment maintenance shop.

MNV's total gold production for 2007 was 156,474 oz, which was within the forecast range, and which constitutes an improvement on the 2006 production figure of 151,146 oz.

Production Costs. Operating costs at the MNV operation were US$432 per ounce, which is a 19.6% increase compared to 2006 of US$361 per ounce. This increase was attributable to higher maintenance expenses, as well as increased unit costs, which were predominantly associated with higher energy, material and manpower costs. These cost pressures, along with higher royalties due to the stronger gold price, raised our total cash costs to US$480 per ounce, as compared to US$402 per ounce in 2006. Total production costs were US$533 per ounce, as compared to US$458 per ounce in 2006.

Capital Costs. During 2007, the Company invested US$19.2 million at Mnogovershinnoye. This included US$14.7 million for the purchase of additional production equipment, in particular equipment for the open pit (US$5.1 million for loaders, dozers, trucks), underground (US$3.3 million for loaders, drill rigs, multipurpose vehicles) and processing (US$1.1 million for Knelson concentrators and crushing and grinding equipment). US$4.5 million was spent on construction works at the site.

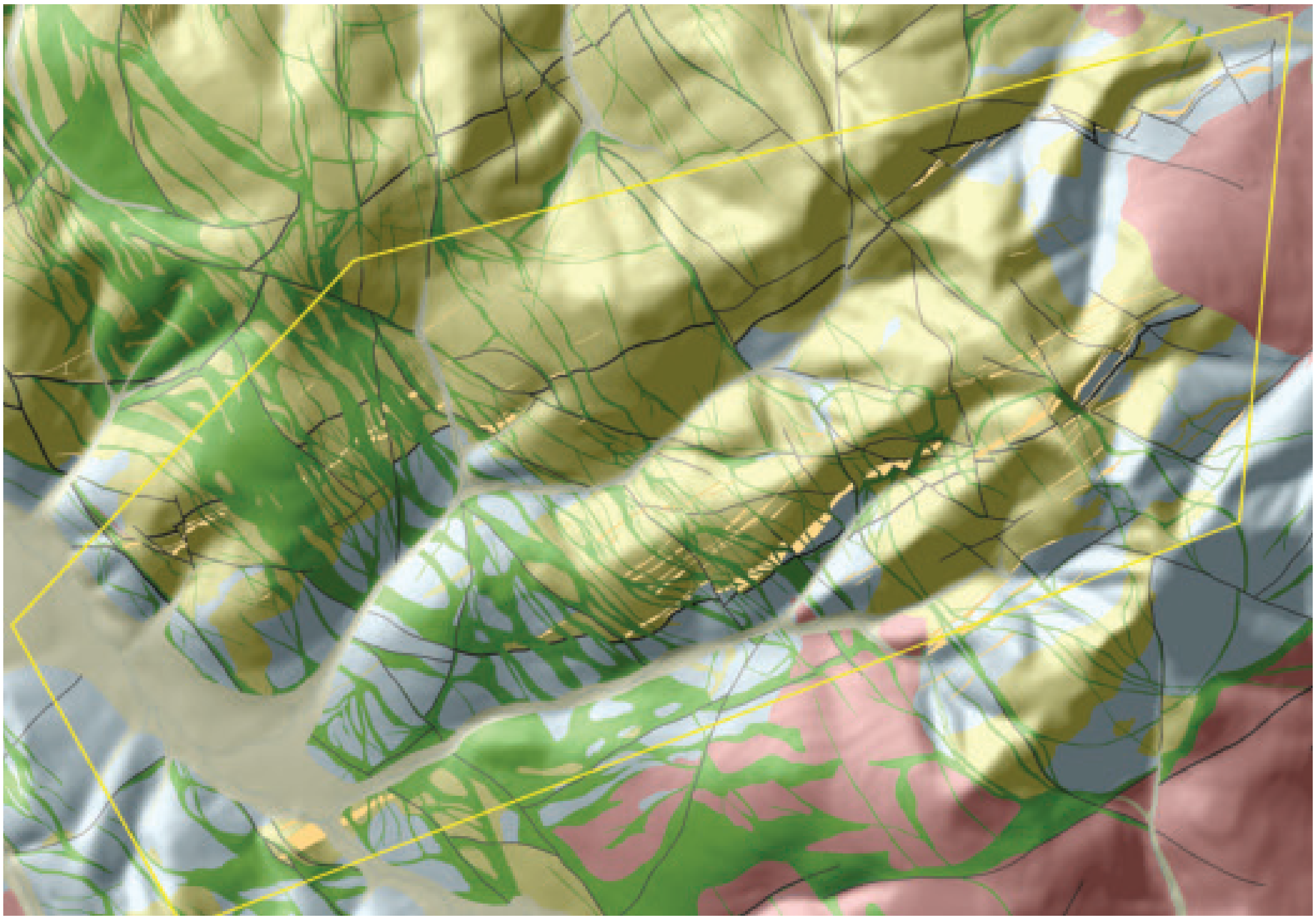
Outlook. In 2008, we will continue work to maximise the production potential at MNV by implementing additional upgrades to the processing facility. This will include the installation of a third thickener to increase gold recovery and reduce reagent consumption, and further improvements to the absorption and regeneration circuits.

Our production target for the mine in 2008 is in the range of 155,000-165,000 oz.

MNV OPERATIONS SUMMARY

	Unit	2007	2006
Mine development			
Open pit/waste stripping	000 M^3	**1,986**	1,468
Underground	Metres	**9,799**	8,338
Ore mined			
Open pit	Tonnes	**485,147**	389,036
	g/tonne	**6.81**	6.24
Underground	Tonnes	**600,439**	407,836
	g/tonne	**4.16**	5.57
Total ore mined	Tonnes	**1,085,586**	796,872
	g/tonne	**5.35**	5.90
Ore processed	Tonnes	**977,139**	933,569
	g/tonne	**5.54**	5.52
Includes from stockpile	Tonnes	**144,328**	136,697
	g/tonne	**3.09**	3.30
Recovery rate	%	**89.84**	91.18
Gold produced	Ounces	**156,474**	151,146

MNV licence area



DEVELOPMENT PROJECTS

NOVOSHIROKINSKOYE (NOVO)

The Company is on track to commission Novoshirokinskoye by the end of 2008. We continue to work with our joint venture partner Kazzinc to optimise production and sales opportunities at the site. Detailed engineering for the process plant and all other parts of the project has been completed. All equipment for the plant has been ordered and installation is proceeding as equipment arrives at the site.

The main contractor has a full work force on site and has completed work on a number of infrastructure facilities, including buried services, power distribution, explosives magazine, phase one permanent accommodation, temporary construction camp, mine rescue complex, standby power generation, potable water supply, and heating plant.

A total of 22,594 metres of surface diamond drilling and 8,265 metres of underground core drilling were completed in 2007. An updated block model will be completed in the second quarter of 2008 after all assays have been received and the geologic model has been made.

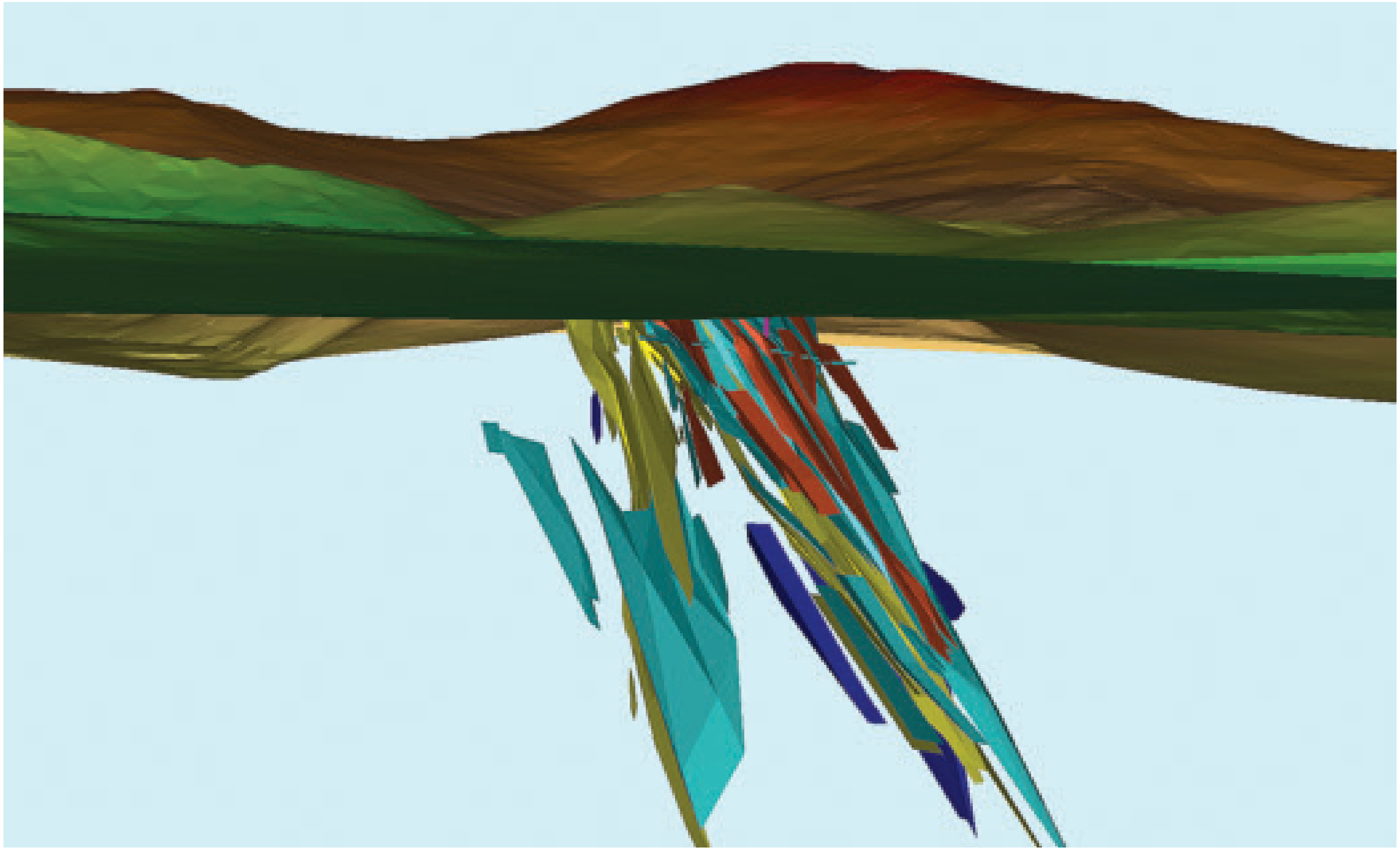
The site began underground re-development work in July 2007 on three production levels. As planned, 3,630 metres of level development and 250 metres of raise development were completed in 2007. Development work began in January 2008 on the production adit.

Capital Costs. We invested US$18.3 million at Novoshirokinskoye in 2007 representing our 50% share. This comprises US$4.6 million of development operating costs (salaries, electricity, fuel, safety and overheads), US$4.3 million for exploration and survey, design and engineering, as well as US$9.4 million spent on construction and on the purchase of production equipment.

Outlook. Besides the work currently underway and mentioned above, earth work on the tailings and water storage dams is also underway, and the tailings pipe line, collector lines, and water return lines are currently being installed. Ore processing is scheduled to commence during the fourth quarter of 2008.

The focus underground in the first half of 2008 will be upon the refurbishment of the skip shaft and the ore handling systems. In the meantime the cage shaft is being used to hoist development waste. The mine currently has 300 employees working underground and stoping is expected to begin in the second quarter of 2008. Underground definition drilling will continue during 2008 with three drills in operation.

Novo 3D view



MAYSKOYE

Feasibility study for Mayskoye was completed in late March.

The study is centred on an underground operation that will feed an 850,000 tonnes per year flotation plant and a Biomin Biox leach plant. Basic engineering has been completed and contractor Aker Kvaerner has commenced detailed engineering on the process plant. GOT (Magadan) has commenced detailed engineering on the infrastructure.

Subject to Board approval of the study, construction is scheduled to commence after the opening of the ice-free navigation season in the second half of 2008.

During 2007 the mining licence for Mayskoye was successfully extended and now allows for operational start-up to be scheduled for December 2010.

Infill drilling continued throughout the year with a total of 21,855 metres of diamond drilling completed with three rigs active. Assays are currently being carried out at Alex Stewart Laboratories in Moscow, and an update to the resource model will be completed during the first half of 2008. Rehabilitation of the existing underground facilities commenced in the second half of 2007, with approximately 180 metres of adit re-commissioned during the year.

Capital Costs. We invested US$15.5 million in 2007 at Mayskoye. The major items included US$10.5 million of development costs (salaries, electricity, fuel, mine infrastructure and overheads), US$0.6 million spent on design and engineering, and US$4.4 million related to the drilling programme and samples preparation, construction work at the site and the purchase of equipment.

Outlook. Final surface capping of the all-season access road is expected to be completed in May 2008, after which the earth-moving equipment will be mobilised for the site preparation works. Plant and infrastructure foundation work is expected to begin in the second half of 2008.

The first set of mining equipment (LHD and twin-boom jumbo) has been ordered and underground development will commence in July 2008 upon their delivery. Additional mining equipment has been ordered for delivery late in the year. Orders have also been placed for other long lead-time items (SAG mill, diesel power generators).

TASEEVSKOYE

The pre-feasibility study was completed and work on the feasibility study will start in 2008.

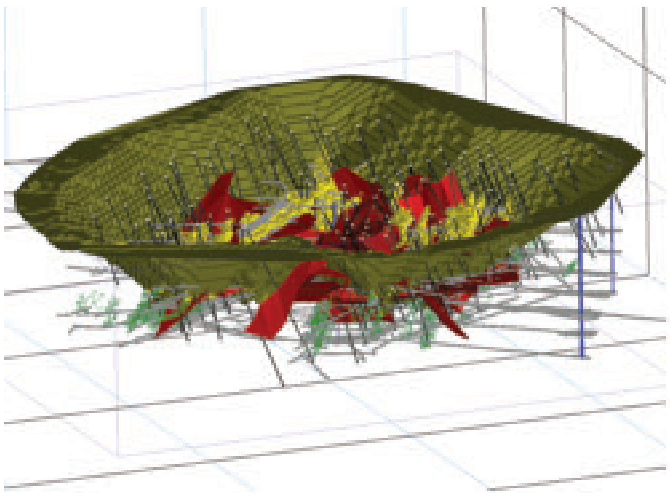
The 9,053 metre drilling programme for 2007 at the Taseevskoye deposit, including 1,568 metres drilled from the frozen pit lake, was completed.

The resource block model was updated during the fourth quarter of 2007 and was used as the basis for an internal pre-feasibility study that was completed by the end of the year. Findings from this study will be used as the basis for a feasibility study to commence in the third quarter of 2008. Additional metallurgical testwork focusing on Leach Oxidation is being undertaken at SGS Lakefield Laboratories in Chita.

The baseline environmental study programme has started and the first public hearings regarding the Resettlement Action Plan (RAP) were held.

Capital Costs. We invested US$7.0 million at Taseevskoye in 2007. The bulk of these expenses were the US$2.4 million which covered development operating costs (salaries, electricity, fuel and overheads). In addition, US$3.3 million was spent on the drilling programme, assaying, geotechnical and hydrological studies and environmental monitoring. The remainder of US$1.3 million includes design and engineering, construction works at the site and purchase of equipment.

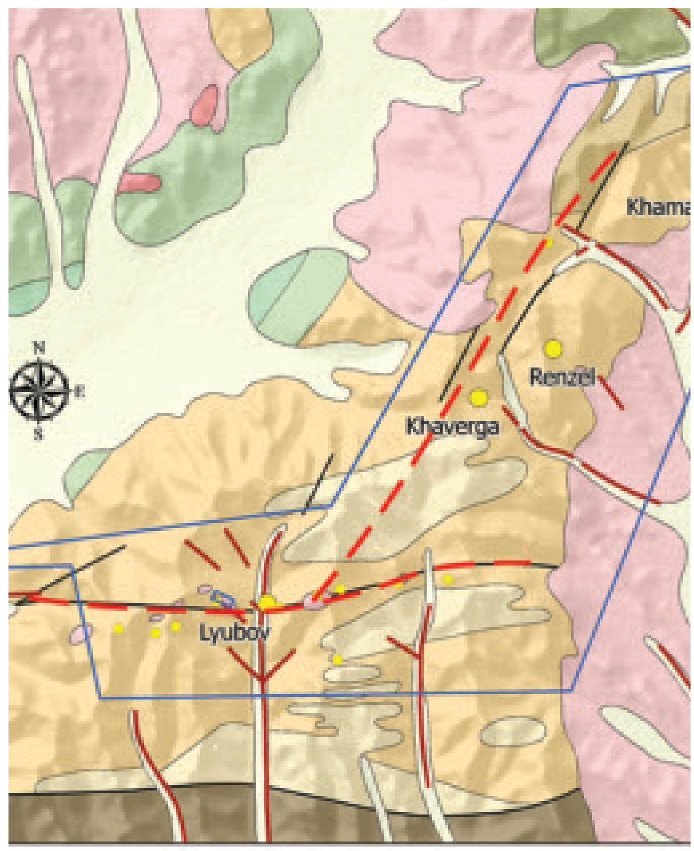
Outlook. A cutoff study will be submitted to GKZ in the first quarter of 2008, followed by the technical design by the end of the year. The focus will also be on completing the Environmental Impact Assessment and Resettlement Action Plan, as well as metallurgical and hydrological studies. The project work on the feasibility study will commence in the third quarter of 2008 and is expected to be completed in the second quarter of 2009.



Taseevskoye 3D view

EXPLORATION

With a substantially increased budget of US$7.5 million allocated to exploration in 2007 we stepped up our commitment to exploration projects, underscoring our intent for growth through exploration. At our most advanced exploration projects we completed a total of 22,000 metres of drilling as planned and received overall positive results corroborating the strong development potentials of these projects. Through the acquisition of the Iska licence in mid-2007 we added a new high-potential, grass-root property to our growing exploration portfolio which remains focused on bulk-mineable gold deposits for low-cost open-pit operations in the vicinity of our existing operations. For 2008 we will accelerate our exploration efforts further. This will include a total drilling programme of 30,000 metres including resource-definition drilling at our three advanced exploration properties and drill testing at our Mnogovershinnoye mine.



BELAYA GORA, Khabarovsk region

The success of the 2007 exploration programme at Belaya Gora made it our most advanced exploration project and it is now nearing the development stage. During the year, we completed a 13,000 metres drilling programme at the two targets Pologaya and Stockwork. Positive assay results confirmed the geological models of a flat-lying resource at Pologaya and a steeply-dipping vein-veinlet system at Stockwork and corroborated the property's potential currently estimated within the (C1+C2) Russian reserve category at 22 million tonnes grading 1.68 g/t of gold. These ore deposits are expected to be mineable as open pit operations. Metallurgical test work on two 300 kg samples was also initiated and preliminary results point to high recovery rates by gravitation alone. A cut-off grade study with a preliminary reserve calculation was started in the second half of the year and will be submitted for state approval by year-end 2008 as set out in the licence agreement. Including sampling, assaying and cut-off grade study, we spent a total of US$4.5 million on the 2007 exploration programme at Belaya Gora.

Outlook. For 2008 we have scheduled an additional 7,500 metres of resource definition drilling due for completion by the end of the second quarter. A pre-feasibility report which will include a report on preliminary reserves and a cut-off grade study will be compiled and submitted for state approval (GKZ) by year-end 2008 as set out in the licence agreement. While this will mark a major milestone towards development of Belaya Gora, we will continue exploration drilling in order to fully exploit the mineral potential of the property. Additional metallurgical test work will be carried out during the year.

LYUBOV, Chita region

The 2007 exploration programme at Lyubov amounted to an expenditure of US$1.2 million and focused on two targets, the Lyubov gold trend in the south and the Khaverga ore field in the north of the licence area. Along the Lyubov gold trend, we completed a 3,500 metres drill testing programme at several prospects which we had pinpointed in 2006 as most promising. At the Evgraf prospect, we successfully identified a wide zone of stockwork-type gold mineralisation which hosts a potential resource of (C1+C2)+P2 category of 28 million tonnes grading 1.5 g/t of gold, based on drilling results from previous explorers and our own results to date.

At the Khaverga ore field, our 2007 geochemical soil-sampling survey revealed a 4 km long and 1.5 km wide zone of distinct gold anomalies with gold grades of 0.03-8.0 g/t occurring within unconsolidated sediments. The geochemical anomalies spatially coincide with a favourable geological setting in a regional fracture zone which is also evident in our geophysical survey work in the area. The promising results at Khaverga warrant follow-up work and indicate a gold mineralisation potential comparable to that of the Lyubov trend.

In 2007, we also initiated the return of the Malo-Fedorovsky licence, a small sublicence within the Lyubov property. As reported previously, our 2006 exploration results did not conform to the officially quoted resource parameters and did not warrant further exploration on this licence.

Outlook. For 2008, an additional 9,500 metres of diamond drilling is planned on the Evgraf zone and its western extension in order to delineate the zone's overall potential for hosting a multi-million ounce resource of gold mineralisation. At the Khaverga area, a trenching and sampling programme is planned for 2008 to delineate targets for follow-up drilling.

UNKURTASH, Kyrgyzstan

In 2007 we completed 3,500 metres of large-diameter reverse circulation drilling which concluded the preliminary stage of geological exploration at the Unkurtash deposit and the adjoining Sarytube and Karytube prospects. Based on these results the overall mineral potential has been estimated and the type and volume of future exploration works formulated in a new "Exploration Project" in line with State requirements. Accordingly, widespread gold mineralisation occurs in parallel zones of steeply dipping stockworks which form an elongated belt 4,000 metres long and 250-500 metres wide with a vertical extent of at least 350 metres which is revealed in drilling and underground data. Extrapolating from the most explored areas, the results of our own, and previous, works indicate a multi-million ounce potential grading 1.5 g/t of gold. A total of US$0.74 million was spent in 2007 for the Unkurtash drilling programme.

Outlook. The 2008 exploration programme allocates a total of 12,000 metres of reverse circulation and core drilling for potentially delineating resources of 60 tonnes of gold of C1+C2 category and 120 tonnes of P1 category.

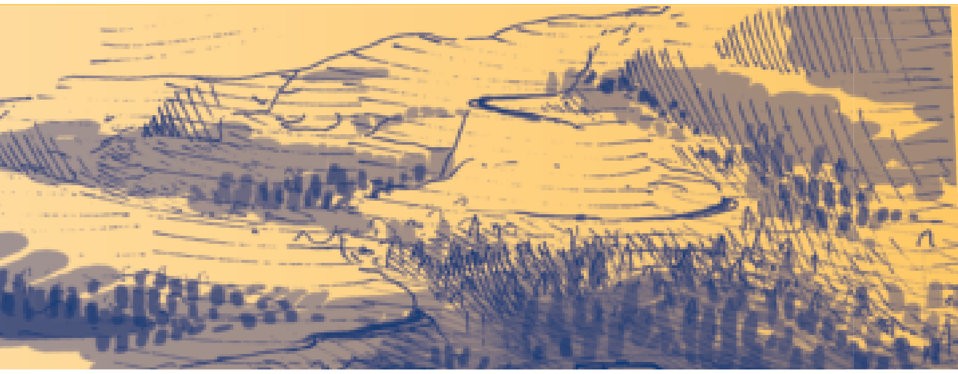
MNOGOVERSHINNOYE, Khabarovsk region

In 2007 we initiated a programme for near-mine exploration at Mnogovershinnoye with the objective of both replacing and adding reserves in order to substantially extend the mine life. We re-evaluated local geology and previous exploration results and identified high potential for discovery of additional zones of continuous gold mineralisation mostly in between the underexplored areas of already known ore zones.

Outlook. A multidisciplinary exploration programme is planned along three exploration profiles, while in 2008 it will include geophysical surveys and 4,000 metres of drill testing at selected areas.

ISKA, Khabarovsk region

In the course of an open auction, we acquired for US$75,000 the 920 km Iska licence located only 20 km to the south of our Belaya Gora property. Iska features strong geological similarities with Belaya Gora and several occurrences of known gold prospects underline the good potential of this property. In addition, the presence of an alunite deposit with gold showings and specific alteration style indicates a good potential for hosting a high-sulfidation



type gold deposit. Archive work with digital compilation and analysis of previous data has been started and per regulatory requirement a new “Exploration Project” is being formulated.

Outlook. For 2008 we have planned a multidisciplinary exploration programme, including geophysical and geochemical surveys and selected trenching of promising prospects on the property in order to delineate drilling targets.

SOVINOYE, Chukotka region

We concluded the Phase-I 2,800 metres drilling programme during the year which tested a 1.2 sq km gold-mineralised zone with a reported vertical extent of more than 300 metres within the hinge region of a large fold at central Sovinoye. Samples were prepared at our facilities at Mayskoye and to date 80% of samples have been analysed. The results indicate stockwork-type gold mineralisation in the 1 g/t range down to a depth of 250 metres. We expended US$0.7 million in 2007 on the drilling programme at Sovinoye.

Outlook. Final assay results and evaluation of results are expected by the end of Q1 2008. If warranted, a 3,000 metres Phase-II drilling programme aimed at testing grade and continuity of the main mineralised zone to the north and to the south could commence later in 2008.

MAYA & INIKAN, Khabarovsk region

In 2007 we received 2,200 fire assays from our 2006 grass root exploration programme which included a stream-sediment geochemical survey over the entire licence area. The programme successfully yielded new exploration targets with a well defined geochemical gold anomaly covering a 60 sq km area including one area of 15 sq km. These results highlight the potential for a genuine new discovery on a geologically highly prospective property.

Outlook. The main anomaly of 15 sq km is to be explored by 1:25,000 scale geochemical soil-sampling and geophysical surveys and geological mapping while the wider anomaly covering 60 km sq is to be mapped and sampled on the 1:50,000 scale.

SARASA, Altay region

As announced previously, the Sarasa licence, a 400 sq km grass root property originally acquired through Barrick, does not support further exploration and therefore the licence was returned to the state in 2007.

CONCLUSION

We are proud of the enormous progress made in 2007 and view it as a significant year in proving that the strategy we put in place a few years back was appropriate and was one that has increased the strength of the Company. The improved production profile at MNV, the increasing pace of preparatory work for the commissioning of our development projects and the considerably expanded exploration activities are all proof of this.

The key to long-term sustainable value creation for Highland Gold lies in the Company’s ability to bring its development projects into profitable production as soon as possible. With Novo’s commissioning by year end, we will have taken a positive step in this direction and we look forward to commissioning Mayskoye, Taseevskoye and also Belaya Gora within the near future.

The solid base for our future development remains our people. We have strong confidence in our employees and their ability to develop the Company further. We believe in their talent, professional skills and devotion to the Company. Our success in 2007 would not have been possible without the unified efforts of each and every member of our highly motivated team. I would like to thank the Board, my Management team and all employees for their continued contribution and unified support through a very challenging but rewarding year in the development of the Company.

Henry Horne
Managing Director

STRONGER FINANCIAL POSITION

The Group's financial statements for the year ended 31 December, 2007 have been prepared in accordance with IFRS as adopted by the European Union. As the Group publishes comparative information in its financial statements, the date for transition to IFRS was 1 January, 2006, this being the start of the earliest period of comparative information presented. The group previously reported under UK GAAP and the Group's financial statements have now been restated from UK GAAP to comply with IFRS.
The most significant elements contributing to the change in financial information for 2006 are:

- the write-off of the negative goodwill on transition to IFRS to the retained earnings;
- recognition of deferred tax liabilities on the fair value adjustments arising in the prior business combination and recognition of deferred tax liabilities arising on the retranslation of fixed assets arising in groups' Russian subsidiaries whose functional currency is different from their tax currency;
- recognition of additional gain arising on the disposal of group's 50% share in Novoshirokinskoye ("Novo") as a result of the decrease in the net assets of Novo on conversion to IFRS;
- change in the treatment of derivative financial instruments; and
- change in the treatment of the joint venture.

The financial information for the full year ended 31 December 2006 is based on the statutory accounts for the year ended 31 December 2006, restated for the effects of adoption of IFRS. Those statutory accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Turnover for the Group in 2007 was US$112.1 million compared with US$92.0 million in 2006. The increase was due to our 'no hedge' policy which allowed the Group to fully participate in stronger gold prices resulting in our realised gold price appreciating by 15.7 % which was the key reason for the increase in turnover by US$20.1 million.

In 2007, the Group sold 150,427 ounces of gold at an average price of US$708 per ounce compared with 161,018 ounces of gold sold in 2006 at an average price of US$612 per ounce.

In 2007 profit for the year was US$18.1 million where profit from continuing operations was US$12.2 million. Profit from the discontinued operation at Darasun was US$5.9 million. Our 100% share in OOO Darasunsky Rudnik, owner of the Darasun, Teremky and Talatui mines in the Chita Region, Russia, was sold for total cash proceeds of US$15.0 million, US$10.0 million of which was received in 2007 while the second tranche of US$5.0 million was received by the Group in the first quarter of 2008.

The Group's cost of sales increased by 13.9%, or US$9.2 million, over the prior year. Cash operating costs per ounce at MNV rose by 19.6% to US$432 in 2007. The cost increase was attributable to increased unit cost pressures and higher repair and maintenance expenditures. Increased unit costs were predominantly associated with higher energy, material and manpower costs while higher repair and maintenance costs were necessary for commissioning items of mining equipment transferred to MNV from the Darasun operation prior to its sale.

These cost pressures were also affected by higher royalties due to the stronger gold price, all this increased our total cash costs to US$480 per ounce compared to US$402 per ounce in the prior period. Total production costs were US$533 per ounce compared to US$458 in 2006.

Administrative costs decreased by US$5.3 million from US$21.7 million to US$16.4 due to the decreased provisions for VAT receivables.

Other income received in 2007 contains US$0.74 million of proceeds from sale of platinum mesh which was replaced by lead mesh due to the modernisation of the MNV electro winning circuit. US$0.45 million was received as a result of Mayskoye trade house activity.

In 2007 the Company has acquired a licence for exploration and mining rights for the Iska ore field in the Khabarovsk Region. The acquisition was made in an open auction on August 24 in Khabarovsk for a bid price of 1.87 million Roubles (US$75, 200).

Despite the continued strengthening of the Russian Rouble the Company recognised a foreign exchange translation loss of US$0.78 million. The loss is mainly caused by the exchange rate movement associated with the corporate bonds denominated in Roubles and deposits in GBP.

The income tax expense of US$5.2 million was lower compared to the prior year of US$11.5 million. The charge consists of US$6.8 million current tax expenses (US$5.5 million current income tax charge at MNV and US$1.3 million at other operations), a US$1.8 million credit arising as a result of the successful resolution of certain tax claims and US$0.2 million of deferred tax charge.

Most of the entities within the Group, with the exception of MNV, are either development projects or exploration projects and have suffered a tax loss during the period. These tax losses are not able to be recognised until such time as there is sufficient evidence of future taxable profits in those entities, against which the losses can be attributed. In total, US$7.1 million of tax losses arose during the period, which were not recognised. The application of this policy may lead to previously unrecognised deferred tax assets being recognised in the future, as projects are determined to be economically viable, resulting in a credit to income taxes.

Profit from the Darasun disposal and current Darasun's losses for the year are shown as a result of discontinued operations in the Group's Income Statement. Costs at Darasun significantly decreased in the first half of 2007 following the cessation of mining activities, after which the asset was placed on care and maintenance, and then sold in October 2007.

The Group's cash flow used in operating activities was US$30.2 million. This is US$27.9 million more than in the previous year due to increases in the Group's capital, which are mainly due to increases in inventories, trade receivables, other receivables and prepayments.

Highland Gold continues to advance its development project pipeline having invested US$68.6 million in capital expenditures (US$38.9 million in 2006) comprising US$15.5 million at Mayskoye, US$18.3 million at Novoshirokinskoye, being our 50% share and US$ 7.0 million at Taseevskoye. In addition to our development project pipeline, the Group invested expenditures of US$19.2 million at MNV and US$8.6 million in advancing the Company's exploration assets and other entities of the Group.

In December 2007, Highland Gold signed a subscription agreement with Millhouse LLC whereby Millhouse LLC subscribed in cash for 65,050,000 new ordinary shares in Highland Gold at a price of 151 pence per new ordinary share (the "First Subscription") and a further 65,050,000 new ordinary shares at the same price, following the passing of the requisite shareholder resolutions in January 2008 (the "Second Subscription").

Completion of the First Subscription, which has been made pursuant shareholder authorities, took place on 11 December, 2007 and the aggregate proceeds of the First Subscription amounted to US$200 million. Completion of the Second Subscription took place in January 2008 and the aggregate proceeds of the Second Subscription amounted to US$200 million. Following completion of the First Subscription, Millhouse LLC's shareholding became 25.0% of the then increased issued share capital and in January 2008 became 40.0% of the enlarged issued share capital following completion of the Second Subscription. The aggregate proceeds of these subscriptions amounted to approximately US$400 million.

These proceeds have formed an essential component of Highland Gold's funding, allowing it to proceed with its development programme and reduce the Company's reliance on debt financing.

The net cash flows from financing activities of US$278.2 million comprise inter alia of the receipt of US$200.2 million following completion of the First Subscription with Millhouse LLC, the drawdown of two US$30 million bank loans with Gazprombank amounting in US$60 million, US$60 million bank loan from MDM bank and receipts from Kazzinc to finance the Novoshirokinskoye Joint Venture.

Cash and short term deposits at 31 December, 2007 were US$211.3 million versus US$31.6 million at 31 December, 2006 while the net debt position of the Group was positive at US$34.9 million versus a net debt position of negative $48.5 million at 31 December, 2006. The net debt of the Group includes Cash at Bank, Bank Borrowings, Outstanding Corporate Bonds and Long-term finance lease payables. The positive change of US$83.4 million in net debt was caused by the increased change in cash balance of US$179.7 million and a US$1.7 million decrease in the capital element of the finance leases opposed to an increase in loan principals of US$96.0 million and in other net debt items of US$2.1 million due to exchange rate movements. In 2007 the Group received finance income US$0.9 million as deposit interest.

In the first quarter of 2007 Highland Gold completed the first of two significant debt restructurings whereby US$90 million in new financing facilities was raised through two large Russian banks comprising a US$60 million facility with MDM Bank and a US$30 million facility with Gazprombank. Following the completion of these transactions, the Group immediately utilised US$30.7 million of these new funds to complete the early repayment of the Commerzbank Syndicated Loan Facility. Bank loans received in 2007 were utilized to finance our development projects. The Group has significantly reduced interest expenses by capitalizing that interest.

In October 2007 the Group completed a second debt restructuring with Gazprombank by establishing an additional new five year term US$45 million corporate debt facility with US$30 million of these funds being drawn down to fund the future development of the Highland Gold Group.

This debt restructuring was a key element of Highland Gold's capital management plan and aligns the company's debt maturities with its business plan. These new facilities reduce the cost of debt and provide greater flexibility which is better suited to a growth focused company like Highland Gold. Additionally, this will allow the Company to reclassify these debt facilities as long term borrowings in future regulatory accounting filings.

After the year end, the Group has repaid the US$15 million short term loan received from Gazprombank in 2006 before the maturity date and also fully repaid the Rouble corporate bond in the amount of US$31 million. The early refinancing of the Gazprombank facility and repayment of the corporate bond will see the effective maturity profile of all of Highland Gold's remaining loan facilities extend to late 2010 and 2011.

James Cross, Non-Executive Chairman
James Cross has been a Non-Executive Director of Highland Gold since 2002 and Non-Executive Chairman since December, 2004. He graduated from the faculty of commerce at the University of Witwatersrand. He has been involved in banking since1968. 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.

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 Metall Mining Corporation. He is currently a Non-Executive Director of QGX Ltd of Canada. He joined the Company in April 2005.

Ivan Koulakov, Non-Executive Director
Ivan Koulakov graduated from the Moscow State Technical University (Bauman) with a degree in Mechanical Engineering and from the State Financial Academy with a degree in Finance and Banking. In 1995, he became Chairman of ZAO Oil Finance, a company of the Sibneft group. In 1998, Mr. Koulakov becomes Chairman of ZAO MNV. Since then together with his management team he focused on the development of MNV as well as expanding into other development projects. Mr. Koulakov has been on the Board of Highland Gold since 2002.

Nicholas Nikolakakis, Non-Executive Director
Nicholas Nikolakakis has been with Barrick since April 2006 where he holds the position of Vice President, Corporate Finance. He was previously Vice President and Chief Financial Officer at Placer Dome, Canada. His knowledge is drawn from senior financial roles within some of Canada's leading energy and mining corporations, combining twelve years of experience in mining and energy acquisitions analysis, operations implementation and development, strategy and change, and all areas of corporate finance. His current responsibilities with Barrick include, capital raising in the public and private markets, management of the balance sheet and long term planning objectives. He joined the Company in December 2006.

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 and Australasian businesses, which enabled him to focus on the resources sector. He has been with the Company since 2002.

Olga Pokrovskaya, Non-Executive Director

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

Terry Robinson, Non-Executive Director

Terry Robinson has 40 years international business experience. He was 20 years at Lonrho PLC, the international mining and trading group. Since 1998 he has been variously occupied with international business including natural resources in the UK, Russia, the CIS and Brazil. He is a non-executive director of the LSE GDR quoted Evraz Group, the largest Russian steel producer. He is a non-executive director of the Toronto listed Katanga Mining Limited with copper and cobalt mining operations in the DRC and is a member of Katanga's audit committee and compensation committee and until recently was Managing Director of Interactive Records Management Ltd, a private equity controlled investment. He is a member of the Institute of Chartered Accountants of England and Wales.

Eugene Shvidler, Non-Executive Director

Eugene Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a masters degree in applied mathematics, and holds an MBA in finance and MS in international tax from Fordham University. He worked as senior vice president of Sibneft beginning in 1995 and served as president of the company from 1998 through 2005. Mr. Shvidler is currently head of Millhouse LLC. He joined the Highland Gold Board of directors in January 2008.

Eugene Tenenbaum, Non-Executive Director

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

Timothy Wadeson, Non-Executive Director

Tim Wadeson graduated as a Mining Engineer from the Camborne School of Mines. He has held a variety of senior mining positions. He was Technical Director of Anglo Zimbabwe 1980 –1985; Deputy Technical Director (Mining) Anglo American Corpation. 1985 –1989; Technical Director Minorco 1989 –1994; Group Technical Director and Executive Director Anglo American Corp. & AA plc 1995–1999; CEO Konkola Copper Mines, Zambia 2000 – 2001. He is currently a Non-Executive Director of Cluff Gold plc. He joined the Company in December 2004.

The Directors of Highland Gold Mining Limited have pleasure in submitting their annual Directors' Report together with the audited financial statements for the year ended 31 December 2007.

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 86 of this annual report. The Chairman's Statement and the Managing Director's Report explain in detail the business developments during 2007 and the future prospects. The Company's shares are quoted on the AIM market of the London Stock Exchange.

RESULTS AND DIVIDENDS

The overview of the Group's results for the period to 31 December 2007 are given in the Financial Review on page 26 of this report. The Group's retained profit for the year of US$18.1 million (2006: restated IFRS loss US$94.9 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 International Financial Reporting Standards (IFRS) adopted by the European Union with the US dollar as its reporting currency. The change in accounting policy has occurred in line with the new reporting requirements for AIM companies.

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 not reported previously and any changes since then to the date of this report are shown below:

Director	Ordinary shares At 31/12/2006	Ordinary shares At 31/12/ 2007	Available Options At 31/12/2007
James Cross	310,000	340,000	500,000
Ivan Koulakov	20,372,500	20,372,500	750,000
Christopher Palmer-Tomkinson	634,649	660,962	–
Henry Horne	–	–	625,000
Duncan Baxter	20,000	20,000	300,000

The Company established an Unapproved share option scheme in 2005. Duncan Baxter and Henry Horne were granted 100,000 and 125,000 options respectively on 24 September 2007 at a price of 96.33 pence per new ordinary share, with an expiry date of 24 September 2014. Scott Perry who resigned from the Company in January 2007 had 250,000 available options which have been forfeited. No other directors have an interest.

The Company has adopted a share dealing code for Directors and relevant employees, which prescribes a strict permissions procedure to be followed.

CORPORATE GOVERNANCE

The Directors have implemented many of the main provisions of the principles of good governance and code of best practice under the Combined Code on Corporate Governance having regard to the size and nature of the activities of the Company. The Board is assisted by a number of Committees with delegated authority to review key business risks, in addition to the financial risks facing the Group in the operations of its business.

THE BOARD

The Board currently has ten directors of which all are non-executive. There are four non-executive Directors who bring an independent outlook to the Board and provide a balance to those Directors who cannot be regarded as independent. Eugene Shvidler, Eugene Tenenbaum and Olga Pokrovskaya work for Millhouse LLC, which together with persons connected with it, owns 40% of the issued share capital of the Company. Alex Davidson and Nick Nikolakakis are executives of Barrick Gold Corporation of Canada, which has an interest of 20.4%. The Chairman is a non-executive independent Chairman.

The Board meets on a regular basis to review the performance and the business of the Group, ensure that financing needs are appropriate and consider development and acquisition opportunities. During the year there where 11 Board and Board Committee meetings of which 7 were scheduled and which all board members attended and 4 were to resolve matters of an administrative or routine nature.

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

The Board agreed to undertake a bi-annual self assessment review, with the assistance of an external consultant, of the Board and Committees, the first having been undertaken in February 2006. The next one was due towards the end of last year, but due to the change in the Board structure and the sad death of David Fish, it was agreed to defer the assessment towards the end of 2008. The non-executive Directors met during the year without the Executive Directors to evaluate the Chairman's performance and will continue to do so on an annual basis.

Eugene Shvidler, Eugene Tenenbaum and Olga Pokrovskaya were appointed as non-executive Directors and Henry Horne, Managing Director and Scott Perry, Finance Director resigned from the Board, on 28 January 2008 in accordance with the terms of the Relationship Agreement between Millhouse LLC and the Company dated 4 December 2007. Scott Perry also resigned from the Company in January 2008. Rene Marion who was Chief Operating Officer from 1 January 2007 resigned from the Company on 25 October 2007. Ivan Koulakov, Executive, Deputy Chairman became a non-executive in March 2008. Terry Robinson was appointed as a non-executive director and Chairman of the Audit Committee on 25 April 2008 and Duncan Baxter steps down from the Board, but remains with the Company, on 29 April 2008.

Mr. Christopher Palmer-Tomkinson is the Senior Independent Non-Executive Director who is available to meet with major shareholders.

It is a requirement that all Directors retire by rotation at least every three years and new appointments be made at the earliest opportunity at the Annual General meeting. James Cross and Tim Wadeson are due to retire by rotation and offer themselves for re-election at the forthcoming Annual General Meeting. Having recently joined the Board, Eugene Shvidler, Eugene Tenenbaum, Olga Pokrovskaya and Terry Robinson offer themselves for election at the same Annual General Meeting.

The profiles of the Non-Executive Directors are to be found on pages 28-29 of this report.

AUDIT COMMITTEE

The Audit Committee consists of three Non-Executive Directors and was chaired by David Fish. The Audit Committee met 3 times in 2007 to consider the annual, interim financial statements and the audit programme. The Executive Directors are invited to attend meetings as appropriate. There are defined Terms of Reference for the Audit Committee which are reviewed by the Board on an annual basis and are available for inspection at the Annual General Meeting. The Committee is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported upon, reviewing accounting policies and meeting the auditors and reviewing their reports relating to the accounts and internal control systems. The Audit Committee also considers budgets and has agreed an authorisation and expenditure policy. The Audit Committee is responsible for monitoring key risks and has implemented through the internal audit department, a process for reporting on, and monitoring, those risks. During the year the Audit Committee was chaired by Mr. Fish, who following his tragic death was replaced by Mr. Baxter as an interim Audit Committee Chairman. Mr. Robertson takes over as the Audit Committee Chairman on 25 April 2008. The other members were Mr. Palmer-Tomkinson and Mr Nikolakakis. Audit Committee members meet with the management and Auditors on a regular basis.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three Non-Executive Directors, Mr. Cross and Mr. Palmer-Tomkinson who is the Chairman. Mr. Fish was a member during the year. Mr. Davidson who is not independent is also a member. 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 defined terms of reference, which the Board reviews at least annually. The Committee also examines fees in relation to non-executive remuneration and committee Chairmen. The Committee had 3 meetings during the year at which all members were present. Details of the directors' remuneration are given on page 35.

NOMINATIONS COMMITTEE

The Nominations Committee consisted of Mr. Cross, Mr. Fish 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 defined terms of reference, which the Board reviews 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 and appointment of new directors. The Board has agreed to amalgamate the Remuneration and Nominations Committees under the Chairmanship of Mr Palmer-Tomkinson.

HEALTH, SAFETY AND ENVIRONMENTAL COMMITTEE

The Board has established a Health, Safety and Environmental Committee which is chaired by Mr. Wadeson. The other members of the Committee are Mr. Palmer-Tomkinson, Mr. Davidson and Mr. Horne. The Committee considers with management, the development and training requirements and regulatory compliance of health, safety and environmental issues. The Committee makes recommendations to the Board, within agreed terms of reference which the Board reviews at least annually. The Committee met 4 times during the year.

OTHER COMMITTEES

In addition, the Group management company, OOO Russdragmet ("RDM"), in Russia has established a risk and control platform through regular meetings. The Executive Committee meets weekly. The members include management of RDM functional departments and the General Directors of the mine sites. It is chaired by Henry Horne the Managing Director at RDM. Its role is to ensure the implementation of decisions taken by the Board and committees, to manage the day to day operational activities and to make recommendations to the Board. 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 controls can only provide a reasonable, but not absolute, assurance against material misstatements or loss. The processes used by the Board to review the effectiveness of the internal controls are through the Audit Committee.

RELATIONS WITH SHAREHOLDERS

The Group's website provides full information on the business, results and personnel and is used for updating shareholders and the market with key developments and announcements (www.highlandgold.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. The Company also has investor and public relations functions which are managed by independent service providers.

The Shareholders approved at an Extraordinary General meeting on 14 January 2008 an increase in the authorised share capital of the Company from 400,000,000 Ordinary Shares of £0.001 each to 750,000,000 Ordinary Shares of £0.001 each. The Directors were also authorised to allot and grant rights to subscribe for or to convert securities into shares of the Company up to a maximum nominal amount equal to 33% of the nominal amount of the authorised but unissued share capital of the Company, taking account of the increase in authorised share capital, to such persons at such times and on such terms as they think proper without first making an offer to each person who holds shares in the Company. Such authority will expire at the annual general meeting of the Company in 2011 unless previously renewed or varied. The Directors allotted 65,050,000 Ordinary Shares pursuant to the Subscription Agreement between Millhouse LLC and the Company (as defined in the circular to shareholders dated 18 December 2007), under the above authority without firstly making an offer to each person who held shares in the Company. The present authority applies to 96,660,741 unissued Ordinary shares of £0.001 each.

SUBSTANTIAL SHAREHOLDINGS

As of close of business on 18 April 2008, the Company had been notified of the following interests, other than Directors' interests, which amounted to three per cent or more of the issued share capital of the Company;

Name of Holder	Number	Percentage
Primerod International Limited	130,100,000	40.01%
Barrick Gold Corporation of Canada	66,235,264	20.37%
Fleming Family & Partners (Liechtenstein) AG	15,609,932	4.80%

GOING CONCERN

Having made suitable enquiries, the Directors believe that it is appropriate to adopt the going concern basis in preparing the financial statements as 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, who have expressed a willingness to continue as auditors of the Company, will be proposed at the Annual General Meeting. All of the Directors have taken steps that they ought to have taken to make themselves aware of any relevant audit information required by the Company's Auditors.

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 11.00 am on Thursday 12 June 2008 at 26 New Street, St Helier, Jersey JE2 3RA. The notice convening the Annual General Meeting is as set out on page 96 of this Annual Report.

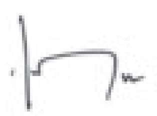
DIRECTORS' RESPONSIBILITY STATEMENT

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 including subsidiaries and of the profit or 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 2008

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. Both these schemes are managed by the Remuneration Committee. The Company does not operate a pension scheme for its employees or the executive Directors.

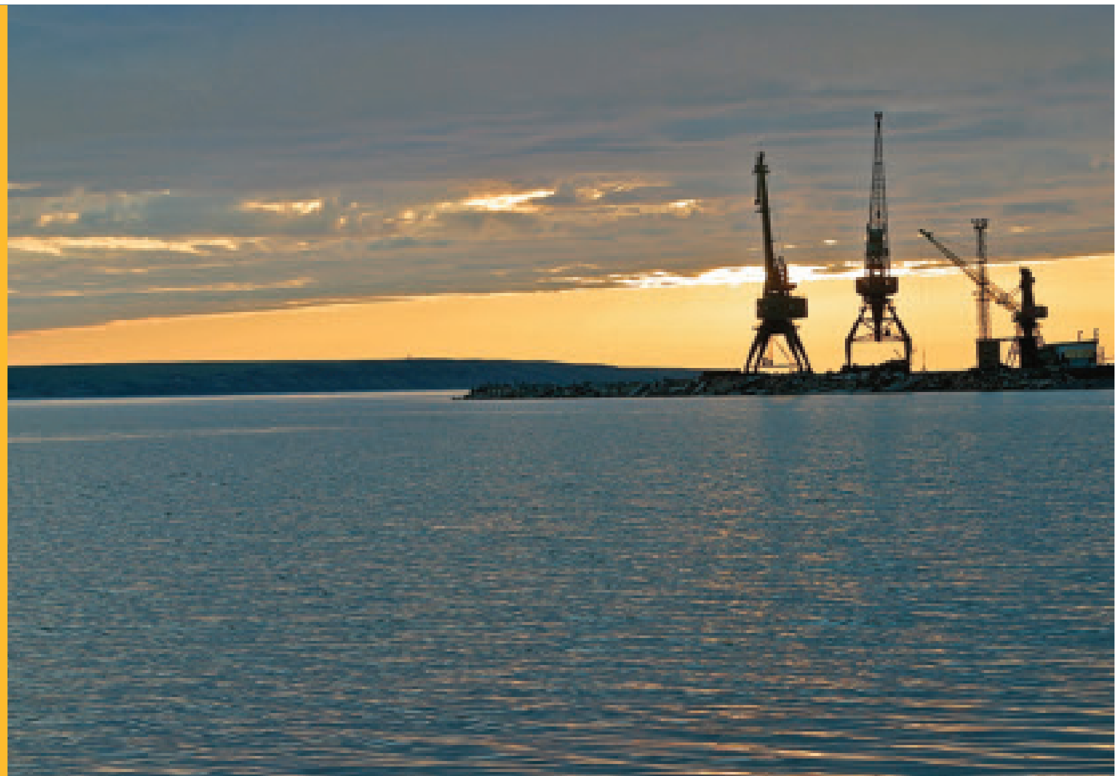
Under the terms of the SARs scheme, Directors are granted SARs, with the number of SARs granted being based on a multiple (range of 0.5 to 2.5) of salary, divided by the twenty-day average of the share price to 1 December of the year the SAR is granted (the grant price of the SAR). After three years 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. No SARs have been issued to Directors or employees in 2007 (2006: None). With the introduction of the Unapproved Share option scheme the SAR scheme for management and directors was suspended. The outstanding total SARs for Directors at 31 December 2007 were 574,043 of which 326,333 are available to past directors and 247,710 to Ivan Koulakov. 203,666 expired at 31 December 2007 at a price per SAR of 255.55 pence and 370,337 expire at 31 December 2008 at a price per SAR of 257.75 pence. It is the Directors' intention not to issue any further SARs.

The remuneration paid to the Directors in the financial period to 31 December 2007 was as follows:

Ivan Koulakov, as Executive Deputy Chairman, US$400,000 with a bonus payment of US$420,000; Henry Horne, Managing Director, US$350,000 with a bonus of US$175,000; Duncan Baxter, Corporate Affairs Director, £110,000 with a bonus of £20,000 and Scott Perry as Finance Director, US$45,628 with a bonus of US$100,000.The fees of the three non-executive independent Directors who acted during the year were; Christopher Palmer-Tomkinson, US$135,000; David Fish, US$95,000 and Tim Wadeson US$85,000. The non-executive Chairman, James Cross, received fees of US$300,000 and an exgratia fee of US$600,000 for the work undertaken during the year in particular for work in respect of the Millhouse LLC transaction. Rene Marion, who resigned in October 2007, as Chief Operating Officer, received remuneration of US$373,000. The Barrick Gold Corporation appointed directors, Alex Davidson and Nick Nikolakakis, received no remuneration during the year. There is no formal bonus scheme, but bonuses have been paid in respect of performance, competitive market conditions and corporate transactions as determined by the Remuneration Committee.

The Group has entered into service contracts or letters of appointment with the Directors all of which are reviewed on an annual basis and none have an expiry date or notice period of more than one year.

ACCOUNTS 2007



INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF HIGHLAND GOLD MINING LIMITED

We have audited the consolidated group financial statements of Highland Gold Mining Limited for the year ended 31 December 2007 which comprise the Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Cash Flow Statement, the Consolidated Statement of Change in Equity, and the related notes 1 to 38. 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 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 the preparation of the financial statements in accordance with applicable Jersey law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements 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 company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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 Chairman's Report, Managing Director's Report, Chief Financial Officer's Report and Director's Report. 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 International Standards on Auditing (UK and Ireland) 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, in accordance with International Financial Reporting Standards, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Ernst & Young

Ernst & Young LLP
London
27 April 2008

	Notes	2007 US$000	Restated 2006 US$000
Continuing operations			
Revenue	10	112,100	91,980
Cost of sales	11	(75,396)	(66,187)
Gross profit		**36,704**	**25,793**
Administrative expenses	12	(16,391)	(21,705)
Other income	13	275	473
Other expenses	14	(1,526)	(329)
Gain on creation of joint venture		-	15,414
Operating profit		**19,062**	**19,646**
Foreign exchange (loss)/gain		(778)	9,318
Finance revenue		1,350	730
Finance costs	15	(2,217)	(4,553)
Profit before income tax		**17,417**	**25,141**
Income tax expense	16	(5,201)	(11,512)
Profit for the year from continuing operations		**12,216**	**13,629**
Discontinued operation			
Profit /(loss) after tax for the year from a a discontinued operation	17a	5,883	(108,518)
PROFIT /(LOSS) FOR THE YEAR		**18,099**	**(94,889)**
Attributable to:			
Equity holders of the parent		18,099	(96,656)
Minority interests		-	1,767
		18,099	**(94,889)**
Earnings/(loss) per share (US$ per share)			
• Basic, for the profit/(loss) for the year attributable to ordinary equity holders of the parent	18	0.091	(0.587)
• Diluted, for the profit/(loss) for the year attributable to ordinary equity holders of the parent		0.089	(0.573)
Earnings per share for continuing operations (US$ per share)			
• Basic, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.061	0.084
• Diluted, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.060	0.082
Earnings/(loss) per share for discontinued operation (US$ share)			
• Basic, for the profit/(loss) from discontinued operation attributable to ordinary equity holders of the parent		0.030	(0.672)
• Diluted, for the profit/(loss) from discontinued operation attributable to ordinary equity holders of the parent		0.029	(0.656)

as at 31 December 2007

	Notes	2007 US$000	Restated 2006 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	19	311,583	244,212
Intangible assets	6,21	65,231	65,231
Financial assets	22	11,010	259
Other non-current assets		3,812	3,644
Total non-current assets		**391,636**	**313,346**
Current assets			
Inventories	24	54,452	34,122
Trade and other receivables	25	35,383	16,735
Prepayments		6,158	4,015
Cash and cash equivalents	26	211,275	31,576
Total current assets		**307,268**	**86,448**
TOTAL ASSETS		**698,904**	**399,794**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	27	458	325
Share premium		525,465	334,800
Shares to be issued	6,27	510	510
Assets revaluation reserve	28	790	790
Accumulated losses		(68,555)	(87,969)
TOTAL EQUITY		**458,668**	**248,456**
Non-current liabilities			
Interest-bearing loans and borrowings	29	104,454	46,754
Provisions	31	7,437	13,840
Deferred income tax liability	16	22,130	21,895
Total non-current liabilities		**134,021**	**82,489**
Current liabilities			
Trade and other payables	30	25,741	20,968
Interest-bearing loans and borrowings	29	71,968	33,318
Income tax payable		6,334	6,504
Provisions	31	2,172	8,059
Total current liabilities		**106,215**	**68,849**
TOTAL LIABILITIES		240,236	151,338
TOTAL EQUITY AND LIABILITIES		**698,904**	**399,794**

The financial statements were approved by the Board of Directors on 25 April 2008

James Cross
Non-Executive Chairman

Duncan Baxter
Director

ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Issued capital US$000	Share premium US$000	Shares to be issued US$000	Asset revaluation reserve US$000	Accumulated profits/(losses) US$000	Total US$000	Minority interests US$000	Total equity US$000
At 1 January 2006	**255**	**236,483**	**-**	**-**	**6,462**	**243,200**	**221**	**243,421**
Profit/(Loss) for the year	-	-	-	-	(96,656)	(96,656)	1,767	(94,889)
Issue of share capital	67	97,421	510	-	-	97,998	-	97,998
Share issue costs	-	(3,517)	-	-	-	(3,517)	-	(3,517)
Exercise of options (Note 23)	3	4,413	-	-	-	4,416	-	4,416
Disposal of minority interest	-	-	-	-	-	-	(1,988)	(1,988)
Revaluation reserve (Note 28)	-	-	-	1,039	-	1,039	-	1,039
Deferred tax allocated to the revaluation reserve	-	-	-	(249)	-	(249)	-	(249)
Share-based payment (Note 23)	-	-	-	-	2,225	2,225	-	2,225
At 31 December 2006	**325**	**334,800**	**510**	**790**	**(87,969)**	**248,456**	**-**	**248,456**
Profit for the year	-	-	-	-	18,099	18,099	-	18,099
Issue of share capital	133	200,051	-	-	-	200,184	-	200,184
Share issue costs	-	(9,386)	-	-	-	(9,386)	-	(9,386)
Share-based payment (Note 23)	-	-	-	-	1,315	1,315	-	1,315
At 31 December 2007	**458**	**525,465**	**510**	**790**	**(68,555)**	**458,668**	**-**	**458,668**

for the year ended 31 December 2007

	Notes	2007 US$000	(Restated) 2006 US$000
Operating activities			
Profit before tax from continuing operations		17,417	25,141
Profit/(loss) before tax from discontinued operations		5,883	(108,518)
		23,300	(83,377)
Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities:			
Depreciation of property, plant and equipment	11	8,305	8,283
Impairment of assets	17a, 20	-	79,274
Loss on disposal of property, plant and equipment		343	-
Exploration costs write-off		812	329
Share-based payments expense	23	1,135	2,064
Interest income		(1,350)	(730)
Interest expense	15	2,217	4,553
Net foreign exchange loss/(gain)		778	(9,318)
Movement in provisions		(6,732)	5,823
Gain on disposal of Darasun	17a	(16,258)	-
Gain on disposal of part interest in Novo	17b	-	(15,414)
Non-cash items from discontinued operations		-	12,425
Working capital adjustments:			
Increase in trade and other receivables and prepayments		(20,303)	(1,119)
Increase in inventories		(23,147)	(2,483)
Increase in trade and other payables		4,368	9,954
Increase in deferred stripping costs		(393)	(2,221)
Income tax paid		(3,273)	(10,364)
Net cash flows used in operating activities		**(30,198)**	**(2,321)**
Investing activities			
Purchase of property, plant and equipment		(68,603)	(38,911)
Proceeds from disposal of part interest in Novo	17b	-	36,000
Net proceeds received from Darasun disposal	17a	9,868	-
Loans given to jointly controlled entity		(10,464)	(259)
Interest received		924	736
Net cash flows used in investing activities		**(68,275)**	**(2,434)**
Financing activities			
Issue of ordinary shares		200,184	4,416
Share issue costs		(3,204)	(313)
Proceeds from borrowings		136,809	15,000
Repayment of borrowings		(52,859)	(20,475)
Interest paid		(12,337)	(6,592)
Receipts from Kazzinc to finance joint venture		12,418	-
Advances received from Barrick Gold for Taseevskoye and certain exploration licences		-	7,922
Receipt from sale and leaseback transactions		-	5,897
Lease payments		(2,839)	(3,094)
Net cash flows from financing activities		**278,172**	**2,761**
Net increase/(decrease) in cash and cash equivalents		179,699	(1,994)
Cash and cash equivalents at 1 January	26	31,576	33,570
Cash and cash equivalents at 31 December	**26**	**211,275**	**31,576**

1. CORPORATE INFORMATION

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 25 April 2008. The ultimate parent entity of the Group, Highland Gold Mining Limited, is a public company incorporated and domiciled in Jersey. Its ordinary shares are traded on the Alternative Investment Market ("AIM").

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest thousand (US$000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of Highland Gold Mining Limited and all its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Companies (Jersey) Law 1991 as applicable to the year ended 31 December 2007.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Highland Gold Mining Limited and all its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit and loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Standards, interpretations and amendment to existing standards that are not yet effective and have not been adopted early by the Group

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but which the Group has not adopted early. Those that are applicable to the Group are as follows:

International Accounting Standards (IAS / IFRSs)		**Effective date**
IFRS 2	Amendment to IFRS 2 – Vesting Conditions and Cancellations	1 January 2009
IFRS 3	Business Combinations (revised January 2008)	1 July 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (revised September 2007)	1 January 2009
IAS 23	Borrowing Costs (revised March 2007)	1 January 2009
IAS 27	Consolidated and Separate Financial Statements (revised January 2008)	1 July 2009

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Programmes	1 July 2008
IFRIC 14 IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The Group is currently assessing the impact on its financial statements from adopting IAS 27 revised. The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are the Group's first full year financial statements that comply with IFRS. The Group's IFRS transition date is 1 January 2006. The Group previously reported under UK GAAP and the Group financial statements have now been restated from UK GAAP to comply with IFRS. The reconciliation and description of the adjustments from UK GAAP to IFRS financial statements are provided in Note 38.

Foreign currency translation

The United States dollar ("US dollar") is the functional and presentation currency of all companies within the Group.

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

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

	31 December 2007	31 December 2006	31 December 2005
Average			
RUR	25.552	27.13	28.34
GBP	0.500	0.544	0.550
Closing			
RUR	24.546	26.33	28.78
GBP	0.500	0.511	0.581

Interest in a joint venture

The Group has a contractual agreement with Kazzinc which represents a joint venture entity.

The Group recognises its interest in joint ventures using the proportionate method of consolidation whereby the Group's share of each of the assets, liabilities, income and expenses of the joint venture are combined with similar items, line by line, in its consolidated financial statements.

Joint ventures are accounted for in the manner outlined above until the date on which the Group ceases to have joint control over the joint venture.

Property, plant and equipment

Land and buildings, plant and equipment

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

In subsequent periods, buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value, whilst land is stated at cost less any impairment in value and is not depreciated.

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

- Mineral properties are depreciated using a unit of production method based on estimated economically recoverable reserves, which results in a depreciation charge proportional to the depletion of reserves.
- Buildings, plant and equipment unrelated to production are depreciated using the straight-line method based on estimated useful lives.

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

The expected useful lives are as follows:

Buildings	17 years
Plant and Equipment	7 – 14 years

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

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

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

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

Exploration and evaluation expenditure

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

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

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

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

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

Mine development expenditure

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

Mine development costs are, upon commencement of production, depreciated using a unit of production method based on the estimated proven and probable mineral reserves to which they relate or are written off if the property is abandoned. The net carrying amounts of mine development costs at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against the income statement in the financial year in which this is determined.

Mineral properties

The development costs are transferred to the mineral properties category when the asset is available for use; this is when commercial levels of production are achieved. The restoration provision cost is capitalised within mine assets. The cost of acquiring mine assets after start of the production is capitalised on the balance sheet as incurred. Mine assets are amortised using the units-of-production method based on estimated proven and probable mineral reserves. The net carrying amounts of mine assets are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against the income statement in the financial year in which this is determined.

Mineral rights

The cost of acquiring rights on mineral reserves and mineral resources including directly attributable expenses is capitalised on the balance sheet as incurred and included in the mineral rights category. Mineral rights are amortised using the units-of-production method based on estimated proven and probable mineral reserves. The net carrying amounts of mineral rights are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, that excess is fully provided against the income statement in the financial year in which this is determined.

Stripping costs

Stripping costs incurred in open-pit operations during the production phase to remove waste ore are charged to operating costs on the basis of the average life of mine stripping ratio and the average life of mine costs per cubic metres. The average stripping ratio is calculated as the number of cubic metres of waste material expected to be removed during the life of mine per ounces of gold mined. The average life of mine cost per cubic metres is calculated as the total expected costs to be incurred to mine the ore body, divided by the number of cubic metres expected to be mined. The average life of mine stripping ratio and the average life of mine cost per cube metres are recalculated annually in the light of additional knowledge and changes in estimates.

The cost of the "excess stripping" is capitalised on the balance sheet when the actual mining costs exceed the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonnes multiplied by the average life of mine stripping ratio, multiplied by the life of mine cost per cubic metres. When the actual mining costs are below the sum of the adjusted tonnes mined, being the actual ore tonnes plus the product of the actual ore tonne multiplied by the average life of mine stripping ratio, multiplied by the life of mine cost per cubic metres, previously capitalised costs are expensed to increase the cost up to the average.

The cost of stripping in any period will be reflective of the average stripping rates for the ore body as a whole. Changes in the life of mine stripping ratio are accounted for prospectively as a change in estimate.

Impairment

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

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

Construction work in progress

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

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

Leases

Operating leases

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

Finance lease

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

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package.

The sale and leaseback transaction results in a finance lease for the Group. The excess of sales proceeds over the carrying amount is not immediately recognised as income by the Group. Instead, it is deferred and amortised over the lease term.

Goodwill

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

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the Group's cash generating units that are expected to benefit from the synergies of the combination. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement. Further information is contained in Note 21.

Financial instruments

Financial instruments classification and recognition

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

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

Currently the Group does not have financial assets and liabilities at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets.

Loans and receivables

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

Derecognition of financial assets and liabilities

A financial asset is derecognised where:

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

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

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

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

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

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

The inventories are segregated by the following:

- Gold in process which is valued at the average total production cost at the relevant stage of production;
- Gold on hand which is valued on an average total production cost method;
- Ore stockpiles which are valued at the average cost of mining and stockpiling the ore;
- Raw materials and consumables: materials, goods or supplies to be either directly or indirectly consumed in the production process which are valued at weighted average costs;
- Fuel which is valued at weighted average costs;
- Spare parts which are valued at weighted average costs.

Trade and other receivables

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

Cash and cash equivalents

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

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

Share capital

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

Value added tax

Gold production and subsequent sales are not subject to output value added tax. Input VAT is recoverable against income tax. Where input VAT is not recoverable the VAT provision is created on the balance sheet corresponding with the income statement in a relevant period.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Trade and other payables

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

Provisions for liabilities and charges

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

Environmental protection, rehabilitation and closure costs

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

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

Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Gold sale revenue is recognised when the product has been dispatched to the purchaser and is no longer under the physical control of the producer.

Employee benefits

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

Pension plan

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

Share Based Payments

Equity-settled transactions

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

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

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

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

Cash-settled transactions

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

Earnings per share

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

Income taxes

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

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

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

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

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of goodwill

The Group tests goodwill for impairment at least annually.

For the purposes of the asset valuation and impairment testing, Management has determined that the goodwill created under the Highland/Barrick transaction is allocated to the entire Highland group of assets as the whole Group is expected to benefit from the synergies of the business combination. Management firmly believes that the identified goodwill directly represents the increased portfolio value that is expected to accrue to Highland shareholders following the direct integration of Barrick executives into the Highland Board of Directors, seconded Barrick personnel, directly hired former Barrick Russia/Asia personnel together with the incorporation of Barrick's proven expertise and best industry practices. The detailed description of Barrick transaction is provided in Note 6.

Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations.

Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and should be recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. Management estimated that the deferred tax asset can be recognised only to the amount equal to deferred tax liabilities for each separate legal entity of the Group. The future taxable profits are not considered in determining the amount of deferred tax assets recognised as the Group entities have history of losses accumulation and their profit forecasts are not fully reliable.

No deferred tax benefit is recognised in respect of the Darasun impairment provision, site restoration provision and obsolescence reserve due to the insufficient forecasted income against which the losses could be offset.

Assumptions to determine amount of provisions

The Group engaged SRK Consulting Ltd. to evaluate the cost of site restoration based on government requirements applicable to similar sites that have closed recently, and assumptions regarding the life of mine (which is assumed to close in 2012), expected site restoration activities (removal of waste, restoration of mine sites), current prices for similar activities and a risk-free discount rate of 5%.

Interest rates affecting impairment calculations

For impairment testing, Highland Gold Management used a pre-tax discount rate of 10%. Pre-tax discount rate of 10% is a standard rate which is used for all capital expenditure investment projects within the Group.

Inventory obsolescence

The Group entities review inventory turnover variances from the established standards by category and investigate significant variances. If the Group entities identify impairment indicators the obsolescence provision is then recognised at the balance sheet. The movement in the obsolescence provision is recognised in the income statement.

Going concern

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

Determination of ore reserves and resources

The Group estimates its ore reserves and mineral resources in accordance with the rules and requirements of the Russian State Committee for Reserves.

Reserves and resources are used in the units of production calculation for depreciation as well as the determination of the timing of mine closure costs and impairment analysis.

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

5. NEW STANDARDS

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year.

Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group in the current or prior periods. In certain cases, they did however give rise to additional disclosures.

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Amendment – Presentation of Financial Statements: Capital Disclosures*
- IFRIC 8 Scope of *IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

The Group has also early adopted the following IFRIC interpretation. Adoption of this interpretation did not have any effect on the financial performance or position of the Group.

- IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions*

The principal effects of these changes are as follows:

IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where necessary.

IAS 1 *Presentation of Financial Statements*

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 34.

IFRIC 8 Scope of *IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation has no impact on the financial position or performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has no impact on the financial position or performance of the Group, but our accounting policy for such items has been amended accordingly.

IFRIC 10 *Interim Financial Reporting and Impairment*

The Group adopted IFRIC 10 as of 1 January 2007, which requires that an entity must not reverse an impa ecognizeds recognised in a previous interim period in respect of goodwill or an investment in either an equity instruments or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

6. BUSINESS COMBINATIONS AND ACQUISITION

Business combination in 2006

On 18 December 2006, Highland Gold announced that Barrick Gold Corporation ("Barrick") had increased its shareholding in Highland Gold to approximately 34%. In exchange Highland received:

- Barrick's 50% share in Taseevskoye Netherlands B.V., and Barrick's rights and interests in the Taseevskoye licence;
- Barrick's 50% share in HB Ventures Netherlands B.V., and Barrick's rights and interests in Sovinoye, Belaya Gora and Malo Fedorov licences;
- A 100% of the share in Barrick Resources LLC, the holder of the Lyubov, Maya-Inikan, and Sarasa licences;
- A 100% of the shares in Barrick Gold Kyrgyzstan LLC, the holder of the Unkurtash and Kassan licences in Kyrgyzstan.

The consideration for the acquisition of these share interests was satisfied by the issue to Barrick entities of 34,492,305 ordinary shares in Highland. The first tranche of 34,312,657 new ordinary shares were issued at a price of 145 pence per share and was admitted to AIM of the London Stock Exchange and started trading on 18 December 2006. A second tranche of 179,648 new ordinary shares was issued in 2008 at an issue price of 145 pence per share (Note 27).

In acquiring the remaining 50% interest of Taseevskoye, a business combination was deemed to have taken place. Accordingly, 100% of the fair value of Taseevskoye was included in the Group accounts and the existing 50% of Taseevskoye that was already accounted for in Highland's accounts was subsequently revalued to fair value resulting in a valuation increment to the Asset Revaluation Reserve.

The fair value of the net assets of Taseevskoye at the date of acquisition is as follows:

	Book value	Fair value adjustments	(100%) Fair value
Mineral rights and exploration costs	36,126	2,078	38,204
Investments	420	-	420
Inventory	47	-	47
Trade and other receivables	2,294	-	2,294
Cash	320	-	320
Liabilities	(659)	-	(659)
Net Assets	38,548	2,078	40,626
Fair value of the 50% acquired			**20,313**

The acquisition of Barrick's 50% ownership interests in the joint Barrick/Highland exploration licences was valued at fair value and this value was then added to the carrying value of Highland's existing 50% share. The applicable exploration licences and the assessment of the fair value of the 50% interest acquired in each are as follows:

	Fair value of 50% interest acquired
Belaya Gora	4,000
Sovinoye	2,000
Malo-Fedorovskoye	250
Lyubov	2,500
	8,750

The exploration licences acquired from Barrick, in which Barrick's had a 100% ownership interest were valued at full fair value. The applicable exploration licences, and their fair value at the date of acquisition were:

	Fair value
Unkurtash (including the Kassan deposit)	5,000
Maya-Inikan	1,000
Sarasa	-
	6,000

A summary of this acquisition is presented below:

	Fair value
Fair value of 50% of net assets of Taseevskoye	20,313
Fair value of the joint Barrick/Highland exploration deposits	8,750
Fair value of the 100% owned exploration deposits	6,000
Cash received from Barrick not spent as at 31December 2006	1,493
Goodwill arising on acquisition	65,231
Deferred tax associated with the asset revaluation reserve	249
Deferred tax liabilities	(4,038)
Total fair value of the net assets acquired	**97,998**
Discharged by:	
Fair value of shares issued	97,998

The fair value of the consideration was determined based on the market value of the shares at the date of the transaction.
The goodwill generated in this transaction is carried forward as a non current intangible asset on the balance sheet and tested for impairment at minimum once in a year.

The identified Goodwill component directly represents the increased portfolio value that is expected to accrue to Highland shareholders following the direct integration of Barrick executives into the Highland Board of Directors, seconded Barrick personnel, directly hired former Barrick Russia/Asia personnel together with the incorporation of Barrick's proven expertise and best industry practices.

There were no movements in goodwill since its initial recognition in 2006.
If the Barrick transaction had taken place at the beginning of 2006 period the Group's revenue and profit would have been unchanged because all the acquired assets were at the exploration stage and costs were capitalised when incurred.

7. INTEREST IN A JOINT VENTURE

The Group has a 48.3% interest in OAO Novoshirokinskoye ("Novo"). On 1 December 2006 the Group signed a joint venture agreement with Kazzinc with the purpose of further developing the Novoshirokinskoye polimetallic deposit.

The share of the assets, liabilities, income and expenses of the jointly controlled entity at 31 December 2007 and 2006 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2007	2006
Current assets	5,971	2,286
Non-current assets	38,420	18,777
	44,391	**21,063**
Current liabilities	(1,749)	(449)
Non-current liabilities	(12,631)	(724)
	(14,380)	**(1,173)**
Net assets	**30,011**	**19,890**
Revenue	-	-
Cost of sales	(42)	(7)
Administrative expenses	(64)	(10)
Foreign Exchange gain / (loss)	(22)	(596)
Finance costs	(767)	(53)
Other operating expenses	(7)	-
Loss before tax	(902)	(666)
Income tax credit	510	123
Loss after tax	**(392)**	**(543)**

8. SEGMENT INFORMATION

The Group has only one business segment as it operates in one principal area of activity, that of exploration and production of gold.
The Group has only one geographical segment as it builds its portfolio of gold mining entities operating on the territory of the Russian Federation.

9. AUDITORS' REMUNERATION

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

	Ernst &Young 2007	Ernst &Young 2006	Others 2007	Others 2006
Audit of the financial statements [a]	1,231	911	-	-
Other fees to auditors:				
- Local statutory audits for subsidiaries	26	56	133	75
- Fees in relation to previous year audit	125	142	-	-
- Corporate finance fees[b]	-	249	-	-
-All other services	8	43	-	-
	1,390	**1,401**	**133**	**75**

[a] US$5,900 (2006 – US$5,900) of this relates to the Company.

[b] The $249,000 of corporate finance service fees were incurred in the December 2006 Barrick transaction, and as a cost of issue of shares, have been netted against share premium.

10. REVENUE

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.

	2007 Continuing operations	2007 Discontinued operations	2007 Total	2006 Continuing operations	2006 Discontinued operations	2006 Total
Revenue:						
Domestic sales	103,006	664	103,670	42,089	10,385	52,474
Export sales	9,094	-	9,094	49,891	-	49,891
	112,100	**664**	**112,764**	**91,980**	**10,385**	**102,365**

11. COST OF SALES

	2007	2006
Operating costs	12,063	9,131
Employee benefits expense	22,478	19,815
Depreciation, depletion and amortisation	8,305	8,283
Inventory write-downs	539	750
Raw materials and consumables used	25,261	20,836
Taxes other than income tax	6,750	7,372
	75,396	**66,187**
Depreciation of owned assets	5,918	6,201
Depreciation of leased assets	2,387	2,082
	8,305	**8,283**

Employee benefits consist of:

	2007	2006
Salaries and wages	22,282	19,815
Pension costs	196	-
	22,478	**19,815**

12. ADMINISTRATIVE EXPENSES

Included in administrative expenses:

	2007	2006
Selling and distribution expenses	2,512	1,844
Minimum lease payments recognised as an operating lease expense	2,959	255
Auditors fee	1,523	1,476
Salaries and wages	1,638	1,114
Share-based payments expense	1,135	2,064

13. OTHER INCOME

	2007	2006
Financial aid from Barrick	275	-
Other	-	473
Total other operating income	**275**	**473**

14. OTHER EXPENSES

	2007	2006
Exploration licences write-off	812	-
Loss on asset disposal	343	329
Donations	222	-
Other	149	-
Total other expenses	**1,526**	**329**

During 2007, following the receipt of unsuccessful drilling results, the Vozdvizhenkoye and Malo-Fedorovskoye licences were returned. The amounts capitalised in relation to these licences were written off to the income statement.

15. FINANCE COSTS

	2007	2006
Bank loans	(1,546)	(4,010)
Finance charges payable under finance leases and hire purchase contracts	(317)	(206)
Accretion expense on site restoration provision	(354)	(337)
Total finance costs	**(2,217)**	**(4,553)**

16. INCOME TAX

The major components of income tax expense for the years ended 31 December 2007 and 2006 are:

	2007	2006
Consolidated income statement		
Current income tax:		
Current income tax charge	6,760	12,513
Adjustments in respect of prior year current tax	(1,794)	1,730
	4,966	14,243
Deferred income tax:		
Relating to origination and reversal of temporary differences	235	(2,731)
Income tax expense reported in the income statement	**5,201**	**11,512**
Consolidated statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity:		
Net gain on revaluation of assets	-	249
Income tax expense reported in equity	**-**	**249**

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by Russian statutory tax rate (24%) for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
Accounting profit before tax from continuing operations	17,417	25,141
Profit/(Loss) before tax from a discontinued operation	5,883	(108,518)
Accounting profit/(loss) before income tax	**23,300**	**(83,377)**
At Russian statutory income tax rate of 24%	5,592	(20,010)
Non–deductible expenses	2,406	7,196
Provision for current tax exposures	-	4,102
Losses arose from Darasun impairment	-	19,026
Lower tax rates on overseas earnings and disposals	(8,578)	(8,632)
Unrecognised losses	7,064	6,442
Movements in other unrecognised temporary differences	511	336
Other	-	1,322
Adjustments in respect of prior year current tax	(1,794)	1,730
Income tax expense on continuing operations	**5,201**	**11,512**
Income tax expense reported in the consolidated income statement	5,201	11,512
Income tax attributable to a discontinued operation	-	-
Income tax charge in the income statement	**5,201**	**11,512**

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet 2007	Consolidated balance sheet 2006	Consolidated income statement 2007	Consolidated income statement 2006	Consolidated statement of changes in equity 2007	Consolidated statement of changes in equity 2006
Deferred income tax liability						
Property, plant and equipment	(39,374)	(33,026)	6,348	(13,139)	-	249
Investments	-	-	-	45	-	-
Inventory	(2,193)	(1,444)	749	(991)	-	-
Trade accounts and notes payable	(32)	-	32	(11)	-	-
Deferred financing costs	(89)	(14)	75	(151)	-	-
Deferred revenue	-	-	-	(12)	-	249
	(41,688)	**(34,484)**	**7,204**	**(14,259)**	**-**	**249**
Deferred income tax assets						
Accounts receivable and other debtors	34	-	(34)	(1,134)	-	-
Inventory	1,561	970	(591)	(1,502)	-	-
Finance lease obligations	626	605	(21)	(680)	-	-
Provisions for liabilities and charges	2,288	2,214	(74)	(1,272)	-	-
Trade accounts and notes payable	679	554	(125)	(628)	-	-
Other accounts payable and accrued liabilities	93	86	(7)	(86)	-	-
Tax losses	14,277	8,160	(6,117)	16,830	-	-
	19,558	**12,589**	**(6,969)**	**11,528**	**-**	**-**
Net deferred income tax liabilities	**(22,130)**	**(21,895)**	**235**	**(2,731)**	**-**	**249**

Reflected in the balance sheet as follows:		
Deferred income tax assets	-	-
Deferred income tax liabilities	(22,130)	(21,895)
Deferred tax liabilities net	**(22,130)**	**(21,895)**

No deferred tax benefits are recognised in relation to site restoration provisions, obsolescence provisions and the Darasun impairment adjustment. 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 recognised at 31 December 2007 is US$1.3 million (31 December 2006: US$1.1 million).

No deferred tax benefit is recognised in relation to the provision for obsolete inventory. These materials are unlikely to be used for the production purposes in the future and therefore future tax relief is not assumed. The amount of deferred tax asset not recognised is US$1.9 million at 31 December 2007 (31 December 2006: US$1.5 million).

The amount of the unrecognised deferred tax asset in relation to the Darasun impairment provision is US$19.0 million at 31 December 2006. No deferred tax asset associated with Darasun has been recognised as Darasun was disposed of by the Group and its losses cannot be offset against the taxable profit of other entities within the Group.

The total amount of unrecognised deferred tax assets relating to the tax losses is US$2.1million as at 31 December 2007 (31 December 2006: US$8.6 million). The non-recognition of tax losses is due to insufficient future income against which these losses could be offset.

According to Russian tax legislation, tax losses expire if not utilised within 10 years of accruing.

At 31 December 2007, there was no recognised deferred tax liability (2006: nil) for taxes that would be payable on the unremitted earnings if the Group's subsidiaries, or its interest in the Novo joint venture, as:

- the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future; and
- the joint venture of the Group, Novo, cannot distribute its profits until it obtains unanimous consent of the venturers. At the balance sheet date, Highland Gold Mining Limited did not foresee such consent being given.

The temporary differences associated with investments in subsidiaries and the joint venture, for which deferred tax liability has not been recognised aggregate to US$44.5 million (2006: US$32.1 million).

The total deferred tax liabilities arising from these temporary differences should be between US$0 and US$2.2 million, depending on the manner in which the investments are ultimately realised.

The parent company has been granted exempt company status under Article 123A of the Income Tax (Jersey) Law 1961. This status is renewable annually. The parent company plans to maintain this status for as long as it is available pending the introduction of a general zero rate corporation tax which will be introduced in 2009. In order to hold exempt status an annual fee of £600 is payable. The fee is included as an expense in the profit and loss account as it is not dependent on the company's results.

17. DISPOSAL

a) Darasun

On 24 October 2007, Highland Gold Mining Limited announced that it had completed the sale of its 100% share in OOO “Darasunsky Rudnik”, owner of the Darasun, Teremky and Talatui mines in the Chita Region, Russia, for total cash proceeds of US$15 million to the Open Joint Stock Company “Uzhuralzoloto Group of Companies”.

The results of OOO “Darasunsky Rudnik” for the year are presented below:

	2007	2006
Revenue	664	10,385
Expenses	(9,068)	(30,975)
Gross loss	(8,404)	(20,590)
Administrative costs	(28)	(79)
Impairment losses (Note 20)	-	(79,274)
Other operating income/(costs)	1,326	(2,846)
Operating loss	(7,106)	(102,789)
Finance costs	(223)	(405)
Exchange loss	(3,046)	(5,324)
Loss for the year before tax from a discontinued operation	**(10,375)**	**(108,518)**
Gain on disposal of discontinued operation	16,258	-
Tax (expense)/credit	-	-
Profit/(loss) for the year from discontinued operation	**5,883**	**(108,518)**

The carrying values of the major classes of assets and liabilities of OOO “Darasunsky Rudnik” at the end of 2006 and at its disposal date are as follows:

	2007	2006
Property, plant and equipment	3,644	9,481
Inventory	2,241	4,169
Trade and other receivables	475	1,164
Cash	132	796
Total assets	**6,492**	**15,610**
Non-Current liabilities	(7,026)	(8,702)
Current liabilities	(724)	(7,543)
Net liabilities	**(1,258)**	**(635)**

Net result from Darasun in the years 2006 and 2007 was as follows:

	2007	2006
Revenue from Darasun disposal	15,000	-
Darasun's net liabilities disposed	1,258	-
Loss for the year from a discontinued operation	(10,375)	(108,518)
Net result from Darasun	**5,883**	**(108,518)**

The net cash flows are as follows:

	2007	2006
Total disposal consideration received in cash	10,000	-
Cash and short-term deposits in OOO Darasunsky Rudnik on disposal	(132)	-
Net cash inflow from disposal	**9,868**	**-**

US$3.0 million of the proceeds was received upon signing of the agreement, with a further US$7.0 million paid before the end of 2007. The remaining US$5.0 million was paid at the end of the first quarter of 2008.

Loss per share from discontinued operations:

	2007 US$	2006 US$
Basic loss per share	0.030	(0.672)
Diluted loss per share	0.029	(0.656)

b) Novo joint venture

On 1 December 2006 the Group signed a joint venture agreement with Kazzinc with the purpose of further developing the Novoshirokinskoye polimetallic deposit.

According to the agreement a 48.3% interest in OAO Novoshirokinskoye ("Novo") was sold for a consideration of US$36 million in cash. This interest sold represented 50% of the Group's 96.6% interest. The disposal resulted in a gain of US$15.4 million.

	Amount
Novo net assets at disposal date	42,621
Share of net assets disposed – 48.3%	20,586
Consideration received in cash	36,000
Gain on disposal	**15,414**

This transaction resulted in the creation of a joint venture, Novoshirokinsky Rudnik open joint stock company, Russian Federation, Chita region, Gazimuro-Zavodskoy raion, Novo-Shirokaya. The Group's interest in the Joint Venture is recordered using the proporational consolidation method as it is jointly controlled by the Group and Kazzinc under contractual agreement. The existence of joint control is based on following factors:

- Investment in the joint venture will be split 48.3%/ 48.3% between the Group and Kazzinc.
- The Board of Directors of the joint venture will consist of three representatives from each venturer.
- The operator of the project is selected every year. For 2007, the operator of project was OOO Russdragmet (RDM), a wholly owned subsidiary of Highland Gold.

Highland's interest in the Novo joint venture is presented in Note 7.

18. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the exercise of share options into ordinary shares.

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

	2007	2006
Net profit attributable to ordinary equity holders of the parent from continuing operations	12,216	13,629
Profit/(Loss) attributable to ordinary equity holders of the parent from a discontinued operation	5,883	(108,518)
Net profit/(loss) attributable to ordinary equity holders of the parent	**18,099**	**(94,899)**
	Thousands	**Thousands**
Weighted average number of ordinary shares for basic earnings per share	198,660	161,586
Effect of dilution:		
Share options	3,578	3,876
Weighted average number of ordinary shares adjusted for the effect of dilution	**202,238**	**165,462**

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

To calculate earnings per share amounts for the discontinued operation, the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the profit figure used as the numerator:

	2007	2006
Net loss attributable to ordinary equity holders of the parent from a discontinued operation for basic and diluted earnings per share calculations	**5,883**	**(108,518)**

19. PROPERTY, PLANT AND EQUIPMENT

	Exploration and evaluation assets US$000	Mine development US$000	Freehold building US$000	Plant and equipment* US$000	Construction in progress US$000	Deferred Stripping costs US$000	Total US$000
Cost or valuation:							
At 1 January 2006	1,668	178,602	25,556	59,999	34,303	2,143	302,271
Additions**	4,501	21,025	76	1,599	11,360	-	38,561
Transfers	-	442	2,103	6,001	(8,546)	-	-
Acquisition of subsidiary	14,750	18,084	-	158	860	-	33,852
Disposals	-	-	-	-	-	(281)	(281)
Write-off	(329)	-	-	-	-	-	(329)
Disposal of 50% interest in Novo		(13,830)	(268)	(1,095)	(4,905)		(20,098)
Disposal of 50% interest in Taseevskoye	-	(14,210)	-	(266)	(484)	-	(14,960)
Revaluation	-	1,039	-	-	-	-	1,039
At 31 December 2006	20,590	191,152	27,467	66,396	32,588	1,862	340,055
Additions**	3,299	43,074	1,137	9,876	23,066	394	80,846
Transfers	-	26,935	7,486	7,347	(41,768)	-	-
Write-off	(812)	(180)	-	(1,030)	-	-	(2,022)
Disposals	-	-	-	-	-	-	-
Capitalised depreciation	-	2,061	-	-	-	-	2,061
Disposal of Darasun	-	-	-	(5,084)	(336)	-	(5,420)
At 31 December 2007	**23,077**	**263,042**	**36,090**	**77,505**	**13,550**	**2,256**	**415,520**
Depreciation and impairment:							
At 1 January 2006	-	11,942	1,923	7,415	-	-	21,280
Provided during the year	-	4,290	598	3,395	-	-	8,283
Discontinued operations	-	244	904	1,997	-	-	3,145
Impairment loss	-	29,397	15,768	11,224	6,746	-	63,135
At 31 December 2006	-	45,873	19,193	24,031	6,746	-	95,843
Provided during the year	-	3,511	618	4,176	-	-	8,305
Disposals	-	(64)	-	(432)		-	(496)
Disposal of Darasun	-	-	-	(1,776)	-	-	(1,776)
Capitalised depreciation		-	241	1,820	-	-	2,061
At 31 December 2007	**-**	**49,320**	**20,052**	**27,819**	**6,746**	**-**	**103,937**
Net book value:							
At 31 December 2007	23,077	213,722	16,038	49,686	6,804	2,256	311,583
At 31 December 2006	20,590	145,279	8,274	42,365	25,842	1,862	244,212
At 1 January 2006	1,668	166,660	23,633	52,584	34,303	2,143	280,991

* At 31 December 2007 US$17,403,000 (at 31 December 2006: US$20,191,000) of plant and equipment costs relate to assets under finance lease with accumulated depreciation of US$7,843,000 (31 December 2006: US$6,492,000).

** Additions include $10.6 million of borrowing costs capitalised during the period (2006: $4.0 million). The capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation are as follows:

	2007	2006
Bonds	14.18%	13.01%
Loans	8.71%	8.79%

20. IMPAIRMENT OF ASSETS AND PROVISION FOR SITE RESTORATION AT DARASUN

In 2006, following in-depth engineering studies, rehabilitation assessments and financial reviews and in compliance with required accounting practice, management has downgraded its valuation of the mine at Darasun, determining that a permanent decline in value has occurred.

The year 2006 was a year of many operational challenges at the Darasun Property and there were two key triggering events that led to this carrying value evaluation:

- Continued mine-to-reserve dilution coupled with adverse mill-to-mine grade reconciliations in the Underground Mine resulted in management placing the South West and Teremky shafts on a care and maintenance basis in August 2006. In isolation this did not result in an impairment as the carrying value of the assets were deemed to be recoverable against the cash flows of the remaining operations; followed by,
- The fire on 7 September 2006 resulted in the cessation of all remaining underground production activities with production access to underground mining areas still prohibited. Access to these areas for the purposes of rehabilitation only, was granted on 13 December 2006. Following this access, Management continues to undertake and evaluate various studies investigating the cost of rehabilitation and future viability of recommencing underground operations at Darasun.

In accordance with IAS 36 “Impairment of assets” the carrying values of the Darasun property at 31 December 2006, have been compared to its recoverable amount, represented by its fair value less costs to sell. The recoverable amount of each asset was determined based on an internal assessment, accordingly:

- Mine assets relate to underground development and was written down to nil as the mine site will never be operated in the future.
- Property, plant and equipment consist of producing and mining equipment and were written to their estimated scrap less costs to sell. Leased equipment will be redeployed and sold to other entities within the Group at their net carrying value.
- Buildings and Assets under construction will not be used following the mine closure and were written off.
- Stock, except finished goods will be sold to other entities within the Group at their net carrying values or to other third parties at 10% of the carrying value.
- Finished goods and Debtors, mainly relating to VAT receivable, were valued at the amounts realised subsequent to year end.
- Deferred stripping was written off following the cessation of the unviable open pit mining operations.

Management’s valuation assessment has resulted in a $79.0 million impairment charge. The impairment related to the following assets:

	Amount
TANGIBLE ASSETS	
Mine assets	29,397
Plant and equipment	11,224
Deferred stripping costs	2,501
Buildings	15,768
Assets under construction	6,746
	65,636
CURRENT ASSETS	
Inventories	6,258
Trade and other receivables	4,760
	11,018
Increase to site restoration provision	2,620
Total impairment charge	**79,274**

21. INTANGIBLE ASSETS

Intangible assets represent goodwill arising from the Barrick transaction (Note 6).

	2007	2006
Balance at 1 January	65,231	-
Addition	-	65,231
Balance at 31 December	**65,231**	**65,231**

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its value-in-use. The value-in-use is determined at the cash-generating unit level, in this case being the entire Group, by discounting the expected cash flows estimated by management over the life of the mine.

The key assumptions used for its calculation are as follows:

- Recoverable reserves and resources.
- Gold prices.
- Cash costs.
- Discount rates.
- Production capacity.

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

Gold prices are based on an internal assessment.

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

Discount rates are calculated considering the weighted average cost of capital and also reflect management's estimate of the risk attached to the specific projects and the country in which it is based. The pre-tax discount rate applied is 10% (2006: 9%).

Production capacity reflects the rate of production at which the mine is expected to operate during its life.

The calculation of value-in-use is most sensitive to the following assumptions:

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

Management believe that no reasonably possible change in any of these assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

22. FINANCIAL ASSETS

	2007	2006
Loan given to Novoshirokinskoye	10,723	259
Other loans given	287	-
	11,010	**259**

The loan to Novoshirokinskoye has a maturity date of 2015. Interest is earned at a rate of 15% (2006: 15%).

23. SHARE-BASED PAYMENT PLANS

The expense recognised for share-based payment transaction during the year is shown in the following table:

	2007 US$000	2006 US$000
Expense arising from equity-settled share-based payment transaction	(1,315)	(2,225)
Credit arising from cash-settled share-based payment transaction	180	161
Total expense arising from share-based payment transaction	**(1,135)**	**(2,064)**

Employee share option plan

On July 7, 2005 the Group approved an employee share option scheme in line with the statement made at the time of Admission to the Alternative Investment Market in December 2002. The scheme runs 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.

During the 12 months ended 31 December 2007 the Group issued 1,842,500 new share options with an average exercise price of 101p per share with the same terms of exercise as previous share options (each grant of options are divided into four equal parts which can be exercised starting the first anniversary of the date of grant for first part, the second anniversary for the second part etc. until the fourth anniversary). The contractual life of the options is 7 years from the date of grant. The exercise of share options is not subject to any market performance related conditions. There are no cash settlement alternatives.

Options for 575,000 shares have been forfeited because of the retirement of certain participants. No share options have been exercised.

Currently there are 50 participants of the scheme representing board members, directors and executive management of the Group.

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 January	3,645,000	£2.29	4,855,000	£1.84
Granted during the year	1,842,500	£1.01	1,000,000	£3.02
Forfeited during the year	(575,000)	£2.11	(510,000)	£2.11
Exercised[1]	-	-	(1,700,000)[1]	£1.49
Expired during the year	-	-	-	-
				-
Outstanding as at 31 December	**4,912,500**	**£1.83**	**3,645,000**	**£2.29**
Exercisable at 31 December	1,285,000	£1.91	536,250	£2.11

[1] The weighted average share price at the date of exercise for the options exercised was £3.15

For the share options outstanding as at 31 December 2007, the weighted average remaining contractual life is 5.96 years (2006: 5.22 years).

The weighted average fair value of options granted during the year was £0.35 (2006: £1.10).

The range of exercise prices for options outstanding at the end of the year was £0.96 – £3.02 (2006: £1.60 - £3.02)

All assets, liabilities and costs of the share based payments are valued at fair values using the Black-Scholes-Merton option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the years ended 31 December 2007 and 31 December 2006.

	2007	2006
Historical volatility (%)[2]	61.43	54.79
Risk-free interest rate (%)	4.37	4.88
Dividend yield (%)	-	-
Weighted average market share price, GBP	0.89	3.02
Weighted average exercise price, GBP	0.96	3.02
Expected life of option (years)[1]	2.25	2.5

[1] The vesting period has been assumed to be the expected life of the option for the purposes of determining the option's fair value.

[2] Historical volatility was determined using the historical share prices of the Group for the last 43 months.

Share Appreciation Rights (SARs)

Under the terms of the SARs scheme, participants 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, participants 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.

The carrying amount of the liability relating to SARs scheme at 31 December 2007 is $153k (2006: $333k).

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP
Outstanding as at 1 January	787,521	£2.57	937,402	£2.57
Forfeited during the year	(18,898)	£2.58	(149,881)	£2.57
Expired during the year	(299,699)	£2.56	-	-
Outstanding as at 31 December	**468,924**	**£2.58**	**787,521**	**£2.57**
Exercisable at 31 December	468,924	£2.58	299,699	£2.56

For these cash-settled transactions the fair value is established initially at the grant date and at each reporting date thereafter until the awards are settled with changes in fair value recognised in profit and loss. The fair value of the SARs is measured by means of Black-Scholes-Merton option pricing model taking into account the terms and conditions upon which they were granted. The following table lists the inputs to the model.

	2007	2006
Historical volatility (%)	61.43	60.62
Risk-free interest rate (%)	4.50	5.45
Weighted average market share price, GBP	1.59	1.60
Weighted average exercise price, GBP	2.58	2.56
Expected life of option (years)[1]	1.0	1.0

[1] The contractual period has been assumed for 2007 (vesting period for 2006) to be the expected life of the option for the purposes of determining the option's fair value.

24. INVENTORIES

	2007	2006
Raw materials and consumables	54,344	35,930
Gold in progress	7,921	3,514
Finished goods	39	1,099
	62,304	**40,543**
Obsolescence provision	(7,852)	(6,421)
Total inventories	**54,452**	**34,122**

25. TRADE AND OTHER RECEIVABLES

	2007	2006
Receivable from Uzhuralzoloto in relation to Darasun	5,000	-
VAT receivable	26,046	11,990
Profit tax receivable	421	2,514
Receivables from joint venture	498	134
Other receivables	3,418	2,097
	35,383	**16,735**

The last tranche from Uzhuralzoloto for Darasun sale was received by the Group in the first quarter of 2008.
Other receivables are non-interest bearing and are generally on 30-90 days term.
As at 31 December, VAT receivable was provided for as follows:

	2007	2006
At 1 January	1,842	203
Charge for year	-	1,639
Utilisation	(1,631)	-
At 31 December	**211**	**1,842**

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

26. CASH AND CASH EQUIVALENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is US$211,275 (2006: US$31,576).

	2007	2006
Cash in hand and at bank	12,966	10,022
Short-term deposits	198,309	21,554
	211,275	**31,576**

27. ISSUED CAPITAL AND RESERVES

Authorised

	2007 Shares	2006 Shares
Ordinary shares of £0.001 each	400,000,000	400,000,000

Ordinary shares issued and fully paid

	Shares	Amount
At 1 January 2006	158,904,793	255
Issued on 21 February and 3 May for cash on exercise of share options	1,700,000	3
Issued on 18 December to Barrick Gold Corporation (Note 6)	34,312,657	67
At 1 January 2007	194,917,450	325
Issued on 04 December to Millhouse	65,050,000	133
At December 2007	259,967,450	458

On 4 December 2007, 65,050,000 ordinary shares with an aggregate nominal value of US$133,000 were issued to Primrod International Limited (owned by Millhouse LLC) at a price of 151 pence per ordinary share. As a result of the subscription, Highland Gold received US$200 million in December 2007. A further 65,050,000 shares were issued to Primrod International Limited in January 2008 for an additional US$200 million.

On 24 January 2008, the second tranche of the share consideration for the Barrick transaction (see note 6) was issued. 179,648 of ordinary shares at a price of 145 pence per share were issued to Barrick Gold Corporation. At 31 December 2007, they were shown as shares to be issued.

28. ASSET REVALUATION RESERVE

The asset revaluation reserve is used to record the increase in the fair value of 50% of net assets of Taseevskoye already owned prior to the Barrick transaction (Note 6), net of deferred income tax.

	Amount
At 1 January 2006	-
Revaluation reserve	1,039
Deferred tax allocated to the revaluation reserve	(249)
At 31 December 2006	790
Movement during the year	-
At 31 December 2007	790

29. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate %	Maturity	2007	2006
Current				
Obligations under finance leases and hire purchase contracts (Note 32)	10.74	2008	2,075	2,579
Corporate bonds, Rub 750 million	12.75	April 2008	30,555	-
Other loans:				
$60 million bank loan	LIBOR + 3.85	June 2007	-	30,724
$60 million bank loan	8.60	December 2011	13,440	-
$15 million bank loan	8.00	July 2008	15,000	-
$30 million bank loan	10.50	December 2011	2,308	-
$30 million bank loan	8.70	May 2011	8,571	-
€15 million bank overdraft	9.00	-	19	15
			71,968	**33,318**
Non-current				
Obligations under finance leases and hire purchase contracts (Note 32)	11.37	2009-2010	2,090	3,270
Corporate bonds, Rub 750 million	12.75	April 2008	-	28,484
Other loans:				
Kazzinc	15.00	December 2015	12,418	-
$15 million bank loan	8.00	June 2008	-	15,000
$60 million bank loan	8.60	December 2011	41,540	-
$30 million bank loan	10.50	December 2011	27,692	-
$30 million bank loan	8.70	May 2011	20,714	-
			104,454	**46,754**

30. TRADE AND OTHER PAYABLES (CURRENT)

	2007	2006
Trade payables	3,293	9,721
Other payables	13,617	4,389
Salaries payable	5,001	4,060
Other taxes payable	2,842	2,135
Other related parties	24	401
Interest payable	964	262
Trade and other payables	**25,741**	**20,968**

Terms and conditions of the financial liabilities included above:

- Salaries payable are non-interest bearing and are normally settled on 30-day terms.
- Trade and other payables are non-interest bearing and are normally settled on 30-60-day terms.
- Interest payable is normally settled monthly throughout the financial year.
- Other taxes payable includes mineral extraction tax, property tax, social taxes and VAT. These are non-interest bearing and are normally settled within 30-60 days.
- For terms and conditions in regards of related parties, refer to Note 33.

31. PROVISIONS

	Site restoration provision	Other tax provision	Legal provision	Special case provision	Total
At 1 January 2006	10,686	-	-	-	10,686
Accretion	534	-	-	-	534
Arising during the year	2,620	4,583	2,277	1,199	10,679
At 31 December 2006	13,840	4,583	2,277	1,199	21,899
Utilised	-	-	-	(254)	(254)
Accretion	354	-	-	-	354
Disposals	(6,757)	-	-	-	(6,757)
Unused amounts reversed	-	(4,583)	(171)	(879)	(5,633)
At 31 December 2007	**7,437**	**-**	**2,106**	**66**	**9,609**
Current 2007	-	-	2,106	66	2,172
Non-current 2007	7,437	-	-	-	7,437
	7,437	**-**	**2,106**	**66**	**9,609**
Current 2006	-	4,583	2,277	1,199	8,059
Non-current 2006	13,840	-	-	-	13,840
	13,840	**4,583**	**2,277**	**1,199**	**21,899**

Site restoration provision

A provision is recognised for expected close down, restoration and environmental clean up costs based on the estimated future costs. It is expected that most of these costs will be incurred at the end of life of the operating mine. Assumptions used to calculate the provision for site restoration were based on the government requirements applicable to similar sites that have been closed recently, and assumptions regarding the life of mine (which is assumed to close in Y2012), expected site restoration activities (removal of waste, restoration of mine sites), current prices for similar activities.

Profit tax provision

The provision for profit tax is based on the estimated outcomes of the current court cases and future probable tax exposures.

Other tax provision

The provision for other taxes relates to the possible tax exposures associated with the OOO Darasunsky Rudnik and MNV. The total amount of the provision was reversed due to the disposal of OOO Darasunsky Rudnik from the Group in 2007.

Legal provision

The legal provision relates to various possible claims towards the Group. It is assumed to be used or expire within the next two years.

Special case provision

This provision is associated with the tragedy at Darasun in September 2006. The amount of the provision is based on the amount of claims. The payments are expected to be made in the next year.

32. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The Group has entered into a commercial lease on its office premises. This lease has a life of 7 years. There are no restrictions placed upon the Group by entering into this lease.

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

	2007	2006
Within one year	1,853	1,641
After one year but not more than five years	9,476	8,786
More than five years	1,801	4,344
	13,130	**14,771**

Capital commitments

At 31 December 2007, the Group had commitments of US$15 million (2006: US$5 million) principally relating to development assets and US$3 million for the acquisition of new machinery.

Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery. These leases have purchase options and escalation clauses. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

		2007		2006
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	2,484	2,075	3,131	2,579
After one year but not more than five years	2,276	2,090	3,608	3,270
Total minimum lease payments	4,760	4,165	6,739	5,849
Less amounts representing finance charges	(595)	-	(890)	-
Present value of minimum lease payments	**4,165**	**4,165**	**5,849**	**5,849**

Contingent Liabilities

Management has identified possible tax claims within the various jurisdictions in which it operates totalling US$ 13.3 million as at 31 December 2007 (at 31 December 2006: US$ 11.2 million). In management's view these possible tax claims will likely not result in a future outflow of resources, consequently no provision is required in respect of these matters.

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

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

33. RELATED PARTY TRANSACTIONS

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

Name	Country of incorporation	Shareholding %
Subsidiary undertakings		
Held by the ultimate parent		
Stanmix Ventures Limited	Cyprus	100
Stanmix Investments Limited (STIL)	Cyprus	100
Stanmix Holding Limited (Stanmix)	Cyprus	100
Barrick Gold Netherlands B.V.	Holland	100
Held by indirectly via 100% owned subsidiaries		
HB Ventures Netherlands B.V.	Holland	100
Highland Gold Netherlands B.V.	Holland	100
Taseevskoye Netherlands B.V.	Holland	100
ZAO Mnogovershinnoye (MNV)	Russia	100
ZAO Talatui (Talatui)	Russia	100
OOO ZK Mayskoye	Russia	100
OOO Taseevskoye	Russia	100
OOO Russdragmet (RDM)	Russia	100
OOO RDM-Logistika	Russia	100
OOO Highland Gold Finance	Russia	100
ZAO TH Mnogovershinnoye	Russia	100
OOO SK Energy	Russia	100
OOO Zabaykalzolotoproyekt (ZZP)	Russia	100
OOO Trade House Dauria (THD)	Russia	100
OOO Trade House Mayskoye	Russia	100
OOO Zabaykalzolotorazvedka	Russia	100
OOO Zabaykalgeologiya	Russia	100
OOO Zabaykalgeologorazvedka	Russia	100
OOO Zabaykalskoe Geologorazvedochnoye predpriyatiye	Russia	100
OOO Chukotgeologorazvedka	Russia	100
OOO Dalnevostochnoe Geologorazvedochnoe Predpriyatiye	Russia	100
OOO SG - ZIF	Russia	100
OOO Investment Mining and Geological Company (IMGC)	Russia	80
OOO RDM - Engineering	Russia	100
OOO RDM - InformService	Russia	100
OOO ChOP Komandor	Russia	100
Highland Gold Kazakhstan LLP	Kazakhstan	100
Highland Exploration Kyrgyzstan LLC	Kyrgyzstan	100
Jointly controlled entity		
OAO Novoshirokinskoye	Russia	48.3

OOO Barrick Resources was included in the Group's consolidated statement at 31 December 2007. OOO Barrick Resources is a company actually controlled by Highland Gold Mining Limited though the legal ownership for it was transferred to Highland Gold only in Fenbruary 2008. Highland Gold Mining Limited is the ultimate parent entity of the Group.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at 31 December 2007 and 2006, refer to Notes 22, 25 and 30):

		Services/ Sales provided related parties	Financial aid provided by related parties	Services provided by related parties	Amounts owed to related parties	Amounts owed to related parties
Entity with significant influence over the Group:						
Barrick Resources	2007	-	-	-	-	-
	2006	-	-	-	-	-
Barrick Gold Services	2007	355	275	155	-	-
	2006	-	-	876	-	390
Fleming Family & Partners	2007	-	-	120	-	24
	2006	-	-	118	-	12
Joint venture in which the parent is the venturer:						
OAO Novoshirokinskoye	2007	5,339	-	8	498	-
	2006	134	-	-	134	-

		Loans given to related parties	Interest on the loan given to the related party	Loans received from related parties	Interest on the loan received from the related party	Amounts owed by related parties	Amounts owed to related parties
Joint venture in which the parent is the venturer:							
OAO Novoshirokinskoye	2007	10,723	404	-	-	404	-
	2006	259	1	-	-	1	-
Partner in the joint venture:							
Kazzinc	2007	-	-	12,418	785	-	785
	2006	-	-	-	-	-	-

Entity with significant influence over the Group

Barrick Gold Services

Barrick Gold Services is a company controlled by Barrick Gold Corporation of Canada. Barrick Gold Corporation of Canada owns 25.41% of the ordinary shares in Highland Gold Mining Limited (2006: 33.89%)

Millhouse LLC

Following the First Subscription on new ordinary shares in Highland Gold Mining Limited on 4 December 2007 by Millhouse LLC (through its subsidiary Primrod International Limited), Millhouse held 25.02% of Highland Gold at 31 December 2007.

Joint venture in which the parent is a venture

OAO Novoshirokinskoye Rudnik (Novo)

The Group has a 48.3% interest in OAO Novoshirokinskoye Rudnik (2006: 48.3%).

Partners in the joint venture

Kazzinc

Kazzinc and Highland Gold Mining Limited are the parties with joint control over OAO Novoshirokinskoye Rudnik.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2007, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2006: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

	2007 US$000	2006 US$000
Short-term employee benefits	4,151	2,581
Share-based payments	718	715
Total compensation paid to key management personnel	4,869	3,296

Directors' interests in an employee share incentive plan

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

Date of issue	Expiry date	Exercise price	Number 2007	Number 2006
2005	2014	£1.60	500,000	500,000
2005	2012	£2.11	250,000	250,000
2006	2013	£3.02	1,000,000	1,000,000
2007	2014	£0.96	140,000	-
2007	2014	£1.22	110,000	-

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Gold price risk

In year 2007 as well as in prior years, the Group continued its no hedge policy in relation to the gold price.

Foreign currency risk

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

In April 2005, the Group issued rouble denominated bonds in the amount of Rb750,000,000 (US$26.8 million). In order to minimise the effect of changes in RUR/USD rates on the liability arising on the bonds, the Group signed a forward contract with BNP Paribas for a number of forward transactions on RUR/USD. The retranslation of the rouble denominated bonds and the measurement of forward contracts at fair value resulted in the recognition of US$0.4 million gain for the year ended 31 December 2006. On 5 October 2006, the forward contract expired. No other new forward contract has been signed after that date.

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

	Increase/ decrease in EUR rate	Effect on profit before tax	Increase/ decrease in RUR rate	Effect on profit before tax	Increase/ decrease in GBP rate	Effect on profit before tax
2006	-	-	+10%	(1,615)	+10%	71
	-	-	-10%	1,615	-10%	(71)
2007	+10%	(67)	+10%	4,169	+10%	15,551
	-10%	67	-10%	(4,169)	-10%	(15,551)

Credit risk

The Group sells the produced gold to recognised, creditworthy banks. The sold gold is being paid for in advance, or immediately after the sale. Therefore, there is no trade receivables associated with the gold trade. There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure related to financial assets is represented by the carrying value as at the balance sheet date.

Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

Year ended 31 December 2006	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**>5 years**	**Total**
Interest bearing loans and borrowings	-	32,614	8,996	52,227	-	93,837
Obligations under finance leases		896	2,230	3,613		6,739
Trade and other payables	-	18,570	-	-	-	18,570
	-	**52,080**	**11,226**	**55,840**	**-**	**119,146**

Year ended 31 December 2007	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**>5 years**	**Total**
Interest bearing loans and borrowings	-	9,303	76,378	106,791	-	192,472
Obligations under finance leases		642	1,842	2,276		4,760
Trade and other payables	-	22,337	-	-	-	22,337
	-	**32,282**	**78,220**	**109,067**	**-**	**219,569**

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management considers as part of its capital, the financial sources of funding from shareholders and third parties. In order to ensure an appropriate return for shareholders' capital invested in the Company, management thoroughly evaluates all material projects and potential acquisitions and has them approved by the Board where applicable.

Interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity. The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes those recognised at fair value as well as all non-derivative floating rate financial instruments.

	Increase/decrease in interest rate	Effect on profit before tax
2006	+2%	(116)
	+2%	(116)
2007	-	-
	-	-

All interest income (2007: US$1,350; 2006: US$730) relates to cash and cash equivalents which are carried at amortised cost.

35. 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.

Fair values

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

	Carrying amount 2007	Carrying amount 2006	Fair value 2007	Fair value 2006
Financial assets				
Cash and cash equivalents	211,275	31,576	211,275	31,576
Trade and other receivables	8,916	2,231	8,916	2,231
Loan to Novo	10,723	259	5,002	-
Financial liabilities				
Bank overdraft	19	15	19	15
Interest-bearing loans and borrowings:				
Obligations under finance leases and hire purchase contracts	4,165	5,849	3,857	5,250
Floating rate borrowings	-	30,724	-	30,069
Fixed rate borrowings	159,820	43,484	141,754	38,756
Fixed rate borrowings - Kazzinc	12,418	-	5,793	-
Trade and other payables	22,898	18,832	22,898	18,832

The fair values of USD denominated items have been calculated by discounting the expected future cash flows at prevailing interest rates of 10% (2006:9%). The fair values of Rouble denominated items have been calculated by discounting the expected future cash flows at prevailing interest rates of 10% (2006:9%).

36. DIVIDENDS

There were no dividends declared or paid in 2006 and 2007.

37. EVENTS AFTER THE BALANCE SHEET DATE

On 16 January 2008, Millhouse LLC completed the second subscription for 65,050,000 new ordinary shares in Highland Gold Mining Limited at a price of 151 pence per share. After completing the subscription Millhouse LLC has a 40% interest in the issued share capital of Highland Gold Mining Limited.

After the year end, the Group has repaid the US$15 million short term loan received from Gazprombank in 2006 before the maturity date and also fully repaid the Rouble corporate bond in the amount of US$31 million. The early re-financing of the Gazprombank facility and repayment of the corporate bond will see the effective maturity profile of all of Highland Gold's remaining loan facilities extend to late 2010 and 2011.

38. FIRST TIME ADOPTION OF IFRS

Introduction

For all periods up to and including the year ended 31 December 2006, Highland Gold Mining Limited prepared its financial statements in accordance with UK GAAP. From 1 January 2007, the Group is required to prepare its consolidated financial statements in accordance with IFRS as adopted by EU. This change applies to all financial reporting for accounting periods beginning on or after 1 January 2007. Consequently, the Group's first Annual Report and Accounts under IFRS are for the year ending 31 December 2007. As the Group publishes comparative information in its Annual Report and Accounts, the date for transition to IFRS is 1 January 2006, this being the start of the earliest period of the comparative information.

The transition to IFRS represents a significant change in the Group's accounting policies. The purpose of this note is to provide details of the impact of this change.

Overview of impact

At 1 January 2006	UK GAAP	IFRS
Net assets	248,154	243,421

Year ended 31 December 2006	UK GAAP	IFRS
Loss before income tax	(83,202)	(83,377)
Loss after taxation	(96,445)	(94,889)
Earnings per share (basic)	(0.597)	(0.585)
Net assets	253,588	248,456

The most significant elements contributing to the change in financial information for 2006 are:

- the write-off of the negative goodwill on transition to IFRS to the retained earnings;
- recognition of deferred tax liabilities on the fair value adjustments arising in the prior business combination and recognition of deferred tax liabilities arising on the retranslation of fixed assets arising in groups's Russian subsidiaries whose functional currency is different from their tax currency;
- recognition of additional gain arising on the disposal of group's 50% share in Novoshirokinskoye ("Novo") as a result of the decrease in the net assets of Novo on conversion to IFRS;
- change in the treatment of derivative financial instruments; and
- change in the treatment of the joint venture.

The financial information for the full year ended 31 December 2006 is based on the statutory accounts for the year ended 31 December 2006, restated for the effects of adoption of IFRS as outlined in the following note. Those statutory accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

Details of Changes

Transitional arrangements

The requirements for first time adoption of IFRS are set out in IFRS 1. In general, a company is required to determine its IFRS accounting policies and to apply these retrospectively in order to determine its opening balance sheet under IFRS. The standard allows a number of exemptions to this general principle to assist companies as they move to reporting under IFRS. Where the Company has taken advantage of these exemptions, they are noted below.

Changes in accounting policies

Adoption of IFRS involves changes to the Group's accounting policies. Significant changes in policies, together with associated transitional arrangements, are explained in more detail below.

A summary of the relevant and significant IFRS accounting policies is provided in Note 3. The resultant changes from each standard are quantified on pages 42 to 48 for 2006. The Group has taken the opportunity to modify the format of its financial statements. The starting point for reconciliations of the financial statements in this document is UK GAAP but the formats used are those that will be shown for 2007 reporting under IFRS.

IAS 12 Income Taxes

IAS 12 requires recognition of deferred tax provision relating to the fair value of the acquired assets, and the foreign exchange differences to be treated as temporary differences. Consequently, the opening IFRS balance sheet at 1 January 2006 includes a US$14.4 million increase in deferred tax provision.

IFRS 3 Business combinations

IFRS 3 requires negative goodwill arising on previous business combinations to be written-off to retained earnings. As a result, the opening IFRS balance sheet at 1 January 2006 includes a US$8.8 million increase in retained earnings.

IAS 32 Financial instruments: Presentation, IAS 39 Financial instruments: Recognition and Measurement

IAS 39 requires recognition of derivative financial instruments such as forward currency contracts at fair value.

IAS 31 Interests in Joint Ventures

IAS 31 requires the use of the proportional consolidation method to in accounting for its interests in joint ventures.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they are expected to apply to the financial statements of the Group for the year ended 31 December 2007. This is the first year in which the Group will prepare its financial statements under IFRSs and the comparatives have been restated from UK GAAP to comply with IFRSs. As part of the transition to IFRSs, the Group has restated the Group Balance Sheets as at 1 January 2006 (the "transition date") and 30 June 2006 and the Group Income Statements for the year ended 31 December 2006 and six months ended 30 June 2006 to comply with IFRS.

Under IFRS 1 'First time adoption of International Financial Reporting Standards', IFRS are applied retrospectively at the transition balance sheet date with all adjustments to assets and liabilities as stated under UK GAAP taken to retained earnings unless certain exemptions are applied. The primary exemption that has been applied by the Group is not to restate financial information for business combination that occurred prior to 1 January 2006.

The reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in this note.

BALANCE SHEET RECONCILIATIONS

A reconciliation between the UK GAAP and IFRS Consolidated Balance Sheet at 1 January 2006 (date of transition to IFRS) is provided below:

	UK GAAP	UK GAAP Adjust-ments	Adjusted UK GAAP	Reclassifi-cations	Subtotal	IFRS Adjust-ments	Notes	IFRS
ASSETS								
Non-current assets								
Property, plant and equipment	277,174	1,674	278,848	2,143	280,991	-		280,991
Negative goodwill	(8,796)	-	(8,796)	-	(8,796)	8,796	(a)	-
Other non-current assets	-	-	-	6,809	6,809	-		6,809
Total non-current assets	**268,378**	**1,674**	**270,052**	**8,952**	**279,004**	**8,796**		**287,800**
Current assets								
Inventories	36,258	-	36,258	-	36,258	-		36,258
Trade and other receivables	28,198	-	28,198	(8,876)	19,322	-		19,322
Prepayments	-	-	-	2,067	2,067	-		2,067
Deferred costs	2,143	-	2,143	(2,143)	-	-		-
Cash and cash equivalents	33,570	-	33,570	-	33,570	-		33,570
Total current assets	**100,169**	**-**	**100,169**	**(8,952)**	**91,217**	**-**		**91,217**
TOTAL ASSETS	**368,547**	**1,674**	**370,221**	**-**	**370,221**	**8,796**		**379,017**
EQUITY								
Share capital	255	-	255	-	255	-		255
Share premium	236,483	-	236,483	-	236,483	-		236,483
Retained earnings	11,134	1,272	12,406	-	12,406	(5,944)		6,462
Equity attributable to the Company's equity holders	**247,872**	**1,272**	**249,144**	**-**	**249,144**	**(5,944)**		**243,200**
Minority interest	282	-	282	-	282	(61)	(c)	221
TOTAL EQUITY	**248,154**	**1,272**	**249,426**	**-**	**249,426**	**(6,005)**	**(f)**	**243,421**
LIABILITIES								
Non-current liabilities								
Borrowings	610	-	610	-	610	-		610
Provisions	17,572	-	17,572	(6,888)	10,684	-		10,684
Deferred income tax liability	-	402	402	6,888	7,290	14,413	(b)	21,703
Derivative financial instruments	-	-		-	-		-	-
Total non-current liabilities	**18,182**	**402**	**18,584**	**-**	**8,584**	**14,413**		**32,997**
Current liabilities								
Current trade and other payables	102,211	-	102,211	(102,211)	-	-		-
Trade and other payables	-	-	-	21,720	21,720	-		21,720
Income tax payable	-	-	-	565	565	-		565
Derivative financial instruments	-	-	-	-	-	642	(d)	642
Borrowings	-	-	-	79,926	79,926	(254)	(d)	79,672
Total current liabilities	**102,211**	**-**	**102,211**	**-**	**102,211**	**388**		**102,599**
TOTAL LIABILITIES	**120,393**	**402**	**120,795**	**-**	**120,795**	**14,801**		**135,596**
TOTAL LIABILITIES & EQUITY	**368,547**	**1,674**	**370,221**	**-**	**370,221**	**8,796**		**379,017**

A reconciliation between the UK GAAP and IFRS Consolidated Balance Sheet at 31 December 2006 is presented below:

	UK GAAP	UK GAAP Adjust ments	Adjusted UK GAAP	Reclassi-fications	Novo proportional consoli-dations	Subtotal	IFRS Adjust-ments	Notes	IFRS
ASSETS									
Non-current assets									
Property, plant and equipment	220,883	2,690	223,573	1,862	18,777	244,212	-		244,212
Goodwill	61,442	-	61,442	-	(4,397)	57,045	8,186	(a)	65,231
Investments accounted for using the equity method	16,216	-	16,216	-	(16,216)	-	-		-
Financial assets	-	-	-	259	-	259	-		259
Other non-current assets	-	-	-	3,644	-	3,644	-		3,644
Total non-current assets	**298,541**	**2,690**	**301,231**	**5,765**	**(1,836)**	**305,160**	**8,186**		**313,346**
Current assets									
Inventories	33,885	-	33,885	-	237	34,122	-		34,122
Trade and other receivables	23,125	-	23,125	(8,263)	1,873	16,735	-		16,735
Prepayments	-	-	-	3,922	93	4,015	-		4,015
Deferred costs	1,862	-	1,862	(1,862)	-	-	-		-
Cash and cash equivalents	31,493	-	31,493	-	83	31,576	-		31,576
Total current assets	**90,365**	**-**	**90,365**	**(6,203)**	**2,286**	**86,448**	**-**		**86,448**
TOTAL ASSETS	**388,906**	**2,690**	**391,596**	**(438)**	**450**	**391,608**	**8,186**		**399,794**
EQUITY									
Share capital	325	-	325	-	-	325	-		325
Share premium	334,800	-	334,800	-	-	334,800	-		334,800
Shares to be issued	510	-	510	-	-	510	-		510
Other reserves	1,039	-	1,039	-	-	1,039	(249)	(e)	790
Accumulated loss	(83,086)	2,044	(81,042)	-	-	(81,042)	(6,927)		(87,969)
Equity attributable to the Company's equity holders	**253,588**	**2,044**	**255,632**	**-**	**-**	**255,632**	**(7,176)**		**248,456**
Minority interest	**-**	**-**	**-**	**-**		**-**	**-**		**-**
TOTAL EQUITY	**253,588**	**2,044**	**255,632**	**-**	**-**	**255,632**	**(7,176)**	**(f)**	**248,456**
LIABILITIES									
Non-current liabilities									
Borrowings	46,754	-	46,754	-	-	46,754	-		46,754
Provisions	30,347	-	30,347	(16,507)	-	13,840	-		13,840
Deferred income tax liability	-	646	646	5,887	-	6,533	15,362	(b),(e)	21,895
Total non-current liabilities	**77,101**	**646**	**77,747**	**(10,620)**	**-**	**67,127**	**15,362**		**82,489**
Current liabilities									
Current trade and other payables	58,217	-	58,217	(58,217)	-	-	-		-
Trade and other payables	-	-	-	20,760	208	20,968	-		20,968
Income tax payable	-	-	-	6,504	-	6,504	-		6,504
Derivative financial instruments	-	-	-	-	-	-	-		-
Provisions	-	-	-	8,059	-	8,059	-		8,059
Borrowings	-	-	-	33,076	242	33,318	-		33,318
Total current liabilities	**58,217**	**-**	**58,217**	**10,182**	**450**	**68,849**	**-**		**68,849**
TOTAL LIABILITIES	**135,318**	**646**	**135,964**	**(438)**	**450**	**135,976**	**15,362**		**151,338**
TOTAL LIABILITIES & EQUITY	**388,906**	**2,690**	**391,596**	**(438)**	**450**	**391,608**	**8,186**		**399,794**

Notes to the Balance Sheet and Equity Reconciliation at 31 December 2005 and 31 December 2006

UK GAAP

The UK GAAP balance sheets are derived from the UK GAAP balance sheets as reported in the prior year financial statements. They have however been amended to an IFRS presentation and the main adjustments are as follows:

- Minority interests have been reclassified to a separate component of equity. Under UK GAAP they were reported in a liability section.
- Current trade and other payables represent amounts disclosed as 'Creditors: amounts due within one year' in the UK GAAP balance sheets.
- Various other categories have been renamed in accordance with IFRS.

UK GAAP adjustments:

During 2007, the Group capitalised a portion of its borrowing costs associated with the construction of its development projects on a general pool of borrowings by applying a capitalization rate to the expenditures on that asset. Given that it has always been Highland's policy to capitalise interest, and there are no difference between the UK GAAP (FRS 15) requirements and the IFRS (IAS 23) requirements in this regard, the prior period comparatives were restated as follows: property, plant and equipment was increased by US$1.7 million at 31 December 2005, and by US$2.7 million at 31 December 2006. The deferred tax liability associated with the capitalised borrowing costs was recognised in the amount of US$0.4 million at 31 December 2005, and US$0.6 million at 31 December 2006. Retained earnings as at 1 January 2006 and 31 December 2006 have increased by US$1.3 million and US$2.0 million respectively.

Reclassifications:

The adoption of IFRS has resulted in the requirement to reclassify several items from their existing UK GAAP classifications.The main reclassifications are as follows:

- At transition date, US$2.1 million and at 31 December 2006 US$1.9 million of deferred stripping costs have been reclassified from Deferred costs to the Property, plant and equipment as this is an industry practice to include deferred stripping costs into Property, plant and equipment.
- At transition date, US$6.8 million and at 31 December 2006 US$3.6 million of non-current debtors have been reclassified from Current trade and other receivables to Other non-current assets. This amount relates to the input VAT associated with the capital construction, which will be reimbursed only at the production stage of the related projects which are not planned within a one year period.
- At transition date, US$2.1 million and at 31 December 2006 US$3.9 million of prepaid expenses have been reclassified from Current trade and other receivables to Prepayments to be presented separately on the face of the balance sheet.
- At transition date, US$6.9 million and at 31 December 2006 US$5.9 million of deferred tax liabilities have been reclassified from Provisions to Deferred tax liabilities due to the fact that IFRS requires Deferred tax liabilities to be presented separately on the face of the balance sheet.
- At transition date, US$21.7 million and at 31 December 2006 US$20.8 million of current liabilities have been reclassified from Current liabilities to Trade and other payables.
- At transition date, US$0.6 million and at 31 December 2006 US$6.5 million of income tax have been reclassified from Current liabilities to Income tax payable, as IFRS requires income tax liabilities to be presented separately on the face of the balance sheet.
- At transition date, US$79.9 million and at 31 December 2006 US$33.1 million of loans and finance lease have been reclassified from Current liabilities to Borrowings, due to the fact that IFRS requires borrowings to be presented separately on the face of the balance sheet.
- At 31 December 2006, US$0.3 million of loan receivable from the Novo joint venture has been reclassified to non-current Financial assets.
- At 31 December 2006 US$10.6 million of provisions have been reclassified from Non-current Provisions to Current Provisions. Legal and other taxes provisions have been reclassified to current provisions.
- At 31 December 2006 US$3.7 million of Royalty and US$0.1 million of non-profit taxes provisions have been reclassified from current Trade and other payables to Current Provisions.

Novoshirokinskoye (Novo) proportional consolidation

Under UK GAAP, the Group's investment in the Novoshirokinskoye Joint Venture ("the JV") was treated as a joint venture and was accounted for using the gross equity method, with the Group's share of the JV's assets and liabilities being recorded on the face of the balance sheet under "Share of gross assets" and "Share of gross liabilities". The remaining balance of the negative goodwill was included as a part of the share of gross assets. Under IAS 31 "Interests in joint ventures", the investment is accounted for using the proportional consolidation method, with the Group's share of assets and liabilities of the JV shown in each individual category of asset and liability on the face of the balance sheet.

Adjustments

a) Goodwill

Under IFRS 3 "Business Combinations", negative goodwill can no longer be recognised on the Balance sheet. Therefore, 50% of the negative goodwill which had arisen on the Novo acquisition and remaining at 31 December in the amount of US$4.4 million was written-off to Retained earnings on transition.

b) Deferred taxation

Deferred tax liabilities arising from fair value adjustments made in prior business combinations have been recognised on transition to IFRS. Such liabilities were specifically excluded from recognition under UK GAAP. These deferred tax liabilities will be realized as the carrying values of the assets are reduced through depreciation, impairment or disposal. In addition, additional deferred tax liabilities have been recognised as a result of the impact of the appreciation of the rouble against the US$, and the impact this has on the deferred tax calculations, where the tax values of the assets and liabilities are maintained in roubles.

c) Minority Interest

This adjustment primarily represents the minority share of the increased deferred tax liability at Novo.

d) Hedge transaction

Under UK GAAP, hedge accounting was applied to the currency forward contracts on the rouble-denominated bonds whereby the bonds were translated at the forward contract rates at the balance sheet date.

Under IFRS, these forward exchange contracts do not quality for hedge accounting and they are accounted for as derivative financial instruments where they are carried at fair value based on the spot exchange rate at each period end, with changes in the fair value taken to the income statement.

The rouble denominated bond is translated at the spot exchange rate at the end of each period.

e) Additional goodwill arising on the Barrick transaction

As at 31 December 2006, an additional deferred tax liability of US$4.0 million has been recognised on adoption of IFRS, relating to the fair value uplifts arising on the Barrick transaction. Of the adjustment, US$0.2 million was recognised directly in equity, as it related to a revaluation of the Group's existing 50% interest in the Taseevskoye mine.

As this transaction was accounted for as a business combination in accordance with IFRS 3, the impact of the recognition of the additional deferred tax liability on adoption of IFRS, is to increase goodwill by US$3.8 million.

f) Equity reconciliation

A reconciliation of total equity under UK GAAP to total equity under IFRS is outlined in the below table, which illustrates the net impact on equity of each of the major adjustments:

US$000	Notes	As at 1 January 2006	As at 31 December 2006
UK GAAP equity		**248,154**	**253,588**
Borrowing costs capitalisation		1,272	2,044
Adjusted UK GAAP equity		**249,426**	**255,632**
IFRS adjustments:			
Negative goodwill	(a)	8,796	8,796
Deferred taxation	(b)	(14,413)	(12,038)
Hedge transaction	(d)	(388)	-
Deferred tax on Barrick transaction recognised directly in equity	(e)	-	(249)
Gain on Novoshirokinskoye shares disposal	(iv)	-	(3,685)
IFRS equity		**243,421**	**248,456**

INCOME STATEMENT RECONCILIATION

A reconciliation between the UK GAAP and IFRS income statement for the year ended 31 December 2006 is provided below.

	UK GAAP	UK GAAP Adjust-ments	Adjusted UK GAAP	Disconti-nued operations reclass	Novo proportional consoli-dations	Subtotal	Adjust-ments	Notes	IFRS
Continuing operations:									
Revenue	102,365	-	102,365	(10,385)	-	91,980	-		91,980
Cost of sales	(97,155)	-	(97,155)	30,975	(7)	(66,187)	-		(66,187)
Asset impairment ollowing fire	(79,274)	-	(79,274)	79,274	-	-	-		-
Gross loss	**(74,064)**	**-**	**(74,064)**	**99,864**	**(7)**	**25,793**	**-**		**25,793**
Administrative expenses	(21,903)	-	(21,903)	79	(10)	(21,834)	129		(21,705)
Costs associated with the fire	(2,373)	-	(2,373)	2,373	-	-	-		-
Share of operating loss of Joint Venture	(666)	-	(666)	-	666	-	-		-
Other operating income	-	-	-	-	-	-	-		-
Gain on the disposal of 50% of Novoshirokinskoye	17,988	1,111	19,099	-	-	19,099	(3,685)	(iv)	15,414
Other operating expenses	-	-	-	473	-	473	-		473
Loss on asset disposal	(329)	-	(329)	-	-	(329)	-		(329)
Operating loss	**(81,347)**	**1,111**	**(80,236)**	**102,789**	**649**	**23,202**	**(3,556)**		**19,646**
Foreign exchange gain	4,199	-	4,199	5,324	(596)	8,927	391	(iii)	9,318
Finance income	736	-	736	(6)	-	730	-		730
Finance costs	(6,790)	1,879	(4,911)	411	(53)	(4,553)	-		(4,553)
Loss before income tax	**(83,202)**	**2,990**	**(80,212)**	**108,518**	**-**	**28,306**	**(3,165)**		**25,141**
Income tax expense	(13,243)	(451)	(13,694)	-	-	(13,694)	2,182	(i)	(11,512)
Profit /(Loss) for the year from continuing operations	**(96,445)**	**2,539**	**(93,906)**	**108,518**	**-**	**14,612**	**(983)**		**13,629**
Discontinued operation									
Loss for the year from a discontinued operation	-	-	-	(108,518)	-	(108,518)	-		(108,518)
Loss for the year	**(96,445)**	**2,539**	**(93,906)**	**-**	**-**	**(93,906)**	**(983)**		**(94,889)**
Profit/(loss) is attributable to:									
Equity holders of the Company	(96,445)	772	(95,673)	-	-	(95,673)	(983)		(96,656)
Minority interest	-	1,767	1,767	-	-	1,767	-		1,767
	(96,445)	**2,539**	**(93,906)**	**-**	**-**	**(93,906)**	**(983)**		**(94,889)**

Notes to the Reconciliation of Income statement year ended 31 December 2006

The UK GAAP amounts are based on the UK GAAP profit and loss account presented in the format of an IFRS income statement.

UK GAAP adjustments

31 December 2006:

The gain recognised on disposal of Novo under UK GAAP was incorrectly calculated. This was due to the fact that no share of the US$39 million financial assistance provided prior to the sale of Novo to Kazzinc by Stanmix Investment Limited, Highland's wholly owned Cyprus registered subsidiary, had been attributed to the 3.4% minority shareholders of Novo. This error has been corrected in the above reconciliation, by increasing Minority Interest, and increasing the gain on the disposal of Novo by US$1.8 million.

Due to the capitalisation of the borrowing costs in 2006 the gain on the disposal of 50% of Highland's interest in Novo has reduced by US$0.7 million. Finance costs for the year ended 31 December 2006 have reduced by US$1.9 million. Income tax expense for the year ended 31 December 2006 has increased by US$0.5 million.

Novo proportionate consolidation

Under UK GAAP, the Group's share of the results of the Novo joint venture is recorded in a single line in the Profit & Loss Statement 'Share of operating profit of Joint Venture'. Under IAS 31 'Interest in Joint Ventures', the JV is accounted for as a joint venture entity and proportionately consolidated, with the Group's share of the JV's results included in each line in the Income Statement.

Adjustments

i) Deferred taxation

As a result of the adoption of IAS 12, the deferred tax charge was decreased by US$2.2 million for the year ended 31 December 2006.

ii) Minority interest

The decrease in the minority interest represents the minority's share in the increased deferred income tax charge in Novoshirokinskoye.

iii) Hedge transaction

The application of mark-to-market accounting to the rouble denominated bonds and forward contracts resulted in the recognition of US$0.391 million gain for the year ended 31 December 2006. These amounts represent the net gain arising on the change in the fair values of both the rouble-denominated bond, and the forward exchange contracts, resulting from the appreciation of the rouble.

iv) Gain on Novoshirokinskoye shares disposal

As a result of the recognition of additional deferred tax liabilities and the write off of negative goodwill on adoption of IFRS, the net assets of Novo at the date of disposal were increased by US$7.4 million. Accordingly, the gain on the disposal of 50% of the Group's interest in Novo has decreased by US$3.7 million as at 31 December 2006 upon adoption of IFRSs.

CASH FLOW STATEMENT

The presentation of certain items in the cash flow statement prepared under IAS 7 "Cash Flow Statements" differs to the previous presentation under UK GAAP.

Under IAS 7, the cash flow statement is presented to show movements in cash and cash equivalents (such as short-term deposits), whilst under UK GAAP, the cash flow statement is presented to show movements in cash only.

Under IFRS, cash flows are segregated into three categories: operating, investing and financing. This differs from UK GAAP which requires additional sub categories.

GKZ RESOURCES AS AT 31 DECEMBER, 2007

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Silver, g/t	Contained silver, ounces	Highland interest %	Gold ounces attributable to Highland	Silver ounces attributable to Highland
MNOGOVERSHINNOYE	B	116,000	13,6	50,927				50,927	
	C1	4,179,000	11.2	1,501,568	13.2	1,781,151		1,501,568	1,781,151
	C2	2,104,000	10.8	730,658	17.1	1,157,427		730,658	1,157,427
	Total	**6,399,000**	**11,1**	**2,283,153**	**14.3**	**2,938,578**	**100%**	**2,283,153**	**2,938,578**
NOVOSHIROKINSKOYE	B	680,000	9.1	199,000	90.1	1,970,000		96,200	950,000
	C1	5,200,000	5.1	857,000	96.9	16,200,000		413,500	7,817,000
	C2	3,480,000	3.3	370,000	70.3	7,866,000		178,500	3,795,000
	Total	**9,360,000**	**4.7**	**1,426,000**	**86.5**	**26,036,000**	**48.25%**	**688,200**	**12,562,000**
MAYSKOYE	C1	5,582,000	11.6	2,016,000	2.8	503,000		2,016,000	503,000
	C2	17,153,000	10.7	5,689,000	3.4	1,875,000		5,689,000	1,875,000
	Total	**22,735,000**	**10.9**	**7,705,000**	**3.2**	**2,378,000**	**100%**	**7,705,000**	**2,378,000**
TASEEVSKOYE	C1	7,111, 000	3.5	790,000	7.3	1,669,000		790,000	1,669,000
	C2	7,066, 000	2.8	627,000	7.3	1,658,000		627,000	1,658,000
	Total	**14,177,000**	**3.1**	**1,417,000**	**7.3**	**3,327,000**	**100%**	**1,417,000**	**3,327,000**
SREDNE-GOLGOTAYSKOYE	B	6,000	15.8	3,000	n/a	n/a		3,000	n/a
	C1	465,000	16.7	250,000	6.2	94,000		250,000	94,000
	C2	175,000	12.1	68,000	6.2	35,000		68,000	35,000
	Total	**646,000**	**15.4**	**321,000**	**6.2**	**129,000**	**100%**	**321,000**	**129,000**
TOTAL		**53,317,000**	**7.7**	**13,152,153**	**20.3**	**34,808,578**		**12,414,353**	**21,334,578**

Resource Notes

1. All reported resources are approved by the Russian State Committee for Reserves (GKZ).
2. The Company does not include any “P” Category Russian Resources in its Resource Statement.
3. Resources include mineable ore reserves, and do not include dilution or recovery.
4. Ounces means “troy ounces”.
5. Mayskoye includes off balance resources in the C1 and C2 categories.
6. The resource values stated for MNV have been depleted for 2007 production.
7. Novoshirokinskoye is a poly-metallic deposit and contains additionally: 166Kt zinc and 349Kt lead.
8. Novoshirokinskoye and MNV resources are to be presented in 2008 to GKZ for approval.

MINERAL RESOURCES AS AT 31 DECEMBER, 2007 REPORTED IN ACCORDANCE WITH JORC

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland interest %	Gold ounces attributable to Highland
MAYSKOYE[1,2,4]	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[1,2,4]	**Indicated**	**25,211,000**	**3.4**	**2,718,000**	**100%**	**2,718,000**
	Inferred	4,774,000	4.2	645,000	100%	645,000
MNOGOVERSHINNOYE[1,3,4]	**Indicated**	**1,677,000**	**6.5**	**352,300**	**100%**	**352,300**
	Inferred	1,199,400	7.1	272,800	100%	272,800
TOTAL	Measured	1,742,000	16.2	910,000	100%	910,000
	Indicated	32,039,000	4.6	4,713,300	100%	4,713,300
	Measured+Indicated	**33,781,000**	**5.2**	**5,623,300**	**100%**	**5,623,300**
	Inferred	20,993,400	8.4	5,686,800	100%	5,686,800

1 Resource estimations do not include a silver assessment.

2 Mineral resources reported for Mayskoye and Taseevskoye are in-situ resources and are the same as presented and footnoted in the 2005 Annual Report. The values shown for the properties are based upon gold prices of US$375 per ounce and US$385 per ounce respectively. Extensive resource definition programmes involving drilling, assaying, and geological modeling have been carried out at both Mayskoye and Taseevskoye in the period since the end of 2005. The results of this work are presently being used to produce updated mineral resource estimates for the two properties in accordance with the guidelines of the JORC Code [2004 edition].

3 MNV Mineral Resources are exclusive of Mineral Reserves. The values shown are undiluted and based upon a gold price of US$575 per ounce. MNV Mineral Resources include ore blocks not yet approved by GKZ. MNV Mineral Resources have been estimated in general accordance with JORC guidelines, and include adjustments that have been made to reconcile the resources with annual mine production.

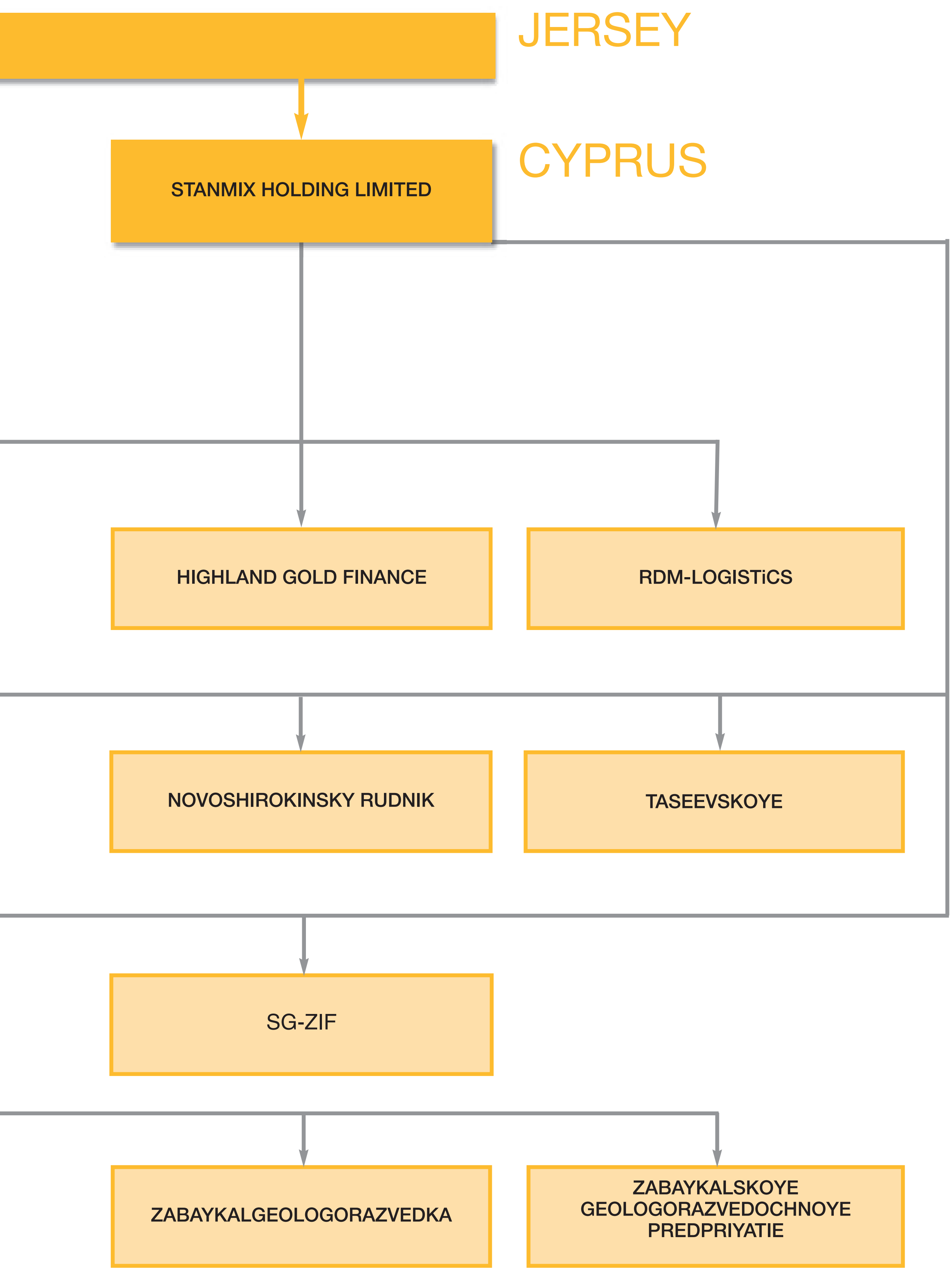
4 Highland Gold Mining Limited has retained the services of Donald Earnest (Resource Evaluation Inc) and Mike Lechner (Resource Modeling Inc) from the United States to complete audits of Mayskoye, Taseevskoye, and Mnogovershinnoye with the objectives of reviewing the updated mineral resource estimates and performing reserve evaluations in accordance with JORC and Canada NI 43-101 standards. These audits will be conducted once the updated mineral resource and reserve estimates are completed for each property.

RESERVES AS AT 31 DECEMBER, 2007 REPORTED IN ACCORDANCE WITH JORC

Project name	Classification	Ore, tonnes	Gold, g/t	Contained gold, ounces	Highland interest %	Gold ounces attributable to Highland
MNOGOVERSHINNOYE[1]	Proven	-	-	-	100%	-
	Probable	4,405,300	5.4	949,400	100%	762,800
	Proven + Probable	4,405,300	5.4	949,400	100%	762,800

1 Reserve estimate does not include a silver assessment. The values shown are based upon a gold price of US$525 per ounce.
MNV Mineral Reserves have been estimated in general accordance with JORC guidelines, and include adjustments that have been made to reconcile the reserves with annual mine production.


HIGHLAND GOLD MINING LIMITED
STANMIX VENTURES LIMITED
STANMIX INVESTMENT LIMITED
HIGHLAND EXPLORATION LLC
KYRGYZSTAN
RUSSIA
RDM RESOURCES
RUSSDRAGMET
ZK MAYSKOYE
MNOGOVERSHINNOYE
ZAO TH MNOGOVERSHINNOYE
ZABAYKALZOLOTOPROYEKT
TD MAYSKOYE
CHOP KOMANDOR


JERSEY
CYPRUS
STANMIX HOLDING LIMITED
HIGHLAND GOLD FINANCE
RDM-LOGISTiCS
NOVOSHIROKINSKY RUDNIK
TASEEVSKOYE
SG-ZIF
ZABAYKALGEOLOGORAZVEDKA
ZABAYKALSKOYE GEOLOGORAZVEDOCHNOYE PREDPRIYATIE

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

Name	%	Country of incorporation	Principal activity and place of business
Stanmix Holding Limited	100	Cyprus	Holding Company, Cyprus
Stanmix Investments Limited	100	Cyprus	Finance Company, Cyprus
Stanmix Ventures Limited	100	Cyprus	Dormant
HG Netherlands B.V.	100	Netherlands	Dormant
Highland Exploration LLC	100	Kyrgyzstan	Holder of Unkurtash and Kassan licences
RDM Resources	100	Russia	Holder of Maya, Inikan and Lyubov licences

HG Netherlands BV holds the equity share capital of the following companies:

Name	%	Country of incorporation	Principal activity and place of business
Highland Gold Kazakhstan LLP	100	Kazakhstan	Dormant

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

Name	%	Country of incorporation	Principal activity and place of business
Auberon Limited	100	Cyprus	Dormant
Russdragmet (RDM)	100	Russia	Management company
Highland Gold Finance	100	Russia	Investment company, Russia
RDM Logistics	100	Russia	Logistics, Russia
ZK Mayskoye	100	Russia	Holder of Mayskoye licence
Mnogovershinnoye (MNV)	100	Russia	Holder of MNV licence
Taseevskoye	100	Russia	Holder of Taseevskoye licence
SG-ZIF	100	Russia	Holder of ZIF-1 and Sredne-Golgotayskoye licences
Investitsionnaya gorno-geologicheskaya companiya	80	Russia	Dormant
Zabaykalzolotoproyekt	50	Russia	Project engineering, Russia
Novo-Shirokinsky Rudnik (Novo)	48.3	Russia	Holder of Novo licence

MNV holds the equity share capital of the following companies:

Name	%	Country of incorporation	Principal activity and place of business
TH Mnogovershinnoye	99.8	Russia	Consumer durables for MNV employees
Dalnevostochnoye geologorazvedochnoye predpriyatiye	90	Russia	Dormant
SK Energy	90	Russia	Sports club and hotel at MNV
Zabaykalzolotoproyekt	50	Russia	Project engineering, Russia
Chukotgeologorazvedka	10	Russia	Dormant

ZK MAYSKOYE holds the equity share capital of the following companies:

Name	%	Country of incorporation	Principal activity and place of business
Chukotgeologorazvedka	90	Russia	Dormant

TH Mnogovershinnoye holds the equity share capital of the following companies:

Name	%	Country of incorporation	Principal activity and place of business
SK Energy	10	Russia	Sports club and hotel at MNV
Dalnevostochnoye geologorazvedochnoye predpriyatiye	10	Russia	Dormant

Zabaykalzolotoproyekt holds the equity share capital of the following companies:

Name	%	Country of incorporation	Principal activity and place of business
TH Mayskoye	100	Russia	Consumer durables for Mayskoye employees
Zabaykalzolotorazvedka	100	Russia	Dormant
Zabaykalgeology	100	Russia	Dormant
Zabaykalgeologorazvedka	100	Russia	Holder of Iska and Belaya Gora licences
Zabaykalskoye geologorazvedochnoye predpriyatiye	100	Russia	Holder of Sovinoye licence
ChOP Komandor	100	Russia	Security

SK Energy holds the equity share capital of the following companies:

Name	%	Country of incorporation	Principal activity and place of business
TH Mnogovershinnoye	0.2	Russia	Consumer durables for MNV employees

DIRECTORS

James Havelock Cross
Non-Executive Chairman

Duncan Antony Hilder Baxter
Corporate Affairs Director
(resigned 29 April 2008)

Alexander John Davidson
Non-Executive Director

David Glanville Fish
Non-Executive Director
(deceased 21 December 2007)

Henry Horne
Managing Director
(resigned 28 January 2008)

Ivan Koulakov
Non-Executive Director

Rene Marion
Chief Operating Officer
(resigned 25 October 2007)

Nicholas Nikolakakis
Non-Executive Director

Christopher David Palmer-Tomkinson
Non-Executive and Senior Independent Director

Scott Perry
Chief Financial Officer
(appointed 24 October 2007)
(resigned 28 January 2008)

Terry Robinson
Non-Executive Director
(appointed 25 April 2008)

Olga Pokrovskaya
Non-Executive Director
(appointed 28 January 2008)

Eugene Shvidler
Non-Executive Director
(appointed 28 January 2008)

Eugene Tenenbaum
Non-Executive Director
(appointed 28 January 2008)

Timothy Charles Wadeson
Non-Executive Director

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
JPMorgan Cazenove
20 Moorgate
London EC2R 6D8

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

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

SOLICITORS TO THE COMPANY

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

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

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

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

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

SHAREHOLDING STRUCTURE
at 18 April 2008

Stock Information

Listing sector/ticker	HGM.L	
Number of shares in issue	325,197,098	
Market capitalisation	£612.28 million	US$1210.04 million
	US$/£ rate: 1.976	
Price high/low	Highest share price	18/04/07 to 18/04/08: 248p (11/01/08)
	Lowest share price	18/04/07 to 18/04/08: 76p (20/09/08)
Liquidity	Average daily volume 18/04/07 to 18/04/08: 615,764	

FINANCIAL CALENDAR

Post 2007 Annual Report	15 May 2008
Annual General Meeting	12 June 2008
2008 Interim Announcement	September 2008
2008 Interim Report	October 2008

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

Notice is hereby given that the Annual General Meeting of Highland Gold Mining Limited (the Company) will be held on Thursday 12 June, 2008 at 26 New Street, St Helier, Jersey JE2 3RA at 11.00 am 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 2007
2. That James Cross who retires by rotation as a Director of the Company be re-elected
3. That Tim Wadeson who retires by rotation as a Director of the Company be re-elected
4. That Eugene Shvidler who retires as a Director of the Company be elected
5. That Eugene Tenenbaum who retires as a Director of the Company be elected
6. That Olga Pokrovskaya who retires as a Director of the Company be elected
7. That Terry Robinson who retires as a Director of the Company be elected
8. That Ernst & Young LLP be re-elected as Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting
9. That the Directors be authorised to fix the Auditor's remuneration
10. To resolve 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 one million pounds.

By Order of the Board
Duncan Baxter
Director
25 April 2008

NOTES

1. A member entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not also be a member of the Company. A form of proxy is enclosed with this notice to members.
2. A form of proxy is enclosed which, to be effective, must be completed and deposited at The Registry, 34 Beckenham Road, Beckenham, Kent, England BR3 4TU not later than 48 hours before the time fixed for the meeting (or any adjournment of such meeting).
3. Completion and return of a form of proxy does not preclude a member from attending and voting in person.
4. Only those shareholders registered in the register of members of the Company as at 48 hours prior to the time fixed for the meeting (or, in the course of an adjournment, as at 48 hours before the time of the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Pursuant to Article 40(2) of the Companies (Uncertificated Securities Jersey) Order 1999, changes to entries on the register of members after such time shall be disregarded in determining the rights of any person to attend and vote.
5. 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.

Highland Gold Mining Limited