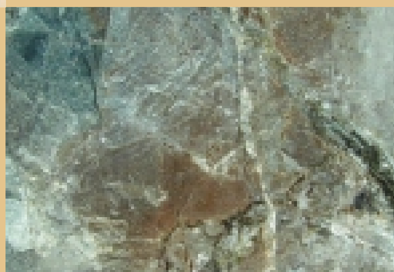
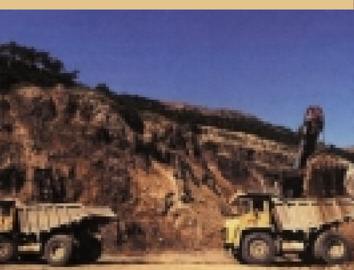
HIGHLAND GOLD MINING LIMITED

Interim Report 2003








Highlights

Highland Gold Mining Limited presents its interim results for the six months to 30 June 2003.

	Six months to 30 June 2003 Unaudited	Six months to 31 December 2002* Restated
Turnover (US$000)	31,379	27,420
Operating profit (US$000)**	12,241	6,370
Profit before tax (US$000)**	11,738	7,192
Earnings per share (US$)	0.077	0.052
Dividend per share (US$)	0.015	0.010

*Highland Gold Mining Limited was incorporated on 23 May 2002 and its first accounting period was 37 days to 30 June 2002. Subsequently, 31 December was adopted as the financial year end. The six month period to 30 June 2003 is Highland Gold's first interim accounting period. The prior period, six months to 31 December 2002, is included in this Interim Report.

**For the six months to 31 December 2002, operating profit and profit before tax have been restated, a reduction in profit of US$2.2 million, to reflect a change in accounting policy in respect of stripping costs (see Note 1 to the Interim Financial Statements).

Relative to the six months to 31 December 2002:

- Turnover up 14.6% to US$31.4 million (US$27.4 million)
- Operating profit up 90.6% to US$12.2 million (US$6.4 million)
- Gold production up 3.3% to 90,133oz (87,281oz)
- Cash operating costs down 4.4% to US$152 per oz (US$159 per oz)

Interim dividend of US$0.015 per share

Resource base doubled by acquisition of 9 million oz Mayskoye deposit

Acquisition of remaining leased assets at MNV mine on 22 September 2003

Contents

Chairman's Review

I am pleased to announce a solid set of results, good operational progress and further growth by acquisition at the Group level. At MNV, the Group's producing asset, we have increased production and efficiency and strengthened our position through purchasing assets previously leased. Development projects at Darasun and Novoshirokinskoye are progressing according to plan. Production at Darasun is planned to start in the first half of 2004 on time and within budget, and we are finalising the feasibility study for Novoshirokinskoye. The acquisition of the Mayskoye deposit will more than double our resource base and our business development team continues to review new acquisition opportunities.

Acquisition of the Mayskoye deposit

The Group has entered into a legal agreement to acquire JSC Mayskoye, the holder of the licence for the high grade Mayskoye gold deposit in the Chukotka region of North East Russia, for a total consideration of US$34.9 million payable over two years. It is expected that the acquisition will be finalised by October 2003. The current license is valid until 2023. The deposit has been extensively explored and has estimated mineable reserves in the C1-C2 category of 3.7 million oz of gold at an average gold grade of 11.5 g/tonne. Resources at the deposit are calculated at 9 million oz of gold at an average grade of 11.4 g/tonne. It is anticipated that the ore will be processed with direct leaching technology for the first three years of production and proven bioxidation technology thereafter. On current estimates, capital expenditure to production will amount to US$88.5 million. Production at Mayskoye will come on stream in 2006 to reach 180,000 oz of gold per year at full production. Current estimates of the total cash costs per oz lie in the region of US$160-170, subject to the completion of the feasibility study in October 2004.

This acquisition increases Highland Gold's total mineable gold reserves to 5.8 million oz of gold equivalents (B and C1 under the Russian classification system) and B, C1 and C2 resources to 17 million oz of gold equivalents.

Securing of assets at MNV

I am pleased to confirm that on 22 September 2003, MNV signed the sale & purchase agreement to acquire for US$26.7 million all those production assets it had previously leased from the Khabarovsk Administration. Furthermore, the process of registration of all assets owned at MNV is approaching completion. The Board looks forward to developing MNV's presence in Khabarovsk and sustaining its contribution to the local community.

Strong financial performance

In the six months to 30 June 2003, the Group reported revenues of US$31.4 million compared with US$27.4 million for the six month period to 31 December 2002. Production at the MNV mine during the first half of 2002 pre-dated incorporation of Highland Gold Mining Limited and consequently financial performance figures for this period are not comparable, although production performance data for the first half of 2002 is stated below.

The average gold price achieved was US$346/oz compared to US$298/oz for the previous reporting period. The Group continues to operate an unhedged policy.

The Group continues to improve the efficiency of operations. Costs of sales decreased by 11% to US$15.7 million compared to US$17.6 million in the previous six month period due to non-recurring fair value adjustments of US$2.0 million and to lower stripping costs.

Stripping charges have decreased by almost US$1.0 million as MNV is mining more underground ore than open-pit and in addition, a proportion of the stripping costs are now deferred in line with industry practice. Administrative expenses remained flat at US$3.4 million.

The Group reported a net profit of US$8.5 million for the first half of 2003, which represents a 57% increase over US$5.4 million for the six month period to 31 December 2002. Earnings per share for the period amount to 7.7 US cents, compared to 5.2 US cents over the previous six month reporting period.

Cash flow from trading operations increased from US$8.9 million to US$14.5 million. However, increases in working capital of US$8.8 million (H2 2002: US$1.9 million) led to a net operating cash flow of US$5.7 million (H2 2002: US$7.0 million). The changes in working capital were due to the seasonality of supplies at MNV, an overall increase in stock to ensure the smooth running of the operations, and cash costs associated with the London listing.

For the first half of 2003, MNV cash operating costs (calculated on the basis of UK GAAP figures and in line with US Gold Institute guidelines) were US$7/oz lower at US$152/oz, due to the decrease in stripping costs. Total cash costs for the first half of 2003 were US$3/oz lower at US$176/oz. This takes into account an increase in taxes, linked to higher gold prices. Total production costs, including depreciation and other non-cash items, increased by US$4/oz to US$198/oz versus US$194/oz in the previous period. This reflected higher depreciation charges linked to the construction of additional mining assets and to the purchase of equipment.

In line with production plans and budgets, the Group has spent US$13.1 million in capital expenditure and plans to spend an additional US$17.9 million by year-end for the improvement of operations at MNV and the development at Darasun.

As at 30 June 2003, the company had utilised US$7.1 million out of total banking facilities of US$30 million. Interest cover was 13.4 times and gearing was 21%. Since that date, the Group has successfully negotiated new borrowing facilities of USS$37.0 million bringing the total to USS$67.0 million. These lines will be used to support the development of Mayskoye and the purchase of the MNV assets.

In line with the Group's progressive dividend policy, and whilst maintaining a prudent approach to the Group's financing requirements, the Board announces an interim dividend of US$0.015 per share totaling US$1.65 million.

MNV production performance continuously improving:

	H1 2002	H2 2002	H1 2003
Total ore milled (tonnes), of which:	388,571	417,458	**426,942**
Open pit	198,774	189,138	**116,773**
Underground	174,545	200,307	**267,938**
Stockpile	15,252	28,013	**42,231**
Head grade (g/tonne)	7.90	7.10	**7.14**
Recovery (%)	91.90	91.57	**92.03**
Gold production	90,671	87,281	**90,133**

In the first half of 2003, the average head grade was 7.8g/tonne from underground mines and 6.3g/tonne from open pit mines. The head grade from underground and open pit ores currently mined varies between 7.0g/tonne to 12.0g/tonne and 5.0g/tonne to 8.0g/tonne respectively. The head grade from stockpiles is currently 4.8g/tonne.

In optimising the performance of its operations the Group achieved a successful transition to new ore bodies during the first six months of 2003. As a result, MNV produced 267,938 tonnes of ore from underground mines, an increase of 67,631 tonnes or 34% over the second half of 2002. Head grade of ore produced from underground mines during the first half of 2003 was 7.8 g/tonne, an increase of 10% over the second half of 2002. Consequently, gold in ore produced from underground mines increased by 47% over the second half of 2002, representing 67,169 oz during the first half of 2003 against 45,638 oz in the second half of last year.

The Group spent a total of US$2.3 million in capital expenditure during the period at MNV and plans to spend approximately US$3.8 million through to the end of 2003, mainly in the upgrading of mining equipment, the construction of a back-up power station to ensure reliability of supply and in the construction of an additional layer at the tailings dam to allow for increased production.

Development of mining assets on track

The construction of the Darasun project is proceeding in accordance with the projected timetable. Capital expenditure of US$10.7 million was spent on reconnecting and upgrading the electricity supply, commissioning of satellite communications, initiating development and production exploration in three of the four existing shafts, and beginning the construction of the new mill facilities. An additional US$11.9 million will be spent by year end to further develop the mine, to purchase mining equipment and to complete the construction of the mill, the tailings dump and the first stage of the sludge storage. Production at Darasun is planned to start during the first half of 2004, with full production of an estimated 450,000 tonnes of ore in 2005. At these production rates the Group anticipates that an additional 40,000 oz and 120,000 oz of gold will be produced at Darasun in 2004 and 2005, respectively.

At Novoshirokinskoye, reserves re-estimation work is progressing and is due for completion by year end, as is a full feasibility study. Gold production is planned to commence in 2005.

Board appointments

The Board welcomed the appointment of Dmitri Korobov, Commercial Director, and Gennady Nevidomi, Production Director, as Executive Directors on 22 May 2003. Their commercial and technical expertise in gold mining in Russia and hands-on knowledge of operations will further strengthen the Board's experience.

Business Outlook

The Group is targeting total production of 194,000 oz of gold in 2003 compared with 178,000 oz of gold produced in 2002. It also intends to sustain its firm control of production costs within the parameters of Russian inflation.

We look forward to the first gold production at Darasun in the first half of 2004 and to Novoshirokinskoye and Mayskoye coming on stream sequentially. The Group is targeting production of an estimated 500,000 oz of gold in 2006.

The increase in the interim dividend underlines the Board's confidence in the Group's ability to develop a platform for further growth and consolidation in the Russian gold mining industry.

Peter Daresbury
Chairman

Interim Financial Statements

Consolidated Profit and Loss Account

	Notes	Six months to 30 June 2003 Unaudited US$000	Six months to 31 December 2002 Restated US$000
TURNOVER			
Continuing operations		31,379	27,420
Cost of sales – ongoing		(15,738)	(17,571)
GROSS PROFIT		15,641	9,849
Administrative costs – ongoing		(3,400)	(3,479)
GROUP OPERATING PROFIT – ONGOING		**12,241**	**6,370**
Bank interest receivable		152	41
Gain on renegotiation of loan		–	2,032
Bank interest payable and similar charges		(1,166)	(1,192)
Foreign exchange gains/(losses)		511	(59)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**11,738**	**7,192**
Tax on profit on ordinary activities	2	(3,246)	(1,840)
PROFIT FOR THE FINANCIAL PERIOD		**8,492**	**5,352**
Dividend	3	(1,658)	(1,105)
PROFIT RETAINED FOR THE FINANCIAL PERIOD		**6,834**	**4,247**
RETAINED EARNINGS BROUGHT FORWARD		**6,067**	**1,820**
RETAINED EARNINGS CARRIED FORWARD		**12,901**	**6,067**
Basic earnings per share (US$)		0.077	0.052
Diluted earnings per share (US$)		0.077	0.052

Consolidated Statement of Total Recognised Gains and Losses

	Six months to 30 June 2003 Unaudited US$000	Six months to 31 December 2002 Restated US$000
Profit for the period attributable to members of the parent company and total recognised gains and losses relating to the period	6,834	4,247
Prior year adjustment (as explained in Note 1)	(1,744)	
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT	5,090	

Consolidated Balance Sheet

	As at 30 June 2003 Unaudited US$000	As at 31 December 2002 Restated US$000
FIXED ASSETS		
Tangible assets	60,618	51,779
	60,618	51,779
CURRENT ASSETS		
Stocks	16,467	13,355
Debtors	19,811	10,931
Deferred stripping costs	1,217	501
Cash at bank and in hand	6,968	26,525
	44,463	51,312
CREDITORS: amounts falling due within one year	(17,245)	(24,242)
NET CURRENT ASSETS	**27,218**	**27,070**
TOTAL ASSETS LESS CURRENT LIABILITIES	**87,836**	**78,849**
CREDITORS: amounts falling due after more than one year	(9,131)	(8,570)
PROVISIONS FOR LIABILITIES AND CHARGES	(10,599)	(8,872)
MINORITY INTERESTS – EQUITY	(347)	(482)
	67,759	**60,925**
CAPITAL AND RESERVES		
Called up share capital	162	162
Share premium	54,696	54,696
Profit and loss account	12,901	6,067
	67,759	**60,925**

Approved by the Board on 23 September 2003

The Lord Daresbury
Chairman

Ivan Koulakov
Managing Director

Consolidated Cash Flow Statement

	Notes	Six months to 30 June 2003 Unaudited US$000	Six months to 31 December 2002 Restated US$000
NET CASH INFLOW FROM OPERATING ACTIVITIES	4	**5,717**	**6,950**
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest received		152	41
Interest paid on bank loans		(217)	(686)
Interest paid on finance leases		(602)	–
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(667)	(645)
TAXATION			
Russian profits tax paid		(2,815)	(3,913)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(13,056)	(8,350)
Receipts from sale of tangible fixed assets		–	350
Payments to acquire investments		–	(541)
Receipts from repayment of investments		–	768
NET CASH OUTFLOW ON CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		(13,056)	(7,773)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertakings		(28)	(2,430)
NET CASH OUTFLOW ON ACQUISITIONS AND DISPOSALS		(28)	(2,430)
EQUITY DIVIDENDS PAID		(1,105)	–
NET CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		**(11,954)**	**(7,811)**
MANAGEMENT OF LIQUID RESOURCES			
Increase in short term deposits		(5,000)	–
FINANCING			
Issue of ordinary share capital		–	31,838
Share issue costs		–	(7,045)
New loans		–	8,932
Loans repaid		(7,171)	–
Repayment of capital element of finance leases		(452)	(1,379)
CASH (OUTFLOW)/INFLOW FROM FINANCING		(7,623)	32,346
(DECREASE)/INCREASE IN CASH		**(24,577)**	**24,535**
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
(Decrease)/increase in cash		(24,577)	24,535
Repayment of capital element of finance leases		452	1,379
Cash outflow/(inflow) from decrease/(increase) in loans		7,171	(8,932)
Cash outflow from short term deposits		5,000	–
MOVEMENTS IN NET DEBT ARISING FROM CASH FLOWS		(11,954)	16,982
Re-negotiation of loan		–	2,032
New finance leases and fair value adjustment		(2,606)	(585)
Exchange differences		20	208
MOVEMENT IN NET DEBT	5	**(14,540)**	**18,637**
NET CASH/(DEBT) AT BEGINNING OF PERIOD		2,311	(16,326)
NET (DEBT)/CASH AT END OF PERIOD		**(12,229)**	**2,311**

Notes to the Interim Financial Statements

1 Accounting policies

Basis of preparation and change in accounting policy

The six month period to 30 June 2003 is Highland Gold's first interim accounting period. The prior financial period, six months to 31 December 2002, is included in this Interim Report.

During the six months to 30 June 2003, Highland Gold has changed its accounting policy with respect to costs associated with the stripping of waste from the open pit mine. Stripping costs are deferred or expensed based on the ratio of waste to ore. Previously, such costs were capitalised and depreciated on a unit of production basis. This change brings the accounting policy into line with that more commonly followed within the industry and has resulted in a prior year adjustment for the Group. At 31 December 2002, tangible fixed assets have been reduced by US$4.1 million, deferred stripping costs of US$0.5 million are included within current assets and the deferred taxation liability has decreased by US$1.9 million. The operating profit for the six months to 31 December 2002 has reduced by US$2.2 million and the taxation charge has reduced by US$0.5 million.

In all other respects, the Interim Financial Statements have been prepared in accordance with the accounting policies set out in Highland Gold Mining Limited's Financial Statements for the six month period to 31 December 2002.

The consolidated profit and loss account and consolidated cash flow statement for the six months to 31 December 2002 and the consolidated balance sheet at 31 December 2002 comprise an abridged version of the full Financial Statements for that period, as restated for the change in accounting policy noted above, and on which the report of the auditors was unqualified.

Russian political and economic risks

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

1 Accounting policies (continued)

The principal exchange rates against US dollars were:

	Six months to 30 June 2003 US$000	Six months to 31 December 2002 US$000
Average		
RUR	31.265	31.670
GBP	0.621	0.641
Closing		
RUR	30.348	31.780
GBP	0.606	0.624

2 Tax on profit on ordinary activities

The taxation charge on ordinary activities is calculated by applying the directors' best estimates of the annual taxation rate, currently 24%, to the profit for the six months to 30 June 2003.

3 Ordinary dividends on equity shares

The Board has declared an interim dividend of US$0.015 per ordinary share payable on 7 November 2003.

4 Reconciliation of operating profit to net cash inflow from operating activities

	Six months to 30 June 2003 Unaudited US$000	Six months to 31 December 2002 Restated US$000
Operating profit	12,241	6,370
Depreciation	1,949	1,381
Write down of investments	–	110
(Increase)/decrease in debtors	(3,245)	1,306
Increase in stock	(3,112)	(3,113)
(Increase)/decrease in deferred stripping costs	(716)	142
Decrease in creditors	(1,554)	(273)
Increase in stock and debtors provisions	154	1,027
Net cash inflow from operating activities	5,717	6,950

5 Reconciliation of net debt

	At 1 January 2003 US$000	Cash flow US$000	Exchange differences US$000	Other non-cash movements US$000	At 30 June 2003 Unaudited US$000
Cash at bank and in hand	26,525	(24,577)	20	–	1,968
Short term deposits	–	5,000	–	–	5,000
Capital element of finance leases	(6,342)	452	–	(2,606)	(8,496)
Loans and other long term creditors	(17,872)	7,171	–	–	(10,701)
	2,311	(11,954)	20	(2,606)	(12,229)

Short term deposits are included in cash in bank and in hand on the balance sheet.

6 Reconciliation of shareholders' funds

	Six months to 30 June 2003 Unaudited US$000	Six months to 31 December 2002 Restated US$000
Shareholders' funds at the beginning of period (originally US$62,669,000 before deducting prior year adjustment of US$1,744,000)	60,925	31,513
Share issues during the period	–	25,165
Profit and loss retained for the period	6,834	4,247
Shareholders' funds at end of period	67,759	60,925

7 Post balance sheet events

On 3 September 2003, the Group entered into a legal agreement to acquire JSC Mayskoye for consideration of US$34.9 million payble in three instalments over the next two years. It is expected that the acquisition will be finalised by October 2003.

On 16 September 2003, the Group won the auction to acquire the production assets at MNV that it previously leased from the Khabarovsk administration, for total consideration of US$26.7 million. The sale and purchase agreement relating to these assets was signed on 22 September 2003. A deposit of US$5 million was paid before auction and the remaining US$21.7 million is payable by 26 September 2003. The legal process to register the assets has commenced and is expected to be completed by the end of 2003.

On 16 September 2003, the Group entered into a short term loan agreement with ZAO "Promsviazbank" for US$12 million with an interest rate of 8.5% per annum.

On 18 September 2003, the Group entered into loan agreement with ZAO "International Moscow Bank" for US$25 million with an interest rate of Libor plus 5.35% per annum The loan is repayable within two years.

The above loans are supported by a guarantee from the parent company.

Independent Review Report to Highland Gold Mining Limited

Introduction

We have been instructed by the company to review the financial information for the six months to 30 June 2003 which comprises the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Consolidated Cash Flow Statement, Consolidated Statement of Total Recognised Gains and Losses, and the related Notes 1 to 7. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company's members as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991, and having regard to the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the company's members those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by the law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report as required by the AIM Rules issued by the London Stock Exchange.

Review work performed

We conducted our review having regard to the guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied, unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months to 30 June 2003.

Ernst & Young LLP

London

23 September 2003

Company Information

Directors

The Lord Daresbury (Executive Chairman)
Ivan Koulakov (Managing Director)
Dimitri Korobov (Commercial Director)
Gennady Nevidomi (Production Director)
Duncan Anthony Hilder Baxter (Executive Director)
James Havelock Cross (Non- executive)
Christopher David Palmer-Tomkinson (Non-executive)
Michael Frank Pleming (Non- executive)

Company Secretary

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Head Office and Registered Office

26 New Street
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Jersey JE2 3RA

Auditors

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

Financial Calendar

Payment date for 2003 interim dividend	November 2003
Preliminary announcement for the year ended 31 December 2003	April 2004
2003 Annual Report published	April 2004
2003 Annual General Meeting	May 2004
Payment date for 2003 final dividend	June 2004

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