HIGHLAND GOLD MINING LIMITED

17 April 2018

Full Year 2017 Audited Results

Highland Gold Mining Limited ("the "Company"), the AIM-quoted gold producer, presents its final audited results for the year ended 31 December 2017.

FINANCIAL HIGHLIGHTS

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

KEY EVENTS

- Total 2017 production of 272,274 oz of gold and gold equivalent, above the guidance range for the year of 255,000-265,000k oz. (2016 production: 261,159 oz).
- Average realised price of gold equivalents was 1,162 USD/oz for the year (2016: US$1,136 per oz).
- Total Cash Costs increased by 11.7% to US$507 per oz, influenced by the stronger rouble, while All-In Sustaining Cash Costs inched up by 1.8% to US$664 per oz.
- Cash inflow from operating activities decreased by 6.0% to US$131.0 million (2016: US$139.3 million)

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

[2] *2016 net cash inflow from operations was amended for US$3.1 million reclassified to the investing activities*

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

- Net debt to EBITDA ratio slightly increased to 1.28 as of 31 December 2017 from 1.26 a year earlier.
- Interim dividend of £0.0498 per share paid for H1 2017 (2016: Interim dividend of £0.05 per share).
- Mnogovershinnoye (MNV) – New JORC-compliant reserve estimate at MNV doubled ore reserves and supported the extension of life of mine by four years to at least 2022, with initial results from the ongoing near-mine exploration programme indicating resources for additional years of operation. New exploration licences were received for two areas adjacent to MNV..
- Novoshirokinskoye (Novo) – Updated resource and reserve estimates for Novo supported an increase in gold equivalent ounces by more than 70%, but at lower grades. The planned expansion of ore mining and processing capacity to 1.3 mtpa is ongoing and is now expected to achieve its full capacity in the year 2020.
- Belaya Gora –A pre-feasibility study (PFS) was developed for Belaya Gora including plant upgrades and the treatment of ore from the nearby Blagodatnoye deposit (finalised and released in early 2018). Mining at Belaya Gora continued to focus on processing low-grade ore stockpiles pending the completion of an ongoing project review.
- Kekura – Preparations made for construction and work advanced on a Definitive Feasibility Study (DFS) and updated JORC-compliant mineral resource and ore reserve estimates (finalised and released in early 2018).
- Baley Hub – De-watering programme continued for existing Taseevskoye open-pit with a view to de-risking the project and allowing for further reserve confirmation, with attention now turned to finding new water disposal solutions. On the ZIF-1 Tailings licence, the Board approved funding for design work on a possible heap leach operation.
- Unkurtash – Scoping study completed and released, and discussions held with potential partners for joint project development.
- The Company's Board of Directors adopted a new dividend policy targeting a payout of 20% of net cash flow from operations.

KEY 2018 TARGETS

- Total production of gold and gold equivalent is expected to be in the range of 265,000-275,000 oz.
- MNV –To continue extensive near-mine exploration programme and publish an updated JORC-compliant reserve estimate in Q3 2018.
- Novo – To proceed with construction work on the mine expansion and design work on mill expansion.
- Belaya Gora – To move forward with project development according to the PFS and conduct additional exploration on the Belaya Gora flanks licence.
- Kekura – To build electric substation and other infrastructure facilities, and to continue with procurement, transport and other preparations in advance of the 2019 construction season.

POST YEAR EVENTS

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

CONFERENCE CALL DIAL-IN DETAILS

The Company will hold a simultaneous webcast and conference call to discuss the results, hosted by CEO Denis Alexandrov, on 17 April 2018 at 09:00 UK time (11:00 Moscow).

This event is being streamed online and it is recommended that you listen via your computer. The link for online registration is:
https://digital.vevent.com/rt/highlandgoldmining/index.jsp?seid=22

To register to participate by telephone and to receive local dial-in numbers, please follow this link:
http://emea.directeventreg.com/registration/7592279

The Annual General meeting will be held on 24 May 2018.

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CHAIRMAN'S STATEMENT

Dear Shareholder,

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

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

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

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

This significant enhancement of our reserves, accompanied by a lowering of average grade from 8/0 g/t to 3.3 g/t reflecting lower cut-off grades and increased ore tonnage, underlines the strength of our asset base, as does a 6.6% increase in our mineral resources (measured, indicated and inferred) to 17.2 Moz of gold and gold equivalent compared to 16.1 Moz as at 31 December 2016. Further details regarding the extension of our resources and reserves are to be found in the Chief Executive's Report and the subsequent Operational Review.

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

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

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

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

I would like to emphasise the importance we place on retaining our low cost producer credentials and I am pleased to report that our current ratios fully support our status as one of the most competitive gold mining companies in the world. Total Cash Costs amounted to US$507 per oz in 2017, while our All-In-Sustaining Cash Costs totalled US$664 per oz. This compares with US$454 per oz and US$652 per oz respectively in 2016.
The average realised price of gold and gold equivalent during 2017 amounted to US$1,162 per oz compared with US$1,136 per oz in 2016 and should be seen against our All-In-Sustaining Cash Costs measurement. The average realised price of gold, in respect of MNV and Belaya Gora, was US$1,259 per oz during the year.

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

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

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

The key aspects of the policy are as follows:

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

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

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

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

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

Eugene Shvidler
Executive Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

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

This JORC-compliant reserve estimation as at 31 December 2017 was accompanied by notification of a similarly compliant 6.6% increase in the Company's mineral resources (measured, indicated and inferred) from 16.1 Moz of gold and gold equivalent to 17.2 Moz on a year-on-year basis. At the same time, the average grade of ore reserves was lowered from 8.0 g/t at year- end

2016 to 3.3 g/t at year-end 2017 due to lower cut-off grades and increased ore tonnage at our Novo and Belaya Gora operations, and the inclusion of the Blagodatnoye deposit.

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

The potential benefits of this approach are well illustrated by recent developments at Belaya Gora (Khabarovsk cluster) where our Preliminary Feasibility Study (PFS) –largely compiled in 2017 and published post the financial year-end – envisages an integrated Belaya Gora/Blagodatnoye operation with combined gold reserves of 932,000 oz: more than triple Belaya Gora's 291,000 oz recorded at the outset of 2017. Grade was reduced to 1.44 g/t versus 3.3 g/t for Belaya Gora alone. Average annual gold production is estimated at 55,000 oz, with the life of the combined mine forecast to extend to 2032 and estimated average TCC of US$ 802.

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

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

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

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

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

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

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

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

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

- An estimated start date of 2021;
- Sequential and combined open-pit and underground extraction with a total mine life of 16 years (twice the original expectation);
- Processing plant capacity of 800,000 tpa with an 85% recovery rate;
- Capex of US$229 million (pre-commissioning/excluding underground operations);
- Average annual gold production of 172,000 oz for the first eight years and 46,000 oz thereafter; and
- Average Total Cash Costs of US$511 per oz and All-In Sustaining Cash Costs of US$541 per oz.

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

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

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

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

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

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

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

Denis Alexandrov
Chief Executive Officer

OPERATIONAL REVIEW

PRODUCTION STATISTICS

Highland Gold Mining Ltd	Units	FY 2017	FY 2016	H2 2017	H1 2017	H2 2016	H1 2016
Waste stripping	t	9,450,392	17,005,916	4,353,629	5,096,763	8,818,209	8,187,706
Underground development	m	22,736	23,398	11,593	11,143	10,962	12,437
Waste dumps ore mined	t	327,358	279,113	146,293	181,065	2,801	276,312
Waste dumps ore grade	g/t	1.12	1.06	1.15	1.10	1.21	1.06
Open-pit ore mined	t	1,359,799	1,966,227	503,831	855,968	988,775	977,452
Open-pit ore grade	g/t	1.03	1.38	1.03	1.03	1.49	1.26
Underground ore mined	t	1,650,846	1,520,525	847,326	803,520	754,103	766,426
Underground ore grade	g/t	4.38	4.33	4.44	4.31	4.27	4.39

Total ore mined	t	3,338,003	3,765,865	1,497,450	1,840,553	1,745,679	2,020,190
Average grade	g/t	2.70	2.55	2.98	2.47	2.69	2.42
Ore processed	t	3,895,759	3,797,375	1,960,152	1,935,607	1,914,820	1,882,555
Average grade	g/t	2.57	2.52	2.62	2.52	2.54	2.50
Recovery rate	%	85	85	85	84	85	85
Gold and gold eq. produced	**oz**	**272,274**	**261,159**	**140,489**	**131,785**	**132,488**	**128,671**

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

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

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

Sredny Golgotay (Kaftan) - Gold produced	**oz**	-	**1,315**	-	-	**882**	**433**
Lyubov - Gold produced	**oz**	-	**170**	-	-	**170**	

* Calculated in gold equivalent (gold equivalent is calculated based on average factual prices for the period)
Metal grade of mined ore = Au 3.57 g/t, Ag 59.04 g/t, Pb 1.71 %, Zn 0.59 %
** Excluding Sredny Golgotay ore processed in 2016

KHABAROVSK REGION, RUSSIA

Mnogovershinnoye (MNV)

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

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

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

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

PRODUCTION COSTS

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

CAPITAL COSTS

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

OUTLOOK

The extensive near-mine exploration activity seen during 2017 will continue in 2018 with a view to identifying sufficient resources to facilitate a further extension of LoM. Such activity will prioritise areas in the vicinity of previously mined ore bodies including the Intermediate and Deep ore bodies and the Burlivy zone, while also encompassing the new greenfield sites -- Zamanchivaya and Kulibinskaya – where geochemical prospecting work was carried out in 2017 in preparation for 2018's exploration programme.

Appraisal of the waste stockpiles – a potentially significant source of additional resource – will also continue in 2018.
Against this background, an updated JORC-compliant reserve estimate is scheduled for completion in Q3 2018.

Belaya Gora

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

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

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

PRODUCTION COSTS

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

CAPITAL COSTS

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

OUTLOOK

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

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

Blagodatnoye

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

CAPITAL COSTS

A total of US$1.1 million was invested at Blagodatnoye in 2017 and represented a capitalised exploration and evaluation asset.[4]

OUTLOOK

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

ZABAIKALSKY REGION, RUSSIA

Novoshirokinskoye (Novo)

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

[4] *In the consolidated financial statements, capital costs for Blagodatnoye are reported together with MNV.*

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

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

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

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

PRODUCTION COSTS

Total cash costs amounted to US$291 per oz (2016: US$254 per oz) while all-in sustaining costs were US$342 per oz (2016: US$274 per oz). [5]

CAPITAL COSTS

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

OUTLOOK

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

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

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

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

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

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

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

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

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

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

CAPITAL COSTS

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

CHUKOTKA AUTONOMOUS DISTRICT, RUSSIA

Kekura

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

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

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

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

Klen

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

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

KYRGYZSTAN

Unkurtash

A scoping study was completed and published in March 2017 which envisages:
- Two open-pits and an 18-year LoM;
- Processing plant utilisation of gravity concentration and gravity tailings CIL with an annual throughput of 4 million tonnes and recoveries of more than 80%;
- Annual production of 133,000 oz Au at an average operating cost of US$616 per oz; and
- Total capex to commence production of US$322 million.

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

HEALTH, SAFETY AND ENVIRONMENT

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

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

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

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

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

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

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

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

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

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

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

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

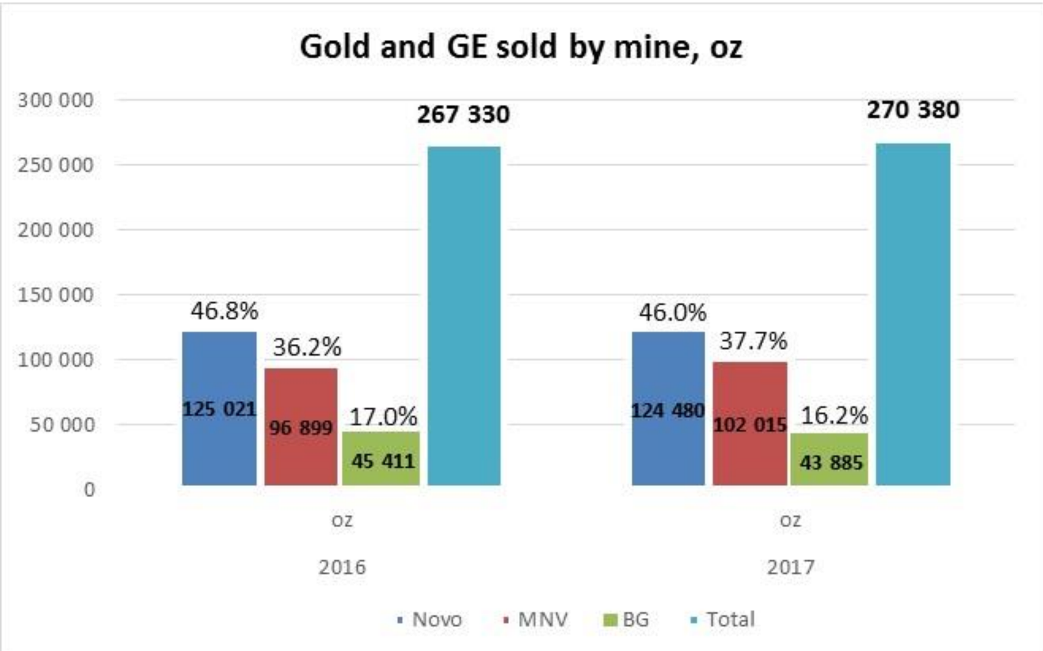
An environmental management system certification audit at the Moscow office and at MNV, carried out by risk management specialists DNV, confirmed compliance with the requirements of the new ISO 14001-2015 standard. The absence of any significant discrepancies points to the efficacy of the environmental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

CHIEF FINANCIAL OFFICER'S REPORT

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

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

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



During 2017, the Company continued to pursue a "no hedge" policy. The Company's average realised price of gold and gold equivalent increased by 2.3% to US$1,162 per oz compared with US$1,136 per oz in 2016. The average realised price of gold in respect of MNV and Belaya Gora (net of commission) was US$1,259 per oz, which corresponded with the average market price. The higher prices for lead and zinc raised the average price of gold equivalent realised by Novo to US$1,048[6] per eq. oz against US$1,008 per eq. oz in 2016 (+4.0% y-o-y).

[6] *Novo's average price is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver), net of fixed processing and refining costs at third-party plants.*

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

Cash Operating Costs – Breakdown

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

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

Total cash costs[7] (TCC) increased by 11.7% to US$507 per oz, comfortably below the industry average. A breakdown by operating unit shows a 14.8% increase in total cash costs at our lowest-cost producer Novo to US$291 per eq. oz, reflecting the negative currency effect and an increased share of mining from lower horizons. MNV, our oldest mine, succeeded in holding total cash costs at US$617 per oz (2016: US$607 per oz), assisted by an increase in sales volume. Belaya Gora's total cash costs advanced from US$678 per oz to US$861 per oz, a reflection of processing lower-grade stockpile ore.

All-in sustaining costs[8] (AISC) registered only a marginal increase from US$652 per oz in 2016 to US$664 per oz in 2017.

[7] *Total cash costs include mine site operating costs such as mining, processing, administration, royalties and production taxes but are exclusive of depreciation, depletion and amortisation, capital and exploration costs. Total cash costs are then divided by ounces sold to arrive at the total cash costs of sales. This data provides additional information and is a non-GAAP measure.*

[8] *In line with guidance issued by the World Gold Council, the formula used to define the all-in sustaining cash costs measurement commences with total cash costs per ounce sold and then adds sustaining capital expenditures, corporate general and administrative costs, mine site exploration and evaluation costs and environmental rehabilitation costs. This data seeks to represent the total costs of producing gold from current operations and therefore it does not include capital expenditures attributable to projects or mine expansions, exploration and evaluation costs attributable to growth projects, income tax payments, interest costs or dividend payments.*

TCC and AISC Calculation

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

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

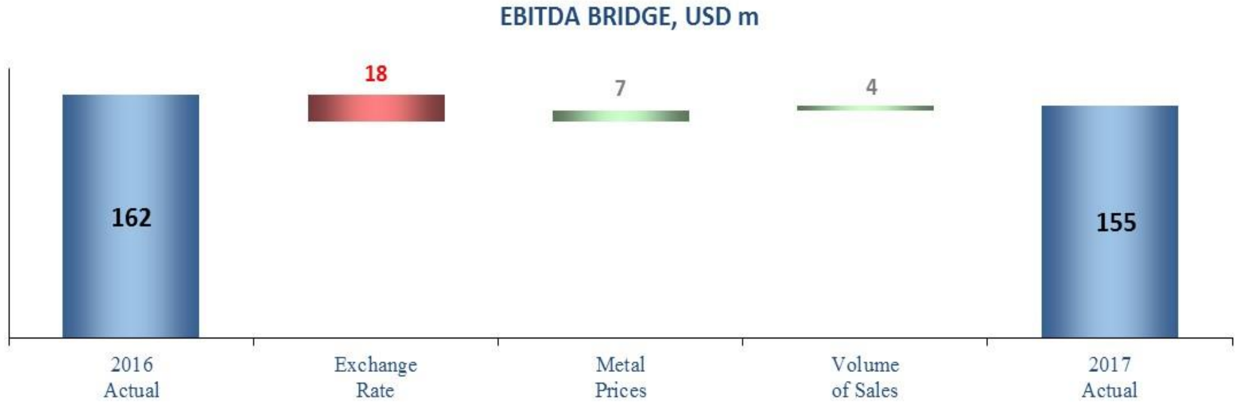
Higher average realised prices and largely maintained AISC delivered strong headroom of US$499 per ounce, effectively underwriting the Company's development projects and dividend distribution.

In 2017, the Company's EBITDA decreased by 4.4% to US$155.3 million (2016: US$162.5 million). In line with this, the EBITDA margin[9] dipped from 53.1% to 49.0%: a ratio which underlines Highland's status as one of the world's most efficient gold producers.

EBITDA Reconciliation to Operating Profit

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

[9] *EBITDA margin is defined as EBITDA divided by total revenue*



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

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

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

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

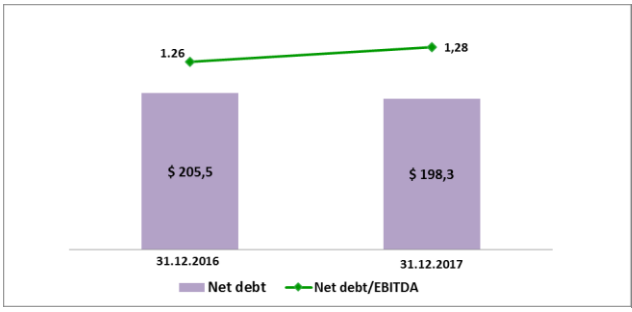
Current tax expenses totalled US$33.3 million (Novo: US$19.4 million, MNV: US$13.1 million, BG: US$0.4 million and RDM: US$0.4 million) while dividend withholding tax amounted to US$7.7 million.

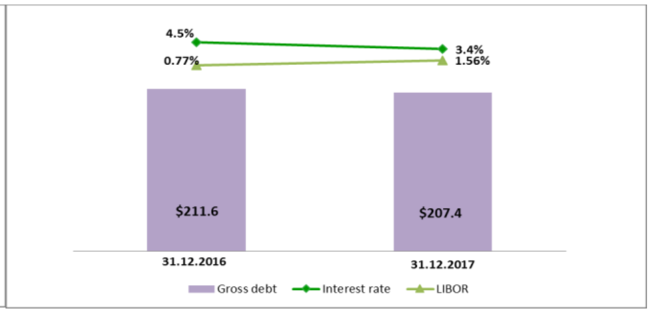
Net profit, benefiting from the growth in revenue, cost controls and zero impairment losses, rose 37% from 2016’s US$47.9 million to US$65.9 million. Consequentially, earnings per share advanced from US$0.145 in 2016 to US$0.201 for the year to 31 December 2017.

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

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

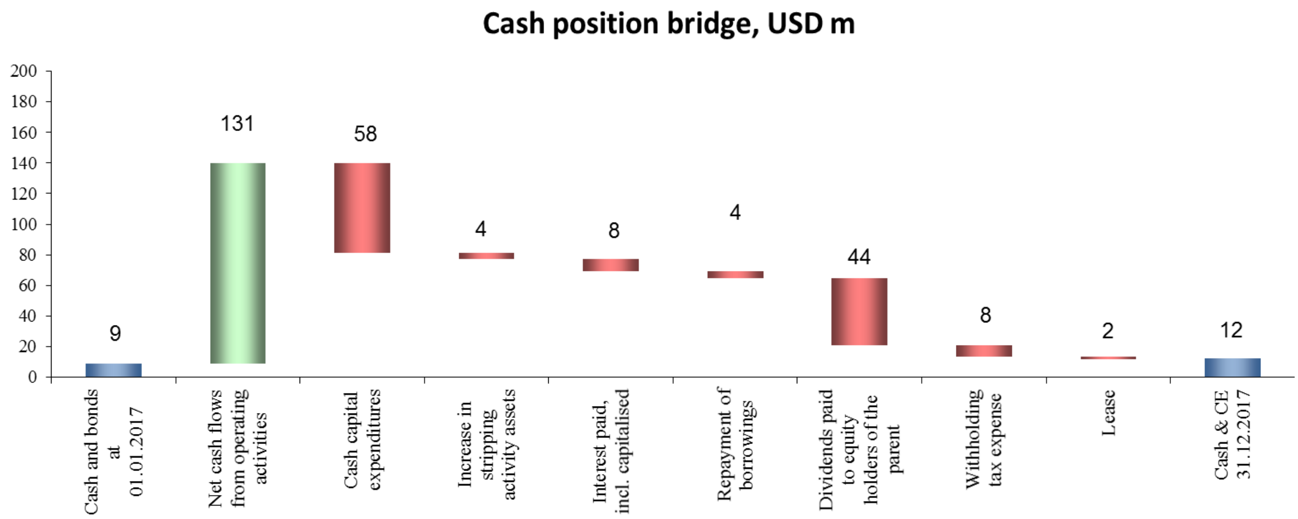
The Company’s total debt is denominated in USD. The debt in relation to facility agreements with banks showed a decrease of 2.0% to US$207.4 million as of 31 December 2017 (2016: US$211.6 million) accompanied by a 24.3% reduction in the effective annual interest rate to 3.4% (2016: 4.5%), despite rising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





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

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



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

PAYMENT OF DIVIDENDS

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

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

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

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

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

EVENTS AFTER THE REPORTING PERIOD

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

Alla Baranovskaya
Chief Financial Officer

Rounding of figures may result in computational discrepancies

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December

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

SELECTED POLICIES AND NOTES TO THE FINANCIAL INFORMATION

Corporate information

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

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

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

Basis of preparation

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

Statement of compliance

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

Going concern

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

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

Basis of consolidation

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

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

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

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

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

Segment information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Inter-segment revenues mostly represent management services.

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

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

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

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

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

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

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

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

*** Capital expenditure – additions in 2016 – includes additions to property, plant and equipment of US$66.1 million, capitalised interest of US$9.6 million and prepayments made for property, plant and equipment of US$0.3 million.

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

Income tax

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

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

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

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

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		*Consolidated statement of comprehensive income*	
	2017 US$000	*2016 US$000*	*2017 US$000*	*2016 US$000*
Deferred income tax liability				
Property, plant and equipment	(138,133)	(138,754)	(621)	(7,816)
Inventory	(3,300)	(3,377)	(77)	(6,007)
Accounts receivable and other debtors	(1,012)	(993)	19	283
Deferred financing costs	(53)	(83)	(30)	58
	(142,498)	**(143,207)**	**(709)**	**(13,482)**
Deferred income tax assets				
Accounts receivable and other debtors	96	212	116	(272)
Finance lease obligations	602	334	(268)	(122)

Trade accounts and notes payable	1,417	1,290	(127)	(518)
Tax losses	32,898	27,326	(5,572)	(7,018)
	35,013	**29,162**	**(5,851)**	**(7,930)**
Net deferred income tax liabilities	**(107,485)**	**(114,045)**	**(6,560)**	**(21,412)**

Entity-specific tax position are presented below:

	2017 US$000	***2016 US$000***
Deferred income tax assets	129	-
Deferred income tax liabilities	(107,614)	(114,045)
Deferred tax liabilities net	**(107,485)**	**(114,045)**

No deferred tax benefits are recognised in relation to site restoration provisions and obsolescence provisions. Restoration expenses are tax deductible when incurred. However, it is not certain that there will be sufficient income towards the end of the mine's life against which the restoration expenditure can be offset and therefore future tax relief has not been assumed.

The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the site restoration provision at 31 December 2017 is US$ 18.7 million (31 December 2016: US$17.2 million).

No deferred tax benefit is recognised in relation to the provision for obsolete inventory. These materials are unlikely to be used for production purposes in the future and therefore future tax relief is not assumed. The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the obsolescence provision at 31 December 2017 is US$ 27.8 million (31 December 2016: US$15.6 million).

The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the tax losses at 31 December 2017 is US$ 23.3 million (31 December 2016: US$21.7 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

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

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

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

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

Impairment testing of non-current assets

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

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

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

- Lubov – 2028 (31 December 2016: 2028).

*Including Blagodatnoe

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

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

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

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

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

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

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

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

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

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

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

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

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

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