HIGHLAND GOLD MINING Ltd.

HIGHLAND GOLD MINING LIMITED ANNOUNCES
INTERIM RESULTS FOR THE FIRST HALF OF 2007

24 September 2007 – Highland Gold Mining Limited ("Highland Gold", or the "Company") announces its production and financial unaudited results for the half year ended 30 June 2007.

FINANCIAL SUMMARY

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

	H1 2007	**H1 2006**
Financial (US$ millions)		
Turnover	43.4	47.1
Cash outflow from operating activities	(26.0)	(1.3)
Group Operating profit	4.2	7.8
Net profit from Continuing operations	5.7	8.4
Profit/(loss) for the period	(2.8)	0.8
Diluted earnings per share from continuing operations (dollars/share)	0.029	0.051
Capital expenditure	19.3	15.4
Operating		
MNV - Gold sold (ounces)	62,643	75,594
MNV - Cash operating cost ($/ounce sold)	417	274
MNV - Total cash cost ($/ounce sold)	458	313

FIRST HALF HIGHLIGHTS

- US$5.7 million net profit from continuing operations
- Integrated new management team from Barrick Gold
- Completed MNV and Novo operations and engineering audits
- Successful implementation of initiatives started
- Debt restructuring established US$135 million of new low-cost financing facilities which extend the Group's debt portfolio maturity profile to 2011
- Darasun conditional agreement finalised
- Good progress on all development and exploration projects
- Ongoing improvements in safety performance

Commenting on today's announcement **Henry Horne, Managing Director** said: "In the past 6 months Highland Gold made several important steps in its development. We have started transforming production at our major producing mine MNV and are already seeing the benefits from this process. We have made remarkable progress on our development and exploration projects. The conditional agreement to sell the Darasun mine, which is subject to ongoing price negotiations, once completed, will optimise considerably the operating structure of the Company. Just as important as these operational issues has been the restructuring of our finances to provide a more stable and well funded business going forward.

It is with regret that Highland Gold announces that after almost 12 years with Barrick Gold, Rene Marion has resigned from Barrick to pursue other career opportunities in the industry. As a result, Rene will be stepping down from the Highland Gold Board of Directors and as Chief Operating Officer effective October 24. Barrick management has confirmed that they will provide a seasoned successor to Rene in the position of Chief Operating Officer prior to Rene's departure to ensure a smooth transition.

Barrick has nominated Scott Perry, Highland Gold's Chief Financial Officer, to replace Rene on the Highland Gold Board of Directors and a further announcement will be made in that regard.

We wish Rene the very best for the future and thank him for the valuable contribution he has made towards the development of Highland Gold."

Conference call

Highland Gold will hold a conference call hosted by Deputy Chairman Ivan Kulakov, COO Rene Marion and CFO Scott Perry at 10.00am GMT on 24 September 2007. To participate , please dial one of the following toll-free numbers:

01296 317500	United Kingdom
+44 1296 317500	International Dial In

Passcode 835707

The Interim Report to 30 June 2007 will be available on our website from 30 September.

FINANCIAL REVIEW

Highland Gold posted a profit from continuing operations of $5.7 million in the first half of 2007 versus $8.4 million for the corresponding period in 2006.

Gold revenue for the first half of 2007 decreased by 8% over the same period in 2006 to $43.4 million on sales of 62,643 ounces. Reduced revenues were due to the mine resequencing initiatives being implemented at MNV and the complete cessation of mining activity at the Darasun property, the effects of which were partially offset by an increase of $56 in the average realised gold price reflecting the company's policy of not hedging their exposure to the gold price.

Following February's intensive operational and optimisation review audit at MNV, a large number of short and long term value adding initiatives were identified and implemented throughout the first half of this year. Many of the mining initiatives are focused on the optimal mining sequencing of the mines which, as expected, have resulted in notably lower production in the first half of 2007, but will result in increasing production contributions in the future.

The Darasun property has been accounted for as an asset held for sale reflecting a strategic decision by management to divest this asset from the Group's portfolio. On 8 August 2007, Highland announced that a conditional agreement for the sale of the Darasun mine had been signed between Uzhuralzoloto Group of Companies. The total consideration under the deal amounts to $25 million which is subject to some ongoing negotiation.

The Group's costs of sales increased by 6%, or $1.9 million, over the prior year corresponding period. Operating costs at the MNV operation increased by 18% to $4.0 million in the first half of 2007 while the total cash cost per ounce was $458 compared to $313 per ounce in the prior period. The cost increase was attributable to increased unit cost pressures higher repair and maintenance expense and operational fixed costs being spread over lower gold production in the first half of 2007 with the lower gold production being a direct result of the in-process audit and optimisation review, and mine resequencing initiatives. Increased unit costs were predominantly associated with higher energy, material and manpower costs together while higher repair & maintenance costs were necessary for commissioning the items of mining equipment transferred to MNV from the Group's Darasun operation. The Group's cost of sales included reduced non-cash charges at the MNV operation in the form of depreciation and amortisation, which were lower due to the lower gold production result. Total cash costs in the second half of 2007 are expected to significantly outperform the first half result as the operations' production profile increases following the implementation of the various optimisation initiatives.

The income tax release in the amount of $0.7 million consists of $1.6 million of income tax charge at MNV and $2.3 million of deferred tax release. All entities within the Group, with the exception of MNV, are either development projects or have suffered a tax loss during the period. These tax losses are not able to be recognised until such time as there is sufficient evidence of future taxable profits in those entities, against which the losses can be utilized. In total, $5.9 million of tax losses arose during the period, which were not recognised. The application of this policy may lead to previously unrecognised deferred tax assets being recognised in the future, as projects are determined to be economically viable, resulting in a credit to income taxes.

Following Highland Gold's decision to divest itself from the Darasun property, Darasun has been presented and recognized as a discontinued operation held for sale in the Group's Financial Statements. Costs at Darasun significantly decreased in the first half of 2007 following the cessation of mining activities after which the asset has been placed on care & maintenance.

As a result of the MNV mine's resequencing activities which resulted in reduced levels of gold production, the Group's cash outflow from operating activities was $26.0 million compared to a cash outflow of $1.3 million in the first half of the prior year. The effects of the mine resequencing were partially offset by stronger realised gold prices. In addition to cash outflow from operating activities, the Group's net interest and loan arrangement outflow was $37.7 million versus $15.5 million in the prior year period while $0.2 million in Russian income tax was refunded in the first half of 2007 versus $5.3 million of paid tax in the first half of the prior year.

These operating and interest outflows, together with the Group's investment outflows, were financed by existing cash reserves of $31.6 million, net financing cash in-flows of $28.7 million.

Highland Gold continued the steady advance of its development project pipeline investing $18.5 million in the first six months to 30 June 2007 compared to $15.4 million in the first six months to 30 June 2006. First half capital expenditures comprise development project advancement expenditures for Novoshirokinskoye's construction and commissioning, Mayskoye's Feasibility programme and Taseevskoye's Pre-Feasibility programme together with operational investment expenditures at MNV to augment both the open pit and underground mining equipment fleets and to upgrade the capacity and efficiency of the processing facility.

The first of two significant debt restructurings was finalised in early April whereby $90 million in new financing facilities was raised through two large Russian banks comprising a $60 million facility with MDM Bank and a $30 million facility with GazpromBank following which, the Group immediately utilised a portion of the proceeds to complete the early repayment of the existing Syndicated Loan Facility. As a result, at 30 June 2007, the Group's net financing cash inflows was $33.9 million comprising the full drawdown of the MDM $60 million facility partially offset by the early repayment of the $30.7 million existing Syndicated Loan Facility, a $1.0 million partial drawdown on the Gazprombank $30 million facility, $1.7 million in equipment lease payments.

Cash and short term deposits at 30 June 2007 were $15.5 million versus $31.6 million at 31 December 2006 while the net debt position of the Group totaled $99.5 million versus $48.5 million at 31 December 2006. The net debt of the Group includes Cash at Bank, Bank Borrowings, Outstanding Corporate Bonds and Long-term finance lease payables. The increase of $51.0 million in net debt was caused by a decrease in cash balances of $16.1 million, a net increase in loan principals of $30.2 million, a $1.7 million decrease in the capital element of the finance leases and general increases in other net debt items of $1.1 million due to adverse exchange rate movements.

Recently, in August 2007, Highland completed a second debt restructuring with Gazprombank by establishing an additional new five year term $45 million corporate debt facility which is available to fund the future development of the Highland Gold Group. Of this facility, $15 million will be used to refinance an existing $15 million loan that is outstanding with GazpromBank and is due to mature in June 2008. The early refinancing of this existing facility will see the effective maturity profile of all of Highland Gold's Corporate Bank Facilities pushed out to late 2010 and 2011.

This year's debt restructurings demonstrate the Group's ongoing capital management plan and continue to further align the company's debt maturities with its business plan. These facilities further reduce Highland Gold's weighted average cost of capital and are well suited to Highland Gold's focus on growth; further confirming our financiers' ongoing confidence in Highland Gold's Business Plan.

IFRS ADOPTION

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

Overview of impact

At 1 January 2006	***UK GAAP***	***IFRS***
	US$'000	**US$'000**
Net assets	248,154	242,149

Period ended 30 June 2006	***UK GAAP***	***IFRS***
	US$'000	**US$'000**
Profit before income tax	4,224	4,263
Profit /(Loss) after taxation	(201)	805
Earnings per share (basic)	(0.001)	0.006
Earnings per share (diluted)	(0.001)	0.005
Net assets	258,932	248,261

Year ended 31 December 2006	*UK GAAP* US$'000	*IFRS* US$'000
Loss before income tax	(83,202)	(84,600)
Loss after taxation	(96,445)	(95,661)
Earnings per share (basic and diluted)	(0.597)	(0.592)
Net assets	253,588	246,412

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

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

OPERATIONAL REVIEW

MNOGOVERSHINNOYE MINE (MNV) – Khabarovsk Region

MNV Operating Statistics:

MNV		6 months ended 30 June	
	Unit	2007	2006
Mine development			
Waste stripping	000 M^3	867	751
Underground	Metres	4,740	4,609
Mining			
Open pit	Tonnes	141,086	205,896
	g/tonne	5.74	5.90
Underground	Tonnes	261,189	209,255
	g/tonne	4.79	5.90
Total ore mined	Tonnes	402,275	415,151
	g/tonne	5.12	5.90
Ore processed	Tonnes	381,201	485,561

	g/tonne	5.20	5.60
Incl. from stockpile	Tonnes	(21,074)	70,410
	g/tonne	3.69	3.83
Recovery rate	%	91.26	90.90
Gold recovered	Ounces	58,196	79,444
Gold sold	Ounces	62,643	75,594
Gold price received	US$/oz	655	599

Full details of the progress made in the first half are contained in the Trading Statement issued on 13 August 2007.

At MNV short and long term value adding initiatives which were identified during the first quarter 2007 operational review and optimisation audit are being successfully implemented.

Many of the mining initiatives focus on the short term recapitalisation[1] and optimal mining sequencing of the mines which as expected has resulted in notably lower production in first quarter 2007 but will result in increasing production contributions in the future.

The processing facility at MNV has been upgraded ahead of schedule during the second half of August, to increase the grinding circuit capacity by splitting it into two trains and increasing the mine's processing capacity by 25% to a nominal 110,000 tonnes per month by year-end compared to the historical technical limit of 88,000 tonnes per month.

The mill expansion will significantly augment the mine's annual gold production profile and is necessary for the operation in order to treat the increased ore production being realised from both the open pit and underground mines. The automation of the grinding circuit, to reduce electricity, reagent and water consumption will be completed in Q4. In addition, the modifications to the RIL[2] regeneration facility, which will reduce the time for resin regeneration from 200 hours to less than 50 hours (in effect increasing resin activity and reducing soluble gold losses resulting in increasing recovery) will also be completion by Q4.

A gravity circuit (Knelson concentrator) has been installed and commissioned that will allow the coarse gold to be recovered prior to the RIL circuit. In addition to increased coarse gold recovery, this will allow the fine gold to effectively have increased residence time in the RIL circuit and thereby increasing recovering.

Other components of the mill upgrade initiatives include an increase in the leach residence time to improve mill recovery and reduce cyanide and hypochlorite consumption by mid-2008.

Due to the previously announced underground mining accident of August 8 at MNV and subsequent loss of the underground loader (which can not be replaced until the new year) and the delays in delivery of new open pit equipment to September and October (resulting in a shortfall in open pit stripping activities) Management believe that there may be up to a 10% gold production shortfall risk in 2007.

In efforts to partially mitigate and minimize the negative impact of these two uncontrollable events, Management have made the decision to transfer the remaining Hitachi excavator and Atlas Copco drill from Darasun to the MNV open pit operation.

DARASUN MINE – Chita Region, Russia

On 8 August 2007, Highland announced that its wholly owned subsidiary, Stanmix Holding Limited, had entered into a conditional agreement for the sale of the Darasun, Teremky and Talatui Mines ("the Mines") in the Chita region of Russia. The agreement was entered into with Open Joint Stock Company "Uzhuralzoloto Group of

[1] The purchase of new equipment, the refurbishment of older equipment and the transfer of Darasun equipment to MNV.
[2] Resin in Leach

Companies" a company incorporated under the laws of Russia ("the Purchaser") whereby the Purchaser will acquire the whole of the share capital of OOO "Darasunsky Rudnik", the owner of the Mines, for a total consideration of US$25 million.

This agreement remains subject to the satisfaction of certain conditions precedent which includes, among others, the Purchaser obtaining Russian anti-monopoly approval.

In addition, the previously announced sale price of US$25 million is subject to ongoing negotiation over areas including the impact on the price of receiving all the consideration up front, as opposed to via installments, and which items of mining equipment should be included in the sale. The outcome of both these areas of negotiation could have a material impact on the purchase price.

Subject to the satisfactory outcome of the price negotiations, it is accepted that the conditions precedent will be satisfied by the end of 2007.

NOVOSHIROKINSKOYE DEVELOPMENT PROJECT - Chita Region, Russia

The Company continues to work in partnership with Kazzinc to optimise production and sales opportunities at the site. Detailed engineering for the plant and facility construction is in progress. The main construction contractor has been selected, has mobilised and has begun work on facilities.

Initial construction is focusing on infrastructure, accommodation and utilities. Mining equipment has been ordered and processing equipment is in the tender phase. The contract for the construction of the tailings dam and water storage dam has been awarded.

By year end the Company will have the Novoshirokinskoye resources/reserves classified under the JORC code.

The site began underground development work in July. Stoping will begin in early 2008 in anticipation of building a surface stockpile suitable in size for a second half 2008 startup of the mill.

MAYSKOYE DEVELOPMENT PROJECT – Chukotka Region, Russia

The Mayskoye Feasibility Study is progressing well and is scheduled for completion in Q4 2007. The study is focusing on a 850,000 tonnes per year flotation and Biox leach plant, and is being jointly undertaken by SRK (South Africa) and Aker Kvaerner (Canada). In addition, during the month of September, a contract has been awarded for the commencement in fourth quarter of the rehabilitation of the underground workings

It is anticipated that by year end, JORC resources and reserves for the Mayskoye project will be updated.

The Mayskoye license extension process is ongoing and we are hopeful that the process will be concluded positively within the next two months. All required documentation and support letters from the Chukotka Deputy Governor were submitted. Another environmental inspection, the second one within eighteen months, was concluded by the Environmental Agency and no violations were found. This report was also submitted to Rosnedra, the agency dealing with license extensions.

TASEEVSKOYE DEVELOPMENT PROJECT - Chita Region, Russia

The 2006-2007 exploration drilling programme at the Taseevskoye deposit was 35,500 metres, with 44,809 samples being assayed. The 2007 9,053 metre drilling programme, including 1,568 metres being drilled from the frozen pit lake, has been completed.

The resource block model, as well as a revised estimation of reserves taking into account the drilling programme results, are expected in fourth quarter 2007.

A Pre-Feasibility Study is scheduled to be completed by year end along with an update of the JORC resources.

Further details on progress at Novoshirokinskoye, as well as at Mayskoye and Taseevskoye, were made available in the Trading Statement issued on 13 August.

EXPLORATION

Belaya Gora – Khabarovsk Region, Russia
Belaya Gora is our most advanced exploration project which is well on track to become the next development project in the near vicinity of our Mnogovershinnoye mine. Due to the mine's close proximity Belaya Gora is already utilising logistical synergies with the mine but the main benefits are envisaged in processing and production synergies in future operations.

A large volume of exploration work has been accomplished at Belaya Gora and currently the second phase of the 2007 drilling programme is in progress with nearly 8,000 metres out of a planned 12,000 metres being completed. Drilling is now focused at the more complex Stockwork target whereas at the Pologaya target 250 metres of additional trenching has been started. More than 7,500 samples have been assayed in the course of the programme which continues to deliver positive results.

Drilling at the southwestern Stockwork area recently intersected a steeply dipping pipe-like breccia body with an anomalously high content of visible gold of 0.2-0.5 mm grain size. Measuring 50 to 80 metres in diameter the pipe appears to continue to a depth of at least 200 metres from surface.

Preliminary assays from drill hole DH 4506 in the vicinity of the pipe indicate a cumulative gold-mineralised interval of 92 metres grading 3.0 g/t Au with an ore to waste ratio of 0.56.

Metallurgical testwork on two 300 kilogramme bulk samples from both Pologaya and Stockwork has been initiated at the TsNIGRI lab in Moscow and a cut-off study for resource delineation has been awarded to NBL Gold (Moscow).

Lyubov - Chita Region, Russia
2,700 metres out of a 3,500 metres drilling programme in 2007 have been completed on schedule at the three exploration targets which coincide with pronounced geophysical and geological anomalies which we identified in 2006 along the Lyubov gold trend. More than 2,200 drill core samples have been processed to date at our own sample preparation facility at Tassevskoe and are being forwarded to Alex Stewart Labs (Moscow) for assaying. At the northern license 1,923 soil samples have been collected as part of a geochemical survey across a geophysical anomaly. All assays are still pending, but drilling returned several promising intersects of rich sulphide mineralisation.

Sovinoye – Chukotka Region, Russia
With 2,600 metres drilled out of a planned 2,700 metres the drilling programme testing the Central Sovinoe gold zone is nearing completion. Final assays from Alex Stewart and TsNIGRI labs in Moscow are still pending, but assays received to date indicate a wide low-grade gold-mineralized system. The drilling programme with interpretation of results is on track for completion by the beginning of fourth quarter 2007.

Unkurtash – Kyrgyzstan
28 drill holes totalling 3,500 metres of large-diameter reverse-circulation drilling have been completed at three prospects (Sarytube, Karytube and Unkurtash) concluding the 2007 drilling programme. A total of 3500 samples have been collected and sent for assaying to Alex Stewart labs in Bishkek (Kyrgyzstan). Partial assays received to date confirm a low-grade gold mineralised stockwork system for Sarytube and Unkurtash, and skarn-type mineralisation of higher grade for the Karatube prospect. A large portion of assays for the main target Unkurtash is still pending. Final assays followed by an evaluation of results are expected by the beginning of Q4 2007.

Maya Inikan – Khabarovsk Region, Russia
A detailed exploration programme has been drafted to investigate the promising new gold anomaly discovered during the 2006 work. The detailed programme planned for 2008 will include a geochemical soil sampling survey covering an 80 sq km area, selected geophysical surveys (IP, resistivity and magnetic), as well as detailed geological mapping and sampling.

Sarasa – Altai Region, Russia
The low prospectivity of the Sarasa property does not warrant further work on the property and the exploration license has been returned to the state complemented by a report summarising our findings. The return of the Sarasa license has been accepted without further claims.

Iska – Khabarovsk Region, Russia
The 920 sq km Iska license, acquired in an open auction on 24 August , is the latest addition to our growing exploration portfolio in vicinity to our Mnogovershinnoye mine. A staged multidisciplinary exploration programme is now being designed for 2008 which will include a review of geological data from previous explorers and prioritisation of several exploration targets of known gold mineralisation on the large property. Apart from

mapping and sampling these targets will be investigated by geophysical and geochemical surveys followed by trenching and drilling in selected areas.

HEALTH AND SAFETY

There has been a 47% reduction in lost time incidents compared to the same period in 2006. Three sites (Taseevskoye, Novoshirokinskoye and Mayskoye) as well as the exploration group have achieved zero lost time incidents year to date.

A fatal underground incident occurred at the MNV mine involving an LHD operator on 8 August. Based on the results of the investigation, preventive measures have been put in place to prevent the risk of reoccurrence in the future.

In August, the Company's substance abuse policy was approved and implemented. The policy includes education of the hazards of drug and alcohol abuse as well as reinforcing our zero tolerance of prohibited substance use in the workplace. A Company wide safety award programme was introduced to recognise sites showing excellence in safety performance. Awards will be presented to the mine site with the best safety record, the site showing the most improvement, and to individuals demonstrating outstanding safety leadership.

Training remains a key strategy for raising safety awareness at our mine sites. In addition to standard Russian requirements, the Company continues to provide supplemental training. Field Level Risk Assessment, fire fighting and evacuation, Drive First Initiative, and first aid training are among the programmes designed to improve employees' safety awareness and accountability for safety and health.

UNAUDITED INTERIM CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2007

	Notes	*For the six months ended 30 June* 2007 US$000 (unaudited)	2006 US$000 (unaudited)
Continuing operations			
Revenue		43,387	47,115
Cost of sales		(32,155)	(30,266)
Gross profit		11,232	16,849
Administrative expenses		(6,900)	(8,629)
Other operating income		-	-
Other operating expenses		(167)	(34)
Loss on asset disposal		-	(329)
Operating profit		4,165	7,857
Foreign exchange gain		1,450	6,484
Finance income		535	379
Finance costs		(1,154)	(2,870)
Profit before income tax		4,996	11,850
Income tax (expense)/credit	3	705	(3,457)
Profit for the period from continuing operations		**5,701**	**8,393**
Discontinued operation			
Loss after tax for the period from a discontinued operation	5	(8,485)	(7,588)
PROFIT /(LOSS) FOR THE PERIOD		**(2,784)**	**805**
Attributable to:			
Equity holders of the parent		(2,784)	890
Minority interests		-	(85)
Earnings/(loss) per share			
• Basic, for the loss for the period attributable to ordinary equity holders of the parent		(0.014)	0.005
• Diluted, for the loss for the period attributable to ordinary equity holders of the parent		(0.014)	0.005
Earnings per share from continuing operations			
• Basic, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.029	0.052
• Diluted, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.029	0.051

INTERIM CONSOLIDATED BALANCE SHEET

at 30 June 2007

	Notes	30 June 2007 US$000 (unaudited)	31 December 2006 US$000
ASSETS			
Non-current assets			
Property, plant and equipment	4	254,466	232,041
Goodwill		65,231	65,231
Other non-current assets		3,902	3,903
Total non-current assets		**323,599**	**301,175**
Current assets			
Inventories		39,280	29,953
Trade and other receivables		19,746	15,805
Prepayments		11,199	3,781
Cash and cash equivalents	2	14,840	30,780
Total current assets		**85,065**	**80,319**
Assets of disposal group classified as held for sale	5	12,017	15,611
TOTAL ASSETS		**420,681**	**397,105**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		325	325
Share premium		334,800	334,800
Shares to be issued		510	510
Assets revaluation reserve		790	790
Accumulated losses		(92,301)	(90,013)
TOTAL EQUITY		**244,124**	**246,412**
Non-current liabilities			
Interest-bearing loans and borrowings	6	68,787	43,324
Provisions		7,258	7,083
Other liabilities		1,358	1,325
Deferred income tax liability		18,934	21,250
		96,337	**72,982**
Current liabilities			
Trade and other payables		5,444	10,368
Interest-bearing loans and borrowings	6	41,351	30,501
Other payables		8,034	8,897
Income tax payable		2,233	2,293
Provisions		9,088	9,406
		66,150	61,465
Liabilities included in disposal groups classified as held for sale	5	14,070	16,246
TOTAL LIABILITIES		**176,557**	**150,693**
TOTAL EQUITY AND LIABILITIES		**420,681**	**397,105**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2007

	Attributable to equity holders of the parent							
	Issued capital	Share premium	Shares to be issued	Asset revaluation reserve	Accumulated losses	Total	Minority interests	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 January 2007	**325**	**334,800**	**510**	**790**	**(90,013)**	**246,412**	**-**	**246,412**
Loss for the period	-	-	-	-	(2,784)	(2,784)	-	(2,784)
Share-based payment	-	-	-	-	496	496	-	496
At 30 June 2007 (unaudited)	**325**	**334,800**	**510**	**790**	**(92,301)**	**244,124**	**-**	**244,124**

	Attributable to equity holders of the parent							
	Issued capital	Share premium	Shares to be issued	Asset revaluation reserve	Retained earnings	Total	Minority interests	Total equity
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 1 January 2006	**255**	**236,483**	**-**	**-**	**5,190**	**241,928**	**221**	**242,149**
Loss for the period	-	-	-	-	805	805	(85)	720
Issue of share capital	3	4,412	-	-	-	4,415	-	4,415
Share-based payment	-	-	-	-	977	977	-	977
At 30 June 2006 (unaudited)	**258**	**240,895**	**-**	**-**	**6,972**	**248,125**	**136**	**248,261**

INTERIM CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2007

	Notes	For the six months ended 30 June 2007 US$000 (unaudited)	2006 US$000 (unaudited)
Operating activities			
Profit before tax from continuing operations		4,996	11,850
Loss before tax from discontinued operations	5	(8,485)	(7,588)
		(3,489)	4,262
Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities:			
Depreciation and impairment of property, plant and equipment		4,039	5,797
Loss on disposal of property, plant and equipment		19	329
Share-based payments expense		496	977
Interest income		(535)	(383)
Interest expense		1,337	3,010
Net foreign exchange gains		(465)	(1,610)
Derivative financial instruments		-	(1,790)
Movement in provisions		(1,064)	(139)
Increase in trade and other receivables		(11,307)	(6,981)
Decrease/(increase) in inventories		(7,807)	459
Increase/(decrease) in trade and other payables		(6,148)	682
Increase in deferred costs		(1,265)	(562)
Income tax refund ed/(paid)		226	(5,343)
Net cash flows from operating activities		**(25,963)**	**(1,292)**
Of which discontinued operations		*(6,235)*	*(8,839)*
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(19,328)	(15,382)
Interest received		535	383
Net cash flows from investing activities		**(18,793)**	**(14,999)**
Of which discontinued operations		*(106)*	*(2,327)*
Cash flows from financing activities			
Issue of ordinary shares		-	4,415
Proceeds from borrowings		61,039	10,000
Repayment of borrowings		(30,772)	(10,241)
Interest paid		(5,251)	(3,767)
Receipts from Barrick Gold to finance the Taseevskoye joint venture		-	2,640
Receipt from Kazzinc to finance the Novoshirokinskoye joint venture		5,326	-
Lease payments		(1,687)	(1,540)
Net cash flows from financing activities		28,655	1,507
Of which discontinued operations		*(886)*	*(489)*
Net (decrease)/increase in cash and cash equivalents		(16,101)	(14,784)
Cash and cash equivalents at 1 January		31,576	33,570
Cash and cash equivalents at 30 June	**2**	**15,475**	**18,786**

1. Summary of Significant Accounting Policies

Authorisation of financial statements

The consolidated financial statements were authorised for issue in accordance with a Directors' resolution on 23 September 2007. The ultimate parent entity of the Group, Highland Gold Mining Limited, is a public company incorporated in Jersey. Its ordinary shares are traded on the AIM.
The principal activity is building of a portfolio of gold mining operations within the Russian Federation.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the period ended 30 June 2007 for Highland Gold Mining Limited (the "Company") and its subsidiaries (together referred to as the "Group"). The interim financial statements are prepared in compliance with IAS 34 "Interim financial reporting" and contain a condensed set of financial statements.

Basis of preparation

The policies applied in the Group's interim financial statements are consistent with those that the Directors intend to use in the next annual financial statements. There is however a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union. The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all the periods presented, unless otherwise stated and are set out below.

These financial statements are the Group's first financial statements that comply with IFRS. The Group's IFRS transition date is 1 January 2006. The Group previously reported under UK GAAP and the Group financial statements have now been restated from UK GAAP to comply with IFRS. The reconciliation and description of the adjustments from UK GAAP to IFRS financial statements are provided in Note 9.

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

Monetary assets and liabilities are translated into the functional currency at the official exchange rate at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into the functional currency at year-end official exchange rates are recognised in the income statement.

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

	30 June 2007	31 December 2006	30 June 2006	31 December 2005
Average				
RUR	26.07	27.13	27.62	28.34
GBP	0.508	0.544	0.559	0.550
Closing				
RUR	25.82	26.33	27.08	28.78
GBP	0.499	0.511	0.551	0.581

Consolidated financial statements

The Group financial statements consolidate the financial statements of Highland Gold Mining Limited and the entities it controls (its subsidiaries).

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Interests in jointly controlled entities

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

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

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

Property, plant and equipment

Land and buildings, plant and equipment

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

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

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

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

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

The expected useful lives are as follows:

Buildings	17 years
Plant and Equipment	7 – 14 years

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

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

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

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

Exploration and evaluation expenditure

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

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

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

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

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

Mine development expenditure

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

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

Mineral properties

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

Mineral rights

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

Impairment

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

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

Construction work in progress

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

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

Operating leases

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

Finance lease liabilities

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

Stripping costs

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

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

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

Sale and leaseback transactions

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

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

Goodwill

Business combinations on or after 1 January 2006 are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset is recorded at its carrying amount and is not amortised.
After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

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

Financial instruments

Financial instruments classification and recognition

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition (which in the case of financial assets existing at the transition date, includes designation at that date). Where as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, the investment is reclassified into the available-for-sale category. When financial assets are recognised initially, they are measured at fair value on the trade date, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Currently the Group does not have financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets.

Loans and receivables

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

Derecognition of financial assets and liabilities

A financial asset is derecognised where:
– the rights to receive cash flows from the asset have expired;

– the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

– the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Derivative financial instruments

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

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

Inventories

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

The inventories are segregated by the following:

– Gold in process which is valued at the average total production cost at the relevant stage of production;

– Gold on hand which is valued on an average total production cost method;

– Ore stockpiles which are valued at the average cost of mining and stockpiling the ore;

– Raw materials and consumables: materials, goods or supplies to be either directly or indirectly consumed in the production process which are valued at weighted average costs;

– Fuel which is valued at weighted average costs;

– Spare parts which are valued at weighted average costs.

Trade and other receivables

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

Cash and cash equivalents

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

Discontinued operations

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

Share capital

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

Dividends

Dividends are recognised as a liability and deducted from equity when approved at AGM. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Value added tax

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

Borrowings

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

Trade and other payables

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

Provisions for liabilities and charges

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

Environmental protection, rehabilitation and closure costs

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

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

Revenue recognition

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

Employee benefits

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

Pension plan

The Group pays contributions to personal pension schemes of employees, which are administered independently of the Group. The Group has no other obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

Share Based Payments

Equity-settled transactions

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

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

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

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

Cash-settled transactions

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

Earnings per share

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

Income taxes

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

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

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

– where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

– where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

New standards

The group has adopted the following new accounting standards in the preparation of its interim financial statements.

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures. IFRS 7 introduces new disclosures relating to financial instruments. IFRS 7 will be adopted for its financial statements for the year-ended 31 December 2007.

IFRIC 9, Reassessment of Embedded Derivatives (effective from annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 is not expected to be relevant to the Group's operations because none of the terms of the Group's contracts has been changed. However the Group will continue to monitor changes to contracts in order to assess the application on IFRIC9.

IFRIC 10 - Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group has applied IFRIC 10 from 1 January 2007 but it has not had any impact on the Group's financial statements.

2. Cash and cash equivalents

For the purpose of the interim consolidated cash flow statement, cash and cash equivalents are comprised of the following:

	30 June	
	2007	2006
	US$000	US$000
Cash in hand and in bank	9,882	10,949
Deposits	4,958	7,009
	14,840	17,958
Cash at bank and in hand attributable to a discontinued operation	635	828
	15,475	18,786

3. Income tax

The major components of income tax expense in the interim consolidated income statement are:

	For the six months ended 30 June	
	2007	2006
	US$000	US$000
Current income tax		
Current income tax charge	1,862	4,633
Reversal of income tax provision	(250)	-
Deferred income tax		
Relating to origination and reversal of temporary differences	(2,317)	(1,176)
Income tax expense/(benefit)	(705)	3,457

4. Property, plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2007, the Group acquired assets with a cost of US$26.1 million (2006: US$17 million). The main items acquired were:

- Plant & equipment with a cost of US$12.1 million (2006: US$4.4 million); and
- Capitalised mine development costs totalling US$14 million (2006: US$12.6 million).

Assets with a net book value of US$1.5 million were disposed of by the Group during the six months ended 30 June 2007 (2006: US$0.4 million).

5. Discontinued operation

On 8 August 2007, Highland Gold Mining Limited publicly announced that it entered into a conditional agreement for the sale of the Darasun, Teremky and Talatui Mines ("the Mines") in the Chita region of Russia for a total consideration of US$25 million. The results of the Mines are as follows:

	For the six months ended 30 June	
	2007	2006
	US$000	US$000
Revenue	511	6,700
Cost of sales	(1,300)	(11,060)
Care and maintenance expenses	(6,707)	-
Gross loss	(7,496)	(4,360)
Administrative expenses	(15)	21
Other operating income	194	-
Other operating expenses	-	(28)
Foreign exchange expenses	(985)	(3,085)
Finance costs	(183)	(140)
Finance revenue	-	4
Loss before tax from discontinued operation	(8,485)	(7,588)
Tax income / (expense)	-	-
Loss after tax for the period from a discontinued operation	(8,485)	(7,588)

The assets and liabilities are classified as part of a disposal group held for sale.

6. Interest-bearing loans and borrowings

On 2 April 2007, the Group announced that they had arranged US$90 million of new debt facilities. The new facilities comprise of the following:

- US$60 million facility with MDM Bank. The facility bears interest at 8.6% and is repayable until 30 December 2011.
- US$30 million line of credit with Gazprombank. The facility bears interest of 8.7% and is available until 25 May 2011.

7. Related party transactions

The following table provides the total amount of transactions which have been entered into with related parties during the six months ended 30 June 2007 and 2006:

	Services provided to related	*Services provided by related*	*Sales to related parties*	*Amounts owed by related*	*Amounts owed to related*

		parties	*parties*		*parties*	*parties*
		US$000	*US$000*	*US$000*	*US$000*	*US$000*
Entity with significant influence over the Group:						
Barrick Resources	*2007*	-	225	-	-	-
	2006	-	-	-	-	-
Barrick Gold Services	*2007*	-	152	-	-	-
	2006	-	326	-	-	72
Fleming Family & Partners	*2007*	-	60	-	-	47
	2006	-	59	-	-	48
Joint venture in which the parent is the venturer:						
OAO Novoshirokinskoye	*2007*	3,510	-	1,257	2,401	-
	2006	-	-	-	-	-

		Loans given to related parties	*Loans received from related parties*	*Interest on the loan given to the related party*	*Interest on the loan received from the related party*	*Amounts owed by related parties*	*Amounts owed to related parties*
		US$000	*USD$000*	*USD$000*	*US$000*	*USD$000*	*USD$000*
Joint venture in which the parent is the venturer:							
OAO Novoshirokinskoye	*2007*	500	-	63	-	65	-
	2006	-	-	-	-	-	-
Partner in the joint venture:							
Kazzinc	*2007*	-	5,326	-	66	-	66
	2007	-	-	-	-	-	-

8. Events after the balance sheet event

Conditional sale of Darasun

On 8 August, 2007, Highland announced that its wholly owned subsidiary, Stanmix Holding Limited, had entered into a conditional agreement for the sale of the Darasun, Teremky and Talatui Mines ("the Mines") in the Chita region of Russia. The agreement was entered into with Open Joint Stock Company "Uzhuralzoloto Group of Companies" a company incorporated under the laws of Russia ("the Purchaser") whereby the Purchaser will acquire the whole of the share capital of OOO "Darasunsky Rudnik", the owner of the Mines, for a total consideration of US$25 million. The consideration was to be satisfied by the payment of US$3 million in cash, which shall be paid on completion of the transaction, and the repayment by OOO "Darasunsky Rudnik" of US$22 million of its indebtedness due to Stanmix Investments Limited, a wholly owned subsidiary of Highland, of which US$12 million planned to be repaid by the end of 2007 and US$10 million planned to be repaid on 1 March 2008.

This agreement remains subject to the satisfaction of certain conditions precedent which include, among others, the Purchaser successfully raising finance for the required purchase consideration, and the Purchaser obtaining of Russian anti-monopoly approval.

In addition, the previously announced sale price of US$25 million is subject to ongoing negotiation over areas including the impact on the price of receiving all the consideration up front, as opposed to via installments, and which items of mining equipment should be included in the sale. The outcome of both these areas of negotiation could have a material impact on the purchase price.

The conditions precedents remain unsatisfied, and the negotiations are ongoing regarding the ultimate sales price. Given these uncertainties, management has resolved not to effect any upward adjustment to the carrying value of the Mines in the Group's Interim Financial Statements. It is anticipated that these uncertainties will be resolved by the end of 2007, at which point any required revaluation of the assets will be effected.

Financing

On 7 August, 2007, the Group officially received credit and risk committee approval from GazpromBank to establish a new five year term US$45 million corporate debt facility which is available to fund the future development of the Highland Group. Of this US$45 million debt facility, US$15 million has been used to refinance an existing US$15 million loan that is outstanding with GazpromBank and is due to mature in June 2008. The early refinancing of this existing facility will see the maturity profile pushed out to December 2011.

Acquisition of exploration licences

On 24 August the Company acquired a license for exploration and mining rights for the Iska ore field in the Khabarovsk Region. The acquisition was made in an open auction in Khabarovsk for a bid price of 1.87 million roubles (US$ 72.300).

9. First time adoption of IFRS

Introduction

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

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

Overview of impact

At 1 January 2006	***UK GAAP***	***IFRS***
	US$'000	**US$'000**
Net assets	248,154	242,149

Period ended 30 June 2006	***UK GAAP***	***IFRS***
	US$'000	**US$'000**
Profit before income tax	4,224	4,263
Profit /(Loss) after taxation	(201)	805
Earnings per share (basic)	(0.001)	0.006
Earnings per share (diluted)	(0.001)	0.005
Net assets	258,932	248,261

Year ended 31 December 2006	*UK GAAP*	*IFRS*
	US$'000	**US$'000**
Loss before income tax	(83,202)	(84,600)
Loss after taxation	(96,445)	(95,661)
Earnings per share (basic and diluted)	(0.597)	(0.592)
Net assets	253,588	246,412

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

· the write-off of the negative goodwill on transition to IFRS to the retained earnings;

· recognition of deferred tax liabilities on the fair value adjustments arising in the prior business combination and recognition of deferred tax liabilities arising on the retranslation of fixed assets arising in group's Russian subsidiaries whose functional currency is different from their tax currency;

·recognition of additional gain arising on the disposal of group's 50% share in Novoshirokinskoye ("Novo") as a result of the decrease in the net assets of Novo on conversion to IFRS;

· change in the treatment of derivative financial instruments; and

· change in the treatment of the joint venture.

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

Details of Changes

Transitional arrangements

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

Changes in accounting policies

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

A summary of the relevant and significant IFRS accounting policies is provided on pages 6 to 14. The resultant changes from each standard are quantified on pages 20 to 29 for 2006. The Group has taken the opportunity to modify the format of its financial statements. The starting point for reconciliations of the financial statements in this document is UK GAAP but the formats used are those that will be shown for 2007 reporting under IFRS.

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

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

IAS 32 Financial instruments: Presentation, IAS 39 Financial instruments: Recognition and Measurement
IAS 39 requires to recognise derivative financial instruments such as forward currency contracts at fair value.

IAS 31 Interests in Joint Ventures
IAS 31 requires using the proportional consolidation method to recognise its interests in joint ventures.

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

2005 (the “transition date”), 31 December 2006 and 30 June 2006 and the Group Income Statements for the year ended 31 December 2006 and six months ended 30 June 2006 to comply with IFRS.

Under IFRS 1 ‘First time adoption of International Financial Reporting Standards’, IFRS are applied retrospectively at the transition balance sheet date with all adjustments to assets and liabilities as stated under UK GAAP taken to retained earnings unless certain exemptions are applied. The primary exemption that has been applied by the Group is not to restate financial information for business combination that occurred prior to 31 December 2005.

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

Balance sheet reconciliations

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

	UK GAAP US$'000	Reclassifications US$'000	Subtotal US$'000	Adjustments US$'000	Notes	IFRS US$'000
ASSETS						
Non-current assets						
Property, plant and equipment	277,174	2,143	279,317	-		279,317
Negative goodwill	(8,796)	-	(8,796)	8,796	(a)	-
Other non-current assets	-	6,809	6,809	-		6,809
Total non-current assets	**268,378**	**8,952**	**277,330**	**8,796**		**286,126**
Current assets						
Inventories	36,258	-	36,258	-		36,258
Trade and other receivables	28,198	(8,876)	19,322	-		19,322
Prepayments	-	2,067	2,067	-		2,067
Deferred costs	2,143	(2,143)	-	-		-
Cash and cash equivalents	33,570	-	33,570	-		33,570
Total current assets	**100,169**	**(8,952)**	**91,217**	**-**		**91,217**
TOTAL ASSETS	**368,547**	**-**	**368,547**	**8,796**		**377,343**
EQUITY						
Share capital	255	-	255	-		255
Share premium	236,483	-	236,483	-		236,483
Retained earnings	11,134	-	11,134	(5,944)		5,190
Equity attributable to the Company's equity holders	247,872	-	247,872	(5,944)		241,928
Minority interest	282	-	282	(61)	(c)	221
TOTAL EQUITY	**248,154**	**-**	**248,154**	**(6,005)**	(f)	**242,149**
LIABILITIES						
Non-current liabilities						
Borrowings	610	-	610	-		610
Provisions	17,572	(6,888)	10,684	-		10,684
Deferred income tax liability	-	6,888	6,888	14,413	(b)	21,301
Derivative financial instruments	-	-	-	-		-
Total non-current liabilities	**18,182**	**-**	**18,182**	**14,413**		**32,595**
Current liabilities						
Current trade and other payables	102,211	(102,211)	-	-		-
Trade and other payables	-	21,720	21,720	-		21,720
Income tax payable	-	565	565	-		565
Derivative financial instruments	-	-	-	642	(d)	642
Borrowings	-	79,926	79,926	(254)	(d)	79,672
Total current liabilities	**102,211**	**-**	**102,211**	**388**		**102,599**
TOTAL LIABILITIES	**120,393**	**-**	**120,393**	**14,801**		**135,194**
TOTAL LIABILITIES & EQUITY	**368,547**	**-**	**368,547**	**8,796**		**377,343**

A reconciliation between the UK GAAP and IFRS Consolidated Balance Sheet at 30 June 2006 is provided below:

	UK GAAP US$'000	UK GAAP Adjustments US$'000	Adjusted UK GAAP US$'000	Reclass US$'000	Subtotal US$'000	Adjustments US$'000	Notes	IFRS US$'000
ASSETS								
Non-current assets								
Property, plant and equipment	287,948	-	287,948	2,705	290,653	-		290,653
Goodwill	(8,796)	-	(8,796)	-	(8,796)	8,796	(a)	-
Other non-current assets	-	-	-	7,450	7,450	-		7,450
Total non-current assets	**279,152**	**-**	**279,152**	**10,155**	**289,307**	**8,796**		**298,103**
			-		-			
Current assets			-		-			
Inventories	42,612	(6,046)	36,566	-	36,566	-		36,566
Trade and other receivables	37,706	-	37,706	(13,850)	23,856	-		23,856
Prepayments	-	-	-	6,400	6,400	-		6,400
Derivative financial instruments	-	-	-	-	-	1,148	(d)	1,148
Deferred costs	2,705	-	2,705	(2,705)	-	-		-
Cash and cash equivalents	18,786	-	18,786	-	18,786	-		18,786
Total current assets	**101,809**	**(6,046)**	**95,763**	**(10,155)**	**85,608**	**1,148**		**86,756**
TOTAL ASSETS	**380,961**	**(6,046)**	**374,915**	**-**	**374,915**	**9,944**		**384,859**
EQUITY								
Share capital	258	-	258	-	258	-		258
Share premium	240,895	-	240,895	-	240,895	-		240,895
Retained earnings	17,582	(6,046)	11,536	-	11,536	(4,564)		6,972
Equity attributable to the Company's equity holders	258,735	(6,046)	252,689	-	252,689	(4,564)		248,125
Minority interest	197	-	197	-	197	(61)	(c)	136
TOTAL EQUITY	**258,932**	**(6,046)**	**252,886**	**-**	**252,886**	**(4,625)**	(f)	**248,261**
			-		-			
LIABILITIES			-		-			
Non-current liabilities			-		-			
Borrowings	10,217	-	10,217	-	10,217	-		10,217
Provisions	17,633	-	17,633	(6,683)	10,950	-		10,950
Deferred income tax liability	-	-	-	6,683	6,683	13,446	(b)	20,129
Total non-current liabilities	**27,850**	**-**	**27,850**	**-**	**27,850**	**13,446**		**41,296**
			-		-			
Current liabilities			-		-			
Current trade and other payables	94,179	-	94,179	(94,179)	-	-		-
Trade and other payables	-	-	-	26,223	26,223	-		26,223
Income tax payable	-	-	-	48	48	-		48
Derivative financial instruments	-	-	-	-	-	-		-
Borrowings	-	-	-	67,908	67,908	1,123	(d)	69,031
Total current liabilities	94,179	-	94,179	-	94,179	1,123		95,302
TOTAL LIABILITIES	**122,029**	**-**	**122,029**	**-**	**122,029**	**14,569**		**136,598**
TOTAL LIABILITIES & EQUITY	**380,961**	**(6,046)**	**374,915**	**-**	**374,915**	**9,944**		**384,859**

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

	UK GAAP	Reclass	Novo proportional consolidation	Subtotal	Adjustments	Notes	IFRS
	US$'000	US$000	US$000	US$000	US$000		US$000
ASSETS							
Non-current assets							
Property, plant and equipment	220,883	1,862	18,777	241,522	-		241,522
Goodwill	61,442	-	(4,397)	57,045	8,186	(a)	65,231
Investments accounted for using the equity method	16,216	-	(16,216)	-	-		-
Other non-current assets	-	3,903	-	3,903	-		3,903
Total non-current assets	**298,541**	**5,765**	**(1,836)**	**302,470**	**8,186**		**310,656**
Current assets							
Inventories	33,885	-	237	34,122	-		34,122
Trade and other receivables	23,125	(8,262)	1,873	16,736	-		16,738
Prepayments	-	3,922	93	4,015	-		4,015
Deferred costs	1,862	(1,862)	-	-	-		-
Cash and cash equivalents	31,493	-	83	31,576	-		31,576
Total current assets	**90,365**	**(6,202)**	**2,286**	**86,449**	**-**		**86,449**
TOTAL ASSETS	**388,906**	**(437)**	**450**	**388,919**	**8,186**		**397,105**
EQUITY							
Share capital	325	-	-	325	-		325
Share premium	334,800	-	-	334,800	-		334,800
Shares to be issued	510	-	-	510	-		510
Other reserves	1,039	-	-	1,039	(249)	(e)	790
Accumulated loss	(83,086)	-	-	(83,086)	(6,927)		(90,013)
Equity attributable to the Company's equity holders	253,588	-	-	253,588	(7,176)		246,412
Minority interest	-	-		-	-		-
TOTAL EQUITY	**253,588**	**-**	**-**	**253,588**	**(7,176)**	(f)	**246,412**
LIABILITIES							
Non-current liabilities							
Borrowings	46,754	-	-	46,754	-		46,754
Provisions	30,347	(16,506)	-	13,841	-		13,841
Deferred income tax liability	-	5,886	-	5,886	15,362	(b),(e)	21,248
Total non-current liabilities	**77,101**	**(10,620)**	**-**	**66,481**	**15,362**		**81,843**
Current liabilities							
Current trade and other payables	58,217	(58,217)	-	-	-		-
Trade and other payables	-	20,761	208	20,969	-		20,969
Income tax payable	-	216	-	216	-		216
Derivative financial instruments	-	-	-	-	-		-
Provisions	-	14,347	-	14,347	-		14,347
Borrowings	-	33,076	242	33,318	-		33,318
Total current liabilities	58,217	10,183	450	68,850	-		68,850
TOTAL LIABILITIES	**135,318**	**(437)**	**450**	**135,331**	**15,362**		**150,693**
TOTAL LIABILITIES & EQUITY	**388,906**	**-**	**450**	**388,919**	**8,186**		**397,105**

Notes to the Balance Sheet and Equity Reconciliation at 31 December 2005, 30 June 2006 and 31 December 2006

UK GAAP

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

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

UK GAAP adjustments:

30 June 2006:
During the second half of 2006 the Group implemented inventory turnover analysis to more accurately estimate the level of inventory obsolescence at its operations. The reason for the adoption of this inventory analysis technique was to increase the overall effectiveness of the Group's inventory management.

As a result of this analysis, it was determined that the 30 June 2006 inventory provision balance previously reported was understated by US$6.046 million, of which US$5.672 million related to previous periods. The UK GAAP figures previously reported have been adjusted for this error by reducing the balance of inventory, and retained earnings by US$6.046 million, of which US$0.374 million has been recorded in the six month period ended 30 June 2006 as an increase to cost of sales.

The 31 December 2005 figures were restated in the 31 December 2006 UK GAAP financial statements, and as a result no adjustment to these figures is presented in the above reconciliations.

Reclassifications:

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

- At transition date US$2.143 million, at 30 June 2006 US$2.705 million and at 31 December 2006 US$1.862 million of deferred stripping costs have been reclassified from Deferred costs to the Property, plant & equipment as this is an industry practice to include deferred stripping costs into PP&E.
- At transition date US$6.809 million, at 30 June 2006 US$7.450 million and at 31 December 2006 US$3.644 million of non-current debtors have been reclassified from Current trade & other receivables to Other non-current assets. This amount relates to the input VAT associated with the capital construction, which will be reimbursed only at the production stage of the related projects which are not planned within a one year period.
- At transition date US$2.067 million, at 30 June 2006 US$6.400 million and at 31 December 2006 US$3.922 million of prepaid expenses have been reclassified from Current trade & other receivables to Prepayments, due to the fact that IFRS requires Prepayments to be presented separately on the face of the balance sheet.
- At transition date US$6.888 million, at 30 June 2006 US$6.683 million and at 31 December 2006 US$5.886 million of deferred tax liabilities have been reclassified from Provisions to Deferred tax liabilities due to the fact that IFRS requires Deferred tax liabilities to be presented separately on the face of the balance sheet.
- At transition date US$24.119 million, at 30 June 2006 US$26.584 million and at 31 December 2006 US$27.576 million of current liabilities have been reclassified from Current liabilities to Trade & other payables.
- At transition date US$0.565 million, at 30 June 2006 US$0.048 million and at 31 December 2006 US$0.216 million of income tax have been reclassified from Current liabilities to Income tax payable, as IFRS requires income tax liabilities to be presented separately on the face of the balance sheet.
- At transition date US$77.527 million, at 30 June 2006 US$66.555 million and at 31 December 2006 US$30.740 million of loans have been reclassified from Current liabilities to Borrowings, due to the fact that IFRS requires borrowings to be presented separately on the face of the balance sheet.

- At transition date US$2.399 million, at 30 June 2006 US$1.353 million and at 31 December 2006 US$2.579 million of finance leases have been reclassified from Trade & other payables to Financial liabilities. Finance lease liabilities have been moved to a separate line on the balance sheet.
- At 31 December 2006 US$10.620 million of provisions have been reclassified from Non-current Provisions to Current Provisions. Legal and other taxes provisions have been reclassified to current provisions.
- At 31 December 2006 US$3.608 million of Royalty and US$0.119 million of non-profit taxes provisions have been reclassified from current Trade & other payables to Current Provisions.

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

Adjustments
a) Goodwill
Under IFRS 3 "Business Combinations", negative goodwill can no longer be recognised on the Balance sheet. Therefore, negative goodwill which had arisen on the Novo acquisition in the amount of US$8.796 million was written-off to Retained earnings on transition.

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

c) Minority Interest
This adjustment primarily represents the minority share of the increased deferred tax liability at Novo.

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

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

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

e) Additional goodwill arising on the Barrick transaction
As at 31 December 2006, an additional deferred tax liability of US$4.038 million has been recognised on adoption of IFRS, relating to the fair value uplifts arising on the Barrick transaction. Of the adjustment, US$0.249 million was recognised directly in equity, as it related to a revaluation of the Group's existing 50% interest of the Taseevskoye mine.

As this transaction was accounted for as a business combination in accordance with IFRS 3, the impact of the recognition of the additional deferred tax liability on adoption of IFRS, is to increase goodwill by US$3.789 million.

f) Equity reconciliation

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

US$000	Notes	As at 31 December 2005	As at 30 June 2006	As at 31 December 2006
UK GAAP equity		**248,154**	**258,932**	**253,588**
UK GAAP adjustment		-	(6,046)	-
Adjusted UK GAAP equity		**248,154**	**252,886**	**253,588**
IFRS adjustments:				
Negative goodwill	(a)	8,796	8,796	8,796
Deferred taxation	(b)	(14,413)	(13,446)	(12,038)
Hedge transaction	(d)	(388)	25	-
Deferred tax on Barrick transaction recognised directly in equity	(e)	-	-	(249)
Gain on Novoshirokinskoye shares disposal	(iv)	-	-	(3,685)
IFRS equity		**242,149**	**248,261**	**246,412**

Income statement reconciliation

A reconciliation between the UK GAAP and IFRS income statement for the period ended 30 June 2006 is provided below.

	UK GAAP US$000	**UK GAAP Adjustments US$000**	**Adjusted UK GAAP US$000**	**Adjustments US$000**	**Notes**	**IFRS US$000**
Continuing operations:						
Revenue	53,815	-	53,815	-		53,815
Cost of sales	(40,952)	(374)	(41,326)	-		(41,326)
Gross profit	12,863	(374)	12,489	-		12,489
Administrative expenses	(8,670)	-	(8,670)	-		(8,670)
Other operating income	-	-	-	-		-
Other operating expenses	-	-	-	-		-
Loss on asset disposal	(329)	-	(329)	-		(329)
						-
Operating profit	**3,864**	**(374)**	**3,490**	**-**		**3,490**
Foreign exchange gain	2,987	-	2,987	413	(iii)	3,400
Finance income	383	-	383	-		383
Finance costs	(3,010)	-	(3,010)	-		(3,010)
Profit/(loss) before income tax	**4,224**	**(374)**	**3,850**	**413**	**-**	**4,263**
Income tax charge	(4,425)	-	(4,425)	967	(i)	(3,458)
Profit/(loss) for the year	**(201)**	**(374)**	**(575)**	**1,380**		**805**
Profit/(loss) is attributable to:						
Equity holders of the Company	(116)	(374)	(490)	1,380		890
Minority interest	(85)	-	(85)	-		(85)
	(201)	(374)	**(575)**	**1,380**		**805**

Income statement reconciliation

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

	UK GAAP US$000	UK GAAP Adjust ments US$000	Adjusted UK GAAP US$000	Novo proportional consolidation US$000	Sub total US$000	Adjustment US$000	Notes	IFRS US$000
Continuing operations:								
Revenue	102,365	-	102,365	-	102,365	-		102,365
Cost of sales	(97,155)	-	(97,155)	(7)	(97,162)	-		(97,162)
Asset impairment following fire	(79,274)	-	(79,274)	-	(79,274)	-		(79,274)
Gross loss	**(74,064)**	**-**	**(74,064)**	**(7)**	**(74,071)**	**-**		**(74,071)**
Administrative expenses	(21,903)	-	(21,903)	(10)	(21,913)	129		(21,784)
Costs associated with the fire	(2,373)	-	(2,373)	-	(2,373)	-		(2,373)
Share of operating loss of Joint Venture	(666)	-	(666)	666	-	-		-
Other operating income	-	-	-	-	-	-		-
Other operating expenses	-	-	-	-	-	-		-
Loss on asset disposal	(329)	-	(329)	-	(329)	-		(329)
Operating loss	**(99,335)**	**-**	**(99,335)**	**649**	**(98,686)**	**129**		**(98,557)**
Gain on the disposal of 50% of Novoshirokinskoye	17,988	1,767	19,755	-	19,755	(3,685)	(iv)	16,070
Foreign exchange gain	4,199	-	4,199	(596)	3,603	391	(iii)	3,994
Finance income	736	-	736	-	736	-		736
Finance costs	(6,790)	-	(6,790)	(53)	(6,843)	-		(6,843)
Profit/(loss) before income tax	**(83,202)**	**1,767**	**(81,435)**	**-**	**(81,435)**	**(3,165)**		**(84,600)**
Income tax expense	(13,243)	-	(13,243)	-	(13,243)	2,182	(i)	(11,061)
Profit/(loss) for the year	**(96,445)**	**1,767**	**(94,678)**	**-**	**(94,678)**	**(983)**		**(95,661)**
Profit/(loss) is attributable to:								
Equity holders of the Company	(96,445)	1,767	(94,678)	-	(94,678)	(983)		(95,661)
Minority interest	-	(1,767)	(1,767)	-	(1,767)	-		(1,767)
	(96,445)	**-**	**(96,445)**	**-**	**(96,445)**	**(983)**	**-**	**(97,428)**

Notes to the Reconciliation of Income statement for half a year ended 30 June 2006 and the full Year ended 31 December 2006

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

UK GAAP adjustments

30 June 2006:
As discussed in relation to the balance sheet reconciliations, during the second half of 2006 the Group revised their approach to inventory provisioning. The impact of this revision on the 30 June 2006 income statement was to increase cost of sales by US$0.374 million.

31 December 2006:
The gain recognised on disposal of Novo under UK GAAP was incorrectly calculated. This was due to the fact that no share of the US$39m financial assistance provided prior to the sale of Novo to Kazzinc by Stanmix Investment Limited, Highland's wholly owned Cyprus registered subsidiary, had been attributed to the 3.4% minority shareholders of Novo. This error has been corrected in the above reconciliation, by increasing Minority Interest, and increasing the gain on the disposal of Novo by US$1.767 million.

Novo proportionate consolidation

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

Adjustments

i) Deferred taxation

As a result of the adoption of IAS 12, the deferred tax charge was decreased by US$0.967 million for the period ended 30 June 2006, and by US$2.182 million for the year ended 31 December 2006.

ii) Minority interest

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

iii) Hedge transaction

The application of mark-to-market accounting to the rouble denominated bonds and forward contracts resulted in the recognition of US$0.413 million gain in the six months to 30 June 2006 and US$0.391 million gain for the year ended 31 December 2006. These amounts represent the net gain arising on the change in the fair values of both the rouble-denominated bond, and the forward exchange contracts, resulting from the appreciation of the rouble.

iv) Gain on Novoshirokinskoye shares disposal

As a result of the recognition of additional deferred tax liabilities and the write off of negative goodwill on adoption of IFRS, the net assets of Novo at the date of disposal were increased by US$7.370 million. Accordingly, the gain on the disposal of 50% of the Group's interest in Novo has decreased by US$3.685 million as at 31 December 2006 upon adoption of IFRSs.

Cash Flow Statement

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

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