INTERIM RESULTS FOR THE FIRST HALF OF 2008

CONTENTS

25 September 2008

HIGHLAND GOLD MINING LIMITED
INTERIM RESULTS FOR THE FIRST HALF OF 2008

25 September 2008 – Highland Gold Mining Limited ("Highland Gold", or the "Company") announces its production and financial results for the half year ended 30 June 2008.

FINANCIAL SUMMARY

Financial (US$ millions)	**H1 2008**	**H1 2007**
Turnover	**76.5**	43.4
Cash inflow /(outflow) from operating activities	**10.7**	(26.0)
Group Operating profit	**14.4**	4.2
Net profit from Continuing operations	**22.2**	5.7
Profit/(loss) for the period	**22.2**	(2.8)
Diluted earnings per share from continuing operations (US$/share)	**0.068**	0.029
Capital expenditure	**43.0**	19.3
Operating		
MNV - Gold recovered (ounces)	**68,813**	58,196
MNV - Gold sold (ounces)	**81,036**	62,643
MNV - Cash operating cost (US$/ounce sold)	**472**	417
MNV - Total cash cost (US$/ounce sold)	**529**	458

The Group's financial statements for the period ended 30 June, 2008 have been prepared in accordance with IFRS.

FIRST HALF HIGHLIGHTS

- **Group profit after tax of US$22.2 million compared to a loss for the same period in 2007 of US$2.8 million**
- **Gold revenue for the first half of 2008 increased by 77% over the same period in 2007 to US$73.7 million on sales of 81,036 ounces**
- **Average realised gold sales price was US$909/oz, up by 39% (first six months of 2007 – US$655/oz). The Group remains unhedged**
- **Cash and short term deposits of US$308.7 million at 30 June 2008**
- **Novoshirokinskoye on schedule for commissioning at the end of 2008**

BOARD INTERIM REVIEW

OVERVIEW

Our team in Russia has produced an excellent result for the first half of the year at MNV proving that the extensive Operational Review & Optimisation Audit of 2007 has been successfully implemented and has now filtered down to the bottom-line. This is encouraging as the first half of the year is usually less productive than the second as a result of the very cold winters experienced in the Khabarovsk region of the Russian Far East with this year being particularly harsh and lasting well into May. In this context, the increased turnover from US$43.4 million to US$76.5 million which resulted in an increase in profit after tax to US$22.2 million from a loss of US$2.8 million on the same period in 2007 is particularly encouraging.

The Novo mine, which we own and operate in joint venture with Kazzinc, is on track for production by the end of the year as predicted. All major infrastructure facilities are already in place. All final preparations will be completed in Q3 and a total of 55,600 tonnes of development ore has already been stockpiled for the operations to start before the end of the year.

In 2008 there were a number of changes to our Board and management, including the appointment of Terry Robinson as Senior Independent Director. All of our shareholders both institutional and private are well represented. We also welcome Valery Oif as the new CEO who takes over from Henry Horne who has decided to leave the Company and will leave by the end of February 2009. We thank Henry for his contribution to the development of the Company over a number of years.

International financial markets have continued to be highly volatile this year which has been reflected in our own share price. A number of factors are at play, many of which are outside the control of the Company, but we remain confident of the fundamental strengths and opportunities that exist for Highland Gold and, significant amongst these in the current climate is our strong net cash position of US$178.7 million at the end of June 2008. Given the continued volatility of the markets alongside the intensive schedule and funding requirements of our development projects, the Board and executive management are prioritising the various projects in the Highland Gold portfolio with a view to ensuring that our funds are put to the most productive use in the most efficient order.

OPERATIONAL REVIEW

MNOGOVERSHINNOYE MINE (MNV) – Khabarovsk Region, Russia

Strong production results were achieved at MNV for H1 2008, with significant increases in mined tonnage, metal production, and gold sales when compared to H1 2007.

MNV Operating Statistics:

MNV		6 months ended 30 June	
	Unit	**2008**	2007
Mining			
Open pit waste stripping	M3	**1,293,831**	867,000
Underground development	Metres	**4,752**	4,740
Total ore mined	Tonnes	**492,079**	402,275
Average grade	g/tonne	**5.0**	5.1
Processing			
Ore processed	Tonnes	**484,092**	381,201
Average grade	g/tonne	**5.0**	5.2
Recovery rate	%	**88.1**	91.2
Metal Production			
Gold recovered	Ounces	**68,813**	58,196
Gold sold	Ounces	**81,036**	62,643
Gold price received	US$/oz	**909**	655

MNV gold output for the first six months of 2008 was 68,813oz Au, which represents an 18% increase over H1 2007 and is in line with the production plan to achieve 155,000 to 165,000 ozs Au of gold production for 2008.

The upgrades to the mobile equipment fleets for both the open pit and underground operations completed in 2007 continue to pay off, as demonstrated by the increases in the tonnages mined in both venues. In total, mining operations produced 492,079 tonnes of ore containing 79,100oz Au at an average grade of 5.0g/t Au – a 22% increase over the tonnes mined in H1 2007. In addition, waste stripping in the open pit for H1 2008 totaled 1,293,831 cubic metres, which was an increase of 49% over the volume stripped in H1 2007. Greater production from the open pit is forecast for the second half of the year as the operation reaches areas containing higher grade ore. In addition, development of the Flank Ore body has been brought forward from 2009 to maintain tonnage and gold production in the years ahead.

The improvements to the MNV processing facility that were completed during H2 2007 enabled the operation to increase its average daily mill throughput for the H1 2008 by 27.0% over H1 2007. In total the mill processed 484,092 tonnes of ore at an average head grade of 5.0g/t Au and achieved an overall gold recovery of 88.1% during the period. Additional upgrades to the processing facility that are currently in progress are focused upon improvements to the adsorption and regeneration circuits, which are designed to increase gold recovery and reduce reagent consumption.

NOVOSHIROKINSKOYE - Transbaikalia Region, Russia

All major infrastructure facilities and equipment are in place or will be in the next few months and the mine is on track for commissioning before the end of the year. Novo will enhance

Company cash flows in 2009, with an estimated 50,000ozs of gold equivalent on average per annum throughout the life of the mine. Initial feedback is that the lead and zinc concentrates have few impurities and can be expected to attract market prices.

DEVELOPMENT PROJECTS

The Company has two other mine projects that are at various stages of development – Mayskoye, and Taseevskoye. The current status of each is as follows:

MAYSKOYE DEVELOPMENT PROJECT – Chukotka Region, Russia

Mayskoye will be an 850,000 tonne underground operation producing on average 275,000 ozs Au over an initial 15 year mine life.

The SAG mill, has been ordered, with delivery scheduled for Q3 2009. All major bulk commodities have been ordered and are in the process of being delivered. It is anticipated that 30,000 tonnes of cargo is being shipped into the port at Pevek and then transported onward to Mayskoye. A 200-man construction camp has been ordered and will be delivered during the 2008 shipping season. For the 2008/2009 construction season, the main site activities will be site excavations and construction of the plant and major infrastructure foundations.

TASEEVSKOYE DEVELOPMENT PROJECT - Transbaikalia Region, Russia

An extension to the Mining License for Taseevskoye has been granted, extending the requirement for plant start up to 1 June 2013 which makes the project more manageable from a funding and resource point of view. Other license agreement milestones have been adjusted proportionately.

The ore cut-off study is currently under review with GKZ (State Committee on Reserves). The feasibility study is advancing, and confirmatory metallurgical test work is currently underway.

EXPLORATION

The Company made good progress with its exploration projects during the period.

Belaya Gora – Khabarovsk Region, Russia

In the first half of the year the Company completed a 7,500 metres resource delineation drilling programme at the Stockwork exploration target as planned. An additional 480 metres of drilling for hydro-geological testing has been started in Q2 and is to be completed by the end of Q3. More than 7,000 drill core samples have been assayed and results further corroborate our geological model which is estimated within the C1+C2 Russian reserve category at 22 million tonnes grading 1.7g/t Au. The pre-feasibility study is progressing well and the report is on track to be submitted for state approval by year-end 2008 in compliance with the license agreement.

Lyubov – Transbaikalia Region, Russia

The Company completed 4,700 metres of diamond drilling out of a total of 9,500 metres of the resource delineation drilling programme planned for 2008. The programme is to delineate the overall resource potential of the entire Evgraf zone, a wide area of mainly intrusion-hosted stockwork mineralisation which the company previously evaluated to host a multi-million ounce potential (C1+C2+P1) grading 1.5g/t Au. Several holes have intersected strongly altered and sulphide-mineralised granodiorite at the eastern Evgraf area. Partial assay results received to date from this area are in support of the Company's geological model. Completion of the drilling programme and evaluation of final results is expected by the end of Q3.

Unkurtash – Kyrgyzstan

In Q2 the Company started drilling programmes at three prospects (Unkurtash, Sarytube and Karatube) for a planned volume of 12,500 metres to be completed by the end of Q3. Based on the Company's and previous third party results the Company estimates that the combined potential of the three prospects amounts to several million ounces with an average grade in the range of 1.5 – 1.8g/t Au.

At the Karatube prospect to the east a 3,000 metres diamond drilling programme is targeting gold-bearing skarn mineralisation in the 3 - 4g/t Au range and by the end of H2 1,500 metres will have been completed.

Mnogovershinnoye - Khabarovsk Region, Russia

With the objective of expanding resources for underground and open-pit operations at MNV and thus extending its mine life, a near-mine exploration programme was initiated which includes a 4,000 metres drill testing programme in addition to trenching and a geophysical survey. Following a comprehensive re-evaluation of previous exploration work the company identified a high potential for discovering additional resources in under explored areas in-between and along strike of the known ore zones. By the end of H1, 400 metres of drilling were completed, and geophysical work is now underway along three profiles. Results and evaluation of this programme are expected by the end of Q3.

HEALTH AND SAFETY

In 2008 the Company continued its efforts to ensure a safe working environment at all of its sites for its employees as well as for contractor employees. Progress has been achieved by the Company in its safety programmes. Since January 2008 more than 1,000 employees have attended safety training courses. The lost time Incident rate (the LTI rate is the number of the lost time incidents for every 200,000 man hours worked) for H1 2008 was 0.58 which is in line with the result for H1 2007 (0.54).

FINANCIAL REVIEW

Highland Gold posted a profit of US$22.2 million in H1 2008 versus a loss of US$2.8 million for the corresponding period in 2007.

Gold revenue for H1 2008 increased by 77% over the same period in 2007 to US$73.7 million on sales of 81,036oz. Increased revenues were due to the strong production at MNV being the result of the mine initiatives implemented in 2007. Our “no hedge” policy also allowed the Group to fully participate in stronger gold prices. The price received per ounce sold of US$909 represented a 39% increase over H1 2007.

The upgrades to the mobile equipment fleets for both the open pit and underground operations that were made in H2 2007 continued to pay off, as evidenced by the increases in the tonnages mined in both venues. In total, mining operations produced 492,079 tonnes of ore containing 79,100oz Au at an average grade of 5.0g/t Au, a 22% increase over the tonnes mined in H1 2007. In addition, waste stripping in the open pit for H1 2008 totaled 1,293,831 cubic metres, which was an increase of 49% over the volume stripped in H1 2007. Greater production from the open pit is forecast for H2 as the operation reaches areas containing higher grade ore. In addition, development of the Flank Ore body has been brought forward from 2009 to maintain tonnage and gold production in the years ahead.

The Group’s cost of sales increased by 59%, or US$19.1 million over the prior year corresponding period in 2007. Operating costs at the MNV operation increased by 46% to US$38.2 million in H1 2008 while the total cash cost per ounce was US$529 compared to US$458 per ounce in the prior period. Negatively impacting cost of sales at the Mnogovershinnoye operation was increased energy, material and manpower costs. Increased operating costs as a result of higher input costs were further impacted by higher royalties and an appreciating Rouble to Dollar exchange rate.

US$3.3 million of capitalised exploration costs for the Sovinoye property have been written off to “Other operating expenses” during H1 2008. The Company’s drilling programme confirmed that gold-mineralisation at Sovinoye is of too low a grade to warrant further exploration on the property.

The income tax expense of US$4.4 million was higher compared to the prior period tax credit of US$0.7 million. The charge consists of US$6.7 million current tax expenses (US$6.0 million current income tax charge at MNV and $0.7 million at other operations), US$0.2 million tax charge as a result of the tax inspection at MNV and US$2.5 million of deferred tax credit.

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 have not been recognised until such time as there is sufficient evidence of future taxable profits in those entities, against which the losses can be utilised. In total, US$2.4 million of tax losses have not been recognised at the end of June 2008. 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.

The Group’s cash inflow from operating activities was US$10.7 million compared to a cash outflow of US$26.0 million in the first half of the prior year.

Highland Gold continued the steady advance of its development and exploration project pipeline investing US$43.0 million in the first six months to 30 June 2008 compared to US$19.3 million in the first six months to 30 June 2007. H1 capital expenditure comprised of the development project advancement expenditures for Novo’s construction and commissioning (key processing plants, infrastructure, tailings storage, water reclaim lines), Mayskoye’s feasibility programme, preparation of the feasibility study at Taseevskoye and exploration works on Belaya Gora, Lyubov and Unkurtash.

The Group's interest and loan repayments were US$68 million versus US$36 million in the prior period while US$11.6 million in Russian income tax was paid in H1 of 2008 versus US$0.2 million of refunded tax in H1 of the prior year due to the increased revenue in the first quarter 2008 at MNV.

The Company recognised a foreign exchange translation gain of US$5.2 million versus US$1.5 million in 2007. The gain is mainly caused by the exchange rate movement associated with the deposits in GBP.

The investing and financing outflows, together with the Group's operating outflows, were financed by existing cash reserves of US$211.3 million, net financing cash in-flows comprising of the receipt of US$192.5 million of the second subscription with Millhouse LLC, receipt of US$10.9 from Kazzinc to finance Novo joint venture. These inflows were partially offset by the early repayment of the US$15.0 million existing Loan Facility with Gazprombank, repayment on maturity date of Rouble corporate Bond of US$30.6 million and US$1 million in equipment lease payments.

Cash and short term deposits at 30 June 2008 were US$308.7 million versus US$15.5 million (including US$0.6 of cash attributable to a discontinued operation) at 30 June 2007 while the net cash position of the Group was US$178.7 million versus a net debt position of US$101.6 million at 30 June 2007. The net cash of the Group comprises Cash at Bank, less Bank Borrowings, and finance lease payables. The increase in net cash was as a result of the subscriptions from Millhouse LLC and a positive cash flow from MNV.

The Group arranged a new long-term loan with MDM bank in the amount of US$20 million which was drawn down on 15 September 2008. This new financing facility will be used for financing the capital expenditure programme. We are also in the process of finalising additional financing initiatives.

H1 2008 overall results, production increase and cash reserves have been positive for Highland Gold and we look forward to seeing further progress being made during the rest of the year. I would like to extend my thanks to all of our staff and Board for their contribution during the period.

Duncan Baxter
Non-Executive Chairman
24 September 2008

INTERIM CONSOLIDATED INCOME STATEMENT
for the six months ended 30 June 2008

		For the six months ended 30 June	
		2008	**2007**
		Unaudited	
	Notes	**US$000**	**US$000**
Continuing operations			
Revenue		76,494	43,387
Cost of sales		(51,269)	(32,155)
Gross profit		**25,225**	**11,232**
Administrative expenses		(6,030)	(6,900)
Other operating expenses		(4,784)	(167)
Operating profit		**14,411**	**4,165**
Foreign exchange gain		5,152	1,450
Finance income		7,907	535
Finance costs		(854)	(1,154)
Profit before income tax		26,616	4,996
Income tax (expense)/credit	4	(4,406)	705
Profit for the period from continuing operations		**22,210**	**5,701**
Discontinued operation			
Loss after tax for the period from a discontinued operation	6	-	(8,485)
PROFIT /(LOSS) FOR THE PERIOD		**22,210**	**(2,784)**
Attributable to:			
Equity holders of the parent		22,210	(2,784)
Minority interests		-	-
Earnings/(loss) per share			
• Basic, attributable to ordinary equity holders of the parent		0.069	(0.014)
• Diluted,attributable to ordinary equity holders of the parent		0.068	(0.014)
Earnings per share from continuing operations			
• Basic, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.069	0.029
• Diluted, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.068	0.029

INTERIM CONSOLIDATED BALANCE SHEET at 30 June 2008

	Notes	30 June 2008 Unaudited US$000	31 December 2007 Audited US$000	30 June 2007 Unaudited US$000
ASSETS				
Non-current assets				
Property, plant and equipment	5	352,655	311,583	257,156
Intangible assets		65,231	65,231	65,231
Financial assets		23,529	11,010	-
Other non-current assets		3,902	3,812	3,902
Total non-current assets		**445,317**	**391,636**	**326,289**
Current assets				
Inventories	8	59,590	54,452	39,280
Trade and other receivables		35,585	35,383	19,746
Income tax prepaid		3,429	-	-
Prepayments		8,118	6,158	11,199
Cash and cash equivalents	3	308,650	211,275	14,840
Total current assets		**415,372**	**307,268**	**85,065**
Assets of disposal group classified as held for sale		-	-	12,017
TOTAL ASSETS		**860,689**	**698,904**	**423,371**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital	10	585	458	325
Share premium		718,370	525,465	334,800
Shares to be issued		-	510	510
Assets revaluation reserve		790	790	790
Accumulated losses		(46,169)	(68,555)	(90,257)
TOTAL EQUITY		**673,576**	**458,668**	**246,168**
Non-current liabilities				
Interest-bearing loans and borrowings	9	98,510	104,454	70,145
Provisions		9,280	7,437	7,258
Deferred income tax liability		19,672	22,130	19,580
Total non-current liabilities		**127,462**	**134,021**	**96,983**
Current liabilities				
Trade and other payables		21,324	25,741	5,444
Interest-bearing loans and borrowings	9	31,125	71,968	49,385
Income tax payable		4,781	6,334	2,233
Provisions		2,421	2,172	9,088
Total current liabilities		**59,651**	**106,215**	**66,150**
Liabilities directly associated with the assets classified as held for sale		**-**	**-**	**14,070**
TOTAL LIABILITIES		**187,113**	**240,236**	**177,203**
TOTAL EQUITY AND LIABILITIES		**860,689**	**698,904**	**423,371**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six months ended 30 June 2008

	Attributable to equity holders of the parent					
	Issued capital	**Share premium**	**Shares to be issued**	**Asset revaluation reserve**	**Accumulated losses**	**Total equity**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
At 1 January 2008	**458**	**525,465**	**510**	**790**	**(68,555)**	**458,668**
Profit for the year	-	-	-	-	22,210	**22,210**
Issue of share capital	127	192,905	(510)	-	-	**192,522**
Share-based payment	-	-	-	-	176	**176**
At 30 June 2008 (unaudited)	**585**	**718,370**	**-**	**790**	**(46,169)**	**673,576**

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 equity**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
At 1 January 2007	**325**	**334,800**	**510**	**790**	**(87,969)**	**248,456**
Loss for the period	-	-	-	-	(2,784)	**(2,784)**
Share-based payment	-	-	-	-	496	**496**
At 30 June 2007 (unaudited)	**325**	**334,800**	**510**	**790**	**(90,257)**	**246,168**

INTERIM CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2008

		For the six months ended 30 June	
		2008	**2007**
		Unaudited	
	Notes	**US$000**	**US$000**
Operating activities			
Profit before tax from continuing operati		26,616	4,996
Loss before tax from discontinued operations	6	-	(8,485)
		26,616	(3,489)
Adjustments to reconcile profit/(loss) before tax to net cash flows from operating activities:			
Depreciation of property, plant and equipment		5,989	4,039
Write off of property, plant and equipment		3,468	19
Share-based payments expense		82	496
Interest income		(7,907)	(535)
Interest expense		854	1,337
Net foreign exchange gains		(5,152)	(465)
Movement in provisions		769	(1,064)
Increase in trade and other receivables		(2,498)	(11,307)
Increase in inventories		(5,956)	(7,807)
Increase/(decrease) in trade and other payables		6,693	(6,148)
Increase in deferred costs		(640)	(1,265)
Income tax (paid) /refunded		(11,603)	226
Net cash flows from operating activities		**10,715**	**(25,963)**
Of which discontinued operations		*-*	*(6,235)*
Cash flows from investing activities			
Purchase of property, plant and equipment		(43,011)	(19,328)
Proceeds received from Darasun Disposal	6	5,000	-
Loans given to joint venture		(12,806)	-
Interest received		8,333	535
Net cash flows from investing activities		**(42,484)**	**(18,793)**
Of which discontinued operations		*5,000*	*(106)*
Cash flows from financing activities			
Issue of ordinary shares		192,522	-
Proceeds from borrowings		4,870	61,039
Share issue costs		(10,156)	-
Repayment of borrowings		(61,648)	(30,772)
Interest paid		(6,402)	(5,251)
Receipt from Kazzinc to finance the Novoshirokinskoye joint venture		10,938	5,326
Lease payments		(980)	(1,687)
Net cash flows from financing activities		129,144	28,655

Of which discontinued operations		-	*(886)*
Net increase/(decrease) in cash and cash equivalents		97,375	(16,101)
Cash and cash equivalents at 1 January		211,275	31,576
Cash and cash equivalents at 30 June	**3**	**308,650**	**15,475**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

These interim condensed consolidated financial statements of Highland Gold Mining Limited for the six months ended 30 June 2008 were authorised for issue in accordance with a resolution of the directors on 24 September 2008.

The ultimate parent entity of the Group, Highland Gold Mining Limited, is a public company incorporated and domiciled in Jersey. Its ordinary shares are traded on the Alternative Investment Market ("AIM").

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

2. Basis of preparation and accounting policies

Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2007.

Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of new Standards and Interpretations, noted below:

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

  This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The adoption of this Interpretation did not have any effect on the financial position or performance of the Group.

- *IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

  This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Interpretation had no impact on the financial position or performance of the Group.

The Group has also early adopted the following Standards and Interpretations:

- *IFRS 2 Share-based Payment – Vesting Conditions and Cancellations*

  The Group has elected to adopt the amendment to IFRS 2 as of 1 January 2008. The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- *IAS 23 Borrowing Costs (Revised)*

  The Group has elected to adopt the revised IAS 23 as of 1 January 2008. The standard has been revised to require capitalisation of borrowing costs on qualifying assets. The Group has been capitalising the borrowing costs in the prior periods. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- *IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*

  The Group has elected to adopt the amendments to IAS 32 and IAS 1 as of 1 January 2008. The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

30 June 2007 numbers have been restated as a result of the capitalised interest (refer to the note 19 in the annual accounts).

3. Cash and cash equivalents

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

	30 June 2008 Unaudited	**31 December 2007 Audited**	**30 June 2007 Unaudited**
	US$000	**US$000**	**US$000**
Cash at bank and in hand	15,496	12,966	9,882
Deposits	293,154	198,309	4,958
	308,650	211,275	14,840
Cash at bank and in hand attributable to a discontinued operation	-	-	635
	308,650	**211,275**	**15,475**

4. Income tax

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

	For the six months ended 30 June	
	2008	**2007**
	Unaudited	
	US$000	**US$000**
Current income tax		
Current income tax charge	6,666	1,862
Adjustments in respect of prior year current tax	198	(250)
Deferred income tax		
Relating to origination and reversal of temporary differences	(2,458)	(2,317)
Income tax expense/(benefit)	**4,406**	**(705)**

5. Property, plant and equipment

During the six months ended 30 June 2008, the Group invested US$48.7 million (2007: US$26.1 million) into property, plant and equipment. The main items were the following:

- Plant and equipment with a cost of US$10.2 million (2007: US$12.1 million); and
- Capitalised mine development costs totalling US$33.7 million (2007: US$12.1 million).
- Capitalised exploration and evaluation costs totalling US$4.8 million (2007: US$1.9 million).

Assets with a net book value of US$3.47 million were written off by the Group during the six months ended 30 June 2008 (2007: US$0.02 million). This amount primarily represents the write-off of US$3.32 million of costs capitalised in relation to the Sovinoye exploration project following a decision by the Group to cease exploration activities in relation to this project.

6. Discontinued operation

On 24 October 2007, Highland Gold Mining Limited announced that it had completed the sale of its 100% share in OOO “Darasunsky Rudnik”, owner of the Darasun, Teremky and Talatui mines in the Chita Region, Russia, for total cash proceeds of US$15.0 million to the Open Joint Stock Company “Uzhuralzoloto Group of Companies”. US$10.0 million of that amount were received at the end of 2007. The final proceeds of US$5.0 million were received in March 2008.

There were no other proceeds and payments connected with the disposal during the six months ended 30 June 2008. The results of OOO “Darasunsky Rudnik” for the six months ended 30 June 2007 are presented below:

	US$000
Revenue	511
Expenses	(8,007)
Gross loss	(7,496)
Administrative costs	(15)
Other operating income	194
Operating loss	(7,317)
Finance costs	(183)
Exchange loss	(985)
Loss for the period before tax from discontinued operation	(8,485)
Darasun liabilities covered by the Group	-
Tax (expense)/credit	-
Loss for the period from a discontinued operation	(8,485)

7. Commitments and contingencies

Capital commitments

At 30 June 2008, the Group had commitments of US$25.5 million (at 31 December 2007: US$15.0 million, at 30 June 2007: US$2.9 million) principally relating to development assets and US$9.8 million (at 30 June 2007: US$0.6 million) for the acquisition of new machinery.

Contingent Liabilities

Management has identified possible tax claims within the various jurisdictions in which it operates totalling US$10.8 million as at 30 June 2008 (at 31 December 2007: US$13.3 million, at 30 June 2007: US$10.8 million). In management's view these possible tax claims are not likely to result in a future outflow of resources, and consequently no provision has been made in respect of these matters.

8. Inventories

	30 June 2008 Unaudited US$000	31 December 2007 Audited US$000	30 June 2007 Unaudited US$000
Raw materials and consumables	60,571	54,344	41,293
Gold in progress	7,629	7,921	4,070
Finished goods	60	39	56
	68,260	62,304	45,419
Obsolescence provision	(8,670)	(7,852)	(6,139)
Total inventories	59,590	54,452	39,280

Obsolescence provision for slow moving inventories was recognised in the amount of US$0.8 million (2007: US$0.3 million).

9. Interest-bearing loans and borrowings

During the first half of 2008 the Group repaid the US$15 million short term loan received from Gazprombank in 2006, fully repaid the Rouble corporate bond in the amount of US$31 million, and repaid US$11.2 million of other loans facilities in accordance with their schedule of repayments. In addition, the Group drew down, and repaid, US$4.8 million of the Group's overdraft facility during the period. During the first half of 2007, the Group repaid US$30.7 million of Syndicated Loan Facility.

10. Share Capital

Ordinary shares issued and fully paid

	Number of Shares	*Amount US$000*
At 30 June 2007	194,917,450	325
Issued on 4 December to Millhouse	65,050,000	133
At 31 December 2007	259,967,450	458
Issued on 16 January to Millhouse	65,050,000	127
Issued on 24 January to Barrick Gold Corporation	179,648	0.4
At 30 June 2008	325,197,098	585

On 16 January 2008, Millhouse LLC completed the second subscription for 65,050,000 new ordinary shares in Highland Gold Mining Limited at a price of 151 pence per share. As a result, the Group received US$192,522 of cash. A second tranche of 179,648 new ordinary shares was issued to Barrick Gold Corporation on 24 January 2008.

11.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 2008 and 2007:

		Services provided to related parties	*Sales to related parties*	*Purchases from related parties*	*Services provided by related parties*	*Amounts owed by related parties*	*Amounts owed to related parties*	*Financial aid provided by related parties*
		US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Entity with significant influence over the Group:								
Barrick Gold Services	*1H2008*	-	-	-	-	-	-	-
	Year end 2007	355	-	-	155	-	-	275
	1H2007	-	-	152	-	-	-	-
Fleming Family & Partners	*1H2008*	-	-	-	-	-	-	-
	Year end 2007	-	-	-	120	-	24	-
	1H2007	-	-	60	-	-	47	-
Joint venture in which the parent is the venturer:								
OAO Novoshirokinskoye	*1H2008*	1,641	2,330	-	-	387	255	-
	Year end 2007	2,833	2,506	-	8	498	-	-
	1H2007	1,815	650	-	-	1,252	96	-

		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 part*	*Amounts owed by related parties*	*Amounts owed to related parties*
		US$000	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
Joint venture in which the parent is the venturer:							
OAO Novoshirokinskoye	*1H2008*	12,806	-	1,283	-	24,811	-
	Year end 2007	10,464	-	404	-	11,126	-
	1Hh2007	-	-	33	-	292	-
Partner in the joint venture:							
Kazzinc	*1H2008*	-	10,938	-	1,286		24,643
	Year end 2007	-	12,418	-	785	-	13,204
	1H2007	-	5,326	-	66		5,391

12. Events after the balance sheet date

The Group arranged a new long-term loan with MDM bank in the amount of US$20.0 million which was drawn down on 15 September 2008. The new financing facility will be used for financing the capital expenditure programme.

ERNST & YOUNG

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INDEPENDENT REVIEW REPORT TO HIGHLAND GOLD MINING LIMITED

Introduction

We have been engaged by the Company to review the Interim condensed consolidated financial statements for the six months ended 30 June 2008 which comprises the Interim condensed consolidated income statement, the Interim condensed consolidated balance sheet, the Interim condensed consolidated cash flow statement, the Interim condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the International Accounting Standard 34, "Interim Financial Reporting".

As disclosed in note 2, the annual consolidated financial statements of Highland Gold Mining Limited are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The Condensed Consolidated Financial Statements included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Our Responsibility

Our responsibility is to express to the Company a conclusion on the interim condensed consolidated financial statements in the interim report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim condensed consolidated financial statements in the interim report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

Ernst & Young

Ernst & Young LLP
London
24 September 2008

INVESTOR IN PEOPLE

COMPANY INFORMATION AND FINANCIAL CALENDAR

DIRECTORS

Duncan Baxter
Non-Executive Chairman

Alex Davidson
Non-Executive Director

Ivan Koulakov
Non-Executive Director

Nicholas Nikolakakis
Non-Executive Director

Olga Pokrovskaya
Non-Executive Director

Terry Robinson
Non-Executive Director

Eugene Shvidler
Non-Executive Director

Eugene Tenenbaum
Non-Executive Director

HEAD OFFICE AND REGISTERED OFFICE

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COMPANY SECRETARY

Bedell Secretaries Limited
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Jersey JE2 3RA

AUDITORS TO THE COMPANY AND GROUP

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FINANCIAL CALENDAR

Preliminary announcement For the year ended 31 December 2008	April 2009
2008 Annual Report published	April 2009
2008 Annual General Meeting	June 2009