



INTERIM RESULTS FOR THE FIRST HALF OF 2009

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22 September 2009

**HIGHLAND GOLD MINING LIMITED
INTERIM RESULTS FOR THE FIRST HALF OF 2009**

22 September 2009 - Highland Gold Mining Limited ("Highland Gold", or the "Company") announces its production and financial results for the half year ended 30 June 2009.

FINANCIAL SUMMARY

Financial (US\$ millions)	H1 2009	H1 2008 restated
Turnover	78.8	76.5
Cash inflow from operating activities	18.3	11
Group Operating profit	19.4	14
Net profit from Continuing operations	39.6	22.4
Profit for the period	38.1	22.4
Diluted earnings per share from continuing operations (US\$/share)	0.121	0.069
Capital expenditure	15.7	43.7
Operating		
MNV - Gold recovered (ounces)	78,421	68,813
MNV - Gold sold (ounces)	83,860	81,036
MNV - Cash operating cost (US\$/ounce sold)	457	517
MNV - Total cash cost (US\$/ounce sold)	514	574

The Group's financial statements for the period ended 30 June, 2009 have been prepared in accordance with IFRS.

FIRST HALF HIGHLIGHTS

- **Group profit after tax of US\$38.1 million, a 70% increase compared to H1 2008 (US\$22.4 million)**
- **Cash and short term deposits of US\$294.8 million at 30 June 2009**
- **Mnogovershinnoye produced 78,421 oz of gold, a 14% increase compared to H1 2008**
- **Novoshirokinskoye on schedule for commissioning by 1 October 2009**
- **Taseevskoye development project doubles C1+C2 reserves and Belaya Gora exploration project moves to the development stage after State Reserves Committee (GKZ) approves reserves at both properties**
- **Unkurtash exploration project calculated at 2 million oz of C1+C2 reserves with potential upside estimated at 5 million oz of gold**

INTERIM BUSINESS REVIEW

Production

We are pleased with the excellent results which our new managing teams both in Moscow and on-site have accomplished at our core producing asset Mnogovershinnoye (MNV). The higher production figures resulted from plans put in place at the beginning of the year to stabilise ore feed to the process plant and to improve existing processing technology. The extension of pit-life at MNV as well as the increase of its ore reserves continued to be the objective of our operations which included the Upper Ore Body open pit re-optimisation and exploration drilling at the Pebble Deposit.

MNV Operating Statistics:

MNV		6 months ended 30 June	
	units	2008	2009
Mine development			
Stripping	m3	1,293,831	1,338,069
Underground development	metres	4,752	4,289
Mining			
Total ore mined	tonnes	492,079	464,949
Average grade	g/t	5.0	5.7
Ore processing			
Ore processed	tonnes	484,092	540,327
Average grade	g/t	5.0	5.3
Recovery rate	%	88.1	88.6
Gold produced	ounces	68,813	78,421

In August and during the first half of September 2009 the Company continued to be on target with the main production goals at MNV. Ongoing retrofitting of process technologies continues within the plant and we anticipate improvements to pulp cyanidation time and resin regeneration thereby contributing to cost control and improved recoveries. The Company remains well on track to produce between 155,000 - 165,000 oz of gold for 2009.

1 October 2009 is set as the date for starting operations at the Company's project with our joint venture partner, Kazzinc - Novosibirskoye. This will involve a gradual start-up programme with full scale ore processing to begin by January 2010. Production over the life of mine (through 2023) is expected to be 1.5 million ounces in gold and gold equivalents.

Development Projects

At Taseevskoye our reserve base has doubled after the State Committee for Reserves (GKZ) approved new C1+C2 reserves which at a cut-off grade of 1.8 g/t now amounts to 3.39 million oz of gold contained in 20.24 million tonnes with an average gold grade of 5.22 g/t. By the end of 2009 the Company plans to complete a bulk sampling programme and develop optimal processing flow sheets for ores from both the Taseevskoye deposit and the ZIF-1 tailings.

At Belaya Gora the recent reserve approval by GKZ marks a major milestone for this project and underlines the successful efforts made by our exploration team over the past two and a half years which included more than 23,000 metres of drilling on the property. GKZ has approved C1+C2 reserves amounting to 820,000 oz of gold contained in 7,286,000 tonnes of ore with an average gold grade of 3.5 g/t. The project is with our development team which has started a feasibility study for investigating various options for development

of Belaya Gora. These include using existing facilities at MNV which will contribute to extending the mine life of MNV.

Following the sale of our interest in the Mayskoye development project earlier in the year our cash position remains very strong at US\$294.8 million. This positions us well to continue our acquisition strategy to identify and purchase close to production assets of considerable size (not less than 3 million oz of gold) in Russia and Central Asian states.

Exploration

Good progress has been made at our exploration projects which has resulted in initial resource models for two of our projects indicating that we are expected to add substantial value to the Company in the near future.

At Unkurtash, now our most advanced exploration project, a preliminary in-house resource calculation combining previous and our own exploration results to date corroborates the multi-million ounce potential of the project. Accordingly, at a cut-off grade of 0.5 g/t and an average gold grade of 1.4 g/t Unkurtash holds a potential gold resource of 5.0 million ounces to a depth between 200 and 400 metres of which 2.0 million ounces have been calculated as C1+C2 category reserves to a depth of 200 metres. We continue to receive excellent drilling results from RC and diamond drilling programmes underway at three prospects (Unkurtash, Sarytube and Karatube) where we intend that a total volume of 8,000 metres of drilling will be completed by the end of the year.

At our Lyubov project a Summary Report compiling exploration results to date is nearing completion. For the Evgraf target an in-house resource estimate combining previous and our own drilling results currently define a resource potential of 1.6 million ounces of gold at an average grade of 1.7 g/t and a cut-off grade of 0.75 g/t of which 0.6 million ounces have been calculated as C1+C2 category reserves extending to a depth between 200 to 250 metres from surface. Resource definition drilling at the Evgraf target is planned to be continued following submission and approval of the Report and a new "Project" expected in Q1 2010.

Both the Unkurtash and Lyubov deposits are planned to be mined by open pit and feature favourable metallurgy suitable for low-cost gravitational processing.

Mr. Werner Klemens, Head of Exploration at Highland Gold has reviewed and verified the information contained in this release with respect to reserve and resource matters. Mr. Klemens holds a Ph.D. in Geology from the University of Toronto. He has 11 years experience in mineral exploration and is a fellow of the Geological Association of Canada. A rigorous quality assurance programme complying to international standards is in effect at all exploration projects and includes duplicate sampling, insertion of standards and check assaying at external laboratories.

Health and Safety

The provision of safe labour conditions for employees remains a high priority for the Company. We provide various forms of industrial safety training and education for our staff designed to prevent personnel accidents and equipment incidents during production, to register and investigate all production-related incidents and to comply with legislative requirements in licenses and permits. The lost time incidents ratio (the LTI ratio equals to the number of LTI incidents occurred during every 200,000 man-hours) totaled 0.69 YTD (0.6 in 2008).

Board Matters

In August 2009 following his retirement from Barrick Gold, Alex Davidson who was a member of the Board of Directors for the last four years, resigned from his post. We are currently in discussions with Barrick Gold on the nomination of a new Director representing their interest in the Company. Meanwhile we thank Alex for his valuable input and wish him success in his new activities.

FINANCIAL REVIEW

Highland Gold posted a profit from continuing operations of US\$39.6 million in the first half of 2009 versus US\$22.4 million for the corresponding period in 2008.

Turnover for the Group in the first half of 2009 was US\$78.8 million compared to US\$76.5 million in H1 2008. The increase was mainly due to stronger production at MNV and a slight increase in prices received. The Group sold 83,860 ounces of gold at an average price of US\$910 per ounce compared to 81,036 ounces of gold in H1 2008 at an average price of US\$909 per ounce.

Gold production at MNV reached 78,421 ounces - this exceeded H1 2008 results by 14%. The higher production figures were a result of stabilised ore feed to the process plant and improvements to the existing processing technology.

The Group's EBITDA in the first half of 2009 increased by 33% to US\$27.3 million compared to US\$20.6 million in the corresponding period in 2008. The increase was caused by the higher amount of gold sold (increase by 3%) together with the operating cost reduction.

The Group's cost of sales decreased by 3% to US\$50.1 million compared to US\$51.9 million in the previous reporting period. Operating costs at the MNV operation decreased by 9% to US\$35.3 million in H1 2009 while the total cash cost per ounce was US\$514 compared to US\$574 per ounce in the prior period. The cost decrease was attributable to cost saving initiatives which started in the second half of 2008 to avoid the affects of the economic turmoil and the devaluation of the Russian Rouble by 39% as compared with an average exchange rate for the six months of 2008. This affected the rouble denominated part of operating costs offsetting the increase in tariffs, raw materials and fuel prices.

Other operating expenses of the Group were US\$3 million in the first half of 2009 compared to US\$4.7 million in H1 2008. The current period amount is primarily comprised of a write off of unsuccessful exploratory drilling costs at MNV.

During the previous year, following the collapse in world metal prices, we impaired our investment in the Novoshirokinskoye mine by US\$79.5 million. We are pleased to report that, as planned, we will commission the project to meet licence requirements, and reflecting our belief in the fundamentals of this project. We will continue to monitor commodity prices, and the operating costs of the mine once commissioned, to determine whether any reversal of the prior year impairment is warranted in the future.

Finance income decreased by 56% to US\$4.0 million as a result of lower average deposits balance and lower interest rates.

Finance costs of US\$0.8 million include finance lease interest expense and accretion costs. They decreased by 15% due to the reduction of lease agreements. The Group used almost all borrowed facilities to finance works on its development projects, therefore, all borrowing costs were capitalized in H1 2009.

The Group recognized foreign exchange gains of US\$21.1 million (H1 2008: US\$5.0 million) mainly due to the movement and translation of sterling denominated deposits as the pound sterling strengthened by 12% from the beginning of 2009.

The income tax expense of US\$4.1 million was lower compared to the prior period tax expense of US\$4.9 million. The charge consists of US\$4.5 million current tax expenses at MNV and US\$0.4 million of deferred tax credit.

The entities of the Group at the development or exploration stage 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\$0.6 million of tax losses have not been recognised at the end of June 2009. 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.

On 28 of April the Group completed the transaction of selling the issued share capital of its subsidiary Zolotorudnaya Kompaniya Mayskoye. Loss from discontinued operation at Mayskoye was US\$1.6 million which comprises total cash proceeds of US\$105.0 from sale, cost of disposed net asset of US\$105.0 million and loss of US\$1.6 million from the operation for the period.

The Group's cash inflow from operating activities was US\$18.3 million compared to a cash inflow of US\$11.0 million in the first half of the prior year. The stronger cash flow from operating activities was attributable to a good EBITDA achievement in H1 2009.

In the first six months to 30 June 2009 the Group invested US\$15.7 million in capital expenditures compared to US\$43.7 million in the first six months to 30 June 2008. The considerable decrease in capital expenditures was due to the disposal of Mayskoye, postponing of the Novosirokinskoye mine commissioning and reassessment of other projects. H1 2009 capital expenditure comprised Mnogovershinnoye mine development costs, purchase and upgrades of mining equipment (US\$6.9 million excluding VAT), development project maintenance expenditures (US\$7.9 million) and exploration works at Belaya Gora, Lyubov and Unkurtash (US\$0.9 million).

The Group repaid US\$17.5 million of loans, paid US\$6.2 million of interest and US\$1.0 million of finance lease. Additionally, the Group invested US\$1.9 million in the Novosirokinskoye project which was proportionally consolidated in the amount of US\$1.0 million.

The investing and financing outflows totaling US\$41.4 million were financed out of operating cash inflows, the receipt of US\$10.0 million of a long-term bank loan and US\$2.4 million of bank overdrafts and receipts of US\$2.9 million (HGML portion of 48.3% in Novosirokinskoye) from Kazzinc to finance the Novosirokinskoye joint venture. The Group also received finance income of US\$2.0 million as deposit interest.

Cash and short term deposits at 30 June 2009 were US\$294.8 million versus US\$308.7 million (including US\$1.2 of cash attributable to a discontinued operation) at 30 June 2008 while the net cash position of the Group was US\$143.6 million versus a net cash position of US\$179.0 million at 30 June 2008. The net cash of the Group comprises Cash at Bank, less Bank Borrowings, and finance lease payables.

The Group arranged a new long-term loan with UniCredit bank in the amount of US\$15 million which was drawn down on 28 July 2009 and with GazPromBank in the amount of US\$25 million drawn down on 4 September 2009. This new financing facility will be used for financing the capital expenditure programme.

Duncan Baxter
Non-Executive Chairman
21 September 2009

Interim consolidated statement of comprehensive income

for the six months ended 30 June 2009

	Notes	2009	2008
		Unaudited	
		US\$000	US\$000
Continuing operations			
Revenue		78,766	76,457
Cost of sales		(50,067)	(51,877)
Gross profit		28,699	24,580
Administrative expenses		(6,575)	(5,821)
Other operating income		333	-
Other operating expenses		(3,017)	(4,769)
Operating profit		19,440	13,990
Foreign exchange gain		21,051	5,015
Finance income		4,042	9,256
Finance costs		(810)	(948)
Profit before tax		43,723	27,313
Income tax expense	6	(4,100)	(4,942)
Profit for the period from continuing operations		39,623	22,371
Discontinued operation			
(Loss)/ gain after tax for the period from a discontinued operation	5	(1,552)	8
Profit for the period		38,071	22,379
Total comprehensive income for the period			
		38,071	22,379
Attributable to:			
Equity holders of the parent		38,071	22,379
Earnings per share (US\$ per share)			
• Basic, for the profit for the period attributable to ordinary equity holders of the parent		0.117	0.070
• Diluted, for the profit for the period attributable to ordinary equity holders of the parent		0.116	0.069
Earnings per share from continuing operations (US\$ per share)			
• Basic, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.122	0.070
• Diluted, for the profit from continuing operations attributable to ordinary equity holders of the parent		0.121	0.069

Interim consolidated statement of financial position

At 30 June 2009

		30 June 2009 unaudited	31 December 2008 audited restated	30 June 2008 unaudited restated
	Notes	US\$000	US\$000	US\$000
Assets				
Non-current assets				
Exploration and evaluation assets	7	27,201	27,806	24,958
Mine properties	7	97,206	109,364	239,641
Property, plant and equipment	7	52,280	123,812	85,329
Goodwill		65,231	65,231	65,231
Financial assets		37,005	33,749	24,812
Other non-current assets		761	1,852	4,643
		<u>279,684</u>	<u>361,814</u>	<u>444,614</u>
Current assets				
Inventories	9	44,396	61,466	56,785
Trade and other receivables		21,282	35,969	35,585
Income tax prepaid		406	889	3,429
Prepayments		5,991	4,451	7,256
Cash and cash equivalents	10	294,787	173,062	308,650
		<u>366,862</u>	<u>275,837</u>	<u>411,705</u>
Total assets		<u>646,546</u>	<u>637,651</u>	<u>856,319</u>
Equity and liabilities				
Equity attributable to equity holders of the parent				
Issued capital	12	585	585	585
Share premium		718,370	718,370	718,370
Assets revaluation reserve		832	832	790
Accumulated losses		(267,956)	(305,912)	(50,057)
Total equity		<u>451,831</u>	<u>413,875</u>	<u>669,688</u>
Non-current liabilities				
Interest-bearing loans and borrowings		88,690	104,493	98,510
Long-term interest payable		5,397	3,216	1,285
Provisions		9,837	9,278	9,280
Deferred income tax liability		11,973	12,405	17,907
		<u>115,897</u>	<u>129,392</u>	<u>126,982</u>
Current liabilities				
Trade and other payables		12,110	41,955	21,322
Interest-bearing loans and borrowings		62,235	49,698	31,125
Income tax payable		2,353	624	4,781
Provisions		2,120	2,107	2,421
		<u>78,818</u>	<u>94,384</u>	<u>59,649</u>
Total liabilities		<u>194,715</u>	<u>223,776</u>	<u>186,631</u>
Total equity and liabilities		<u>646,546</u>	<u>637,651</u>	<u>856,319</u>

Interim consolidated statement of changes in equity

for the six months ended 30 June 2009

	Attributable to equity holders of the parent					Total equity
	Issued capital	Share premium	Shares to be issued	Asset revaluation reserve	Accumulated losses	
	US\$000	US\$000	US\$000	US\$000	US\$000	
At 1 January 2009 as previously reported	585	718,370	-	832	(299,743)	420,044
Restatement	-	-	-	-	(6,169)	(6,169)
At 1 January 2009 (restated)	585	718,370	-	832	(305,912)	413,875
Total comprehensive income for the period	-	-	-	-	38,071	38,071
Share-based payment	-	-	-	-	(115)	(115)
At 30 June 2009 (unaudited)	585	718,370	-	832	(267,956)	451,831

for the six months ended 30 June 2008 (Restated)

	Notes	Attributable to equity holders of the parent					Total equity
		Issued capital	Share premium	Shares to be issued	Asset revaluation reserve	Accumulated losses	
		US\$000	US\$000	US\$000	US\$000	US\$000	
At 1 January 2008 as previously reported		458	525,465	510	790	(68,555)	458,668
Restatement	3	-	-	-	-	(4,057)	(4,057)
At 1 January 2008 (restated)		458	525,465	510	790	(72,612)	454,611
Total comprehensive income for the period (restated)	3	-	-	-	-	22,379	22,379
Issue of share capital		127	192,905	(510)	-	-	192,522
Share-based payment		-	-	-	-	176	176
At 30 June 2008 (unaudited) (restated)		585	718,370	-	790	(50,057)	669,688

Interim consolidated cash flow statement

for the six months ended 30 June 2009

		For the six months ended 30 June	
		2009	2008
		Restated	
		Unaudited	
Notes		US\$000	US\$000
Operating activities			
		43,723	27,313
		(1,552)	(720)
	5	42,171	26,593
Adjustments to reconcile profit/(loss) before tax to net cash flows			
Non cash:			
		7,822	6,609
	7	1,780	3,468
		484	-
		(115)	82
		(4,046)	(9,262)
		861	948
		(19,691)	(4,832)
		288	769
Working capital adjustments:			
		1,902	(2,958)
		12,541	(4,895)
		(1,397)	(640)
		(21,798)	6,709
		(2,512)	(11,603)
		18,290	10,988
Cash flows from investing activities			
		(15,715)	(43,672)
	5	104,719	-
		-	5,000
		(982)	(12,403)
		2,040	8,333
		90,062	(42,742)
Cash flows from financing activities			
		-	192,522
		-	(9,386)
		12,357	4,870
		(17,479)	(61,648)
		(6,228)	(6,402)
		2,898	10,153
		(1,005)	(980)
		(9,457)	129,129
		98,895	97,375
		173,062	211,275
		22,830	-
		294,787	308,650

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate information

These interim condensed consolidated financial statements of Highland Gold Mining Limited for the six months ended 30 June 2009 were authorised for issue in accordance with a resolution of the directors on 21 September 2009.

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 2009 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 2008.

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 2008, except for the adoption of new Standards and Interpretations, noted below:

➤ *IFRS 8 Operating segments*

This standard requires disclosure of information of the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. IFRS 8 replaces IAS 14 'Segment Reporting' upon its effective date. IFRS 8 defines an operating segment as the component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. The effect of IFRS 8 is analysed in note 4.

➤ *IAS 1 Presentation of Financial Statements*

The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present it in one single statement, as it has no elements of other comprehensive

3. Prior period adjustments

Consolidated income statement adjustments

for the six months ended 30 June

	2008 unaudited (restated)	2008 unaudited (as previously reported)	Allocation of discontinued operation	2008 unaudited (as previously reported with discontinued operation allocation)	restatement
	US\$000	US\$000	US\$000	US\$000	US\$000
Continuing operations					
Revenue	76,457	76,494	(37)	76,457	-
Cost of sales	(51,877)	(51,269)	259	(51,010)	867
Gross profit	24,580	25,225	222	25,447	867
Administrative expenses	(5,821)	(6,030)	306	(5,724)	97
Other operating expenses	(4,769)	(4,784)	15	(4,769)	-
Operating profit	13,990	14,411	543	14,954	964
Foreign exchange gain	5,015	5,152	184	5,336	321
Finance income	9,256	7,907	(7)	7,900	(1,356)
Finance costs	(948)	(854)	-	(854)	94
Profit before tax	27,313	26,616	720	27,336	23
Income tax expense	(4,942)	(4,406)	(728)	(5,134)	(192)
Profit for the period from continuing operations	22,371	22,210	(8)	22,202	(169)
Discontinued operation					
Profit after tax for the period from a discontinued operation	8	-	8	8	-
Profit for the period	22,379	22,210	-	22,210	(169)

Consolidated statement of financial position adjustments

	30 June 2008 unaudited restated	30 June 2008 unaudited (as previously reported)	restatement
	US\$000	US\$000	US\$000
Assets			
Non-current assets			
Exploration and evaluation assets	24,958	24,778	180
Mine properties	239,641	248,988	(9,347)
Property, plant and equipment	85,329	78,889	6,440
Intangible assets	65,231	65,231	-
Financial assets	24,812	23,529	1,283
Other non-current assets	4,643	3,902	741
	<u>444,614</u>	<u>445,317</u>	<u>(703)</u>
Current assets			
Inventories	56,785	59,590	(2,805)
Trade and other receivables	35,585	35,585	-
Income tax prepaid	3,429	3,429	-
Prepayments	7,256	8,118	(862)
Cash and cash equivalents	308,650	308,650	-
	<u>411,705</u>	<u>415,372</u>	<u>(3,667)</u>
Total assets	<u>856,319</u>	<u>860,689</u>	<u>(4,370)</u>
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	585	585	-
Share premium	718,370	718,370	-
Assets revaluation reserve	790	790	-
Accumulated losses	(50,057)	(46,169)	(3,888)
Total equity	<u>669,688</u>	<u>673,576</u>	<u>(3,888)</u>
Non-current liabilities			
Interest-bearing loans and borrowings	98,510	98,510	-
Long-term interest payable	1,285	-	1,285
Provisions	9,280	9,280	-
Deferred income tax liability	17,907	19,672	(1,765)
	<u>126,982</u>	<u>127,462</u>	<u>(480)</u>
Current liabilities			
Trade and other payables	21,322	21,324	(2)
Interest-bearing loans and borrowings	31,125	31,125	-
Income tax payable	4,781	4,781	-
Provisions	2,421	2,421	-
	<u>59,649</u>	<u>59,651</u>	<u>(2)</u>
Total liabilities	<u>186,631</u>	<u>187,113</u>	<u>(482)</u>
Total equity and liabilities	<u>856,319</u>	<u>860,689</u>	<u>(4,370)</u>

Prior period adjustments:

➤ *Movement from GKZ to JORC reserves*

The Group estimates its ore reserves and mineral resources in accordance with the rules and requirements of the Russian State Committee for Reserves (GKZ) as well as in accordance with JORC. The Group has been using GKZ reserves for the depreciation purposes under the unit of production method until 2008. In 2008 the management decided to use JORC reserves instead of GKZ as being more accurate. This has resulted in the increase of the depreciation charge as the JORC reserves are significantly lower than GKZ. Whilst IFRS does not prescribe what reserve basis to use for the purposes of depreciation calculation, industry practice is to use the reserve estimates certified in accordance with the Western reserves classification (ie JORC).

As the JORC reserve figures were first available in 2006 the use of GKZ reserves for the purposes of the depreciation calculations constitutes an error in previous years.

This change has been applied retrospectively. This restatement resulted in an increase to the accumulated depreciation at 30 June 2008 of US\$11.3 million. The depreciation charge in the first half 2008 was increased by US\$0.6 million, with retained losses at 1 January 2008 being increased by US\$10.7 million.

➤ *Errors in the inventory costing model*

The following corrections affected the Group's work in progress:

- Accurate allocation of the depreciation charge calculated using the JORC reserves;
- The cost of ore stockpiles has been recalculated on a tonnes mined basis resulting in an understatement of WIP (previously it was calculated based on contained ounces).

This correction resulted in an increase to the inventories at 30 June 2008 of US\$3.6 million. The depreciation charge in the first half 2008 was increased by US\$0.6 million and operating costs were increased by US\$0.6 million, with retained losses at 1 January 2008 being decreased by US\$4.2 million.

➤ *Reclassification of operating costs*

Some costs classified previously as operating after close consideration were reclassified as costs attributable to exploration works and foreign exchange loss. This resulted in an increase in exploration and evaluation assets by US\$0.2 million, decrease in operating cost by US\$0.4 million and increase in foreign exchange loss by US\$0.2 million.

➤ *Operating lease deposit*

Prepayments were decreased by US\$0.8 million with the simultaneous increase to other non-current assets by US\$0.8 million as the deposit paid for the operating lease is long-term. As this reclassification initially took place in restatement of 2007, further fair value adjustments during the six month of 2008 resulted in additional decrease in prepayments by US\$0.1 million, decrease in other non-current assets by US\$0.1 million, increase in finance income by US\$0.1 million, increase in foreign exchange loss by US\$0.1 million and in additional charge to administrative expenses by US\$0.1 million

➤ *Capitalisation of Kazzinc interest at Novo*

Under its accounting policy, the Group capitalises the borrowing costs on its development projects. The Group expensed interest accrued under the Kazzinc loan received for the development purposes at Novo in 2007 and in the first half of 2008. Capitalisation of Kazzinc interest at Novo resulted in an increase to the mine properties at 30 June 2008 of US\$2.0 million. The finance costs were decreased by US\$1.2 million with retained losses at 1 January 2008 being decreased by US\$0.8 million.

➤ *Tax effect*

The restatement resulted in a decrease of the deferred tax liability at 30 June 2008 of US\$1.8 million. The deferred income tax credit associated with the above transactions was US\$0.2 million, with retained losses at 1 January 2008 being decreased by US\$1.6 million.

➤ *Reclassifications*

Some reclassifications were made in the balance sheet items to keep the presentation form consistent with 2009 presentation. As a result of the reclassifications, non-current liabilities comprising long-term interest payable were increased by US\$1.3 million with an opposite effect on trade and other payables. Proper presentation of joint venture interest receivable resulted in increase in financial assets by US\$1.3 million with decrease in trade and other payables. Property, plant and equipment was increased by US\$6.4 million, inventories were decreased by the same amount due to the nature of the inventories being the items necessary to bring other items of PP&E to the condition necessary for them to be capable of operating in the manner intended by management.

➤ *Mayskoye impairment loss reassessment*

The Group's investment in the Mayskoye project was impaired by US\$107.9 million during the year ended 31 December 2008. This impairment was based on an assessment of the fair value less costs to sell of the project. In calculating the extent to which the carrying value of the assets was impaired, an error totalling US\$6.2 million was made. The effect of this error on the 31 December 2008 financial statements was to understate the impairment charge by US\$6.2 million, and to overstate the balances of property, plant & equipment and retained earnings by the same amount.

This error was identified in the six months ended 30 June 2009 and has been accounted for in accordance with International Accounting Standard 8, which would require correction by way of a prior period adjustment.

➤ *Earnings per share effect*

for the six months ended 30 June	2008 unaudited (restated)	2008 unaudited (as previously reported)	Allocation of discontinued operation	2008 unaudited (as previously reported with discontinued operation allocation)	restatement
Earnings per share (US\$ per share)					
• Basic, for the profit for the period attributable to ordinary equity holders of the parent	0.070	0.069	-	0.069	(0.001)
• Diluted, for the profit for the period attributable to ordinary equity holders of the parent	0.069	0.068	-	0.068	(0.001)
Earnings per share for continuing operations (US\$ per share)					
• Basic, for the profit from continuing operations attributable to ordinary equity holders of the parent	0.070	0.069	(0.000)	0.069	(0.001)
• Diluted, for the profit from continuing operations attributable to ordinary equity holders of the parent	0.069	0.068	(0.000)	0.068	(0.001)
Earnings per share for discontinued operation (US\$ per share)					
• Basic, for the profit from discontinued operations attributable to ordinary equity holders of the parent	0.000	-	0.000	0.000	-
• Diluted, for the profit from discontinued operations attributable to ordinary equity holders of the parent	0.000	-	0.000	0.000	-

4. Segment information

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

- The gold production segment;
- The polymetallic concentrate production segment;
- Development and exploration segment;
- Others.

As the gold production segment, namely Mnogovershinnoye, is the only cash generating unit, the management monitors its operating results separately for the purpose of making decisions about resource allocation and evaluating the effectiveness of its activity.

The polymetallic concentrate production segment, namely Novosirokinskoye, will be commissioned in October 2009. The management analyses it separately to make a decision of commissioning the project. Development and exploration segment contains the holders of the licenses being at the development and exploration stage.

Head office, management company, trade house and other have been aggregated to form the reportable segment "Others".

Segment performance is evaluated based on EBITDA and profit or loss after the income tax in respect of the gold production segment. The development and exploration segments are evaluated based on the life of mine models in connection with the capital expenditure spent during the reporting period.

The following tables present revenue and profit and loss information as well as assets information of the Group's operating segments.

**Six months ended 30 June 2009
(unaudited)**

	MNV	Novo	Development & Exploration	Other	Adjustments and eliminations	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Revenue						
Gold revenue	76,336	-	-	-	-	76,336
Silver revenue	680	-	-	-	-	680
Other third-party	3	26	68	1,653	-	1,750
Inter-segment	94	-	2	6,390	(6,486)	-
Total revenue	77,113	26	70	8,043	(6,486)	78,766
EBITDA	31,031	(692)	(132)	(8,808)	5,863	27,262
Other segment information						
Depreciation*						(7,822)
Net finance revenue including foreign exchange						24,283
Profit from continuing operations before income tax						43,723
Income tax						(4,100)
Profit for the period from continuing operations						39,623
* Depreciation	(7,569)	-	-	(253)	-	(7,822)
Segment assets at 30 June 2009						
Non-current assets						
Capital expenditure	67,917	8,147	91,218	9,405	-	176,687
Goodwill						65,231
Financial assets						37,005
Other non-current assets						761
Current assets						366,862
Total assets						646,546
Capital expenditure - addition in H1 2009, including:						
deferred stripping costs	1,397	-	-	-	-	1,397
capitalised interest	-	4,899	3,241	-	-	8,140

Six months ended 30 June 2008 (unaudited)	MNV	Novo	Development & Exploration	Other	Adjustments and eliminations	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Revenue						
Gold revenue	73,697	-	-	-	-	73,697
Silver revenue	416	-	-	-	-	416
Other third-party	4	-	-	2,378	(38)	2,344
Inter-segment	108	-	2	34,685	(34,795)	-
Total revenue	74,225	-	2	37,063	(34,833)	76,457
EBITDA	26,495	(64)	(3,423)	(2,905)	496	20,599
Other segment information						
Depreciation*						(6,609)
Net finance revenue including foreign exchange						13,323
Profit from continuing operations before income tax						27,313
Income tax						(4,942)
Profit for the period from continuing operations						22,371
* Depreciation	(6,158)	-	-	(451)	-	(6,609)
Segment assets at 31 December 2008						
Non-current assets						
Capital expenditure	67,930	1,167	188,349	3,536	-	260,982
Goodwill						65,231
Financial assets						33,749
Other non-current assets						1,852
Current assets						275,837
Total assets						637,651

Segment performance is evaluated based on EBITDA (defined as operating profit/(loss) excluding depreciation, amortization) which is derived from the information in the consolidated financial statements. The Highland Gold financing (including finance costs and finance income), income taxes and foreign exchange gain/(loss) are managed on a group basis and are not allocated to operating segments.

5. Discontinued operation

On 29 April 2009, the Board of Directors of Highland Gold Mining Limited publicly announced that it has sold the issued share capital of its subsidiary Zolotrudnaya Kompaniya Mayskoye Limited Liability Company ("Mayskoye") for a net cash consideration of US\$104.7 million to a group of Russian companies, one of which is JSC Polymetal and none of which were connected with any of Highland Gold's directors or major shareholders. The transaction was completed on 28 April 2009. The results of Mayskoye are as follows:

	For the six months ended 30 June	
	2009	2008
	Unaudited	
	US\$000	US\$000
Revenue	244	37
Expenses	(292)	(259)
Gross loss	(48)	(222)
Administrative costs	(100)	(306)
Other operating income/ (costs)	3	(15)
Operating loss	(145)	(543)
Finance income	4	6
Finance costs	(51)	-
Exchange loss	(1,360)	(183)
Loss before tax from discontinued operation	(1,552)	(720)
Tax income / (expense) related to changes in deferred tax	-	728
(Loss)/ profit for the period from discontinued operation	(1,552)	8
result on disposal of discontinued operation	-	-
(Loss)/ gain after tax for the period from discontinued operation	(1,552)	8
(Loss)/ earnings per share from discontinued operation:		
Basic	US\$(0.005)	US\$0.000
Diluted	US\$(0.005)	US\$0.000

The carrying values of the major classes of assets and liabilities of Mayskoye at the end of 2008 and at its disposal date were as follows:

	28 April	31 December
	2009	2008
	unaudited	restated
	US\$000	US\$000
Property, plant and equipment	100,452	96,464
Inventory	3,767	4,092
Trade and other receivables	8,198	9,354
Cash	281	80
Total assets	112,698	109,990
Non-current liabilities	-	(49)
Current liabilities	(7,698)	(14,242)
Net assets	105,000	95,699

Net result from Mayskoye in the first half of 2008 and 2009 was as follows:

	For the six months ended 30 June	
	2009	2008
	Unaudited	
	US\$000	US\$000
Proceeds from Mayskoye disposal	105,000	-
Mayskoye's net assets disposed	(105,000)	-
(Loss)/ profit for the period from discontinued operation	(1,552)	8
Net result from Mayskoye	(1,552)	8

Cash inflow on sale:

	Unaudited
	US\$000
Consideration received	105,000
Net cash disposed of with the discontinued operation	(281)
Net cash inflow from disposal	104,719

6. Income tax

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

	For the six months ended 30 June	
	2009	2008 Restated
	Unaudited	
	US\$000	US\$000
Current income tax		
Current income tax charge	4,531	6,666
Adjustments in respect of prior year current tax	-	198
Deferred income tax		
Relating to origination and reversal of temporary differences	(431)	(1,922)
Income tax expense	4,100	4,942

7. Property, plant and equipment

	Mine development	Exploration and evaluation assets	Freehold building	Plant and equipment	Construction in progress	Deferred stripping costs	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Cost							
At 1 January 2009	359,295	27,806	40,993	94,383	63,368	55	585,900
Additions	8,085	979	-	4,157	3,001	1,397	17,619
Additions - capitalised interest	8,140	-	-	-	-	-	8,140
Transfers and other movements	13,939	-	-	195	(14,134)	-	-
Capitalised depreciation	45	-	-	-	-	-	45
Write off	-	(1,584)	-	-	-	-	(1,584)
Disposal of Mayskoye (a)	(153,013)	-	(9,383)	(18,096)	(37,392)	-	(217,884)
Disposals	-	-	(1)	(1,064)	-	-	(1,065)
At 30 June 2009	236,491	27,201	31,609	79,575	14,843	1,452	391,171
Depreciation and impairment							
At 1 January 2009	249,986	-	24,949	43,237	6,746	-	324,918
Depreciation charge	4,816	-	317	2,689	-	-	7,822
Disposal of Mayskoye Impairment (a)	(114,065)	-	-	-	-	-	(114,065)
Disposal of Mayskoye (a)	-	-	(652)	(2,715)	-	-	(3,367)
Disposals	-	-	(1)	(868)	-	-	(869)
Capitalised depreciation	-	-	3	42	-	-	45
At 30 June 2009	140,737	-	24,616	42,385	6,746	-	214,484
Net book value:							
At 1 January 2009	109,309	27,806	16,044	51,146	56,622	55	260,982
At 30 June 2009	95,754	27,201	6,993	37,190	8,097	1,452	176,687
	Mine development	Exploration and evaluation assets	Freehold building	Plant and equipment	Construction in progress	Deferred stripping costs	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Cost							
At 1 January 2008	264,454	23,077	36,090	77,505	19,509	2,256	422,891
Additions	29,086	5,026	48	1,800	8,820	640	45,420
Additions - capitalised interest	6,958	-	-	-	-	-	6,958
Transfers and other movements	(509)	173	4,499	2,111	(6,274)	-	-
Capitalised depreciation	938	-	-	-	-	-	938
Write off	-	(3,318)	-	-	-	-	(3,318)
Disposals	-	-	-	(168)	-	-	(168)
At 30 June 2008	300,927	24,958	40,637	81,248	22,055	2,896	472,721
Depreciation and impairment							
At 1 January 2008	60,647	-	20,052	27,819	6,746	-	115,264
Depreciation charge	3,535	-	314	2,760	-	-	6,609
Disposals	-	-	-	(18)	-	-	(18)
Capitalised depreciation	-	-	319	619	-	-	938
At 30 June 2008	64,182	-	20,685	31,180	6,746	-	122,793
Net book value:							
At 1 January 2008	203,807	23,077	16,038	49,686	12,763	2,256	307,627
At 30 June 2008 (restated)	236,745	24,958	19,952	50,068	15,309	2,896	349,928

a) The balance of Mayskoye's property, plant and equipment at the date of disposal was US\$100.5 million (Note 5).

8. Commitments and contingencies

Capital commitments

At 30 June 2009, the Group had commitments of US\$2.4 million (at 31 December 2008: US\$2.7 million, at 30 June 2008: US\$25.5 million) principally relating to development assets and US\$0.5 million (at 31 December 2008: US\$1.2 million, at 30 June 2008: US\$9.8 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\$0.3 million as at 30 June 2009 (at 31 December 2008: US\$0.7 million, at 30 June 2008: US\$ 10.8 million). In management's view these possible tax claims will likely not result in a future outflow of resources, consequently no provision is required in respect of these matters.

9. Inventories

	30 June 2009 Unaudited	31 December 2008 Audited	30 June 2008 Unaudited Restated
	US\$000	US\$000	US\$000
Raw materials and consumables	43,653	56,863	54,131
Gold in progress	8,798	12,294	11,265
Finished goods	38	124	59
	52,489	69,281	65,455
Obsolescence provision	(8,093)	(7,815)	(8,670)
Total inventories	44,396	61,466	56,785

10. 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 2009 Unaudited	31 December 2008 Audited	30 June 2008 Unaudited
	US\$000	US\$000	US\$000
Cash at bank and in hand	3,029	5,321	14,251
Short term deposits	291,758	167,661	293,154
	294,787	172,982	307,405
Cash at bank and in hand attributable to a discontinued operation	-	80	1,245
	294,787	173,062	308,650

11. Interest-bearing loans and borrowings

On 16 March 2009 the Group received a new 15 month US\$10 million facility at a 10% interest rate with a pledge over Mnogovershinnoye fixed assets from Unicredit Bank. This facility is used to finance the development needs of the Group.

During the first half of 2009, the Group partially repaid US\$15.8 million of the existing debt facilities. Additionally, the Group drew down US\$2.4 and repaid US\$1.7 million of overdraft facility.

12. Share Capital

Authorised	30 June 2009	31 December 2008
	Shares	Shares
Ordinary shares of £0.001 each	750,000,000	750,000,000
Ordinary shares issued and fully paid	Shares	Amount
At 30 June 2008, 31 December 2008 and 30 June 2009	325,197,098	585

13. Share-based payment

During the six months ended 30 June 2009 the Group did not issue any new share options as the Board considered and agreed that at the present time there would be no further grant of options under the unapproved share option scheme.

Options for 400,000 shares have been forfeited because of the retirement of certain participants. No share options have been exercised. Currently there are 25 participants of the scheme representing board members, directors and executive management of the Group.

14. Related party transactions

The following tables provide the total amount of transactions which have been entered into with related parties during the six months ended 30 June 2009 and 2008, and the twelve months ended 31 December 2008:

		Services/Sales provided to related parties	Services/Sales provided by related parties	Amounts owed by related parties	Amounts owed to related parties	Financial aid provided by related parties
Unaudited						
		US\$000	US\$000	US\$000	US\$000	US\$000
Entity with significant influence over the Group:						
Barrick International	30.06.09	-	-	18	-	-
	31.12.08	-	-	-	-	-
	30.06.08	-	-	-	-	-
Barrick Gold Services	30.06.09	-	-	-	192	-
	31.12.08	-	-	-	32	-
	30.06.08	-	-	-	-	-
ST Bulchug (Millhouse)	30.06.09	-	1,400	506	-	-
	31.12.08	-	2,431	478	-	-
	30.06.08	-	1,173	449	-	-
Joint venture in which the parent is the venturer:						
OAO Novosirokinskoye	30.06.09	174	-	221	11	-
	31.12.08	6,700	5	210	53	-
	30.06.08	3,971	-	387	255	-
Partner in the joint venture:						
Kazzinc	30.06.09	-	-	-	340	-
	31.12.08	-	444	-	339	-
	30.06.08	-	-	-	-	-

		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
Unaudited							
		US\$000	USD\$000	USD\$000	US\$000	USD\$000	USD\$000
Joint venture in which the parent is the venturer:							
OAO Novosirokinskoye	30.06.09	982	-	2,274	-	37,005	-
	31.12.08	19,296	-	3,326	-	33,749	-
	30.06.08	12,403	-	1,283	-	24,811	-
Partner in the joint venture:							
Kazzinc	30.06.09	-	2,898	-	2,181	-	35,725
	31.12.08	-	14,227	-	3,216	-	30,646
	31.06.08	-	10,153	-	1,286	-	24,643

Loans given to the OAO Novosirokinskoye during the six months of 2008 represent cash given without interests capitalized to the amount of the loan given.

Loans received from the Kazzinc during the six months of 2008 represent cash received without interests capitalized to the loan received.

15. Events after the balance sheet event

The Group arranged new long-term loans with UniCredit bank in the amount of US\$15 million which was drawn down on 28 July 2009 and with GazPromBank in the amount of US\$25 million which was drawn down on 4 September 2009. The new financing facility will be used for financing the capital expenditure programme.

INDEPENDENT REVIEW REPORT TO HIGHLAND GOLD MINING LIMITED

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Interim consolidated statement of comprehensive income, the Interim consolidated balance sheet, the Interim consolidated cash flow statement, the Interim consolidated statement of changes in equity and the related explanatory notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union on Half Yearly Reports.

As disclosed in note 2, the annual consolidated financial statements of Highland Gold Mining Limited are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

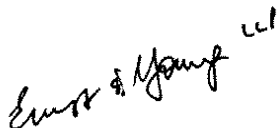
Scope of Review

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 condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

Yours faithfully



Ernst & Young
United Kingdom
21 September 2009

COMPANY INFORMATION AND FINANCIAL CALENDAR

DIRECTORS

Duncan Baxter
Non-Executive Chairman

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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AUDITORS TO THE COMPANY AND GROUP

Ernst & Young LLP
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FINANCIAL CALENDAR

Preliminary announcement For the year ended 31 December 2009	April 2010
2009 Annual Report published	April 2010
2009 Annual General Meeting	June 2010