HIGHLAND GOLD MINING Ltd.

HIGHLAND GOLD MINING LIMITED ANNOUNCES FINAL RESULTS FOR THE YEAR TO 31 DECEMBER 2008

30 April 2009 - Highland Gold Mining Limited ("Highland Gold" or the "Company") announces its final results for the full year ended 31 December 2008.

FINANCIAL HIGHLIGHTS

IFRS, US$'000 (unless stated)	2008	2007 (restated)
Production (oz)	158,885	156,474
Total cash costs (US$)	560	469
Turnover	150,449	112,100
Gross profit	45,518	34,772
(Loss)/profit for the year	(226,254)	17,450
(Loss)/Earnings per share (US$)	(0.701)	0.088
Net cash inflow/(outflow) from operations	23,395	(24,854)
Capital expenditure	146,122	73,947
Net cash (outfow)/inflow	(38,213)	179,699

2008 KEY EVENTS

- Gross profit of US$45.5 million achieved in 2008, a 30.9% increase from 2007
- Second Subscription with Millhouse LLC completed with total proceeds forming an essential component of the Company's funding
- Cash and short term deposits of US$173.1 million at 31 December 2008
- Mnogovershinnoye (MNV) produced 158,885 ounces of gold in 2008, an 1.5% increase from 2007
- Board and management composition significantly changed
- New team continues to conduct a detailed review of all operations and development assets to establish priorities under difficult market conditions
- With agreement of Kazzinc commissioning of Novoshirokinskoye postponed to later date
- Work on other development projects slowed down until possibilities for funding increase
- Company confirms acquisition of additional producing assets in Russia and the CIS countries as a strategic goal

Post Year End

- Mayskoye development project sold for a consideration of US$105 million

2009 Goals

- Forecasted production at MNV in the range of 155,000 -165,000 oz of gold at cash costs of US$535 per oz
- Extension of mine life of the MNV project upon completion of exploration works
- Ensure best use of cash and pursue joint venture and acquisition opportunities

Commenting on today's announcement, Duncan Baxter, Non-Executive Chairman said: "Against a backdrop of prolonged uncertainty we will continue to take prudent steps to preserve the balance sheet and create value for our shareholders. We continue to review opportunities to acquire producing gold assets in Russia and the CIS. The Board and management with its mix of mining expertise and Russian knowledge and influence is strongly placed to pursue this growth strategy."

The Company will hold a conference call on Thursday, 30 April 2009 hosted by Olga Pokrovskaya, Non-Executive Director, Valeryi Oif, CEO, to discuss the final results. The conference call will take place at 10.30 UK time (13.30 Moscow) and a slide presentation to accompany the presentation of results will be available for downloading on the Company's website. To participate in the conference call please dial one of the following numbers:

UK Local Call 0844 493 3800
UK Standard International +44 (0) 1452 555 566
Conference ID 97853058

A replay of the presentation will be accessible shortly afterwards by dialing one of the following numbers:

International Dial in: +44 (0) 1452 55 00 00
UK Free Call Dial In: 0800 953 1533
UK Local Dial In: 0845 245 5205
USA Free Call Dial In: 1866 247 4222

Encore Replay Access Number: 97853058#

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The Annual General meeting will be held on 18 June 2009.

CHAIRMAN'S STATEMENT

Production and Results

In 2008 our production rose to 158,885 ounces - which was within the forecast range and exceeded the 2007 production figure by 1.5%. Whilst this was a marginal increase, we were pleased to have been able to deliver our anticipated production target. We achieved an 30.9% increase in gross profit of US$45.5 million (2007: US$34.8 million), due to higher gold prices.

Total cash costs for the year were US$560 per oz against US$469 per oz in 2007 as a result of significantly higher input costs in the first part of the year. We are forecasting a reduction to US$535 per oz in 2009.

These achievements demonstrate managed progress for the year in terms of wide ranging cost cutting efforts from which the Company should benefit in 2009. Headcount reductions now feeding through show a 14% fall from 2007 resulting in wage cost reductions. Additionally we have seen the cost pressures experienced in 2007 and 2008 ease, with steel and oil inputs reducing and a relaxing of labour market costs as a result of industry wide cutbacks.

We have cash resources of US$173.1 million and banks have supported us with loans of US$124.7 million with a further US$105 million to be received following the disposal of Mayskoye in April 2009. Free cash flow from gold sales at current prices is supporting our operational requirements.

Strategic Priorities

Early in the year the Board embarked on a strategic review of all of the Company's operations and development assets in order to prioritise commitment and ensure best use of cash and debt available. We concentrated on deriving maximum benefit from our producing mine at Mnogovershinnoye (MNV) and on retaining financial flexibility until markets improve and equity and project financing becomes more readily available. There is no time frame on this but the Board reviews markets and project options on a regular basis. It is a measure of the Board's strategy that the Company is weathering the financial crisis in an effort to emerge as a stronger business with much improved results and a robust balance sheet. We are committed to finding joint venture partnerships or acquiring producing or near production gold assets. At the same time we are prepared to sell development assets should a need arise to raise additional funding.

Mining and Development Projects

We have seen very strong results from our operating mine MNV where fourth quarter production was above target due to the high-grade ore currently being mined from the B3 Zone in the open pit. An average daily mill throughput of better than 3,000 tonnes per day was achieved and increased equipment utilisation for both the open pit and underground fleets helped to achieve this positive result. We expect attributable gold production for 2009 to be between 155,000 and 165,000 oz. Exploration work to extend the life of the project will continue.

As part of the review the Board took the decision to delay major development projects. The commissioning of the Novoshirokinskoye mine, which was due to take place in December 2008 with production starting in Q1 2009, was delayed with the agreement of our partner for the project - Kazzinc. According to current licence terms, the Company has to start production at Novoshirokinskoye by 1 October, 2009 and we will be reporting on this later in the year. The reason for the delay is that the mine, now fully ready to be commissioned, is predominantly reliant on lead and zinc prices which have fallen substantially from the highs of 2008.

During the year we also decided to delay part of the works at Mayskoye until market conditions improved. The review of the activities and preparation for construction have been considered in great detail and in our view securing the required funding to move this development forward, will be very difficult to secure for some time to come. We received the feasibility model in early 2008 and the design work in 2009 from Aker Solutions. Management reviewed the project to consider further efficiencies and new data on the project after the audit of the reserves in accordance with recently received JORC reserve estimates. Having considered the prospects over the near term for developing Mayskoye, the Board decided that it should be sold, and we are pleased to report that this sale was completed on 28 April. This has raised additional cash resources of US$105 million in order to pursue our strategy.

As for Taseevskoye and our Exploration projects, these are progressing and the Board is of the opinion that all these projects are worth pursuing albeit over a longer time frame.

Health & Safety and the Environment

Mining is an extremely risky and environmentally difficult business in which to operate, particularly in Russia because of the extremes of weather, distance and lack of trained and appropriate resources. This last point is being continually addressed with training programmes and the co-operation with regional safety and environmental state agencies. The Board and management are conscious of the concerns and requirements of shareholders, employees and agencies in this area. The Company takes the view that every effort must be made in assessing, implementing and prioritising throughout the organisation the highest possible safety and environmental standards which are being achieved. Whilst nothing can be taken for granted, our record in 2008 was encouraging, though we regret the unfortunate death of one of our work force since we reported last year.

Looking forward

We maintain a positive outlook for the gold price allowing us to keep our options open both in terms of the resumption of development work and exploration projects as well as seeking additional producing assets. Most industry analysts are positive on gold against a backdrop of continued nervousness in global financial markets.

.Against a backdrop of prolonged uncertainty, the Board will continue to take prudent steps to preserve the balance sheet and create value for our shareholders. Despite very difficult market conditions the Board has considered what measures it should take, including paying dividends or initiating a buy-back programme, in addition to implementing its existing strategy for the Company, but has concluded that this would be inappropriate at this time and not the best use of cash resources. As we have mentioned before, we continue to review opportunities to acquire producing gold assets in Russia and the CIS and any assets that do not meet our value expectations will be discarded. The Board and management with its mix of mining expertise and Russian knowledge and influence is strongly placed to pursue this growth strategy. It is also worth highlighting the enormous improvement in our operations over recent years, largely due to the input from Barrick Gold personnel, including the implementation of training, safety and risk management systems which we appreciate. Whilst we will continue to benefit from Barrick's expertise at Board level, with our new management team in place, we do not expect to rely on Barrick input on an operational level to the same extent.

The Board and management composition has changed significantly throughout the year and I wish to thank all past and present members of the Board and management team for the smooth handover of business. In particular I wish to thank Henry Horne the previous CEO for his efforts over a number of years and wish him well in the future. Thanks are also due to all our staff for an excellent result under difficult economic circumstances.

Finally I would like to express my gratitude to our shareholders for their continued support reminding them that, as ever, it is the outstanding quality and commitment of the team, our bankers and our advisers which lies behind the progress of the Group in 2008. This gives us every confidence in our ability to achieve our targets in the year ahead.

CHIEF EXECUTIVE OFFICER'S REPORT

Our operational priorities during 2008, following a major review by the new Board, were to preserve cash by finding efficiencies in all parts of our operation. In the light of the difficult global financial markets and a volatile gold price we took the decision to continue to achieve maximum capacity at our producing mine at MNV and to examine the most appropriate ways in which to move our development projects forward or to put them on hold, until conditions improved.

Our people

Our aim to increase the efficiency of the Company could not be achieved without the strengthening of our team of top managers. In this respect I would like to note several key appointments since the end of the year.

Brent Horochuk has joined the Company as Chief Operating Officer. He graduated from the Haileybury School of Mines in Canada and the Michigan Technological University with a degree in mining engineering and started professional work as an underground miner at the Sherritt Gordon Mines in Canada. He was mine manager at various mining operations in Canada, Ghana, Zimbabwe, employed by Noranda Minerals, Falconbridge and Ashanti Goldfields. Before joining our Company Brent was the managing director of the Geita gold mine in Tanzania (Anglogold Ashanti).

Vladimir Kitaev joined the Company as Head of Logistics. He graduated from the Gubkin Russian State University of Oil and Gas with a major in technical engineering and holds a PhD in the area of maintenance of equipment. Since 1996 he worked at the oil company Sibneft holding various positions including Head of the Material and Technical Resources Department. In 2006 Vladimir became project manager with LLC Millhouse before joining us at Highland Gold.

Vyacheslav Kozyrev was appointed Managing Director of the Mnogovershinnoye mine. He graduated from the Kazakh Polytechnical Institute as a mining engineer and worked as a top manager in several mining companies in Russia and Kazakstan. Before joining Highland Gold he was chief engineer of Magadan Silver.

Yury Ryabov was appointed as the Company's new technical director and deputy COO. Mr Ryabov studied mining engineering at the Kazakh Polytechnic Institute and qualified as a specialist in metallurgical equipment at the Leninogorsk Technical School. Prior to joining the company, he was chief of the raw iron ore department at Severstal.

Vadim Semenov was appointed Head of Legal. He graduated from the Moscow State University in 1998 with a major in law. From 1997 to 2006 he worked in Sibneft with responsibilities for Dispute Resolution and Corporate Law. Since 2006 Vadim worked as Deputy Head of the Legal Department at LLC Millhouse.

I would also like to thank John Mcdonough, former COO, and Sergey Lysakov, former Managing Director of MNV, for their contribution to the development of the Company. In March 2009 Sergey Lysakov was elected as the new head of administration of the Nikolaevsk district where our MNV project is located. We look forward to working closely with him in implementing joint social programmes.

As at 31 December, 2008 the Highland Gold Group employed a total of 3,030 employees compared to 2,890 at the end of 2007. This increase was due mostly to provide a sufficient workforce for the Novoshirokinskoye mine, the launch of which had been planned for the end of 2008.

In Q4 2008 in line with our aim to increase efficiency and given our delay in the commissioning of Novoshirokinskoye, we started a programme of optimising our headcount numbers. As at the end of Q1 2009 we employed 2,475 employees.

Corporate & Social Responsibility

Highland Gold Mining operates in regions with challenging economic and social issues, therefore the focus of our corporate social policy has been to develop and maintain long-term relations with local communities in order to improve living standards for our workers and for the population at large. While we have helped to maintain and upgrade the infrastructure in the villages and towns where our employees live, we have also been active in developing various social and cultural facilities, helping the socially needy, as well as supporting indigenous populations and participating in environment protection oriented projects.

We continued our activities in the form of Social Partnership Agreements with regional and local authorities. In 2008 we signed an agreement with the Khabarovsk regional government. We are fulfilling our obligations under a respective 2006 agreement signed with the Nikolaevsk district authorities to provide assistance in local road repairs, purchase of fuel, construction and renovation work for educational, medical facilities and the general improvement of public spaces.

Similar assistance on a smaller scale, has been provided by the Company to the local communities at our exploration projects, in particular at Lyubov in the Zabaikalsky region of Russia and at Unkurtash in Kyrgyzstan. Our Mayskoye operation continued its support for a local boarding school and kindergarten, and in cooperation with the district authorities we also started construction of an educational facility. The Company continued providing help to specialised schools for blind and visually impaired children located in the Chita and Khabarovsk regions.

Health, Safety & Environment ("HSE")

As part of our commitment to responsible mining we are striving to provide a safe and healthy work place at all sites and recognise the need to minimise the impact of mine processes on the environment.

1526 employees went through HSE training at all Company sites and over 500 employees were certified in industrial safety. The lost time incident frequency rate (the LTI frequency rate is calculated as a number of LTI's for every 200,000 man hours worked) reached 0.60 in 2008, which is 10% higher than the forecasted figure (0.55). In the course of two months during the year no LTI incidents were registered at all sites of the Group. The Taseevskoye project reported 12 months of zero LTI incidents totaling 40 months since the last registered LTI at the site.

There were no environmental related reportable incidents at our mines and projects in 2008 and we took a number of steps to further ensure a environmentally friendly operation. At MNV the drainage system of the tailings facility was reconstructed in order to decrease the volume of pollutants being discharged and construction works have been started for waste water treatment facilities at the Central Ore Body, at the road transport shop and at adit #11. In the course of the year additional waste recycling facilities were also successfully installed.

At the Novoshirokinskoye mine we commissioned a facility for treating domestic waste water and initiated a programme of industrial environmental monitoring prepared and approved by the supervising authorities. The mine's assaying lab, which is being accredited has been equipped with modern equipment for environmental monitoring.

In 2008 we conducted 220 internal environmental audits, 90 more than in 2007. 130 supervisors and specialists on the staff went through environmental training.

MNOGOVERSHINNOYE (MNV), Khabarovsk region

In 2008 in order to contain operating costs the main focus was on open pit mining with 635, 855 tonnes of ore mined, about 31% more than in 2007. This meant we were able to achieve an overall ore production volume of 1,036,851 tonnes.

The reduction in underground mining from 600,439 tonnes in 2007 to 400,996 was deliberate in order to enable additional underground development and the delineation of ore blocks for future mining. In 2008 the construction of the main fan unit was initiated and is scheduled for commissioning in H1 2009. The enhanced ventilation will allow the expansion of the fleet of underground mining equipment and therefore increase underground production capacity. An Atlas Copco compressor with a 50 m^3/min operation capacity was also commissioned for underground work in Q4. With its commissioning, air line losses and maintenance costs for the main pipelines will be significantly reduced in 2009.

A recalculation of reserves for the Upper Ore Body with a change of the cut-off grade from 2 g/t to 1 g/t will increase the tonnage capacity of the open pit. In 2008 overburden stripping started at the Flank Ore Body which is scheduled for development in 2009.

The process plant treated 1,039,977 tonnes of ore which constitutes an increase of 6.43 % compared to 2007 with an average recovery rate of 88.1%. In Q3 2008 the process plant was supplemented by a separate gravitational recovery circuit with the subsequent cyanidation of gravity concentrates. This facilitated the treatment of a greater amount of refractory ore and maintained a stable throughput recovery figure. In 2008 a third heavy-duty thickener for the process plant was contracted and designed. The installation of this thickener in 2009 will allow us to increase the throughput gold recovery and also facilitate the upgrading of the two existing thickeners.

We continued to upgrade our fleet of equipment for our open pit and underground operations whilst increasing the efficiency of its use and improving the procurement process as a whole.

MNV Operations summary

Mnogovershinnoye		**6 months ended 30 June**		**6 months ended 31 December**		**12 months ended 31 December**	
Measurment unit		2008	2007	2008	2007	2008	2007
Stoping Development							
Stripping	m3	1 293 831	867 000	1 055 964	1 119 000	2 349 795	1 986 000
Underground	metres	4 752	4 740	4 607	5 059	9 359	9 799
Mining							
Open pit	tonnes	312 258	141 086	323 597	344 061	635 855	485 147
	g/t	5.0	5.74	6.4	7.25	5.70	6.81
Underground	tonnes	179 821	261 189	221 175	339 250	400 996	600 439
	g/t	4.6	4.79	4.6	3.68	4.60	4.16
Total Ore Mined							
	tonnes	492 079	402 275	544 772	683 311	1 036 851	1 085 586
	g/t	5.0	5.12	5.6	5.48	5.3	5.35
Ore Processing							
	tones	484 092	381 201	555 885	595 938	1 039 977	977 139
Average grade	g/t	5.0	5.2	5.7	5.77	5.4	5.54
Recovery	%	88.1	91.26	88.1	88.91	88.1	89.84
Gold Production	ounces	68 813	58 196	90 002	98 294	158 885	156 474
Gold Sales	ounces	81 036	62 643	83 180	86 768	164 216	149 411

Production costs

Cash operating costs in 2008 were US$502 per ounce (2007 restated: US$421), total cash costs were US$560 per ounce (2007 restated: US$469) and total production costs were US$642 per ounce (2007 restated: US$545). Increased unit costs were predominantly associated with higher prices for fuels and lubricants, energy, materials, metal products and labor costs and were affected by higher royalties due to the stronger gold price.

Capital Costs

During 2008, the Company invested US$13.0 million at Mnogovershinnoye. This included US$6.0 million for the purchase of additional production equipment, US$6.3 million on construction work at the site and US$0.7 million for design and engineering.

Outlook

It is anticipated that gold production for the mine in 2009 will be in the range of 155,000 - 165,000 oz.

DEVELOPMENT PROJECTS

NOVOSHIROKINSKOYE, Zabaikalsky region

During 2008 most of the construction works for production and infrastructure facilities necessary for the commissioning of the mine were completed together with the planned mine development. In total 80,000 tonnes of ore were stored as a stockpile. In December 2008, due to the dramatic fall in the zinc and lead prices it was decided to postpone the commissioning of the mine.

In compliance with licence terms the Novoshirokinskoye mine is to begin operations in October 2009 and in the case of a further delay management shall consider obtaining a licence extension.

On 1 January 2009, in accordance with the Shareholders Agreement, the operational management of the mine was taken over by Kazzinc, our partner for the project.

Micromine Consulting has completed a reserves reconciliation for the Novoshirokinskoye mine according to JORC standards.

Capital Costs

We invested US$30.3 million at Novoshirokinskoye in 2008 representing our 50% share. This comprised US$12.4 million of development operating costs (salaries, electricity, fuel, safety and overheads), US$0.3 million spent on design and engineering and US$0.1 million on the drilling programme, US$13.2 million spent on construction and US$4.3 million on the purchase of production equipment.

Mayskoye, Chukotka region

Various technical solutions for the project were analysed based on a detailed review and new data after the audit of reserves completed by Micromine Consulting. Following this it was decided that under present market conditions it will be difficult to secure the necessary funding to develop the project and it has subsequently been sold in April 2009.

Capital Costs

In 2008 we invested US$85.9 million at Mayskoye. This comprised US$29.2 million of development operating costs (salaries, electricity, fuel, safety and overheads), US$13.4 million spent on design and engineering and US$2.5 million on the drilling programme, US$19.6 million spent on construction and US$21.2 million on the purchase of production equipment.

It was acquired in 2003 for a total consideration of US$34.9 million. During the period from acquisition to date of sale , the Company's investment expenditures on the project have totaled US$179.7 million.

Taseevskoye, Zabailkalsky region

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 licence agreement milestones have been adjusted accordingly.

The cut-off grade study for ore is currently under review with the State Reserves Committee (GKZ). The cut-off grade study for the ZIF-1 tailings was reviewed in March 2009 by the Chita territorial branch of GKZ which approved the provisional cut-off grades and reserves for this industrial deposit. A permit for semi-industrial stoping (with annual production capacity up to 1.5 million tonnes of ore) to confirm the heap leaching recovery technology has been received.

Works on preparation of the feasibility study are in progress. The entire 2008 programme for metallurgical testing has been completed.

Capital Costs

We invested US$7.2 million at Taseevskoye in 2008. This comprised US$5.3 million of development operating costs (salaries, electricity, fuel, safety and overheads), US$0.9 million spent on design and engineering and US$0.1 million on the drilling programme, US$0.6 million spent on construction and US$0.3 million on the purchase of production equipment.

EXPLORATION

In 2008 we intensified our commitment to exploration and spent more than US$9.7 million on our exploration projects representing an increase of 29 % from 2007. Overall the work spent on our exploration projects during the year yielded encouraging results corroborating our confidence in the development potential of these projects. Highlights of the work done at the projects are listed below.

BELAYA GORA, Khabarovsk region

In compliance with the licence schedule we successfully completed in 2008 all necessary technical work for the Russian pre-feasibility study including 7,500 metres of resource definition drilling at the Stockwork target and hydrogeological and geotechnical test work at both the Pologaya and Stockwork targets. We continued to obtain positive assay results confirming our geological model for a substantial open-pit mineable gold resource. We received final metallurgical test work results for two 300 kg samples which underline the excellent properties of the Belaya Gora ore indicating better than 87% (Pologaya) and 85% (Stockwork) gold recoveries by gravitational processing. By the end of 2008 a reserve calculation and cut-off grade study were submitted to the State Committee on Reserves (GKZ) for review. Based on an ore grade range of 2.0 to 4.6 g/t our calculated reserves in the C1+C2 Russian reserve category range from 27.1 to 33.7 tonnes of gold. We expect to register a figure within that range with GKZ during Q2 2009.

In 2009 we will explore in detail the operational synergies with our nearby Mnogovershinnoye mine in order to maximise the economic feasibility of the future Belaya Gora mine.

LYUBOV, Zabaikalsky region

Continuing our exploration work of 2007 we concentrated on two targets, the Evgraf zone within the Lyubov gold trend in the south, and the Khaverga ore field in the north of the licence area. At the Evgraf zone we completed 9,350 metres of resource definition drilling which targeted stockwork-type gold mineralisation hosted within the Evgraf granite stock and its surrounding shales. Overall positive drilling results from our 2008 programme combined with previous exploration data substantiate a geological resource potential for a gold deposit at Evgraf holding 29 million tonnes of ore at 1.45 g/t. In addition, initial metallurgical testwork which we completed on a 300 kg composite ore sample from Evgraf also indicates favourable ore properties with a better than 80% gold recovery by gravitation.

At the Khaverga ore field we completed 1,500 metres of trenching and sampling across the most prospective sections of a mineralised dyke swarm which coincides with a wide gold anomaly identified during the 2007 exploration programme. Sampling results indicate the presence of non-economic gold mineralisation which does not warrant further exploration work in the Khaverga area.

Apart from additional analytical work, reporting to regulatory authorities will represent a major component of the exploration programme for the Lyubov project in 2009 as prescribed by the license. A report on exploration results to date will be prepared including a calculation of a P1+C2 resource. Likewise, a new "Project" outlining our future exploration programme at Lyubov will be compiled and submitted for approval to the regulatory authorities by the end of 2009.

UNKURTASH, Kyrgyzstan

In 2008 exploration work at the Unkurtash project included work at three adjoining prospects which together form an elongated gold mineralised belt more than 4,000 metres long and 250-500 metres wide with a vertical extent of at least 350 metres. The Unkurtash and Sarytube prospects host the bulk of the gold mineralisation which grades on average between 1.5 - 1.8 g/t and occurs within parallel zones of steeply dipping stockworks in granitic rocks, whereas the skarn-type Karatube prospect hosts higher-grade gold mineralisation in the 3 - 4 g/t range.

In 2008 we completed 5,200 metres of RC drilling for resource definition at the main Unkurtash prospect, and 3,200 metres of diamond test drilling at the Karatube prospect. Positive assay results to date have corroborated our previous model that the combined potential in all three prospects amounts to no less than 100 tonnes of gold but the mineralised areas remain in large parts still unconstrained.

An additional 6,000 metres of RC drilling for resource definition (C1+C2+P1) and 2,000 metres of diamond drilling has been planned for the 2009 exploration season which is expected to further substantiate our resource model and at the same time should reveal additional resource potential.

MNOGOVERSHINNOYE, Khabarovsk region.

Our near-mine exploration programme at Mnogovershinnoye in 2008 was directed at discovering additional resources for underground and open-pit operations and included more than 4,000 metres of diamond drilling in addition to trenching and a geophysical survey. Exploration drilling peripheral to the current open-pit successfully intercepted substantial ore-grade gold mineralisation, confirming good potential for additional open pit reserves. At the Valunistoye prospect our re-evaluation of previous drilling results from 32 holes defined an elongated 16 metre wide ore body grading 5.0 g/t which holds the potential for an additional 130,000 ounces of open-pit mineable reserves grading between 3.0-7.0 g/t, thus doubling the originally defined gold reserves at Valunistoye.

In order to fully exploit the mineral potential of the Mnogovershinnoye deposit our near-mine exploration efforts will continue to be an integral part of the mining operations.

ISKA, Khabarovsk Region

Iska features strong geological similarities with Belaya Gora and several occurrences of previously known gold prospects underline the good potential of this grass roots exploration property. In 2008 we completed an initial reconnaissance exploration programme which included stream sampling across the entire license area and geophysical and geochemical surveys with more than 2000 samples taken. Results received to date define several local gold anomalies in the 20 - 50 ppb range.

Final analytical data is to be received in early 2009 and will be used to identify targets and draw up a programme for future follow-up exploration which will include trenching and drilling.

MAYA & INIKAN, Khabarovsk region.

In 2008 we completed a geochemical soil-sampling survey with the collection of 2,150 samples with the objective of testing a pronounced gold anomaly which we identified in the course of our grass root exploration programme in 2006/2007. The results from the follow-up work in 2008 could not corroborate the good potential identified earlier but substantiated only a minor gold anomaly not indicating a gold deposit of significant size. Further exploration at the property is therefore not warranted and the property license is being returned to the state.

SOVINOYE, Chukotka region.

During the second half of 2008 we received and evaluated final assay results from a 2,800 metre drilling programme and 1,900 metre trenching programme which had been completed in 2007 and tested a 1.2 sq km gold-mineralised zone within the hinge region of a large fold.

Though the drilling results did indeed confirm the presence of a gold-mineralised system the overall low grade and poor continuity of the gold mineralisation do not support a gold deposit of significant economic interest. Further exploration at the property is therefore not warranted and the property license has been returned to the state.

EXPLORATION OUTLOOK

The 2009 exploration programme draws on the results from our previous work at our various projects and is in line with the Company's prioritisation strategy and prudent approach to expenditure. At the Unkurtash project in Kyrgyzstan, now our most promising exploration asset, 8,000 metres of resource-definition drilling in 2009 should further validate the multi-million ounce potential of this project. At Belaya Gora we are going to register a reserve with the State Balance while at Lyubov the focus will be on resource modelling for the Evgraf target and design of a new "Project" in order to further substantiate a significant resource potential. We will continue investigating several ore zones at MNV with the objective of finding additional open-pit resources.

CONCLUSION

Despite the difficult market conditions experienced in 2008, we preserved our strong cash position by slowing down development work while at the same time ensuring that our operating mine was producing on target and with increased efficiency. We have also strengthened our operational team with key new appointments. We feel strongly that the measures taken by the Company stand us in good stead to be more flexible and more reactive to markets. I would like to take this opportunity to thank the Board, my management team and all our employees for their dedication and hard work in a very challenging year.

CHIEF FINANCIAL OFFICER'S REVIEW

Highland Gold was not immune to the effects of the economic turmoil in 2008. It suffered a net loss after tax of US$226.3 million in 2008 compared to a net profit of US$17.5 million (restated) for the prior year. The main reasons for this were an impairment loss at Novoshirokinskoye which amounted to US$79.5 million, an impairment loss at Mayskoye which amounted to US$100.3 million and a foreign exchange loss of US$74.9 million (2007: US$0.8 million) predominately associated with the impact of the depreciation of the sterling against the US dollar on our sterling deposits.

The impairment charge was recorded to reflect the Board's revised valuation of the Novoshirokinskoye mine. In H2 2008 most of the preparatory works for the commissioning of the mine were completed. However, due to the dramatic fall in world metal prices and specifically lead and zinc, it was decided to postpone the commissioning. This led to the Board's decision that an impairment was required in order to correctly adjust the value of the Novoshirokinskoye mine. In addition the net realisable value test at Novoshirokinskoye indicated the loss of value of the Novoshirokinskoye work in progress balance which has been recognised in the amount of US$1.7 million representing the 48.3% of Highland Gold's share in Novoshirokinskoye.

On 28 April 2009, the Group signed a sale agreement with a group of Russian companies, one of which is JSC Polymetal for the sale of the Mayskoye development project for a cash consideration of US$105 million. This will help the Company to pursue its growth strategy of investing in early production assets, strategic exploration in Russia and CIS countries and utilising cash resources in developing its other assets. The impairment charge associated with Mayskoye in the amount of US$107.9 million (US$100.3 million after tax) was recorded to reflect the decrease of the recoverable amount estimated as a fair value.

The increase in foreign exchange losses was due to the considerable devaluation of the Russian Rouble by 19.7% in 2008 (2007: strengthening by 6.8%) and of the pound sterling by 37.9% (2007: strengthening by 2.0%). US$64.5 million of the total foreign exchange loss was attributable to the movement and translation of sterling denominated deposits.

Turnover for the Group in 2008 was US$150.4 million compared to US$112.1 million in the prior year. The increase was due to our "no hedge" policy which allowed the Group to fully participate in stronger gold prices and also higher production at MNV as a result of various mine initiatives implemented in 2007. The average price per ounce of gold sold was US$870 which represents a 22.9% increase compared to 2007.

The Group's costs of sales increased by 35.7%, or US$27.6 million compared to the prior year. Cash operating costs per ounce at MNV rose by 19.2% to US$502 in 2008 (2007-restated: US$421 per ounce). Increased unit costs were predominantly associated with higher prices for fuels and lubricants, energy, materials, metal products and labour costs.

These costs were affected by higher royalties due to the stronger gold price and in combination this increased our total cash costs to US$560 per ounce (2007-restated: US$469 per ounce). Total production costs were US$642 per ounce compared to US$545 per ounce (restated) in 2007.

Administrative costs increased by US$1.7 million from US$16.4 million to US$18.1 million due to the recognition of the prepayments allowance charge at Mayskoye.

In 2008 after obtaining negative drilling results, the capitalised costs related to the exploration projects Sovinoye (US$3.9 million) and Maya-Inikan (US$1.4 million) have been written off to the income statement. The written off exploration expenses associated with the Vozdvizhenskoye and Malo-Fedorovskoye licenses were US$0.8 million in 2007.

The income tax credit was US$5 million compared to the tax expense in the prior period of US$4.7 million (restated). The tax credit consists of US$6.8 million of current tax expenses (US$5.3 million current income tax charge at MNV, US$0.8 million at RDM, US$0.1 million at RDM Logistics and $0.6 million at Stanmix Investment), US$3.7 million of a tax credit as a reversal of a tax provision in the prior period and of US$8.1 million as a deferred tax credit.

The entities of the Group at the development or exploration stage suffered a tax loss during the period. These tax losses cannot be 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$1.7 million (2007-restated: US$7.1 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.

The Group's cash inflow from operating activities in 2008 was US$23.4 million compared to an outflow of US$24.9 million in 2007. The cash flow contribution was a result of higher revenues from gold sales, decreases in inventories, trade receivables and an increase in trade and other payables.

Highland Gold continued to advance its development project pipeline having invested US$146.1 million in capital expenditures (2007-restated: US$73.9 million) comprising US$85.9 million at Mayskoye, US$30.3 million at Novoshirokinskoye and US$7.2 million at Taseevskoye. In addition to our development project pipeline, the Group invested US$13.0 million at MNV and US$9.7 million in advancing the Company's exploration projects and other Group entities.

The Second Subscription with Millhouse LLC was completed on 15 January, 2008. As a result 65,050,000 shares were issued to Primerod International Limited, a subsidiary of Millhouse LLC, for a consideration of US$192.5 million. In total the aggregate proceeds of the Millhouse LLC subscription amounted to US$392.7 million. These proceeds formed an essential component of Highland Gold's funding, allowing the Company to go forward with its development programme and reducing its reliance on debt financing.

The net financing cash inflows were US$148.5 million in 2008. The main triggers were the receipt of US$192.5 million as a result of the Second Subscription with Millhouse LLC having been netted off with the share issue costs paid in 2008 in the amount of US$9.4 million, the drawdown of bank loans with Gazprombank for US$15 million and MDM bank for US$20 million; bank overdrafts for US$9.3 million and the receipt from Kazzinc of US$14.2 million as Highland Gold's share of 48.3% in the Novoshirokinskoye project. Financing cash outflows represented US$79.5 million of bank loans repayments, interest and lease payments of US$11.5 million and US$2.1 million.

Cash and short term deposits at 31 December, 2008 were US$173.1 million versus US$211.3 million at 31 December, 2007 while the net cash position of the Group totaled US$18.9 million versus US$34.9 million at 31 December, 2007. The net cash of the Group includes cash at bank, bank borrowings, 48.3% in Novoshirokinskoye receipt from Kazzinc and long term finance lease liabilities. The negative change of US$16.0 million in net cash was caused by the decrease in cash balances which amounted to US$38.2 million and a reduction in loan liabilities by US$22.2 million.

In 2008 the Group completed an early repayment of a loan received from Gazprombank in 2006 in the amount of US$15 million and fully repaid corporate bonds in the amount of US$30.6 million. In H2 2008 the Group also completed the debt restructuring by raising US$35 million of long term debt facilities, including a US$20 million facility with MDM Bank and a US$15 million facility with Gazprombank.

After the year end, in March 2009 the Group received a new long term loan from UnicreditBank in the amount of US$10 million. The early refinancing of the Gazprombank facility and repayment of the corporate bond will see the effective maturity profile of all of Highland Gold's facilities extended to late 2010 and 2011. This debt restructuring was a key element of Highland Gold's capital management plan and aligns the company's debt maturities with its business plans. The new facilities reduce Highland Gold's cost of debt and provide greater flexibility which is better suited to a growth focused company. Additionally, this will allow the Company to reclassify these debt facilities as long term borrowings in future regulatory accounting filings.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

	2008	2007 (restated)
	US$000	US$000

Continuing operations		
Revenue	150,449	112,100
Cost of sales	(104,931)	(77,328)
Gross profit	45,518	34,772
Administrative expenses	(18,051)	(16,391)
Other income	1,306	275
Other expenses	(14,905)	(1,526)
Impairment charge	(187,366)	-
Operating (loss)/profit	(173,498)	17,130
Foreign exchange loss	(74,863)	(778)
Finance revenue	18,116	1,350
Finance costs	(1,018)	(1,432)
(Loss)/profit before income tax	(231,263)	16,270
Income tax expense	5,009	(4,703)
(Loss)/profit for the year from continuing operations	(226,254)	11,567
Discontinued operation		
Profit after tax for the year from a discontinued operation	-	5,883
(LOSS)/PROFIT FOR THE YEAR attributable to equity holders of the parent	(226,254)	17,450
s)/earnings per share (US$ per share)		
Basic, for the (loss)/profit for the year attributable to ordinary equity holders of the parent	(0.701)	0.088
Diluted, for the (loss)/profit for the year attributable to ordinary equity holders of the parent		
(Loss)/earnings per share for continuing operations (US$ per share)	(0.701)	0.086
Basic, for the (loss)/profit from continuing operations attributable to ordinary equity holders of the parent		
Diluted, for the (loss)/profit from continuing operations attributable to ordinary equity holders of the parent		

	(0.701)	0.058
	(0.701)	0.057

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

	2008	2007 (restated)
	US$'000	US$'000
Non-current assets		
Exploration and evaluation assets	27,806	23,077
Mine properties	115,533	206,063
Property, plant and equipment	123,812	78,487
Intangible assets	65,231	65,231
Financial assets	33,749	11,010
Other non-current assets	1,852	4,579
Total non-current assets	367,983	388,447
Current assets		
Inventories	61,466	52,706

Trade and other receivables	35,969	35,034
Income tax prepaid	889	421
Prepayments	4,451	5,391
Cash and cash equivalents	173,062	211,275
Total current assets	275,837	304,827
Total assets	643,820	693,274
Equity attributable to equity holders of the parent		
Issued capital	585	458
Share premium	718,370	525,465
Shares to be issued	-	510
Assets revaluation reserve	832	790
Accumulated losses	(299,743)	(72,612)
Total equity	420,044	454,611
Non-current liabilities		
Interest-bearing loans and borrowings	104,493	104,454
Long-term interest payable	3,216	-
Provisions	9,278	7,437
Deferred income tax liability	12,405	20,557
Total non-current liabilities	129,392	132,448
Current liabilities		
Trade and other payables	41,955	25,741
Interest-bearing loans and borrowings	49,698	71,968
Income tax payable	624	6,334
Provisions	2,107	2,172
Total current liabilities	94,384	106,215
Total liabilities	223,776	238,663
Total equity and liabilities	643,820	693,274

The financial statements were approved by the Board of Directors on 28 April 2009.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	2008	***2007 (restated)***
	US$'000	US$'000
Operating activities	(231,263)	16,270
(Loss)/profit before tax from continuing operations		
Profit before tax from discontinued operations	-	5,883
	(231,263)	22,153
Adjustments to reconcile (loss)/profit before tax to net cash flows from operating activities:		
Depreciation of property, plant and equipment	13,930	11,753
Impairment of assets	187,366	-
Inventory write-down	1,662	-
Loss on disposal of property, plant and equipment	140	343
Exploration costs write-off	5,314	812
Share-based payments (credit)/expense	(1,030)	1,135
Interest income	(18,116)	(1,350)
Interest expense	1,018	1,432
Net foreign exchange loss	74,863	778
Movement in provisions	6,181	(6,732)
Gain on disposal of Darasun	-	(16,258)
Accounts payable write-off	(890)	-
Working capital adjustments:		
Increase in trade and other receivables and prepayments	(19,850)	(20,302)

Increase in inventories	(10,991)	(19,319)
Increase in trade and other payables	23,076	4,368
Decrease/(Increase) in deferred stripping costs	2,201	(394)
Income tax paid	(10,216)	(3,273)
Net cash flows from/(used in) operating activities	23,395	(24,854)
Investing activities		
Proceeds from sale of property, plant and equipment	122	-
Purchase of property, plant and equipment	(146,122)	(73,947)
Net proceeds received from Darasun disposal	5,000	9,868
Loans given to jointly controlled entity	(19,296)	(10,464)
Interest received	14,699	924
Net cash flows used in investing activities	(145,597)	(73,619)
Financing activities		
Issue of ordinary shares	192,522	200,184
Share issue costs	(9,386)	(3,204)
Proceeds from borrowings	44,193	136,809
Repayment of borrowings	(79,492)	(52,859)
Interest paid	(11,492)	(12,337)
Receipts from Kazzinc to finance joint venture	14,227	12,418
Lease payments	(2,075)	(2,839)
Net cash flows from financing activities	148,497	278,172
Net increase in cash and cash equivalents	26,295	179,699
Effects of exchange rate changes	(64,508)	-
Cash and cash equivalents at 1 January	211,275	31,576
Cash and cash equivalents at 31 December	173,062	211,275

Selected Accounting Policies and Notes to the Financial Statements.

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. The consolidated financial statements are presented in United States dollars and all values are rounded to the nearest thousand (US$'000) except when otherwise indicated.

The accounting policies adopted in the preparation of the financial information are consistent with those applied to the year ended 31 December 2007 except for the adoption of new and amended standards. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group.

Statement of compliance

The consolidated financial statements of Highland Gold Mining Limited and all its subsidiaries (the "Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Companies (Jersey) Law 1991 as applicable to the year ended 31 December 2008.

Basis of consolidation

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2008. The financial information for the years ended 31 December 2008 and 2007 have been extracted from the consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2008 which have been approved by the directors on 28 April 2009. The financial statements are produced in accordance with International Financial Reporting Standards, as adopted by the European Union ("EU"). The auditor's report on those financial statements was unqualified.

Statutory accounts for 2008 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Comparative financial information

The comparative financial information presented, which has been extracted from the audited 31 December 2008 financial statements differs to those figures presented in the 31 December 2007 financial statements due to the correction of certain prior year errors.

The net effect of these errors, which are set out in note 6 of the 31 December 2008 financial statements was to:

- Decrease the reported profit for the year ended 31 December 2007 from US$12,216,000 to US$11,567,000;
- Decrease total asset at 31 December 2007 from US$698,904,000 to US$693,274,000; and
- Decrease total equity from US$458,668,000 to US$454,611,000.
- Decrease total liabilities from US$240,236,000 to US$238,663,000.
- Basic and diluted earnings per share decreased from US$0.091 and US$0.089 respectively, to US$0.088 and US$0.086 respectively.

Impairment testing of non-current assets

- Novo impairment

Total impairment charges of US$79.5 million were recognised in respect of Novoshirokinskoye joint venture.

The trigger for the impairment test was primarily the effect of the dramatic downfall of metal prices (zinc and lead).

In assessing whether an impairment is required to the carrying value of an asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value in use. The Group generally estimates value in use using a discounted cash flow model. The calculation of value in use is most sensitive to the following assumptions:

- Production volumes;
- Discount rates;
- Metal prices; and
- Operating costs.

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

The Group generally estimates value in use using a discounted cash flow model. The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 10.75% (2007: 10%) for USD denominated cash flows and 14.63% (2007: 10%) for Rouble denominated cash flows. This discount rate is derived from the Group's weighted average cost of capital.

- Mayskoye impairment

In 2008 the Group's management reviewed the overall characteristics of Mayskoye in detail and came to the conclusion that it would be very difficult to obtain funding of the project under the current market conditions. Therefore, it was decided to start negotiations with a potential purchaser of Mayskoye.

Under IAS 36 Impairment of Assets, if the recoverable amount of an asset is less than its carrying amount, the carrying amount shall be reduced to its recoverable amount. As it was decided to sell Mayskoye, its recoverable amount shall equal its fair value less costs for sale. Total impairment charges of US$107.9 million were recognised in respect of Mayskoye.

Exploration licenses write-off

During 2008, following the receipt of unsuccessful drilling results, the capitalised costs related to the Sovinoye (US$3.9 million) and Maya-Inikan (US$1.4 million) licenses have been written-off to the income statement. The written-off exploration expenses associated with the Vozdvizhenskoye and Malo-Fedorovskoye licenses were US$0.8 million in 2007.

Foreign exchange loss

The total amount of foreign exchange losses for the year ended 31 December 2008 was US$74.9 million (2007: US$0.8 million) resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies such as Russian Roubles and pounds into the functional currency. The increase of foreign exchange losses was affected by the considerable devaluation of Russian Rouble for 19.7% in 2008 (2007: strengthening for 6.8%) and of pound for 37.9% (2007: strengthening for 2.0%). US$64.5 million of the total foreign exchange loss was attributable to the movement and translation of pound-denominated deposits.

Taxation

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by Russian statutory tax rate (24%) for the years ended 31 December 2008 and 2007 is as follows:

	2008	2007
		(restated)
Accounting (loss)/profit before tax from continuing operations	(231,263)	16,270
Profit before tax from a discontinued operation	-	5,883
Accounting (loss)/profit before income tax	(231,263)	22,153
At Russian statutory income tax rate of 24%	(55,503)	5,317
Change in tax rate	(2,481)	-
Non-deductible expenses	7,521	2,183
Losses arising from the Novo impairment	19,072	-
Losses arising from the Mayskoye impairment	17,997	-
Lower tax rates on overseas earnings and disposals	9,917	(8,578)
Unrecognised losses	1,700	7,064
Movements in other unrecognised temporary differences	509	511
Adjustments in respect of prior year current tax	(3,741)	(1,794)
Income tax (benefit)/expense on continuing operations	(5,009)	4,703
Income tax (benefit)/expense reported in the consolidated income statement	(5,009)	4,703
Income tax attributable to a discontinued operation	-	-
Income tax (benefit)/charge in the income statement	(5,009)	4,703

Events after the balance sheet date

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

The Board of Highland Gold Mining Limited ("Highland Gold", or the "Company") has agreed to sell the issued share capital of its subsidiary Zolotrudnaya Kompaniya Mayskoye Limited Liability Company which owns the asset for a cash consideration of US$105 million to a group of Russian companies, one of which is JSC Polymetal. The transaction was completed on 28 April 2009.