HIGHLAND GOLD MINING Ltd.

24 April 2012 – Highland Gold Mining Limited ("Highland Gold", the "Company" or the "Group" AIM: HGM) announces its final audited results for the year ended 31 December 2011.

FINANCIAL HIGHLIGHTS

IFRS, US$000 (unless stated)	**2011**	2010
Production (gold and gold eq.oz)	**184,102**	200,028
Group total cash costs (US$/oz)	**594**	513
Revenue	**300,181**	243,629
Gross profit	**154,495**	119,365
EBITDA	**157,118**	121,271
Earnings per share (US$)	**0.319**	0.376
Net cash inflow from operations	**116,930**	97,080
Capital expenditure	**65,611**	39,404
Cash and short term investments	**126,746**	222,470

Duncan Baxter, Chairman of Highland Gold Mining, commented:

"I am delighted to report that Group revenues, benefiting from higher realisations on gold sales, rose by 23.2% to more than US$300 million in 2011 accompanied by a near 30% increase in EBITDA to US$157.1 million. The US$110 million acquisition of a further 48.3% interest in the Novo mine completed at the end of the period represents a significant expansion of our production capability, while the strength of our balance sheet, which showed cash and short term investments of US$126.7 million at the year-end, leaves us well positioned to pursue our production growth objectives. We continue to anticipate an increase in output to between 200,000 - 215,000 oz of gold and gold equivalents in 2012."

2011 KEY EVENTS

- Total production of gold and gold equivalents amounted to 184,102 oz (2010: 200,028 oz) derived from MNV, Novo (48.3%) and Belaya Gora
- 29.6% increase in EBITDA to US$157.1 million (2010: US$121.3 million) reflecting higher realisations on gold sales
- Total Cash costs of US$594 per ounce remain highly competitive versus peer group (2010: US$513 per ounce)
- Interest in Novo doubled to 96.6% following US$110 million acquisition of Kazzinc's 48.3% holding thereby substantially increasing production capacity
- Onset of construction of the second phase of the stand-alone processing plant at Belaya Gora directly supervised by enhanced new projects development and construction team
- 190% (JORC compliant) increase in MNV's proven and probable reserves versus 31 December 2010
- More than 75,000 metres of drilling completed at exploration projects

- Pre-feasibility study of Lyubov project submitted to Russian regulatory authorities
- Drilling results at Blagodatnoye project indicate significant resource potential
- Interim dividend of 5 pence per share (2.5 pence special; 2.5 pence ordinary) paid in October
- Strong debt free balance sheet. Cash and cash equivalents totalled US$126.7 million as of 31 December 2011 (2010: US$222.5 million).

POST YEAR EVENTS

- The Company's JORC compliant resource base increased by 41% to 11.11 Moz (2010: 7.88 Moz) due to the initial independent audit at the Unkurtash project early in 2012 and last year's Novo transaction and resource audit update at MNV
- Completion of audit at Sarytube prospect expected to yield additional 1 Moz of resource in H1 2012

2012 TARGETS

- MNV – maintain stable production at flagship mine in parallel with ongoing surface drilling programme with the aim of extending open pit mining operations
- Novo – leverage 96.6% ownership by raising annual throughput to an estimated 450,000 tonnes in 2012 with 550,000 tonnes targeted for 2013
- Belaya Gora – progress construction of second phase of the stand-alone processing facility with commissioning scheduled for Q4 2012
- Unkurtash – continue with exploration programme in order to drive development of potential world class deposit
- Taseevskoye – conclude drilling, sampling and testwork necessary for a decision on advancing to a definitive feasibility study
- Lyubov – obtain Russian GKZ registration for submitted reserve base, followed by an independent JORC compliant audit
- Blagodatnoye – advance exploration programme to substantiate resource potential
- Vigilant deployment of internationally comparable best practice health, safety and environmental standards Group wide

CONFERENCE DETAILS

The Company will hold two conference calls on Tuesday, 24 April 2012 hosted by Valery Oyf, CEO to discuss the final results. The conference calls will take place at 08.00 UK time (11.00 Moscow) and 16.00 UK time (11.00 am EST) to allow participation from the Company's global shareholder base. The dial-in information for each conference call is set out below:

08.00 UK time (11.00 Moscow)
Telephone number: +44 (0) 1452 580 111
Conference ID: 74563302

16.00 UK time (11.00 am EST)
Telephone number: +44 (0) 1452 555 566
Conference ID: 74566136

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The Annual General meeting will be held on 14 June 2012

www.highlandgold.com

CHAIRMAN'S STATEMENT

Creating the platform for ongoing growth

It gives me great pleasure to report to you on a year which, while not without its challenges, witnessed a significant expansion of your Company's asset base in line with management's declared objective of pursuing a dual organic and acquisitive growth strategy.

Such expansion is designed to underwrite our output potential in both the short and medium term and is well illustrated by our year end completion of a doubling of our interest in the Novoshirokinskoye (Novo) mine to 96.6% following the acquisition of a 48.3% interest in Novo-Shirokinsky Rudnik, the owner of the mine, from our joint venture partner LLP Kazzinc. This transaction, financed entirely through the Company's cash reserves, involved a total consideration of US$110 million which comprised US$47.5 million in respect of the equity and US$62.5 million in respect of the repayment of Kazzinc's share of intercompany debt.

Novo is an efficient and profitable operation which represents a 'known quantity' to management and your Board is pleased to have taken the opportunity, against a favourable market background in relation to base and precious metals, to enhance a major asset through a transaction which will have an immediate and positive impact on our annual production capability and the scale of our reserves.

The improved output at Novo in 2011 is covered in detail by Valery Oyf, our Chief Executive, in his Operational Review and serves to underline one of the principal aims of this investment, namely stability of production. Some 450,000 tonnes of ore are expected to be mined and processed at Novo in 2012 and we are looking to optimise throughput at 550,000 tonnes per annum in 2013 and beyond.

With an eye to organic growth, 2011 also saw the onset of construction of the second phase of the stand-alone processing plant at the Belaya Gora complex in the Khabarovsk region. Notwithstanding an initial delay, relating to the receipt of final approval from government authorities (now awarded), commissioning of the plant is still scheduled for the fourth quarter of 2012 and management remains committed to achieving this target.

An in-house review of site grade control procedures was rewarded with improved ore quality at Belaya Gora where the trucking of select ore to our nearby Mnogovershinnoye (MNV) mine for processing will continue in the first half of 2012.

I have highlighted the Novo and Belaya Gora developments because both projects, seen alongside our principal MNV mine, are integral to the establishment of an enlarged production base: the requisite platform for the significant growth in output envisaged over the ensuing years.

One of the highlights, in this context, was the outcome of an independent Joint Ore Reserves Committee (JORC) compliant audit at MNV, carried out between June 2010 and July 2011, which confirmed a 190% increase in the project's proven and probable reserves to 622,000 oz: an evaluation that effectively endorses a robust reserve base throughout the life of the asset.

The completion of a major exploration schedule at our Unkurtash project in Kyrgyzstan contributed a further JORC compliant resource of 1.84 million ounces to our portfolio, while an additional one million ounces of resource is anticipated from a third prospect within the project licence.

I should emphasise that the results at Unkurtash indicate a potentially world class gold deposit and one of management's key tasks in 2012 will be to extend our exploration activity in order to maximise the project's full possibilities.

At Lyubov, our emerging development project in the Zabaikalsky region, exploration data has been submitted for approval to the Russian regulatory authorities and a JORC compliant resource audit is scheduled for H2 2012.

Positive exploration drilling results were also received from Blagodatnoye, in the Khabarovsk region, while our study of the Taseevskoye project, in the Zabaikalsky region will continue in 2012 as we seek to obtain fully representative samples and confirm ore block characteristics.

The net effect of the respective audits at MNV and Unkurtash, together with the Novo transaction, ultimately translated into a JORC compliant 41% increase in your Company's resources accompanied by a 54% increase in reserves during the year.

In 2011 the Company produced 184,102 ounces of gold and gold equivalents. This figure fell below our revised forecast of 190,000-200,000 ounces, a shortfall that reflected first quarter weather related production delays at MNV combined with lower than targeted ore grades in Q4. Our forecast production range for 2012 is 200,000-215,000 ounces.

The Company continues to pursue its M&A programme following the successful acquisition of the majority interest in Novo. Several opportunities are currently being assessed and are at various stages of evaluation and in some cases financial information has been received allowing the Company to form an initial view on possible value. In no case is the Company in exclusive discussions and any potential transaction will require detailed due diligence before agreement can be reached.

I am delighted to report that the revenues of your Company rose by 23.2% to more than US$300 million: an achievement that reflected the strength of the gold price and, in turn, higher realisations on sales. A 'no hedge' policy enabled us to take full advantage of favourable market conditions. In line with this, EBITDA advanced by almost 30% to US$157.1 million in 2011 as against US$121.3 million in 2010. As a result, our EBITDA margin, defined as EBITDA divided by total revenue, registered a year-on-year advance from 49.8% to 52.3%.

Various factors, including a second half decrease in the average gold grade delivered for processing at MNV and Novo and inflationary pressures in relation to the costs of materials, labour and services, raised total Group cash costs to US$594 per oz in 2011 against a comparable US$513 per oz in 2010. Shareholders should note, however, that at a figure of under US$600 per oz, our cash costs remain highly competitive in the context of peer group comparison.

The Company's balance sheet is ungeared, and notwithstanding an initial consideration of US$110 million in respect of the Novo transaction, a US$65.6 Capex spend and the US$25.7 million funding of our interim dividend, all of which were met through existing cash balances and net cash flow, showed cash and short term investments and deposits of US$126.7 million as at 31 December 2011. Our strong cash position, allied to efficient production disciplines, leaves us well placed to progress our development projects towards production, extend our exploration targets and continue to review our M&A options.

Whilst an interim dividend was paid in October 2011, the Board has taken into account the Company's project pipeline capital expenditure for 2012 and the purchase of a further 48.3% interest in Novo at the end of 2011 and therefore does not recommend the payment of a final dividend.

The health and safety of our employees is of paramount importance and your Company remains totally committed to the provision of appropriate training and the promotion of constant vigilance in this regard. We are equally committed to fulfilling our responsibilities in relation to the environment and the communities within which we work and, to this end, we are currently developing our ISO 14001 environmental management system with compliance auditing expected by the end of 2012.

We are conscious that, despite our aforementioned approach to health and safety, aspects of risk are inherent in the mining industry and, as reported previously, I deeply regret that one Company employee fatality occurred during the year. The full year lost time injury frequency rate rose from 0.37 in 2010 to 0.57 in 2011 (per 200,000 man-hours worked).

As previously announced, Barrick Gold Corporation advised us in February 2012 of its plans to divest its approximate 20.4% shareholding in Highland which is perceived as non-core to its ongoing business strategy. We place considerable value on the goodwill that exists between ourselves and Barrick, the world's largest gold mining enterprise, and I would like to thank all of Barrick's former representatives for their respective support and input throughout our association.

Prior to this development Jacques McMullen, a Barrick nominated Director and a member of the Health and Safety Committee, resigned from the Board on 14 December 2011 following his decision to leave Barrick in order to pursue other interests. Similarly, Jim Mavor, a Barrick nominated Director and a member of the Audit Committee, also left Barrick to pursue other interests and, accordingly, stepped down from Highland's Board on 27 January 2012.

I take pleasure in welcoming Numis Securities following their appointment as nominated adviser and broker to the Company on 7 November 2011.

I would also like to take this opportunity, on behalf of myself and my Boardroom colleagues, to thank all of our management and employees for their dedication, hard work and invaluable contributions to the ongoing growth of your Company.

CHIEF EXECUTIVE OFFICER'S REPORT

Confidence in the future

During 2011 the Company continued to build for the future through the implementation of a major exploration programme, integral to the growth of our organic resource base, accompanied by ongoing production operations at three mines. Our flagship Mnogovershinnoye (MNV) mine delivered 143,864 oz, slightly less than its planned gold target, while Novoshirokinskoye (Novo), our second mine, provided its first full year of production at 33,293 oz of gold equivalent (in relation to the Company's 48.3% share). In addition, Belaya Gora contributed 6,945 oz of gold via delivery of oxide ore to MNV for processing.

The purchase of LLP Kazzinc's 48.3% interest in Novo's holding company represented the culmination of an active year which also brought State authorisation for the commencement of the second phase of the construction of the Belaya Gora stand-alone processing facility, scheduled to be commissioned during the final quarter of 2012.

Capex rose from US$39.4 million in 2010 to US$65.6 million in 2011 and, in the light of the Belaya Gora development and the scale of the ongoing exploration programme, is budgeted to show a further increase in 2012. The success of such projects is synonymous with individual commitment and initiative and our investment in people has remained a constant priority. We have every confidence in the calibre of our respective teams.

Our exploration operations yielded encouraging results with the initial GKZ reserve balance registration and subsequent JORC compliant resource audit serving to underline the scale of potential at our Unkurtash project in Kyrgyzstan. Drilling activities at Taseevskoye continued in pursuance of updating the ore characteristics and resource base of this development project while significant exploration work was also undertaken at Blagodatnoye, Belaya Gora Flanks and Lyubov, the findings of which augur well for the growth of our resource base.

Revenue inevitably benefited from a 26.8% increase in the average spot gold price received during 2011 and we achieved higher revenues together with improved margins. We are budgeting for an increase in overall production from our three mines in 2012, a year which will also see the construction and commissioning of the Belaya Gora processing facility and significant ongoing exploration and development activity with particular focus on our exciting Unkurtash and Lyubov projects.

CORPORATE & SOCIAL RESPONSIBILITY

Social responsibility represents an essential aspect of Highland Gold Mining's corporate culture and we are particularly focused on the desirability of making positive and meaningful contributions to the welfare of local communities in those areas in which we operate. In order to further such objectives we place considerable importance on the development of close working relationships with the appropriate authorities.

We act responsibly in relation to due settlement of all local taxes, fees and charges and we help to maintain and modernise the infrastructure in the towns and villages that are home to many of our employees. Above all, we are particularly proud to contribute to, and be associated with, the provision of various social and cultural facilities.

The most important aspect of such work lies in assisting regional and local administrations in the advancement of social development programmes. To this end we work alongside the local authorities in order to prioritise community requirements in relation to joint welfare projects which encompass education, health, culture and sport. During 2011 the Company's activities in this regard were guided by the Social Partnership Agreement with the Nikolayevsk district authorities and separate Agreements with the respective Governments of the Khabarovsk Region and the Zabaikalsky Region.

A new social programme in relation to the Chlya settlement, situated in the Nikolayevsk district in the Khabarovsk Region, was launched at Belaya Gora. The project involves renovations of the secondary school, the kindergarten and the rural office of the local obstetrician and has also facilitated the purchase of office equipment for the local library. One of the most pleasing results of this joint initiative has been the emergence of a regular bus service between Mnogovershinnoye and Nikolayevsk-on-Amur. Highland Gold donated the initial bus.

An incentive programme based on the provision of housing to specialist employees at Novo has been operating successfully for several years. The scheme is designed to attract skilled personnel from other parts of Russia and, at the same time, serves to channel investment into the social infrastructure of the settlement. The families of 75 employees have proved beneficiaries of the scheme to date and, in 2011, work commenced on the construction of an additional 36-apartment building. The kindergarten and the local school also proved the subject of partial renovations.

Social support, albeit on a smaller scale, has also been provided to local communities close to our exploration sites, namely the Lyubov deposit in the Zabaikalsky Region of Russia, and the Unkurtash deposit in Kyrgyzstan.

The Company participates in various national charity programmes, while our support of the regional charity foundation "Illustrated books for visually impaired children" brought its reward through the provision of specialised reading products for dozens of young people.

In addition to the corporate allocation of funds for various social needs it is pleasing to note the personal commitment of our employees who play active and important roles in contributing to the communities associated with the Company's operating units.

Highland Gold will continue to progress such programmes, with an ongoing emphasis on the welfare of local communities, throughout 2012.

HEALTH, SAFETY & ENVIRONMENT

At year-end 2011 the number of employees at Highland Gold totalled 2,848 (including 100% of the personnel at Novoshirokinskoye) in comparison to 2,791 employed during 2010. This modest increase largely reflected additional workforce requirements in relation to the commencement of construction of the Belaya Gora processing facility.

Constant efforts are made to introduce new precautions and improve existing safeguards with regard to health and safety and this focus continued throughout all of the Company's sites. The Lost Time Injury Frequency Rate (designed to calculate the number of lost time injuries for every 200,000 man hours worked) was 0.57 in 2011 compared with 0.37 in 2010. A total of 1,470 employees attended introductory (1 day) safety training classes, 509 employees attended a work performance / production safety course (3–5 days) and 372 employees completed industrial safety certification training programmes (7–30 days). In addition, training was provided to 50 MNV employees in the use of heavy mobile equipment, while 70 MNV employees completed light vehicle driving proficiency tests.

The Company's environmental compliance remained in good standing with the regulatory authorities, with internal environmental audits carried out at all sites within the Group during the year. Environmental safety training was provided to 68 employees encompassing MNV, Belaya Gora and Taseevskoye.

The Company continued to work towards accreditation of its Group wide environmental management system (ISO 14001 compliant) with compliance audits expected by the end of 2012. To this end 56 employees received internal audit training at MNV and Russdragmet (RDM), the management company, while an additional 32 MNV employees received training, developed by an external consultant, with regard to environmental risks and assessments.

OPERATIONS

MNOGOVERSHINNOYE (MNV), Khabarovsk region, Russia

In 2011 mining operations continued at the Upper and Flank open pits where ore production at 744,643 tonnes and waste stripping at 2,353,800 m^3 both exceeded internal targets. Lower than targeted open pit grades were encountered during the second half of the year resulting in metal production remaining much in-line with that of the first half of the year. The Intermediate, Northern, and Deer underground zones contributed a combined 527,660 tonnes of ore production, while underground development attained 5,731 metres. Off-balance ore from old surface stockpiles continued to be tested for economic potential as prospective low grade plant feed.

Commissioning of the new gravity circuit and additional grinding upgrades were accomplished during H1 2011 which resulted in slightly improved recovery levels during the second half of the year. Ore totalling 1,128,668 tonnes from MNV was processed in 2011, largely due to the achievement of record second half levels of throughput after the noted upgrades.

MNV		**H2 2011**	H1 2011	H2 2010	**FY 2011**	FY 2010
Waste stripping	m^3	**1,562,903**	790,897	1,220,558	**2,353,800**	1,933,948
Underground development	metres	**2,816**	2,915	3,098	**5,731**	6,725
Open pit ore	tonnes	**372,485**	372,158	397,664	**744,643**	701,962
Underground ore	tonnes	**293,378**	234,282	245,214	**527,660**	490,934
Total ore mined	tonnes	**665,863**	606,440	642,878	**1,272,303**	1,192,896
Average grade mined	g/t	**4.0**	4.6	5.1	**4.3**	5.1
Ore processed	tonnes	**629,586**	499,082	622,604	**1,128,668**	1,144,459
Average grade processed	g/t	**3.9**	5.2	5.4	**4.5**	5.3
Recovery rate	%	**88.2**	87.7	87.4	**88.0**	87.6
Gold produced	oz	**71,938**	71,926	94,585	**143,864**	170,356

PRODUCTION COSTS

Cash operating costs in 2011 totalled US$475 per ounce, total cash costs amounted to US$574 per ounce and total production costs were US$685 per ounce.

CAPITAL COSTS

During 2011 US$19.0 million was invested at MNV. This included: capitalised expenditure and construction (US$7.0 million), purchase of equipment (US$6.8 million) and exploration (US$5.2 million).

OUTLOOK

Capital expenditure on the replacement of several underground mobile units is expected to improve productivity and will also assist in keeping maintenance costs in check. The surface drilling programme is focused on identifying additional resources to facilitate the extension of open pit mining beyond the projected 2013 time frame, with underground mining expected to continue through to the end of 2016.

NOVOSHIROKINSKOYE (NOVO), Zabaikalsky region, Russia

Novo's underground mine and process plant operated for a full 12 months during 2011. Processed production totalled 438,343 tonnes to yield 33,293 ounces of gold and gold equivalents (representing Highland's 48.3% share).

Mined ore production at 439,368 tonnes and waste development at 7,115 metres remained much on target as additional ore blocks were accessed and prepared for production.

Novo 100%		**H2 2011**	H1 2011	H2 2010	**FY 2011**	FY 2010
Underground development	metres	**3,501**	3,614	3,221	**7,115**	6,364
Ore mined	tonnes	**220,390**	218,978	223,989	**439,368**	345,737
Average grade mined*	g/t	**5.1**	6.6	6.5	**5.9**	6.4
Ore processed	tonnes	**220,390**	217,953	233,752	**438,343**	397,075
Average grade processed*	g/t	**5.1**	6.6	6.3	**5.9**	5.9
Recovery rate*	%	**82.4**	84.9	81.0	**83.5**	79.5
Gold produced*	oz	**29,716**	39,214	38,662	**68,930**	59,403
HGML (48.3%)	oz	**14,353**	18,940	18,654	**33,293**	28,672

*calculated approximate Au equivalent

PRODUCTION COSTS

Cash operating costs in 2011 totalled US$576 per ounce, total cash costs amounted to US$639 per ounce and total production costs were US$846 per ounce.

CAPITAL COSTS

During 2011 US$4.8 million was invested at Novo (48.3%). This included: capitalised expenditure and construction (US$3.2 million) and purchase of equipment (US$1.6 million).

OUTLOOK

The mine is expected to produce ca. 450,000 tonnes of ore in 2012 and planned milling upgrades are expected to improve throughput to ca. 550,000 tonnes per annum in 2013. Technical studies will be undertaken to assess the scope for productivity improvements at both the mining and processing operations.

BELAYA GORA, Khabarovsk region, Russia

Taking advantage of relative proximity, Belaya Gora continued to deliver oxide ore to MNV's processing plant throughout the year. A total of 61,386 tonnes @ 4.0 g/t were processed and produced 6,945 oz Au. The planned construction of a stand-alone process plant did not receive State approval until the year end, a factor that has necessitated the need to fast-track building activity which commenced in the winter.

During the year several key senior personnel were hired in order to bolster the Group's project development and construction activities. This enhanced in-house team will play a crucial role in supervising the delivery of all project development activities and construction works as per budget and schedule.

Belaya Gora		**H2 2011**	H1 2011	H2 2010	**FY 2011**	FY 2010
Waste stripping	m^3	**87,390**	202,310	226,000	**289,660**	226,000
Ore mined	tonnes	**162,661**	255,319	76,000	**417,984**	76,000
Average grade mined	g/t	**2.1**	2.1	1.7	**2.1**	1.7
Ore processed at MNV	tonnes	**30,926**	30,460	10,971	**61,386**	10,971
Average grade processed	g/t	**5.5**	2.6	3.3	**4.0**	3.3
Recovery rate	%	**87.3**	87.3	87.3	**87.3**	87.3
Gold produced	Oz	**4,754**	2,191	1,000	**6,945**	1,000

PRODUCTION COSTS

Cash operating costs in 2011 totalled US$707 per ounce, total cash costs amounted to US$834 per ounce and total production costs were US$1,182 per ounce.

CAPITAL COSTS

During 2011 US$19.9 million was invested at Belaya Gora. This included: capitalised expenditure and construction (US$13.6 million), purchase of equipment (US$3.5 million) and exploration (US$2.8 million).

OUTLOOK

The short-term objective is to construct and commission the stand-alone processing plant prior to year-end 2012, where a budget of approximately US$110 Million has been earmarked this year for all necessary works through to commissioning. The mining of oxide ore will continue and is expected to account for approximately 4% of the total ore feed into MNV's processing plant during the first half of 2012. Whole grade ore will be stockpiled at Belaya Gora during the second half of the year in anticipation of the commissioning of the stand-alone facility.

DEVELOPMENT PROJECTS

TASEEVSKOYE, Zabaikalsky region, Russia

The Company continued to progress its infill drilling programme, introduced during H1 2011. This is expected to confirm the ore block characteristics contained in the existing model and provide fully representative samples from across all zones of the ore body to facilitate metallurgical test work. Drilling conditions slowed the programme and operations have been carried over into 2012. Following the conclusion of this drilling and sampling exercise in 2012 the Company will carry out the necessary test work and resource confirmation procedures prior to any decision to undertake a definitive feasibility study.

CAPITAL COSTS

In 2011 US$5.7 million was invested at Taseevskoye. This included: capitalised expenditure and construction (US$5.6 million) and purchase of equipment (US$0.1 million).

EXPLORATION

The Company embarked on an exceptional level of exploration activity during 2011, a course of action that reflected management's confidence in the potential of our portfolio of developments and commitment to achieving substantive organic resource growth. Appropriate project funding paved the way for significant work volumes and more than 75,000 metres of drilling were completed at our exploration projects, including more than 53,000 metres at Unkurtash alone. Positive overall results led to a substantial increase in the Company's resource base and served to identify new targets suitable for delineating. The Company's exploration expenditure in 2011, including Unkurtash, our most advanced project, and near-mine works at MNV, totalled US$24.8 million, an increase of 115.7% compared with a spend of US$11.5 million in 2010.

UNKURTASH, Kyrgyzstan

During 2011 a major exploration programme was successfully completed encompassing Unkurtash, the Company's flagship exploration project, and two adjoining prospects, Sarytube and Karatube. These prospects are located within an elongated gold mineralised zone, covered by our licences, which measures approximately 4,000 metres on strike, 250-500 metres in width and has a proven vertical extent of at least 350 metres. The scale of the exploration exercise involved more than 53,000 metres of reverse circulation drilling, 3,000 metres of diamond core drilling and 1,800 metres of exploratory underground development.

As the result of an independent resource audit in H2 at the Unkurtash and Karatube prospects and in support of the previous GKZ-registration of C1+C2 reserves in respect of both targets, an additional 1.8 Moz (Measured & Indicated: 1.73 Moz) of JORC compliant mineral resource has been added to the Company's portfolio thereby raising the total resource base by 23% to 9.71 Moz, as against 7.88 Moz as of 31 December 2010. At the Sarytube prospect, a resource audit scheduled for completion in Q2 2012 is expected to yield a further JORC compliant mineral resource of approximately 1 Moz.

The Company plans to proceed with engineering studies for the development of a conventional open-pit mine and processing plant while, at the same time, continuing its exploration agenda. This will involve more than 11,000 metres of drilling and significant underground development during 2012 with the objective of significantly enlarging the mineral resource base both at depth and along strike.

The Company is aware that the Kyrgyz Republic have introduced a resolution to regulate subsoil use and will monitor any developments or changes which may affect mining operations in the country.

LYUBOV, Zabaikalsky region, Russia

Following the completion of a resource conversion drilling programme at Lyubov and the fulfillment of other technical requirements in H1 2011, the Company compiled and submitted to the regulatory authorities a pre-feasibility study in respect of the Evgraf target. Accordingly, at the Evgraf prospect alone, a C1+C2 category reserve of approximately 0.5 Moz contained in 8.35 million tonnes of ore at an average grade of 1.88 g/t, is to be considered for reserve registration by the State Committee on Reserves of the Russian Federation (GKZ). Approval is expected in Q3 2012. Completion of a JORC compliant resource estimate is anticipated in H2 2012.

In view of the fact that Lyubov is entering the development stage, engineering studies in relation to conventional processing options, including heap leaching, have been initiated.

MNOGOVERSHINNOYE (MNV), Khabarovsk region, Russia

The process of delineating additional resources at MNV in order to extend the life of the mine continued. Positive results were achieved from a systematic near-mine surface diamond core drilling programme which continues to support the potential for open-pit exploitation. In 2011 approximately 8,000 metres of drilling were completed at three specific targets including the two kilometre long Quiet (Tikhoye) - Pebble (Valunistoye) zone hosting an in-house estimated resource of 190,000 oz of gold with ore grading more than 3.0 g/t. At the north-east flank of Pebble, drilling continued across a previously untested area and returned several near-surface high-grade intersects providing potential to increase the resource model at this prospect. At the Watershed (Vodorazdelnoye) target (immediately east of the Upper open pit) a trenching programme returned initial high-grade gold intersects warranting further drilling to delineate resource potential at depth and along strike. Underground resource conversion diamond core drilling completed 17,857 metres and exceeded the full-year drilling plan by 10%.

During 2012 the near-mine exploration efforts at MNV will include an 8,000 metre drilling programme focused on fully unlocking the respective resource potential of the Quiet and Watershed targets.

BLAGODATNOYE, Khabarovsk region, Russia

The positive exploration results that emerged during 2011 from Blagodatnoye, located close to the Belaya Gora mine, indicate that this property has the potential to host a significant near surface resource grading from 1.5 – 2.0 g/t. Exploration activity during the year encompassed 8,037 metres of diamond core drilling and 2,000 metres of trenching. Assay results to date outline a steeply dipping gold-mineralised zone 350 metres in strike length and up to 170 metres wide, intersected to a depth of 200 metres. Preliminary results from test work initiated in 2011 have indicated favourable metallurgy and gold recovery levels via conventional processing methods. A soil geochemical survey completed by the Company across a 1 kilometre square area surrounding the existing drilling operations revealed strong and distinct gold anomalies which warrant further testing.

In order to progress the development at Blagodatnoye, management has allocated more than 7,000 metres for drilling during 2012 accompanied by additional geochemical and geophysical surveys.

BELAYA GORA FLANKS, Khabarovsk region, Russia

The licence in respect of Belaya Gora Flanks encompasses the Belaya Gora deposit and the near-mine area which has the potential, subject to further exploratory testing, to increase the open-pit resource base for the Belaya Gora processing project. During H2 2011 the Company continued its trenching and diamond drilling programme at several historically acknowledged gold prospects within the licence area. By the year-end, 3,055 metres of diamond core drilling and 2,230 metres of exploration trenching had been completed. Preliminary assay results from initial drill testing and trenching at the Kolchanka prospect, situated 1.5 kilometres to the northwest of the Belaya Gora deposit, yielded several decametre long intersects grading between 1.2 - 1.9 g/t. Any prospective open-pit mining operations would create a satellite feed source for the Belaya Gora project.

ISKA, Khabarovsk region, Russia

Iska possesses similar geological characteristics to Belaya Gora and the presence of several previously known gold prospects at the former property underlines the attraction of this grass roots site. The Company resampled a previously drilled alunite deposit on the property in 2010 but tests for gold yielded unsatisfactory results. Our analysis of the area is ongoing.

EXPLORATION

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 14 years of experience in mineral exploration and is a fellow of the Geological Association of Canada. A rigorous quality assurance programme complying with international standards is in effect at all exploration projects and includes duplicate sampling, insertion of standards and check assaying at external laboratories.*

CONCLUSION

Management's essential task during 2012 will be to build upon the Company's foremost achievements of the preceding year, namely the enlargement of our operational production base accompanied by JORC compliant confirmation that our exploration and development properties represent a significant resource pipeline.

To this end we are focused on maximising the benefits of our enhanced 96.6% interest in Novo, an agenda that includes a detailed assessment of the scope for productivity improvements as we seek to optimise throughput by 2013. We are targeting a Q4 commissioning date for the Belaya Gora processing facility with the transportation of oxide ore to MNV's processing plant continuing into 2012.

The considerable success of our exploration undertakings in 2011 and the consequent impact on the Company's resource base serves to underwrite further extensive exploratory activity in 2012, particularly at Unkurtash and Blagodatnoye, as we work towards progressing our valuable assets towards production.

As such, approximately US$ 160 Million of capex has been earmarked across the Group for mine construction, development and exploration activities in 2012. We are confident that attainment of these objectives will appreciably further the Company's inherent growth potential.

CHIEF FINANCIAL OFFICER'S REPORT

Highland Gold Mining achieved a 29.4% increase in gross profit to US$154.5 million in 2011 compared with US$119.4 million in 2010. The increase reflected the higher average prices realised on gold sales, despite a slight decline in volume. Net profit after tax decreased to US$103.8 million compared with US$122.3 million in 2010, although it should be noted that the 2010 result benefited from the reversal of a US$52.8 million impairment loss at the Novo project.

Group revenue recorded a 23.2% increase to US$300.2 million in 2011 compared with US$243.6 million for the prior year. The increase reflected a "no hedge" policy which enabled the Group to fully participate in stronger gold prices. The average price per ounce of gold sold by MNV and Belaya Gora was US$1,563 (2010: US$1,232 per oz) which represents a 26.8% increase versus 2010. The average price of gold equivalent sold by Novo was US$1,374 per oz: 20.5% higher than 2010's corresponding figure of US$1,140 per oz. The average Group price of gold and gold equivalents was US$1,530 per oz as against US$1,218 per oz in 2010.

The Group's cost of sales rose by 17.2%, or US$21.4 million, to US$145.7 million in 2011 compared with 2010, largely due to higher prices in respect of fuel and materials, the indexation of salaries and wages and an increase in sales volume at Belaya Gora.

Total Group cash costs increased from US$513 per oz in 2010 to US$594 per oz in 2011. This largely reflected the decrease in the average gold grade delivered for processing in the second half of the year at MNV and Novo, the impact of a 6.1% inflation rate on the costs of materials, labour and services, a 3.2% appreciation of the Russian Rouble versus the US dollar and higher royalty costs as a consequence of the increase in the spot gold price. It is important to note, however, that at a figure of less than US$600 per oz the Company's cash costs remain highly competitive in terms of peer group comparison.

Total cash costs at MNV rose from US$496 per oz to US$574 per oz reflecting a 14.3% decrease in the average gold grade and the aforementioned strengthening of the Russian Rouble against the US dollar. Lower grades encountered in development ore and underground stope blocks had a negative impact on the average head grades processed at Novo which served to raise the mine’s total cash costs from US$597 per oz in 2010 to US$639 per oz. Total cash costs at Belaya Gora fell from US$931 per oz in 2010 to US$834 per oz, a high level that continued to reflect the allocation of fixed administrative costs to a low volume of gold during this ramp up stage.

Group EBITDA (defined as operating profit excluding depreciation, amortisation, impairment gain/(loss) and inventory provision) registered a 29.6% increase to US$157.1 million in 2011 compared with US$121.3 million in 2010. The strength of EBITDA reflected the higher revenue from gold sales.

EBITDA margin (defined as EBITDA divided by total revenue) improved from 49.8% to 52.3% and was in line with the sector’s best ratios.

Total cash margin (defined as the average realised gold and gold equivalent sales price per oz less total group cash costs per oz) showed a 33.0% improvement from US$704 per oz in 2010 to US$936 per oz in 2011. This reflected the increase in the average realised gold price.

On 26 December 2011, the Group doubled its investment in Novo to 96.6% through the acquisition of an additional 48.3% interest in Novo-Shirokinskly Rudnik, the company that owns the mine, from joint venture partner LLP Kazzinc (Kazzinc). This transaction was designed to augment the Company’s proven and probable reserves base and significantly expand the Company’s production capacity. Profit for the year includes US$13.5 million of gain on the acquisition revaluation.

Net finance costs of US$5.6 million in 2011 recorded a decrease of 18.8% compared with US$6.9 million in 2010. This largely reflected higher interest earned on deposits.

A foreign exchange loss of US$5.5 million was incurred in 2011 (2010: loss US$1.8 million) following the settlement of foreign currency transactions and the transfer of monetary assets and liabilities denominated in currencies such as Russian Roubles and Pounds Sterling into US Dollars. The foreign exchange loss primarily reflected a 5.64% year-on-year devaluation of the Russian Rouble in 2011 (2010: 0.77% devaluation).

Income tax amounted to US$28.3 million in 2011 compared with US$22.0 million in 2010. The tax charge comprised US$25.9 million in respect of current tax expenses (MNV: US$25.3 million, RDM: US$0.5 million and Stanmix Investments: US$0.1 million) and US$2.4 million in respect of deferred tax. The effective tax rate in 2011 was 21.4% which is similar to the Russian income tax rate of 20%. The lower effective tax rate of 15.2% in 2010 reflected recognition of no deferred tax on the gain associated with the Novo impairment reversal.

The Group's cash inflow from operating activities, benefiting from higher revenues from sales of gold and concentrates, showed a 20.4% increase to US$116.9 million in 2011 compared with US$97.1 million in 2010. Group capital expenditure totalled US$65.6 million in 2011 compared with US$39.4 million in 2010. This encompassed US$19.0 million at MNV, US$19.9 million at Belaya Gora, US$4.8 million (48.3%) at Novo, US$21.7 million in respect of development and exploration projects and US$0.2 million in relation to other entities within the Group. The entirety of capital expenditure was funded through net cash flow and the Company’s existing cash balances.

Under the terms of the aforementioned acquisition of an additional 48.3% interest in Novo, the Group paid US$38.5 million to Kazzinc in December 2011 with a contingent consideration of US$8.5 million, estimated at fair value on acquisition date, payable in January 2013. In addition, the Group paid a further US$62.5 million to Kazzinc in respect of the latter’s share of intercompany debt.

Net financing cash outflows amounted to US$104.4 million in 2011 compared with US$72.9 million in 2010. Following the repayment of bank borrowings of US$4.7 million, the Company has no outstanding bank debt and is cash positive.

Dividends

Taking into account the Company’s mid-year profit performance and the health of the balance sheet the Board declared an interim dividend of 2.5 pence per share and, in the light of the favourable impact of the gold price on revenues, also declared a special dividend of 2.5 pence per share, making a total interim dividend of 5.0 pence per share (2010: nil) in respect of 2011. The interim dividend, which represents an aggregate distribution of US$25.7 million, was paid on 21 October 2011.

The Board has decided not to pay a final dividend for the year.

Conclusion

Following upon a US$65.6 million capital expenditure programme, a US$25.7 million interim dividend distribution, and payments to Kazzinc of US$38.5 million in respect of the purchase of an additional 48.3% interest in Novo, and US$62.5 million in respect of the repayment of Novo debt under a loan assignment agreement, the Company remains in a strong financial position, supported by a healthy level of cash generation. Cash, short term deposits and bonds amounted to US$126.7 million as of 31 December 2011 compared with US$222.5 million as of 31 December 2010. Such funds remain available for the development of the Group’s organic expansion and for utilisation in relation to M&A opportunities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

	2011 *US$000*	*2010* *US$000*
Revenue	300,181	243,629
Cost of sales	(145,686)	(124,264)
Gross profit	**154,495**	**119,365**
Administrative expenses	(18,989)	(13,092)
Other operating income	796	1,432
Other operating expenses	(6,586)	(7,453)
Impairment reversal	-	52,782
Operating profit	**129,716**	**153,034**
Gain on acquisition of subsidiary	13,479	-
Foreign exchange loss	(5,527)	(1,811)
Finance income	11,479	13,416
Finance costs	(17,054)	(20,308)
Profit before income tax	**132,093**	**144,331**
Income tax expense	(28,270)	(22,003)
Profit for the year	**103,823**	**122,328**
Total comprehensive income for the year	**103,823**	**122,328**
Attributable to:		
Equity holders of the parent	103,823	122,328
Earnings per share (US$ per share)		
Basic, for the profit for the year attributable to ordinary equity holders of the parent	0.319	0.376
Diluted, for the profit for the year attributable to ordinary equity holders of the parent	0.318	0.374

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2011

	As at 31 December 2011 US$000	*As at 31 December 2010* US$000*	*As at 1 January 2010* US$000*
ASSETS			
Non-current assets			
Exploration and evaluation assets	52,197	27,317	30,853
Mine properties	282,461	178,380	124,898
Property, plant and equipment	118,259	74,090	57,507
Intangible assets	70,365	65,231	65,231
Financial assets	-	30,738	40,424
Inventories	5,362	-	-
Other non-current assets	13,623	8,975	4,690
Deferred income tax asset	-	941	2,837
Total non-current assets	**542,267**	**385,672**	**326,440**
Current assets			
Inventories	61,793	46,753	42,857
Trade and other receivables	28,605	26,993	17,575
Income tax prepaid	4,858	214	2,719
Prepayments	4,071	2,649	2,335
Financial assets	-	4,022	2,973
Investments	36,111	54,902	46,274
Cash and cash equivalents	90,635	167,568	196,695
Total current assets	**226,073**	**303,101**	**311,428**
TOTAL ASSETS	**768,340**	**688,773**	**637,868**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	585	585	585
Share premium	718,419	718,370	718,370
Assets revaluation reserve	832	832	832
Accumulated losses	(28,139)	(106,231)	(227,152)
Total equity attributable to equity holders of the parent	**691,697**	**613,556**	**492,635**
Non-controlling interests	3,391	**-**	**-**
TOTAL EQUITY	**695,088**	**613,556**	**492,635**
Non-current liabilities			
Long-term interest payable	-	-	5,031
Interest-bearing loans and borrowings	-	29,210	52,120
Long-term accounts payable	8,855	96	164
Provisions	23,196	9,595	9,328
Deferred income tax liability	23,090	11,734	11,257
Total non-current liabilities	**55,141**	**50,635**	**77,900**
Current liabilities			
Trade and other payables	18,083	15,198	13,698
Interest-bearing loans and borrowings	-	8,524	52,842
Income tax payable	7	801	734
Provisions	21	59	59
Total current liabilities	**18,111**	**24,582**	**67,333**
TOTAL LIABILITIES	**73,252**	**75,217**	**145,233**
TOTAL EQUITY AND LIABILITIES	**768,340**	**688,773**	**637,868**

The financial statements were approved by the Board of Directors on 23 April 2012 and signed on its behalf by:
Duncan Baxter and Olga Pokrovskaya

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2011

	2011 ***US$000***	***2010*** ***US$000***
Operating activities		
Profit before tax	132,093	144,331
	132,093	**144,331**
Adjustments to reconcile profit before tax to net cash flows from operating activities:		
Depreciation of property, plant and equipment	26,820	20,041
Impairment reversal	-	(52,782)
Movement in inventory provision	1,237	1,878
Write-off of property, plant and equipment	1,725	2,176
Exploration costs write-off	-	1,066
Property, plant and equipment adjustments	-	952
Deferred stripping costs write-off	4,818	1,792
Share-based payments credit	-	(1,407)
Finance income	(6,767)	(5,614)
Bonds and shares fair value movement	9,661	8,739
Finance expense	2,914	3,394
Net foreign exchange loss	5,527	1,811
Accounts payable write-off	-	(47)
Fair value (gain)/expense related to loans given to jointly controlled entity	(4,712)	8,175
Fair value expense/(gain) related to receipts from Kazzinc to finance joint venture	4,479	(7,802)
Gain on acquisition of subsidiary	(13,479)	-
Other non-cash income and expenses	-	(128)
Working capital adjustments:		
Increase in trade and other receivables and prepayments	(11,821)	(12,570)
Increase in inventories	(17,849)	(5,881)
Increase in trade and other payables	3,433	4,099
Income tax paid	(21,149)	(15,143)
Net cash flows from operating activities	**116,930**	**97,080**
Investing activities		
Proceeds from sale of property, plant and equipment	84	170
Purchase of property, plant and equipment	(65,611)	(39,404)
Increase in deferred stripping costs	(5,469)	(118)
Loans given to jointly controlled entity	-	(2,068)
Repayment of loans given to jointly controlled entity	5,775	-
Acquisition of subsidiary	(38,524)	-
Interest received	10,668	7,062
Interest received from jointly controlled entity	6,383	5,466
Sale of investments – bonds	23,427	17,401
Purchase of investments – bonds	(19,765)	(40,137)
Net cash flows used in investing activities	**(83,032)**	**(51,628)**
Financing activities		
Issue of ordinary share capital	37	-
Dividends paid to equity holders of the parent	(25,719)	-
Repayment of borrowings	(4,710)	(66,243)
Interest paid	(19)	(2,861)
Interest paid to Kazzinc	(6,184)	(5,181)
Receipts from Kazzinc to finance joint venture	-	1,843
Repayment to Kazzinc	(5,350)	-
Repayment to Kazzinc under assignment agreement	(62,476)	-
Lease payments	-	(505)
Net cash flows used in financing activities	**(104,421)**	**(72,947)**
Net decrease in cash and cash equivalents	(70,523)	(27,495)
Effects of exchange rate changes	(6,410)	(1,632)
Cash and cash equivalents at 1 January	167,568	196,695
Cash and cash equivalents at 31 December	**90,635**	**167,568**

Selected Policies and Notes to the Financial Information

Corporate information

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 a portfolio of gold mining operations within the Russian Federation and Kyrgyzstan.

The financial information presented in this preliminary announcement was authorised for issue by the Board of Directors of Highland Gold Mining Limited on 23 April 2012.

The audited financial statements will be released on the Company's website www.highlandgold.com in due course. The audit report on those financial statements was unqualified.

Basis of preparation

The financial information presented in this preliminary announcement has been prepared on the same basis as set out in the audited consolidated financial statements for the year ended 31 December 2011.

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

Statement of compliance

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Companies (Jersey) Law 1991.

Basis of consolidation

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

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

The financial information of the subsidiaries is 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.

Reclassifications

Some reclassifications were made in the statement of financial position items as at 31 December 2010 and 1 January 2010 to keep the presentation form consistent with 2011 presentation. As a result of the reclassifications related to non-current VAT, other non-current assets were increased by US$4.7 million (1 January 2010: US$3.3 million) and trade and other receivables were decreased by US$4.7 million (1 January 2010: US$3.3 million). Long-term accounts payable were increased by US$0.1 million (1 January 2010: US$0.2 million) and provisions were decreased by US$0.1 million (1 January 2010: US$0.2 million).

Business combinations

The Group had a 48.3% interest in Novo according to a contractual agreement with Kazzinc which represented a joint venture entity. On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc in order to improve the proven and probable reserves base and to increase the gold and gold equivalents production. This acquisition resulted in the Company's stake in Novo increasing to 96.6%.

Purchase consideration	**US$000**
Cash paid	38,524
Contingent consideration liability	8,531
Cash paid for loan	62,476
Total consideration transferred	**109,531**

From total consideration the amount allocated to loan was $58,790 based on the fair value of the loan. $42,210 plus contingent consideration of $8,531 were allocated to the acquisition of the 48.3% of shares of Novo amounting to a total consideration for the shares of $50,741. The additional cash payment to Kazzinc of US$9.0 million, payable in

January 2013 was recognised at the fair value of US$8.5 million as a contingent consideration. A 5.5% discount factor was applied.

The existing holding of 48.3% was revalued at fair value which was determined to be US$50.7 million. The revaluation resulted in a gain of US$13.5 million which is recorded in a separate line in the statement of comprehensive income.

IFRS 3 Purchase price consists of	**US$000**
Fair value of existing 48.3%	50,741
Fair value of acquired 48.3%	50,741
	101,482

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Novo as at the date of acquisition were as follows:

	Fair value recognised on acquisition US$000
Assets	
Property, plant and equipment	222,135
Other non-current assets	1,280
Inventories	5,600
Accounts receivable and other debtors	10,988
Cash and cash equivalents	417
Other current assets	161
Total assets acquired	**240,581**
Liabilities	
Borrowings	(116,556)
Provisions for liabilities and charges	(6,068)
Deferred tax liabilities	(13,798)
Trade accounts and notes payable	(1,561)
Other accounts payable and accrued liabilities	(1,489)
Current taxes payable	(1,370)
Total liabilities assumed	**(140,842)**
Total identifiable net assets at fair value	**99,739**
Non-controlling interest measured at fair value	(3,391)
Goodwill arising on acquisition	5,134
IFRS 3 Purchase price	**101,482**
Less: non-cash adjustment – previous shareholding measured at fair value	(50,741)
Plus: fair value of previously recognised loan payable to Kazzinc	58,790
Total consideration transferred	**109,531**

The Group has elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets amounting to US$3.4 million which is 3.4% of US$99.7 million.

Goodwill of US$5.1 million comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the polymetallic concentrate production segment. None of the goodwill recognised is expected to be deductable for income tax purposes.

The existing intercompany loan given to Novo by Stanmix Investment was treated as a pre-existing relationship and therefore considered as settled at fair value. No gain or loss was recorded at settlement.

In 2011 Novo has contributed US$46.2 million of revenue and US$9.3 million of the profit before tax of the Group. If the combination had taken place at the beginning of the year 2011, revenue of the Group would have been US$349.6 million and profit before tax of the Group would have been US$132.8 million. From the date of acquisition, Novo has contributed US$0.0 million of revenue and US$0.0 million to the net profit before tax of the Group.

Segment information

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

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

Management monitors the gold production segment, namely Mnogovershinnoye (MNV) and Belaya Gora, for the purpose of making decisions about resource allocation and evaluating the effectiveness of its activity.

The polymetallic concentrate production segment, namely Novo, was commissioned in October 2009. Management analyses it separately due to the fact that the nature of its activities differs from the gold production process. On 26 December 2011, the Group acquired an additional 48.3% share in Novo from its joint venture partner Kazzinc, which resulted in the Company's stake in Novo increasing to 96.6%. The Group ceased to have joint control over the joint venture, and as at 31 December 2011 Novo is a subsidiary undertaking.

The development and exploration segment contains the holders of the licenses being in the development and exploration stage.

The “other” segment includes head office, management company, trade house and other costs which have been aggregated to form the reportable segment.

Segment performance is evaluated based on EBITDA (defined as operating profit/(loss) excluding depreciation and amortisation, impairment gain/(loss) and movement in WIP provision). The development and exploration segment is evaluated based on the life of mine models in connection with the capital expenditure spent during the reporting period.

The following tables present revenue, EBITDA and asset information for the Group’s operating segments. The segment information is reconciled to the Group’s profit for the year.

The Highland Gold financing (including finance costs and finance income), income taxes and foreign exchange gains/(losses) are managed on a group basis and are not allocated to operating segments.

In 2010 non-current financial assets include long-term loans given to a jointly controlled entity that are not allocated to operating segments. In 2011 there are no such long-term loans.

Revenue from several customers was greater than 10% of total revenues. The gold and silver revenue was received from sales to Gazprombank (US$104.6 million), MDM Bank (US$93.8 million) and VTB Bank (US$49.3 million). The concentrate revenue was received from sales to Kazzinc (US$45.8 million).

Year ended 31 December 2011	Gold production segment	Polymetallic concentrate production segment	Develop-ment & exploration	Other	Adjustments and eliminations	Total
	US$000	US$000	US$000	US$000	US$000	US$000
Revenue						
Gold revenue	245,827	-	-	-	-	245,827
Silver revenue	1,900	-	-	-	-	1,900
Concentrate revenue	-	45,824	-	-	-	45,824
Other third-party	27	338	23	6,242	-	6,630
Inter-segment	370	-	66	15,015	(15,451)	-
Total revenue	**248,124**	**46,162**	**89**	**21,257**	**(15,451)**	**300,181**
Cost of sales	111,629	29,116	24	4,917	-	145,686
EBITDA	138,196	24,002	(1,549)	(3,531)	-	157,118
Other segment information						
Depreciation	(18,988)	(7,464)	-	(368)	-	(26,820)
Movement in WIP provision	(582)	-	-	-	-	(582)
Gain on acquisition of subsidiary	-	13,479	-	-	-	13,479
Net finance expenses including foreign exchange						(11,102)
Profit before income tax						**132,093**
Income tax						(28,270)
Profit for the year						**103,823**
Segment assets at 31 December 2011						
Non-current assets						
Capital expenditure*	105,029	222,134	124,352	1,402	-	452,917
Goodwill	22,253	5,134	42,978	-	-	70,365
Other non-current assets						18,985
Current assets**						226,073
Total assets						**768,340**
Capital expenditure - addition in 2011, including:	44,420	4,784	21,686	206	-	71,096
Deferred stripping costs	5,469	-	-	-	-	5,469
Capitalised expenses	-	-	16	-	-	16
Cash capital expenditure***	38,951	4,784	21,670	206	-	65,611

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

**Current assets include corporate assets not directly attributable to operating segments. Such unallocated assets include corporate cash and cash equivalents of US$90.6 million (2010: US$167.6 million), investments of US$36.1 million (2010: US$54.9 million), inventories of US$61.8 million (2010: US$46.8 million), trade and other receivables of US$28.6 million (2010: US$27.0 million), and other assets of US$9.0 million (2010: US$6.8 million).

***Cash capital expenditure include additions to property, plant and equipment of US$64.0 million (2010: US$36.9 million) and prepayments given for property, plant and equipment of US$1.6 million (2010: US$2.5 million).

Year ended 31 December 2010	Gold production segment	Polymetallic concentrate production segment	Develop-ment & exploration	Other	Adjustments and eliminations	Total
	US$000	US$000	US$000	US$000	US$000	US$000
Revenue						
Gold revenue	202,905	-	-	-	-	202,905
Silver revenue	1,437	-	-	-	-	1,437
Concentrate revenue	-	33,983	-	-	-	33,983
Other third-party	7	207	2	5,088	-	5,304
Inter-segment	271	-	203	12,557	(13,031)	-
Total revenue	**204,620**	**34,190**	**205**	**17,645**	**(13,031)**	**243,629**
Cost of sales	100,135	20,703	37	3,389	-	124,264
EBITDA	106,303	15,350	(924)	542	-	121,271
Other segment information						
Depreciation	(16,893)	(2,696)	-	(452)	-	(20,041)
Impairment reversal	-	52,782	-	-	-	52,782
Movement in WIP provision	(978)	-	-	-	-	(978)
Net finance expenses including foreign exchange						(8,703)
Profit before income tax						**144,331**
Income tax						(22,003)
Profit for the year						**122,328**
Segment assets at 31 December 2010						
Non-current assets						
Capital expenditure*	78,942	96,739	102,543	1,563	-	279,787
Goodwill	22,253	-	42,978	-	-	65,231
Non-current financial assets						30,738
Other non-current assets**						9,916
Current assets**						303,101
Total assets						**688,773**
Capital expenditure - addition in 2010, including:	22,365	3,026	12,902	4,074	-	42,367
Deferred stripping costs	118	-	-	-	-	118
Capitalised interest	603	-	2,153	-	-	2,756
Capitalised expenses	89	-	-	-	-	89

Cash capital expenditure***	21,555	3,026	10,749	4,074	-	39,404

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

**As a result of the reclassifications, as at 31 December 2010 other non-current assets were increased by US$4.7 million and trade and other receivables were decreased by US$4.7 million.

All revenue and assets for both 2011 and 2010 are located in CIS.

Income tax

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	2011 US$000	***2010 US$000***
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	25,906	19,727
Adjustments in respect of prior year current tax	(71)	(97)
	25,835	**19,630**
Deferred income tax:		
Relating to origination and reversal of temporary differences	2,435	2,373
Income tax expense reported in the statement of comprehensive income	**28,270**	**22,003**

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by Russian statutory tax rate of 20% for the year ended 31 December 2011 and 2010 is as follows:

	2011 US$000	***2010 US$000***
Accounting profit before tax	132,093	144,331
Accounting profit before income tax	**132,093**	**144,331**
At Russian statutory income tax rate of 20%	26,419	28,866
Non-deductible expenses	3,385	1,607
Gain on impairment reversal at Novo	-	(10,556)
Fair value adjustment at Novo	(2,678)	-
Lower tax rates on overseas earnings and disposals	1,635	1,016
Unrecognised losses/(recognised losses)	(929)	1,171
Movements in other unrecognised temporary differences	509	(4)
Adjustments in respect of prior year current tax	(71)	(97)
Income tax expense	**28,270**	**22,003**
Income tax expense reported in the consolidated statement of comprehensive income	**28,270**	**22,003**

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		*Consolidated statement of comprehensive income*		*Novo acquisition*	
	2011 US$000	***2010 US$000***	***2011 US$000***	***2010 US$000***	***2011 US$000***	***2010 US$000***
Deferred income tax liability						
Property, plant and equipment	(35,992)	(21,611)	891	6,003	(13,490)	-
Inventory	(4,761)	(3,174)	1,587	1,251	-	-
Accounts receivable and other debtors	(132)	(600)	(468)	526	-	-
Finance lease obligations	-	-	-	(16)	-	-
Deferred financing costs	-	-	-	(12)	-	-
	(40,885)	**(25,385)**	**2,010**	**7,752**	**(13,490)**	**-**
Deferred income tax assets						
Accounts receivable and other debtors	446	-	(216)	-	230	-
Inventory	231	113	(83)	65	35	-
Trade accounts and notes payable	942	786	(29)	(73)	127	-
Tax losses	16,176	13,693	753	(5,371)	3,236	-
	17,795	**14,592**	**425**	**(5,379)**	**3,628**	**-**
Net deferred income tax liabilities	**(23,090)**	**(10,793)**	**2,435**	**2,373**	**(9,862)**	**-**

	2011 US$000	***2010 US$000***
Deferred income tax assets	-	941
Deferred income tax liabilities	(23,090)	(11,734)
Deferred tax liabilities net	**(23,090)**	**(10,793)**

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

The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the site restoration provision at 31 December 2011 is US$10.1 million (31 December 2010: US$7.5 million).

No deferred tax benefit is recognised in relation to the provision for obsolete inventory. These materials are unlikely to be used for production purposes in the future and therefore future tax relief is not assumed. The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the obsolescence provision at 31 December 2011 is US$12.0 million (31 December 2010: US$9.4 million).

The amount of the deductible temporary differences for which no deferred tax asset has been recognised in respect of the tax losses at 31 December 2011 is US$17.8 million (31 December 2010: US$21.8 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

According to Russian tax legislation, tax losses expire if not utilised within 10 years of accruing, in Kyrgyzstan – within 5 years.

The deferred tax asset in the amount of US$3.2 million (31 December 2010: US$2.5 million) can possibly be derecognised.

The temporary differences associated with investments in subsidiaries, for which deferred tax liability has not been recognised aggregate to US$306.4 million (2010: US$188.1 million). No deferred tax liability has been recognised in respect of these differences because the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences should be between US$0 and US$30.6 million (2010: US$0 and US$28.2 million), depending on the manner in which the investments are ultimately realised.

With effect from the 2009 year of assessment Jersey abolished the exempt company regime for existing companies. Profits arising in the Company for the 2011 and 2010 years of assessment will be subject to tax at the standard rate of 0%. Prior to 1 January 2009, the Company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended.

Events after the reporting period

No events occurred after the reporting date that had a material impact on the financial position or financial performance of the Group.