www.highlandgold.com info@highlandgold.com

HIGHLAND GOLD MINING LIMITED
15 April 2020

Full Year 2019 Audited Results

Highland Gold Mining Limited ("Highland Gold" or the "Company", AIM: HGM) is pleased to present its final audited results for the year ended 31 December 2019.

FINANCIAL HIGHLIGHTS

US$000 (unless stated)	2019	2018
Production (gold and gold eq. oz)	300,704	269,500
All-in sustaining costs (US$/oz)[1]	791	682
Total cash costs (US$/oz)[1]	556	506
Revenue	395,386	311,153
Operating profit	161,483	109,186
EBITDA[1]	205,079	153,060
Net profit	177,794	56,084
Earnings per share (US$)	0.487	0.154
Net cash flow from operations	138,448	136,247
Capital expenditure	89,275	62,347
Net debt[1]	(250,169)	(211,433)

- Total gold and gold equivalent production in 2019 was 300,704 oz, an increase of 12% from 269,500 oz produced in 2018 and slightly above the guidance range of 290,000-300,000 oz
- EBITDA improved by 34% to US$205.1 million, with an EBITDA margin of 52% (2018: 49%)
- Total cash costs (TCC) were 10% higher at US$556 per oz, mainly due to the acquisition of Valunisty and its higher-cost production (TCC US$786 per oz), but were still well below the industry average
- All-in sustaining costs (AISC) rose by 16% to US$791 per oz due to the impairment of poor ore at Belaya Gora and Valunisty, increased supporting capex at MNV, Belaya Gora and Novo, and higher TCC
- Cash generation remained strong with net cash flow from operations rising 2% to US$138.4 million
- Two interim dividends of £0.05 per share each paid in respect of 2019 for a total payout to date of US$ 46 million

OPERATING HIGHLIGHTS

- MNV – Outperformed management expectations, with production up 10% on the back of improved grades and higher processing volume

[1] *The financial performance reported by the Company contains certain Alternative Performance Measures (APMs) disclosed to compliment measures that are defined or specified under International Financial Reporting Standards (IFRS). For more information on the definition and calculation of non-IFRS APMs used in this report, including Earnings before interest, tax, depreciation and amortisation (EBITDA), Total cash costs, All-in sustaining costs and Net debt, please see the "Financial Review" section.*

- Novo – Exceeded production targets for 2019, although output was 5% lower year-on-year due to expected lower grades and changes in the balance of prices for metals in its concentrates

- Belaya Gora – Despite a strong Q4, production decreased by 9% due to lower grades and downtime at the processing plant earlier in the year

- Valunisty – Acquired at year-end 2018, Valunisty added 11% (30k oz) to Highland Gold's production in 2019

- Kekura - Construction gathered pace, with several key infrastructure facilities at or near completion, while initial stripping and mining commenced in Q4

KEY TARGETS FOR 2020

- Maintain production in the range of 290-300k oz of gold and gold equivalent

- Complete improvement projects at Novo (1.3 Mtpa expansion) and Belaya Gora (processing plant upgrade)

- Continue construction work at Kekura in preparation for commercial production in 2023

- Support and expand ongoing efforts to improve workplace safety and employee wellbeing

POST YEAR EVENTS

- The Board of Directors approved a third interim dividend in respect of 2019 in the amount of £0.035 per share, expressing confidence in the Company's strong balance sheet and liquidity position based on existing open credit lines

- The Annual General Meeting will be held on 30 July 2020

CONFERENCE CALL DIAL-IN DETAILS

The Company will hold a simultaneous webcast and conference call to discuss the results, hosted by CEO Denis Alexandrov, on 15 April 2020 at 10:00 UK time (12:00 Moscow).

This event will be streamed online. To listen and view the slide presentation in real time, it is recommended that you access it via computer. The link for online registration is:
https://digital.vevent.com/rt/highlandgoldmining/index.jsp?seid=291

To register and receive local dial-in numbers to participate by telephone, please follow this link:
http://emea.directeventreg.com/registration/7187016

Commenting on the 2019 results, Executive Chairman Eugene Shvidler said:

I am pleased to report that the ongoing pursuit of our stated strategy of balancing a steady rate of gold production with the advancement of our major development projects was reflected in a highly satisfactory year's trading during 2019. The Company achieved record production, meeting its production guidance once again, and remains among the lowest-cost gold producers. These factors, together with favourable gold prices, helped to deliver a strong financial performance and to fund continued returns to our shareholders in the form of dividends.

The Company faces a busy year ahead in 2020 as we move to complete major improvement projects at Novo and Belaya Gora, and to maintain the pace of construction at our premier development project, Kekura. While capital expenditure will rise substantially, we are confident of our ability to sustain both growth and dividends based on our strong cash generation, stable balance sheet with long-term and low-cost debt, and solid liquidity position with roughly $340 million of untapped open credit lines.

As we move forward in 2020, the COVID-19 pandemic is clearly an unpredictable factor that all businesses must take into account. At Highland Gold, we are taking the utmost precautions to protect the health of our employees and the small, remote communities in which we operate. Fortunately, we have not experienced any significant disruptions to our production or sales to date, and our mines continue to operate albeit with measures designed to protect our teams from the risks associated with this pandemic. We have already published one COVID-19 operations update in March 2020, and will continue to do so should any material issues arise.

FOR FURTHER INFORMATION, PLEASE CONTACT:

Highland Gold Mining Ltd.	John Mann, Head of Communications + 7 495 424 95 21 Duncan Baxter, Non-Executive Director + 44 (0) 1534 814 202
Numis Securities Limited (Nominated Adviser and Joint Broker)	John Prior, James Black, Paul Gillam +44 (0) 207 260 1000
BMO Capital Markets Limited (Joint Broker)	Tom Rider, Pascal Lussier Duquette, Neil Elliot +44 (0) 207 236 1010
Peat & Co (Joint Broker)	Charlie Peat +44 (0) 207 104 2334

***

OPERATIONAL REVIEW

PRODUCTION STATISTICS

Summary	Units	FY 2019	FY 2018	H2 2019	H1 2019	H2 2018	H1 2018
Waste stripping	t	21 674 951	9 464 138	12 065 147	9 609 804	4 903 781	4 560 357
Underground development	m	22 683	23 225	11 818	10 865	11 118	12 107
Waste dumps ore mined	t	291 845	69 469	145 596	146 249	22 173	47 296
Waste dumps ore grade	g/t	1.10	1.04	1.09	1.10	1.04	1.04
Open-pit ore mined	t	3 292 519	2 522 315	1 965 163	1 327 356	1 325 737	1 196 578
Open-pit ore grade	g/t	0.88	1.10	1.08	1.27	1.22	0.98
Underground ore mined	t	1 684 305	1 676 568	892 796	791 509	829 235	847 333
Underground ore grade	g/t	4.40	4.25	4.33	4.28	4.10	4.40
Total ore mined	t	5 268 669	4 268 352	3 003 555	2 265 114	2 177 145	2 091 207
Average grade	g/t	2.02	2.34	2.04	2.31	2.31	2.36
Ore processed	t	4 055 982	3 722 406	2 027 032	2 028 950	1 988 903	1 733 503
Average grade	g/t	2.46	2.69	2.82	2.59	2.59	2.79
Recovery rate	%	93.9	83.9	86.2	84.1	84.8	82.9
Gold and gold eq. produced	**oz**	**300 704**	**269 500**	**158 451**	**142 254**	**140 579**	**128 921**

Khabarovsk region

Mnogovershinnoye (MNV)	Units	FY 2019	FY 2018	H2 2019	H1 2019	H2 2018	H1 2018

Waste stripping	t	7 201 954	4 255 199	4 566 608	2 635 346	2 157 753	2 097 446
Underground development	m	11 694	11 783	6 124	5 570	5 860	5 923
Waste dumps ore mined	t	291 845	69 469	145 596	146 249	22 173	47 296
Waste dumps ore grade	g/t	1.10	1.04	1.09	1.10	1.04	1.04
Open-pit ore mined	t	236 355	426 986	60 166	176 189	286 004	140 982
Open-pit ore grade	g/t	2.30	2.42	2.07	2.38	2.50	2.23
Underground ore mined	t	814 391	810 806	434 057	380 334	402 903	407 903
Underground ore grade	g/t	3.95	3.31	3.89	4.01	3.52	3.10
Total ore mined	t	1 342 591	1 307 261	639 819	702 772	711 080	596 181
Average grade	g/t	3.04	2.90	3.08	2.99	3.03	2.73
Ore processed	t	1 391 859	1 310 293	687 607	704 252	701 167	609 126
Average grade	g/t	3.00	2.92	3.08	2.92	3.07	2.75
Recovery rate	%	92.0	92.3	92.3	91.7	93.2	92.0
Gold produced	**oz**	**123 814**	**112 608**	**64 497**	**59 317**	**64 518**	**48 090**

Belaya Gora	**Units**	**FY 2019**	**FY 2018**	**H2 2019**	**H1 2019**	**H2 2018**	**H1 2018**
Waste stripping	t	8 803 465	5 208 939	4 296 669	4 506 796	2 746 028	2 462 911
Ore mined	t	2 744 241	2 095 329	1 727 489	1 016 752	1 039 733	1 055 596
Average grade	g/t	0.86	0.84	0.84	0.88	0.86	0.81
Ore processed	t	1 550 888	1 578 890	772 104	778 784	860 022	718 868
Average grade	g/t	1.05	1.13	1.08	1.03	1.15	1.11
Recovery rate	%	77.6	74.78	80.2	74.9	76.4	75.4
Gold produced	**oz**	**40 067**	**44 085**	**21 745**	**18 322**	**24 281**	**19 804**

Zabaikalsky region

Novoshirokinskoye (Novo)	**Units**	**FY 2019**	**FY 2018**	**H2 2019**	**H1 2019**	**H2 2018**	**H1 2018**
Underground development	m	10 989	11 442	5 694	5 295	5 258	6 184
Ore mined	t	869 914	865 762	458 739	411 175	426 332	439 430
Average grade *	g/t	4.82	5.13	4.74	4.53	4.65	5.60
Ore processed	t	842 472	833 223	428 151	414 321	427 714	405 509
Average grade *	g/t	4.94	5.26	5.35	4.73	4.72	5.83
Recovery rate *	%	79.8	80.1	80.2	79.0	79.8	80.3
Gold eq. produced *	**oz**	**106 784**	**112 807**	**57 043**	**49 742**	**51 780**	**61 027**

Chukotka region

Valunisty**	**Units**	**FY 2019**		**H2 2019**	**H1 2019**
Waste stripping	t	5 669 532		3 201 870	2 467 662
Ore mined	t	311 923		177 508	134 415
Average grade *	g/t	3.06		3.02	2.76
Ore processed	t	270 763		139 170	131 593
Average grade *	g/t	3.64		3.44	3.37
Recovery rate *	%	95.2		94.6	95.2
Gold eq. produced *	**oz**	**30 039**		**15 166**	**14 873**

* Calculated in gold equivalent including silver, lead, zinc and copper for Novo and silver for Valunisty. Gold equivalent is calculated based on average factual prices for other metals during the period.
** Valunisty acquired at year-end 2018.

KHABAROVSK REGION, RUSSIA

Mnogovershinnoye (MNV)

- MNV recorded a 10% increase in gold production to 124 koz in 2019 compared with 113 koz in 2018, thereby accounting for some 41% of the Company's total output. This primarily reflected a year-on-year improvement in head grade from 2.90 g/t to 3.04 g/t and a 6% plus increase in processing volume to 1,391,000 tonnes.
- Access to high-grade blocks in the Deer ore body was reflected in a 16% year-on-year increase in Q4 ore grades from underground operations.
- Total ore mined for the full year was marginally higher at 1,342,591 tonnes despite a 14% year-on-year decline in Q4 due to a reduction in open-pit mining to facilitate stripping work in relation to new mining blocks at the Quiet ore body.
- The overall recovery rate was little changed at 92% (2018: 92.3%).

Management's long standing near-mine exploration programme continued throughout 2019 and benefited from the innovative method of drilling upward to locate new ore occurrences and downward from the surface to verify and delineate the relevant zones.

During the course of the year drilling focused on the Deep, Quiet, Intermediate, Northern and Deer ore bodies. This involved 216 holes encompassing 15,981 metres. Analysis of the results has commenced and tentative estimates of prospective additions to the gold reserves of several ore bodies are due to be finalised. Meanwhile, the assessment of MNV's historic waste dumps, which supplied 291,000 tonnes of ore at 1.1 g/t to the processing plant in 2019, is ongoing. An evaluation of stockpiles close to the Pebble ore body, with ore containing an estimated 900 kg of gold (29,000 oz of gold), was prepared in late 2019 and submitted for state expert review which is pending. In the wake of relevant geochemical prospecting work a full exploration programme, including diamond drilling and trenching, was carried out at various sites within the three greenfield licences adjacent to MNV namely: Kulibinskaya, Zamanchivaya and Vilkinskaya. Assay tests and associated analysis are in progress.

PRODUCTION COSTS
Total cash costs amounted to US$565 per oz (2018: US$600 per oz) while all-in sustaining costs were US$724 per oz (2018: US$757 per oz).

CAPITAL COSTS
A total of US$21.2 million was invested at MNV in 2019. This included capitalised expenditures and construction (US$9.1 million), purchase of equipment (US$10.3 million) and exploration (US$1.7 million).

OUTLOOK
With a view to further extending MNV's Life of Mine (LOM) beyond 2029 (originally 2018) near-mine exploration will continue in 2020, with primary focus on the Intermediate, Watershed and Upper ore bodies and on the Kulibinskaya and Vilkinskaya licence areas.

Close on 1 million tonnes of ore from waste dumps at approximately 1.1 g/t Au has been processed since 2016 and this programme will continue during the current year.

In line with the extension of LOM various improvements are planned at both the mine and the mill including replacements of equipment and machinery.

Capex in 2020 is estimated at US$26 million (maintenance: US$21 million; exploration: US$5 million).

Belaya Gora

- Belaya Goya recorded a 9% year-on-year decline in gold production to 40 koz in 2019 due to a combination of lower ore grades and operational challenges at the processing plant during the first half of the year. This represented a 13% contribution to total production.
- Ore mining more than doubled in Q4 2019 versus Q4 2018 and registered a 30% increase to 2,744,240 tonnes for the full year compared with 2,095,329 tonnes in 2018.

- Processing plant throughput for the year was only marginally lower at 1,550,888 tonnes (2018: 1,578,890 tonnes) despite a year-on-year decline of 12% in the fourth quarter. Recovery rates for the year advanced from 74.8% to 77.6% although the fourth quarter performance was substantially higher at 82.6%.

Work on the Company's planned upgrade to the processing plant and associated capital projects gathered momentum in Q4 2019. The addition of a carbon-in-pulp (CIP) circuit is designed to improve gold recoveries from 2019's 77.6% average to around 90% and also enable the processing of ore from the nearby Blagodatnoye deposit.

Other developments during Q4 2019 included:

- The completion, review, and revision of detailed design documentation and architectural plans for various structures including the layout of the enhanced processing plant. In order to reduce costs the new circuit will be housed in an adjacent building;
- Initial site preparations for construction of the sorption/elution circuit; and
- The development of plans for the expansion of the tailings dam, which are undergoing regulatory review. In addition, the construction of a new buttress on the existing dam was completed as was a raising of the level of the dam.

Exploration on the flanks of Belaya Gora also continued in Q4 2019, with particular focus on the Kolchansky ore zone. In December, the Company conducted 2,000 metres of diamond drilling to verify previously identified geophysical anomalies.

PRODUCTION COSTS
Total cash costs amounted to US$794 per oz (2018: US$724 per oz) while all-in sustaining costs were US$1,181 per oz (2018: US$811 per oz).

CAPITAL COSTS
A total of US$5.4 million was invested at Belaya Gora in 2019. This included capitalised expenditures and construction (US$4.9 million), purchase of equipment (US$0.1 million) and exploration (US$0.4 million).

OUTLOOK
The focus during 2020 will remain on upgrading the processing plant (scheduled for completion in H2 2020) and increasing recovery rates in order to fully capitalise on the utilisation of ore from the Blagodatnoye deposit. Improvements to the tailings dam are also ongoing. Equipment for the project was delivered in Q1 2020 and is now being transported to site.

In parallel with the drilling activity on the Belaya Gora flanks, a new exploration programme was developed covering Kolchansky and the entire Belaya Gora flanks licence through 2023. This was submitted for regulatory approval in December 2019.

Capex in 2020 is estimated at US$17 million (including US$14 million for the processing plant upgrade).

ZABAIKALSKY REGION, RUSSIA

Novoshirokinskoye (Novo)

- The final quarter of 2019 witnessed year-on-year improvements in grades and recovery rates of 22% and 3% respectively thereby raising the production of gold equivalent by 25% versus Q4 2018.

- The production of gold equivalent for the full year 2019 was above forecast at 106 koz but 5% below 2018's performance due to lower first half grades in addition to fluctuations in the balance of gold, silver, lead and zinc prices.

- Ore mining registered an 8% increase year-on-year in Q4 2019 to 231 k tonnes to give an overall volume of 870 k tonnes (2018: 886 k tonnes). Ore processing for the full year was marginally higher at 842 k tonnes (2018: 833 k tonnes).

The expansion of Novo's ore mining and processing capacity from 800 ktpa to 1.3 Mtpa remains the strategic priority. To this end, progress during Q4 2019 included:

- The completion of a buttress and the fifth level expansion of the tailings dam;
- The commencement of the construction of building foundations and air vents in relation to the new underground ventilation system; and
- The award of a contract for reconstruction of the skip hoist, scheduled for mid-2020.

PRODUCTION COSTS
Total cash costs amounted to US$391 per oz (2018: US$323 per oz) while all-in sustaining costs were US$467 per oz (2018: US$388 per oz).

CAPITAL COSTS
A total of US$13.0 million was invested at Novo in 2018. This included capitalised expenditures and construction (US$8.8 million) and purchase of equipment (US$4.2 million).

OUTLOOK
The construction of the infrastructure required to expand mine capacity (Stage 1), including the ventilation system, the skip hoist, the pumping station, the water treatment facility and the boiler unit, is at an advanced stage.

The X-ray transmission (XRT) ore sorting technology, integral to the expansion of the processing plant's capacity (Stage 2), has been manufactured and is expected to arrive on-site in mid-2020. Design work on the ore sorting facility will permit construction to commence later this year and completion of the entire project is scheduled for year-end 2020.

Capex in 2020 is estimated at US$35 million (mine/processing expansion: US$23 million; maintenance and exploration: US$12 million).

Baley Ore Cluster (Taseevskoye, Sredny Golgotay and ZIF-1)

Regulatory approval for the overall design of the Baley ZIF-1 Tailings heap leach project was received from the State Expert Panel in Krasnoyarsk in Q4 2019 following earlier sign-offs by the regional mining agency and state environmental experts.

The project is expected to deploy an annual processing capacity of 840,000 tonnes of ore per annum extracted from the former Baley processing plant's tailings dam. It is estimated that the latter contains approximately 9.7 million tonnes of slime at a grade of 0.98 g/t Au, capable of producing 15,000 oz of gold per annum. Construction design work is under way with commissioning scheduled for 2022. The estimated project cost is US$23 million over three years.

Contractor Wardell Armstrong completed work on a scoping study at the Sredny Golgotay deposit, presenting various options for the development of the project. More than 10 different technologies were reviewed in the report, which forms the basis of ongoing evaluation. In parallel, preparations are under way to select a contractor to undertake a pre-feasibility study encompassing geological, technical, metallurgical and hydro-geological assessments.

Project bureau Zabaikalzolotoproekt LLC completed amendments to the mine design for the Taseevskoye deposit (including relocation of the project's process water pond) which received approval from regulators in December 2019. This sets a new target of 2024 for the commencement of mining at Taseevskoye.

OUTLOOK:
The Baley project is close to the infrastructure -- electricity, roads, water, rail etc., -- associated with the town of the same name and serves to establish an operational base for future work on the Taseevskoye and Golgotay properties.

Application has been submitted for admission into the Trans-Baikal Advanced Special Economic Zone (ASEZ) which could potentially yield a series of tax incentives.

Design work in respect of the heap leach operation is under way and construction is scheduled to commence in the current financial year.

CHUKOTKA, RUSSIA

Valunisty

- Although final quarter and full year gold production at Valunisty recorded year-on-year declines of 13% and 20% respectively the outcome was in line with 2019's revised production plans following the decision to process ore from the Glavnaya and Novaya zones instead of the main Valunisty deposit and the satellite Gorny mine. Total output of 30 koz of gold and gold equivalent represented 10% of the Company's overall production.
- Ore mining for the full year was 4% lower at 312 k tonnes but processing volume registered a 13% increase to 271 k tonnes.

The Company carried out 4,720 metres of exploration drilling at Valunisty in 2019 and a further 918.5 metres at the surrounding KAS licence. Drilling results were used to update open-pit mining plans and will facilitate future reserve audits.

PRODUCTION COSTS
Total cash costs amounted to US$786 per oz while all-in sustaining costs were US$1,037 per oz.

CAPITAL COSTS
A total of US$3.7 million was invested at Valunisty in 2019. This included capitalised expenditures and construction (US$0.1 million), purchase of equipment (US$1.0 million) and exploration (US$2.6 million).

OUTLOOK
Medium-term plans for Valunisty include the expansion of the processing plant's capacity from 250,000 tonnes of ore per annum to 350,000 tonnes of ore per annum and the introduction of underground mining. In Q4 2019, contractors carried out inspections at the site and design work on both projects is in progress.
Capex in 2020 is estimated at US$9 million (maintenance and exploration: US$7 million; project work: US$2 million).

Kekura

Kekura, the Company's premier development project, conducted its first blast in October 2019 with pre-stripping and initial mining activity continuing throughout the quarter. Phase 1 facilities that are complete or close to completion include: fuel storage, the assay laboratory, middlings storage, the dispatcher's room, the communications tower, the power substation and internal power lines and the water pumping station. Testing work on the power substation was completed in Q4 2019, as was the refurbishment of the pilot processing plant and the crushing unit together with ground preparations for camp expansion and the assembly of mining equipment.

As announced last year, the Kekura project has been granted residency within the Chukotka Advanced Special Economic Zone (ASEZ), a development that adds an estimated US$100 million to the net present value (NPV) of the enterprise.

Design documentation in relation to mine construction and the planned 800,000 tonnes per annum processing plant, was submitted for environmental review in Q4 2019 and has already received sign-off from the sanitation regulators.

OUTLOOK
Procurement of infrastructure materials and equipment is currently under way (to facilitate port deliveries during the summer navigation window) as 2020 sees the onset of Phase 2, including construction of the main processing plant and the repair shop.

Completion of the project, with an estimated Life of Mine of 16 years, is scheduled for 2023. Capex in 2020 is estimated at US$107 million (2019: US$38.7 million).

Klen

Further exploration was carried out at Klen and the surrounding Verkhne-Krichalskaya zone during 2019. Evaluation of the drilling results is currently in progress.

In addition, X-ray transmission (XRT) bulk sorting tests on ore samples were carried out to ascertain whether the use of such sensor-based technology would be appropriate.

As with Kekura, July 2019 brought official confirmation that the Klen project had been granted residency in the Chukotka Advanced Special Economic Zone (ASWZ), thereby becoming eligible to receive potential tax incentives.

KYRGYZSTAN

Unkurtash

The scoping study completed in 2017 foresaw:

- Two open-pits and an 18-year LOM;
- Processing plant utilisation of gravity concentration and gravity tailings CIL with an annual throughput of 4 million tonnes and recoveries of more than 80%;
- Annual production of 133,000 oz Au at an average operating cost of US$616 per oz; and
- Estimated Capex of US$322 million to commence production.

There were no substantial developments during the reporting year, however, the Company's budget for the current financial year includes funding for the initiation of a pre-feasibility study to further the search for a prospective partner.

HEALTH, SAFETY & ENVIRONMENT

We deeply regret that, despite management's sustained health and safety endeavours, the Company experienced five fatalities during the first half of 2019.

In addition to internal investigations and detailed safety briefings with employees, the Board commissioned external consultants to conduct an extensive audit of the Company's Health and Safety practices in autumn 2019. These exercises were carried out at Novo, Belaya Gora and MNV in November-December 2019. Three of the aforementioned fatalities occurred at Novo and two at Belaya Gora.

The Board also appointed a new senior executive to oversee the Company's HSE operations and a 2020 labour safety action plan, based on current risk assessment data, is close to completion.

Meanwhile, management will continue to pursue its zero accident safety targets by endeavouring to minimise operational risks and the provision of extensive employee training programmes. The Company has always encouraged employees to develop a sense of accountability for their safety and the safety of others at the workplace: a message that will be underlined throughout the current year.

During 2019, the Lost Time Incident Frequency Rate (LTIFR), based on the number of incidents for every 1,000,000 man-hours, declined to 2.60 (2018: 4.01). A total of 14 minor accidents were recorded across the Company (five at Valunisty, four at Novo, four at MNV and one at Belaya Gora) compared with 22 in 2018.

Employee training courses during Q4 2019 included "Analysis of safe work performance" (attended by 25 Novo personnel and 65 MNV employees); "Conscious safety attitude" (34 Novo personnel and 63 MNV employees); and "Efficient safety management methods" and "Behavioural safety audits" (22 MNV managers).

Throughout the year, a total of 1,656 employees attended training sessions focused on specific aspects of the Company's Health & Safety standards.

The year also saw the revision or introduction of a range of corporate standards which covered:

- Contractor safety management;
- Emergency medical response;
- Leader inspections;
- HSE risk assessment;
- Safe working practices analysis;
- Hazard identification; and
- STOP (Safety Training Observation Programme) cards designed to assist employees in making safety assessments before commencing a task.

In addition, the Company opened a driving school near MNV and Belaya Gora in the town of Nikolaevsk-na-Amur, installed new health screening equipment at each operating mine, ordered new ambulatory vehicles and contracted International SOS to improve medical services.

The management-level HSE Committee and the Board of Directors' HSE Committee each held three meetings during the course of the year. Respective agendas covered all the topics outlined above, including detailed discussions of safety incidents and issues related to the ongoing implementation and improvement of the Company's Health & Safety strategy.

Environment

In December 2019, the Russian chapter of the World Wide Fund for Nature (WWF) published its annual Environmental Transparency Rating for mining and metals companies operating in Russia. Highland Gold achieved its highest-ever overall ranking of #13 out of the 40 largest companies in the industry and notably achieved second place in relation to lowest environmental impact. The WWF also recognised the Company for the most improved performance in respect of the level of information provided for the rating.

In Q2 2019, management launched a company-wide contest to collect plastic for recycling with an end-year time frame. All employees participated and the final tally revealed that 4.4 tonnes of plastic had been collected across the Company's operations, with Novo leading the way with a contribution of 1.8 tonnes. The contest served as a basis for expanding trash sorting across the Company's operations while also educating employees as to the importance of recycling.

Minimising the impact of Highland Gold Mining's operations on the environment remains a key management priority and an environmental monitoring system is in place at each of the Company's operating sites.

During the fourth quarter, external consultants DNV conducted supervisory audits of environmental management systems at the Moscow office, Belaya Gora and MNV to assure compliance with the ISO 14001-2015 standard. No major deficiencies were identified, which confirms that the environmental management systems in place are effective.

Some 2,615 employees underwent refresher training on environmental safety in Q4 2019, while 130 employees received training on class I-IV hazard waste treatment with subsequent testing via the OlimpOKS system. A further 53 managers and specialists attended external professional environmental courses at specific training centres.

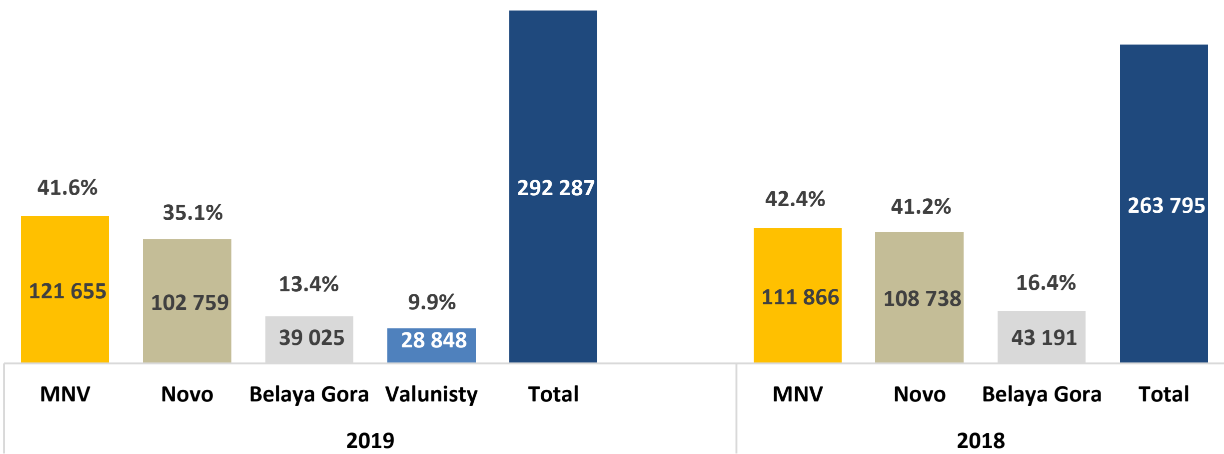
FINANCIAL REVIEW

Favourable trends in global markets facilitated Highland Gold's solid financial performance in 2019, namely through higher gold prices, a weak local currency, and lower interest rates on bank loans. For the first time in its history, the Company recorded production of over 300,000 ounces, generating EBITDA of US$205.1 million and funding a US$98.2 million investment in projects. The Company can also pride itself on providing shareholders with a competitive dividend yield for the eighth consecutive year.

Revenue for 2019 totalled US$395.4 million, with US$265.5 million coming from sales of gold and silver produced at MNV, Belaya Gora and Valunisty, and US$128.2 million from sales of lead and zinc concentrates from Novo (in 2018, those figures were US$311.2 million, US$196.6 million and US$113.8 million, respectively). The Company sold 292,287 oz of gold and gold equivalent, representing an 11% increase versus the previous year.

Sales growth was driven primarily by the late-2018 acquisition of Valunisty, which sold 28,848 Au eq oz and contributed 10% to the total sales volume. MNV increased its sales by 9% to 121,655 oz, representing a 42% share of the total. Novo's contribution was 102,759 oz of Au eq or 35% of sales. Novo's sales volume decreased by 5% as a result of changes in the conversion rate for other metals (silver, lead, zinc and copper) into gold equivalent, as the higher gold price and lower price of other metals resulted in a lower quantity of Au eq ounces sold. Belaya Gora's sales volume dropped to 39,025 oz and accounted for a 13% share.

Gold and GE sold by mine (oz)



Highland Gold continued to pursue a "no hedge" policy in 2019. The average realised price of gold and gold equivalent for the Company as a whole increased to US$1,344 per oz (2018: US$1,171 per oz). The average realised price of gold in respect of MNV and Belaya Gora (net of commission) was US$1,396 per oz (2018: US$1,258 per oz), which corresponded with the average market price. The price of gold equivalent realised by Novo was US$1,248[2] per eq. oz (+19% y-o-y).

The Company's cost of sales excluding depreciation increased by 22% to US$165.4 million (2018: US$135.9 million). Excluding the newly-acquired Valunisty, with its higher production cost profile, costs grew just 4% and totalled US$141.6 million. The Company was able to maintain relatively stable operating costs despite higher electricity tariffs (+27% in Khabarovsk and +9% in Chukotka), a 10% increase in salaries at the production sites, and higher prices for imported reagents and grinding balls. At the same time, the positive effect of a weak rouble was less noticeable, resulting in only a 2.7% offset.

Depreciation amounted to US$48.8 million, increasing by US$6.5 million mainly due to the acquisition of Valunisty (US$4.0 million).

Cash Operating Costs – Breakdown

	2019 US$000	**2018 US$000**	**y-o-y change**
Cost of sales	**214,283**	**178,222**	**20.2%**
- depreciation, depletion and amortisation	(48,848)	(42,304)	15.5%
Cost of sales, excluding depreciation, depletion and amortisation	**165,435**	**135,918**	**21.7%**
Breakdown per item:			
Labour	62,583	47,439	31.9%
Consumables and spares	47,680	39,494	20.7%
Power	14,493	10,725	35.1%
Movement in ore stockpiles, finished goods and	(31,854)	(3,084)	932.9%

[2] *Novo's average price is based on the spot price for metals contained in the concentrates (gold, lead, zinc and silver), net of fixed processing and refining costs at third-party plants.*

stripping assets			
Maintenance, repairs and third-party services	51,528	23,906	115.5%
Taxes other than income tax	21,005	17,438	20.5%
	165,435	**135,918**	**21.7%**

Total cash costs[3] (TCC) recorded a 10% increase to US$556 per oz mainly influenced by inclusion of Valunisty (TCC US$786 per oz) into the Company's assets portfolio, but they were nevertheless comfortably below the industry average. A breakdown by operating units shows:

MNV, our oldest mine, succeeded in improving total cash costs to US$565 per oz (2018: US$600 per oz) despite the aforementioned pressure on energy, labour and supply costs. Our lowest-cost producer, Novo, increased TCC by 22% to US$391 per eq. oz (2018: US$321 per oz), resulting from the dip in sales volume and higher labour costs. Belaya Gora's total cash costs rose to US$794 per oz (2018: US$724 per oz) reflecting lower grade ore processing and the hiring of two contractors for mining activities.

All-in sustaining costs[4] (AISC) grew by 16 % to US$791 (2018: US$682) per oz, with the change mainly driven by the impairment of low-grade ore at Belaya Gora and Valunisty in the amount of US$12.0 million (2018: US$0.7 million), more supporting capex at MNV, Belaya Gora and Novo, and higher TCC.

TCC and AISC Calculation

	2019 US$000	**2018 US$000**	**y-o-y change**
Cost of sales, excluding depreciation, depletion and amortisation	**165,435**	**135,918**	**21.7%**
- cost of by-products and other sales	(2,709)	(1,986)	36.4%
- taxes other than income tax at non-operating entities	(167)	(355)	(53.0%)
Total cash costs (TCC)	**162,559**	**133,577**	**21.7%**
+ administrative expenses	18,736	17,163	9.2%
+ accretion and amortisation on site restoration provision	2,176	1,460	49.0%
+ movement in ore stockpiles obsolescence allowance	11,998	722	1,561.8%
+ sustaining capital expenditure	35,706	27,018	32.2%
Total all-in sustaining costs (AISC)	**231,175**	**179,940**	**28.5%**
Gold sold (gold and gold eq.oz)	292,287	263,795	10.8%
TCC (US$/oz)	**556**	**506**	**9.8%**
AISC (US$/oz)	**791**	**682**	**15.9%**
Average realised price of gold equivalent (US$/oz)	**1,344**	**1,171**	**14.8%**
Headroom (US$/oz)	**553**	**489**	**13.1%**

Administrative expenses amounted to US$18.7 million (2018: US$17.2 million), reflecting increased costs for sustainable improvement projects and competence centres, as well as bonus payments to employees linked to various KPIs.

The high gold price, combined with our competitive cost position, delivered strong headroom of about US$553 per oz, effectively underwriting the Company's development projects and dividend distributions.

[3] *Total cash costs include mine site operating costs such as mining, processing, administration, royalties and production taxes but are exclusive of depreciation, depletion and amortisation, capital and exploration costs. Total cash costs are then divided by ounces sold to arrive at the total cash costs of sales. This data provides additional information and is a non-GAAP measure.*

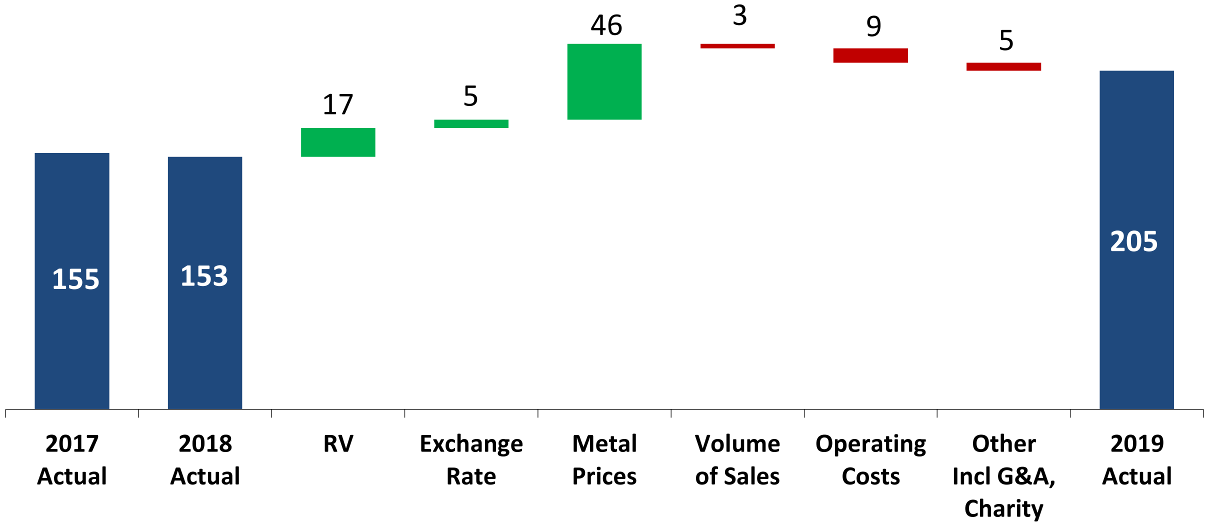
[4] *In line with guidance issued by the World Gold Council, the formula used to define the all-in sustaining costs measurement commences with total cash costs per ounce sold and then adds sustaining capital expenditures, corporate general and administrative costs, mine site exploration and evaluation costs and environmental rehabilitation costs. This data seeks to represent the total costs of producing gold from current operations and therefore it does not include capital expenditures attributable to projects or mine expansions, exploration and evaluation costs attributable to growth projects, income tax payments, interest costs or dividend payments.*

EBITDA[5] improved to US$205.1 million (2018: US$153.1 million), and the EBITDA margin[6] was 52%, on par with the world's most efficient gold producers.

EBITDA Reconciliation to Operating Profit

	2019 US$000	2018 US$000
Operating profit	**161,483**	**109,186**
Depreciation of mine properties and property, plant and equipment	48,848	42,304
Individual impairment of property, plant and equipment and mine assets	236	803
Reversal of impairment related to cash-generating units	(18,227)	-
Movement in ore stockpiles obsolescence allowance	11,997	722
Movement in raw materials and consumables obsolescence allowance	742	45
EBITDA	**205,079**	**153,060**

EBITDA Bridge (US$m)



The increase in other operating expenses from US$6.6 million in 2018 to US$19.1 million in 2019 was mainly related to a US$12.0 million movement in ore stockpiles obsolescence allowance at Belaya Gora and Valunisty during the reporting period.

The Company's management has analysed internal and external indicators of impairment as of 31 December 2019 and no impairment loss relating to our cash generating units was recognised. Conversely, Kekura and Klen were both granted residency status in the Chukotka Advanced Special Economic Zone (ASEZ), thereby qualifying them for a series of tax incentives. These incentives, combined with substantial progress with the development programme and stronger gold prices, were the main triggers for the Company to record an US$18.2 million reversal of impairment loss accrued in the year 2015 in respect of Kekura assets.

In 2019, the Company recognised a net finance cost of US$2.0 million compared with US$1.8 million in 2018. The principal component was the accretion expense on site restoration provision of US$2.1 million in 2019 (2018: US$1.5 million).

A foreign exchange loss of US$0.8 million (2018: gain of US$0.8 million) resulted from the settlement of foreign currency transactions and the conversion of monetary assets and liabilities denominated in Russian roubles into US Dollars.

[5] *EBITDA is defined as operating profit/(loss) excluding depreciation and amortisation, impairment losses or reversal, movement in ore stockpiles obsolescence allowance, movement in raw materials and consumables obsolescence allowance, result of disposal of a non-core entity and gain on settlement of contingent consideration.*
[6] *EBITDA margin is defined as EBITDA divided by total revenue.*

The Company recognised an income tax credit of US$19.1 million in 2019, versus a tax charge of US$52.2 million in 2018. The main reason was a substantial increase in deferred tax credit of US$67.8 million (2018: tax expenses of US$18.3 million) driven by a significant decrease in future tax related to Kekura and Klen as a result of the ASEZ tax incentives. Current tax expenses totalled US$37.3 million (2018: US$20.2 million) and comprised income tax expense of US$19.2 million (2018: US$9.8 million) at MNV, US$16.0 million (2018: US$10.3 million) at Novo, US$1.7 million at Valunisty, US$0.3 million (2018: US$0.1 million) at Belaya Gora and US$0.1 million (2018: US$0.05 million) at RDM. The withholding tax expense was US$11.4 million (2018: US$13.7 million).

Net profit, benefiting from strong operating results and supported by deferred tax credit, more than tripled to US$177.8 million (2018: US$56.1 million). Consequently, earnings per share jumped to US$0.487 for the year ended 31 December 2019 (2018: US$0.154).

The Company's cash inflow from operations rose by 1.6% to US$138.5 million, reflecting higher current income tax payments (+US$8.0 million) and a US$37.1 million increase in working capital due to the pending reimbursement of VAT for Q4 (+US$10.3 million), larger stockpiles (+US$20.8 million) and gold bars remaining on site.

Capital expenditure for the reporting period amounted to US$89.3 million versus US$62.3 million in respect of 2018. Stripping capitalised costs at MNV, Belaya Gora and Valunisty were US$8.9 million compared to US$1.3 million in 2018. Key expenses included near-mine exploration designed to further extend the life of mine at MNV, work on the expansion of Novo’s mining and processing capacity, the progression of the Kekura project, and the replacement of obsolete equipment.

Capital expenditures broken down by asset were: US$21.2 million at MNV, US$13.0 million at Novo, US$5.4 million at Belaya Gora, US$3.7 million at Valunisty, US$38.7 million at Kekura, US$2.7 million at Taseevskoye and US$4.6 million in relation to other exploration and development projects. Capital expenditures were entirely funded by operating cash flow and bank loans.

All of the Company’s debt is denominated in US dollars. The debt in relation to facility agreements with banks amounted to US$288.0 million as of 31 December 2019 (2018: US$247.9 million, including Valunisty). This amount was inclusive of the IFRS 9 modification impact. The effective annual interest rate was 3.76% (2018: 4.24%) with average tenor 47 months.

Cost of debt management

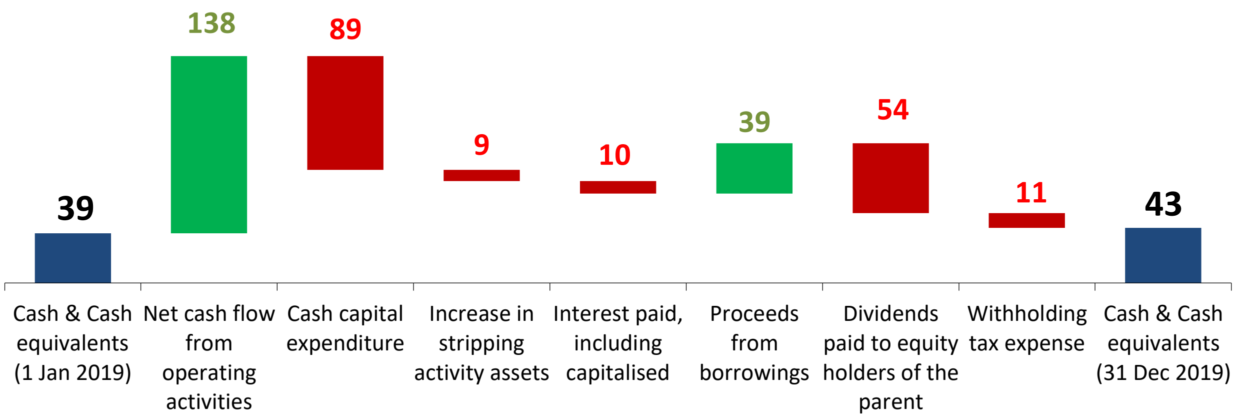
	31 Dec 2019 US$000	**31 Dec 2018 US$000**
Gross debt	288,025	247,851
Net debt	250,169	211,433
Interest rate	3.76%	4.24%
Net debt/EBITDA	1.22x	1.38x

At the end of the reporting period, cash and cash equivalents amounted to US$42.9 million compared with US$38.7 million as of 31 December 2018. The Company’s net debt[7] position, including lease liabilities, was US$250.2 million as of 31 December 2019, compared with US$211.4 million as of 31 December 2018.

The ratio of net debt to EBITDA was 1.22 as at the end of 2019 (2018: 1.38 including Valunisty) which is well within the Board of Directors' debt policy.

[7] *Net debt is defined as cash and cash equivalents less interest-bearing loans and lease liabilities.*

Cash position bridge (US$m)



Taking into account the Company's solid financial performance and stable balance sheet, the Board is pleased to declare a third interim dividend of GBP 0.035 per share.

PAYMENT OF DIVIDENDS

The third interim dividend for the year ending 31 December 2018 in the amount of US$11.0 million (2018: US$24.2 million) was paid in May 2019.

With respect to 2019, the Company paid a first interim dividend of GBP 0.05 per share for the first half of the year (2018: interim dividend of GBP 0.06 per share) which resulted in an aggregate interim dividend payment of US$22.5 million (2018: US$25.5 million). The first interim dividend was paid in September 2019.

In December, the Board approved a second interim dividend of GBP 0.05 per share (2018: GBP 0.05 per share) which, taking into account the first interim dividend paid in September 2019, brought the total dividends paid to GBP 0.10 per share for the year 2019 (2018: GBP 0.11 per share). The second interim dividend, totalling US$23.8 million, was paid to shareholders in January 2020. The total payout exceeds the minimum amount prescribed in the Company's dividend policy, reflecting the availability of additional funds for disbursement to shareholders.

The Board declared a third interim dividend of GBP 0.035 per share (2018: GBP 0.024) to be paid on 05 June 2020, thereby bringing the total payout based on the 2019 financial year to GBP 0.135. The ex-dividend date is 23 April 2020 and the record date is 24 April 2020.

The Company offers an option for shareholders to elect to receive their dividends in US dollars. Payments for dividends in US dollars will be fixed at an exchange rate of 1.2624 GBP/US$, or US$0.044 per share. To receive payment in US dollars, shareholders should complete and file the Currency Election Form no later than the record date (Election Deadline), 15 May 2020. The form and instructions for filing it are available on the dividends page of the Investors' section of the Highland Gold website.
(https://www.highlandgold.com/home/investors/dividends/)

Rounding of figures may result in computational discrepancies

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December

	2019	***2018***
	US$000	***US$000***
Revenue	395,386	311,153
Cost of sales	(214,283)	(178,222)
Gross profit	**181,103**	**132,931**
Administrative expenses	(18,736)	(17,163)
Other operating expenses, net	(19,111)	(6,582)
Reversal of impairment	18,227	–
Operating profit	**161,483**	**109,186**
Foreign exchange (loss)/gain, net	(786)	834
Finance costs, net	(1,966)	(1,772)
Profit before income tax	**158,731**	**108,248**
Current income tax expense	(37,313)	(20,166)
Withholding tax expense	(11,431)	(13,704)
Deferred income tax credit/(expense)	67,807	(18,294)
Total income tax credit/(expense)	**19,063**	**(52,164)**
Profit for the year	**177,794**	**56,084**
Total comprehensive income for the year	**177,794**	**56,084**
Profit for the year attributable to:		
Equity holders of the parent	177,190	56,040
Non-controlling interests	604	44
Earnings per share (US$ per share)		
Basic and diluted earnings per share attributable to ordinary equity holders of the parent	0.487	0.154

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December

	2019	*2018*
	US$000	***US$000***
ASSETS		
Non-current assets		
Exploration and evaluation assets	101,531	92,972
Mine properties	698,163	649,716
Property, plant and equipment	342,924	316,928
Goodwill	63,651	63,651
Inventories	5,742	2,566
Deferred income tax asset	3,584	2,163
Other non-current assets	21,887	12,338
Total non-current assets	**1,237,482**	**1,140,334**
Current assets		
Inventories	81,391	70,459
Trade and other receivables	44,957	29,969
Prepayments	2,872	2,429
Income tax prepaid	1,522	3,074
Cash and cash equivalents	42,919	38,736
Other current assets	2,853	2,107
Total current assets	**176,514**	**146,774**
TOTAL ASSETS	**1,413,996**	**1,287,108**
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Issued capital	634	634
Share premium	786,613	786,496
Assets revaluation reserve	832	832
Retained earnings	160,665	40,905
Total equity attributable to equity holders of the parent	**948,744**	**828,867**
Non-controlling interests	2,935	2,331
TOTAL EQUITY	**951,679**	**831,198**
Non-current liabilities		
Interest-bearing loans	274,568	153,674
Lease liabilities	3,377	1,558
Non-current payables	376	355
Income tax payable	1,422	1,600
Provisions	38,270	24,777
Deferred income tax liability	66,840	133,226
Total non-current liabilities	**384,853**	**315,190**
Current liabilities		
Interest-bearing loans	13,456	94,177
Lease liabilities	1,686	760
Trade and other payables	58,183	45,412
Income tax payable	4,139	371
Total current liabilities	**77,464**	**140,720**
TOTAL LIABILITIES	**462,317**	**455,910**
TOTAL EQUITY AND LIABILITIES	**1,413,996**	**1,287,108**

The financial statements were approved by the Board of Directors on 14 April 2020 and signed on its behalf by: John Mann and Olga Pokrovskaya.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December

	2019	*2018*
	US$000	***US$000***
Operating activities		
Profit before income tax	158,731	108,248
Adjustments to reconcile profit before income tax to net cash flows from operating activities:		
Depreciation of mine properties and property, plant and equipment	48,848	42,304
Reversal of impairment related to cash-generating units	(18,227)	–
Write-off of mine properties and property, plant and equipment	2,026	235
Individual impairment of property, plant and equipment and mine assets	236	803
Loss on disposal of property, plant and equipment	131	–
Movement in ore stockpiles obsolescence allowance	11,997	722
Movement in raw materials and consumables obsolescence allowance	742	45
Movement in allowance for expected credit losses on prepayments and other receivables	120	2,577
Bank interest receivable	(475)	(350)
Interest expense on bank loans	–	400
Interest expense on lease liabilities	365	223
Accretion expense on site restoration provision	2,077	1,500
Foreign exchange gain, net	786	(834)
	207,357	**155,873**
Movements in working capital:		
(Increase)/decrease in trade and other receivables and prepayments	(18,963)	4,615
Increase in non-current inventories	(15,057)	(2,664)
(Increase)/decrease in current inventories	(9,508)	6,760
Increase/(decrease) in trade and other payables	6,425	(4,547)
Cash flows from operations	**170,254**	**160,037**
Income tax paid	(31,806)	(23,790)
Net cash flows from operating activities	**138,448**	**136,247**
Investing activities		
Proceeds from sale of property, plant and equipment	254	595
Purchase of property, plant and equipment	(89,275)	(62,347)
Capitalised interest paid	(9,724)	(7,189)
Increase in stripping activity assets	(8,938)	(1,304)
Interest received from deposits	475	350
Cash of acquired subsidiaries	–	758
Net cash flows used in investing activities	**(107,208)**	**(69,137)**
Financing activities		
Proceeds from loans	248,251	135,711
Repayments of loans	(209,019)	(111,320)
Interest paid on loans	–	(178)
Payments of lease liabilities	(1,574)	(1,077)
Interest paid on lease liabilities	(188)	(223)
Dividends paid to equity holders of the parent	(54,355)	(49,627)
Dividends paid to shareholders of non-controlling interests	–	(22)
Withholding tax paid	(11,431)	(13,602)
Net cash flows used in financing activities	**(28,316)**	**(40,338)**
Net increase in cash and cash equivalents	**2,924**	**26,772**
Cash and cash equivalents at the beginning of the year	**38,736**	**12,388**
Effect of foreign exchange rate changes on cash and cash equivalents	1,259	(424)
Cash and cash equivalents at the end of the year	**42,919**	**38,736**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Corporate information

The consolidated financial statements of Highland Gold Mining Limited for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 14 April 2020.

Highland Gold Mining Limited (the Company) is a public company incorporated and domiciled in Jersey. The registered office is located at 26 New Street, St Helier, Jersey JE2 3RA. 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.

Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for financial instruments carried at fair value and assets and liabilities acquired in a business combination that have been measured at fair value.

All values are rounded to the nearest thousand (US$000), except where otherwise indicated.

Statement of compliance

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

Going concern

The Directors consider that the Group will continue as a going concern.

To support the Directors' going concern assessment, cash flow forecasts have been prepared and these have been stress tested under various scenarios. The assessment has included a focus on the potential impacts of the COVID-19 pandemic on Highland Gold's operations and financial position, noting that the impacts to date have benefited the Group's cash flows through higher gold prices and a weaker rouble. While the financial effect of the current COVID-19 crisis on the Group's business activities cannot be estimated with reasonable certainty at this stage, the Directors have identified certain risks related to the coronavirus pandemic and associated mitigating actions related to employee health, partial or complete shutdown of production and timely supply of equipment and materials.

The going concern assessment has considered the impact on liquidity and loan covenants of a sustained decrease in gold prices as compared to current market forecasts and a strengthening of the rouble, noting no breach of covenants in either scenario, or a combination of both downside scenarios. The Directors also note that, in the event of any lengthy interruption to production as a result of the COVID-19 pandemic, there are various mitigating actions readily available to the Group including the implementation of cost reductions, deferral of capital expenditure and draw down on available credit facilities which would adequately safeguard the Group's ongoing liquidity.

Having made relevant enquiries and following a thorough review by the Board's Audit & Risk Committee, the Directors believe that it is appropriate to adopt the going concern basis in the preparation of the financial statements in view of the fact that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Basis of consolidation

These consolidated financial statements comprise the financial statements of Highland Gold Mining Limited and its subsidiaries, from the date on which the Group obtains control until the date that control effectively ceases. Refer to Note 29 for details.

The financial statements of the Company and its subsidiaries are prepared as at the same reporting date and for the same reporting period, using uniform accounting policies. All intercompany balances, transactions, unrealised gains and losses on intercompany transactions are eliminated in full. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the parent.

Business combinations

Prior year acquisition of Valunisty

On 27 December 2018, the Group acquired from Aristus Holdings Limited a 100% interest in three companies with assets in the Russian region of Chukotka: Rudnik Valunisty LLC, Kanchalano-Amguemskaya Square LLC and Severo-Vostochnaya Gorno-Geologicheskaya Company LLC. The assets include the Valunisty gold mine and processing plant, the Kanchalano-Amguemskaya Square (KAS) licence, which covers territory surrounding Valunisty and hosts several satellite deposits, and the Kayenmivaam (Kayen) exploration licence.

It was a non-cash transaction during which the Group issued 38,621,343 ordinary shares of £0.001 each to Aristus. Costs incurred in relation to the acquisition during the year ended 31 December 2018 amounted to US$0.8 million.

The Group determined that this transaction represents a business combination.

Purchase consideration	**US$000**
Issued shares	68,126
Total consideration transferred	**68,126**

Fair value of issued shares was determined by multiplying the number of shares by market share price as at the acquisition date – 27 December 2018.

Assets acquired and liabilities assumed

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

	Fair value recognised on acquisition US$000
Assets	
Non-current assets	
Exploration and evaluation assets	1,789
Mine properties	42,398
Property, plant and equipment	29,174
Deferred income tax asset	2,066
Other non-current assets (Note 20)	2,820
Total non-current assets acquired	**78,247**
Current assets	
Inventories	18,206
Trade and other receivables	1,516
Cash and cash equivalents	758
Other current assets	383
Total current assets acquired	**20,863**
Total assets acquired	**99,110**
Liabilities	
Non-current liabilities	
Interest-bearing loans	(17,563)
Lease liabilities	(145)
Income tax payable	(1,600)
Provisions	(7,197)
Deferred income tax liability	(7,350)
Total non-current liabilities assumed	**(33,855)**
Current liabilities	
Interest-bearing loans	(186)
Trade and other payables	(2,791)
Total current liabilities assumed	**(2,977)**
Total liabilities assumed	**(36,832)**
Total identifiable net assets at fair value	**62,278**
Goodwill arising on acquisition	**5,848**
Total consideration transferred	**68,126**

The purchase price allocation to the identifiable assets and liabilities of the business acquired has been finalised: there have been no changes to the preliminary assessment in the consolidated financial statements for the year ended 31 December 2018.

The goodwill balance of US$5.8 million is the result of the requirement to recognise a deferred tax liability calculated as the difference between the tax effect of the fair value of the assets and liabilities acquired and their tax bases. Goodwill is allocated entirely to the Chukotka region CGU. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group did not assess the amount of revenue and profit assuming that the combination had taken place at the beginning 2018 because of the absence of corresponding figures under IFRS.

Segment information

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

- Gold production of Khabarovsk region;
- Gold production of Chukotka region;
- Polymetallic concentrate production;
- Development and exploration; and
- Other.

The Gold production of Khabarovsk region reportable segment comprises two operating segments, namely Mnogovershinnoye (MNV) and Belaya Gora (BG) at which level management monitors its results for the purpose of making decisions about resource allocation and evaluating the effectiveness of its activity. MNV and BG have been aggregated into one reportable segment as they exhibit similar long-term financial performance and have similar economic characteristics: nature of products (gold and silver), nature of production processes, type of customer for their products (banks), methods used to distribute their products and the nature of the environment (both are located in the Khabarovsk region).

Following the acquisition of subsidiaries in late December 2018, another operating and reportable segment was identified – the Gold production of Chukotka region. This new segment consists of three companies, namely Valunisty (VAL), Kanchalano-Amguemskaya Square (KAS) and Severo-Vostochnaya Gorno-Geologicheskaya Company (Kayen), All three companies operate in the same region and have similar economic characteristics. They produce gold and silver and perform exploration work with the aim of extending their reserves base.

The Polymetallic concentrate production segment, namely Novoshirokinskoye (Novo), is analysed by management separately due to the fact that the nature of its activities differs from the gold production process.

The Development and exploration segment contains entities which hold licences in the development and exploration stage: Kekura, Klen, Taseevskoye, Unkurtash, Lubov, and related service entities: Zabaykalzolotoproyekt (ZZP) and BSC.

Head office, management company and other non-operating companies have been aggregated to form the Other reportable segment.

Segment performance is evaluated based on EBITDA (defined as operating profit excluding depreciation and amortisation, impairment losses or reversal of impairment, movement in ore stockpiles obsolescence allowance, movement in raw materials and consumables obsolescence allowance and gain on settlement of contingent consideration). The Development and exploration segment is evaluated based on the LOM models with reference to the capital expenditure spent during the reporting period.

The following tables present revenue, EBITDA and other segment information for the Group’s reportable segments. The segment information is reconciled to the Group’s profit after tax for the year. Finance income and costs, income tax and foreign exchange gains and losses are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 4 of these consolidated financial statements.

Revenue from several customers was greater than 10% of total revenue.

In 2019 the gold and silver revenue reported in the Gold production segment of Khabarovsk region was received from sales to Gazprombank in the amount of US$166.1 million (2018: US$196.6 million), to Sberbank in the amount of US$54.6 million (2018: no sales to Sberbank) and to MOEX in the amount of US$4.7 million (2018: no sales to MOEX) in the territory of the Russian Federation.

In 2019 the gold and silver revenue reported in the Gold production segment of Chukotka region was received from sales to Gazprombank in the amount of US$40.1 million in the territory of the Russian Federation.

In 2019 the concentrate revenue reported in the polymetallic concentrate production segment in the amount of US$48.9 million was received from sales to Kazzinc (2018: US$40.0 million) in the territory of the Republic of Kazakhstan and to Hyosung TNC in the territory of the People's Republic of China in the amount of US$79.3 million (2018: Hyosung and Trafigura corporation in the territory of the People's Republic of China in the amount of US$72.8 million and Hyosung TNC in the territory of South Korea in the amount of US$1.0 million).

Other third-party revenues in both 2019 and 2018 were received in the territory of the Russian Federation.

Inter-segment revenues mostly represent management services.

Year ended 31 December 2019	Gold production of Khabarovsk region US$000	Gold production of Chukotka region US$000	Polymetallic concentrate production segment US$000	Development and exploration US$000	Other US$000	Eliminations US$000	Total US$000
Revenue							
Gold sales	224,348	35,996	–	–	–	–	**260,344**
Silver sales	1,075	4,103	–	–	–	–	**5,178**
Concentrate sales *	–	–	128,245	–	–	–	**128,245**
Other third-party sales	84	1,135	325	–	75	–	**1,619**
Inter-segment sales	42	–	–	–	399	(441)	**–**
Total revenue	**225,549**	**41,234**	**128,570**	**–**	**474**	**(441)**	**395,386**
Cost of sales	129,145	28,116	56,934	190	179	(258)	214,306
Segment EBITDA	121,314	17,353	86,581	(1,999)	(676)	–	222,573
Unallocated							(17,494)
Consolidated EBITDA							**205,079**
Other segment information							
Depreciation	(27,747)	(4,017)	(16,177)	(7)	(900)	–	**(48,848)**
Movement in ore stockpiles obsolescence allowance	(7,463)	(4,534)	–	–	–	–	**(11,997)**
Movement in raw materials and consumables obsolescence allowance	(135)	(669)	62	–	–	–	**(742)**
Individual impairment of property, plant and equipment and mine assets	(236)	–	–	–	–	–	**(236)**
Reversal of impairment related to cash-generating units	–	–	–	18,227	–	–	**18,227**
Finance costs, net							**(1,966)**
Foreign exchange gain, net							**(786)**
Profit before income tax							**158,731**
Income tax							**19,063**
Profit for the year							**177,794**
Segment assets at 31 December 2019							
Non-current assets	179,577	75,568	153,821	727,588	6,064	–	**1,142,618**
Capital expenditure **							
Goodwill	9,691	5,848	5,134	42,978	–	–	**63,651**
Other non-current assets	9,574	7,789	3,403	9,559	888	–	**31,213**
Current assets ***	73,927	35,613	53,278	6,162	29,339	(21,805)	**176,514**
Total assets							**1,413,996**
Capital expenditure – additions in 2019 ****, including:	36,413	4,709	11,951	57,419	348	–	**110,840**

Stripping activity assets	8,186	752	–	–	–	–	**8,938**
Capitalised bank interest	–	–	–	10,319	–	–	**10,319**
Unpaid/(settled) accounts payable	1,539	310	(997)	1,452	4	–	**2,308**
Cash capital expenditure	26,688	3,647	12,948	45,648	344	–	**89,275**

Year ended 31 December 2018	**Gold production of Khabarovsk region US$000**	**Gold production of Chukotka region US$000**	**Polymetallic concentrate production segment US$000**	**Development and exploration US$000**	**Other US$000**	**Eliminations US$000**	**Total US$000**
Revenue							
Gold sales	195,138	–	–	–	–	–	**195,138**
Silver sales	1,440	–	–	–	–	–	**1,440**
Concentrate sales *	–	–	113,806	–	–	–	**113,806**
Other third-party sales	414	–	287	–	68	–	**769**
Inter-segment sales	61	–	–	–	–	(61)	**–**
Total revenue	**197,053**	**–**	**114,093**	**–**	**68**	**(61)**	**311,153**
Cost of sales	126,735	–	50,929	484	74	–	178,222
Segment EBITDA	94,201	–	75,254	(364)	(356)	–	168,735
Unallocated							(15,675)
Consolidated EBITDA							**153,060**
Other segment information							
Depreciation	(26,464)	–	(15,756)	(5)	(79)	–	**(42,304)**
Movement in ore stockpiles obsolescence allowance	(722)	–	–	–	–	–	**(722)**
Movement in raw materials and consumables obsolescence allowance	–	–	(45)	–	–	–	**(45)**
Individual impairment of property, plant and equipment and mine assets	(531)	–	–	(272)	–	–	**(803)**
Finance costs, net							**(1,772)**
Foreign exchange gain, net							**834**
Profit before income tax							**108,248**
Income tax							**(52,164)**
Profit for the year							**56,084**
Segment assets at 31 December 2018							
Non-current assets							
Capital expenditure **	171,544	73,361	157,549	656,111	1,051	–	**1,059,616**
Goodwill	9,691	5,848	5,134	42,978	–	–	**63,651**
Other non-current assets	4,981	4,886	845	5,847	508	–	**17,067**
Current assets ***	64,063	25,523	39,481	3,637	24,391	(10,321)	**146,774**

Total assets							**1,287,108**
Capital expenditure – additions in 2018 ****, including:	25,613	73,361	14,087	29,709	706	–	**143,476**
Stripping activity assets	1,304	–	–	–	–	–	**1,304**
Capitalised bank interest	–	–	–	5,633	–	–	**5,633**
Unpaid/(settled) accounts payable	(1,122)	–	390	1,604	(41)	–	**831**
Acquisition of subsidiaries	–	73,361	–	–	–	–	**73,361**
Cash capital expenditure	25,431	–	13,697	22,472	747	–	**62,347**

* Concentrate sales for the year ended 31 December 2019 comprise US$122.5 million of IFRS 15 revenue based on initial invoices, a positive provisional price adjustment of US$5.3 million which represents changes in the fair value of the provisional pricing feature in the trade receivables of 2019 and a positive price adjustment of US$0.5 million related to 2018 sales.

Concentrate sales for the year ended 31 December 2018 comprise US$118.8 million of IFRS 15 revenue based on initial invoices, a negative provisional price adjustment of US$4.5 million which represents changes in the fair value of the provisional pricing feature in the trade receivables of 2019 and a negative price adjustment of US$0.5 million related to 2017 sales.

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

*** Current assets at 31 December 2019 include corporate cash and cash equivalents of US$42.9 million, inventories of US$81.4 million, trade and other receivables of US$46.5 million and other assets of US$5.7 million.

Current assets at 31 December 2018 include corporate cash and cash equivalents of US$38.7 million, inventories of US$70.5 million, trade and other receivables of US$33.1 million and other assets of US$4.5 million. Eliminations relate to intercompany accounts receivable.

**** Capital expenditure – additions in 2019 – includes additions to property, plant and equipment of US$94.1 million (Note 17), less addition of right-of-use assets of US$1.7 million, plus capitalised interest of US$10.3 million (Note 17), including cash interest expense of US$9.6 million, US$0.6 million of modification effect and US$0.1 million of capitalised upfront commission, and prepayments previously made for property, plant and equipment of US$8.0 million.

Capital expenditure – additions in 2018 – includes additions to property, plant and equipment of US$63.6 million (Note 17), capitalised interest of US$5.6 million (Note 17), including cash interest expense of US$7.2 million, less US$1.7 million of modification effect, plus US$0.1 million of capitalised upfront commission, acquisition of subsidiaries of US$73.4 million and prepayments previously made for property, plant and equipment of US$0.9 million.

Non-current assets in 2019 are located in the Russian Federation (US$1,189.5 million) and in the Kyrgyz Republic (US$47.9 million). Non-current assets in 2018 are located in the Russian Federation (US$1,094.3 million) and in the Kyrgyz Republic (US$46.0 million). Current assets in 2019 and 2018 are located in the Russian Federation.

Income tax

The major components of income tax expense for the years ended 31 December 2019 and 2018 are:

	2019 US$000	*2018 US$000*
Consolidated statement of comprehensive income		
Current income tax:		
Current income tax charge	37,313	20,166
Withholding tax on dividends	11,431	13,704
	48,744	**33,870**
Deferred income tax:		
Related to (reversal)/origination of temporary differences	(67,807)	18,294
Income tax (credit)/expense reported in the statement of comprehensive income	**(19,063)**	**52,164**

The majority of the Group entities are Russian tax residents.

Withholding tax on dividends represents 15% of dividends paid by Russian subsidiaries to the holding company.

There are no tax amounts recognised directly in equity in 2019 and 2018.

A reconciliation between the actual tax expense and the expected tax expense based on the accounting profit multiplied by the Russian statutory tax rate of 20% for the years ended 31 December 2019 and 2018 is as follows:

	2019 US$000	*2018 US$000*
Accounting profit before income tax	**158,731**	**108,248**
At Russian statutory income tax rate of 20%	31,746	21,650
Non-deductible expenses	2,481	2,135
Effect of translation of tax base denominated in foreign currency	(15,936)	16,698
Withholding tax on dividends	11,431	13,704
Lower tax rates on overseas income	4,358	(2,718)
Effect of migration of Kekura and Klen to ASEZ*	(52,930)	–
Unrecognised/(recognised) losses	622	(185)
Adjustments in respect of prior year deferred tax	(1,974)	–
Loss from other unrecognised temporary differences	1,139	880
Income tax (credit)/expense at the effective tax rate* of 14% (2018: 36%)	**(19,063)**	**52,164**
Income tax (credit)/expense reported in the consolidated statement of comprehensive income	**(19,063)**	**52,164**

* In July 2019 the Group signed an agreement with Russia's Far East Development Corporation officially confirming residency in the Chukotka Advanced Special Economic Zone (ASEZ) for Kekura and Klen projects. As residents in the ASEZ, Kekura and Klen will be subject to zero or reduced income tax, mineral extraction tax, land rental, land tax and property tax over the first five to ten years of operations. They will also pay a unified social tax on payroll of 7.6% versus the statutory rate of 30.0%, and be entitled to an expedited refund process for value added tax expenses. This has resulted in a release of US$52.9 million for the year ended 31 December 2019.

The effective tax rate was calculated based on income tax expense adjusted for lower tax rates for residents of ASEZ and withholding tax on dividends. The effect of translation of tax base denominated in foreign currency reflects future tax revaluation of RUB (appreciation)/depreciation against USD.

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit.

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		*Acquisition of Valunisty*	*Consolidated statement of comprehensive income*	
	2019	***2018***	***2018***	***2019***	***2018***
	US$000	***US$000***	***US$000***	***US$000***	***US$000***
Deferred income tax liability					
Property, plant and equipment	(93,456)	(163,287)	(13,673)	(69,831)	11,481
Inventory	(3,152)	(5,692)	–	(2,540)	2,392
Trade and other receivables	(348)	(727)	–	(379)	(285)
Deferred financing costs	(221)	(364)	–	(143)	311
	(97,177)	**(170,070)**	**(13,673)**	**(72,893)**	**13,899**
Deferred income tax asset					
Trade and other receivables	–	–	–	–	96
Lease liabilities	1,298	433	–	(865)	169
Trade and other payables	1,045	767	–	(278)	650
Tax losses	31,578	37,807	8,389	6,229	3,480
	33,921	**39,007**	**8,389**	**5,086**	**4,395**
Net deferred income tax liability	**(63,256)**	**(131,063)**	**(5,284)**	**(67,807)**	**18,294**

Reconciliation to the statement of financial position is presented below:

	2019	***2018***
	US$000	***US$000***
Deferred income tax asset	3,584	2,163
Deferred income tax liability	(66,840)	(133,226)
Net deferred income tax liability	**(63,256)**	**(131,063)**

No deferred tax benefits are recognised in relation to site restoration provisions and obsolescence allowances. 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 2019 is US$37.1 million (31 December 2018: US$20.2 million).

No deferred tax benefit is recognised in relation to the allowance 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 allowance at 31 December 2019 is US$20.2 million (31 December 2018: US$30.8 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 2019 is US$25.9 million (31 December 2018: US$22.8 million). The non-recognition of tax losses is due to insufficient expected future income against which these losses could be offset.

The temporary differences associated with investments in subsidiaries, for which deferred tax liability in respect of withholding tax on dividends has not been recognised aggregate to US$600.3 million (2018: US$476.6 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 not probable that the temporary differences will reverse in the foreseeable future.

The total deferred tax liabilities arising from these temporary differences could be up to US$90.4 million (2018: up to US$71.5 million), depending on the manner in which the investments are ultimately realised.

Profits arising in the Company for the 2019 and 2018 years of assessment will be subject to Jersey tax at the standard corporate income tax rate of 0%.

Impairment testing of non-current assets

In accordance with accounting policies and processes, each asset or CGU is evaluated annually at 31 December to determine whether there are any indications of impairment. If any such indications of impairment exist, a formal estimate of the recoverable amount is performed. Notwithstanding whether indicators exist, recoverability of goodwill allocated to CGUs (Note 18) is tested annually.

Management has determined the recoverable amounts in 2019 and 2018 using fair value less costs of disposal (FVLCD) calculations. FVLCD is determined at the CGU level, in this case being the separate gold production and development and exploration assets (Taseevskoye, Unkurtash and Lubov), by discounting the expected cash flows estimated by management over the life of the mine:

- MNV, including Blagodatnoye – 2032 (31 December 2018: 2034);
- BG, including Blagodatnoye – 2033 (31 December 2018: 2034);
- Novo – 2033 (31 December 2018: 2033);
- Klen – 2032 (31 December 2018: 2031);
- Kekura – 2038 (31 December 2018: 2038);
- Taseevskoye – 2031 (31 December 2018: 2030);
- Unkurtash – 2039 (31 December 2018: 2038);
- Lubov – 2030 (31 December 2018: 2029);
- Valunisty, KAS and Kayen – 2030 (31 December 2018: 2029).

The calculation of the FVLCD is sensitive to the following assumptions:

- recoverable reserves and resources, which are based on the proven and probable reserves and a portion of resources expected to be converted into reserves in existence at the end of the year;
- estimated production volumes, which are based on detailed LOM plans and take into account development plans for the mines approved by management as part of the long-term planning process;
- real discount rates that represent the current market assessment of the risks specific to each project, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in cash flow estimates;
- metal prices and foreign exchange rates, which are based on management judgement with reference to well-known analysts' forecasts;
- capital expenditure and
- operating costs, which are based on management's best estimate over the life of the mine.

The table below shows the key assumptions used in the fair value calculation at 31 December 2019 and 2018.

	2019	***2018***
Post-tax discount rates for cash flows		
Operating gold mining company (MNV), %	5.58	6.81
Operating gold mining company (BG), %	6.58	7.81
Operating gold mining company (VAL), %	7.58	–
Polymetallic mining company (Novo), %	5.58	6.81
Gold mining company being at development stage (Klen), %	7.58	8.81
Gold mining company being at development stage (Taseevskoye), %	7.58	8.81
Gold mining company being at development stage (Kekura), %	7.58	8.81
Gold mining company being at exploration stage (Unkurtash), %	7.58	8.81
Gold mining company being at exploration stage (Lubov), %	7.58	8.81
Metal prices		
Gold price, US$ per ounce in year 1	1,484	1,250
Gold price, US$ per ounce in year 2	1,536	1,300
Gold price, US$ per ounce in year 3 and beyond	1,375	1,300
Silver price, US$ per ounce in year 1	18	15
Silver price, US$ per ounce in year 2 and beyond	19	17
Lead price, US$ per tonne in year 1	2,008	1,990
Lead price, US$ per tonne in year 2 and beyond	1,874	1,920
Zinc price, US$ per tonne in year 1	2,320	2,430
Zinc price, US$ per tonne in year 2 and beyond	2,350	2,370

In July 2019 Kekura and Klen have been granted certain tax benefits and other incentives for residents within the Chukotka Advanced Special Economic Zone (ASEZ), a programme designed to encourage investment in the region. Removal of the ASEZ assumption from the cash flow model would result in an impairment charge.

As a result of the recoverable amount analysis performed during the year, reversal of impairment amounting to US$18.2 million was recognised in the consolidated statement of comprehensive income in respect of Kekura non-current assets in 2019 (2018: no impairment reversal or losses). The main triggers were substantial progress with the development programme, stronger gold prices and lower tax rates for Kekura as resident of ASEZ. The recoverable amount determined was US$638.4 million. The reversal of impairment increased the book value of mine properties and property, plant and equipment and is attributable to the Development and exploration segment.

A more than 18% (1.16 p.p.) increase in the post-tax discount rate, 7% decrease in long-term gold price, 4% decrease in the foreign exchange rate or a significant increase in operating or capital costs at Belaya Gora (BG), would result in an impairment charge.

For impairment of property, plant and equipment and intangible assets, fair value less costs of disposal are determined by discounting the post-tax cash flows expected to be generated from future gold production net of selling costs taking into account assumptions that market participants would typically use in estimating fair values. These estimates are categorised within Level 3 of the fair value hierarchy. Post-tax cash flows are derived from projected production profiles for each asset taking into account forward market commodity prices over the relevant period and, where external forward prices are not available, the Group’s Board-approved LOM model assumptions are used. As each asset has different reserve and resource characteristics and contractual terms, the post-tax cash flows for each asset are calculated using individual economic models which include assumptions around the amount of recoverable reserves, production costs, life of mine/licence period and the selling price of the gold produced.