



HIGHLAND GOLD MINING Ltd.

24 September 2003

Highland Gold announces Interim Results for the six months to 30 June 2003

Financial Highlights

- Turnover was up 14.6% at US\$31.4m (H2 2002: US\$27.4m)
- Net profit was up 57.4% to US\$8.5 m (H2 2002: US\$5.4m*)
- Earnings per share grew by 48.1% to 7.7 US cents (H2 2002: 5.2 US cents)
- Net operating cash flow decreased by 18.6% to US\$5.7m (H2 2002: US\$7.0m)
- Capital expenditure increased 56% to US\$13.1m (H2 2002: US\$8.4m)
- Interim dividend up to 1.5 US cents per share (H2 2002: 1.0 US cents)

() Net profit for H2 2002 has been restated, a reduction of US\$1.7 million, due to a change in accounting policy in respect of stripping costs.*

Business Highlights

- Total gold production up 3.4% to 90,133 oz (H2 2002: 87,281oz)
- Cash operating costs down by 4.4% to US\$152 per oz (H2 2002: US\$159 per oz)
- Darasun construction on track for initial production H1 2004
- Purchase of outstanding assets at MNV for US\$26.7m, previously leased from the Khabarovsk Administration
- Resource based doubled by Mayskoye deposit - 9 million oz - acquired for US\$34.9m

Commenting on the results, Ivan Koulakov, Managing Director, Highland Gold, said,

“In the first half Highland Gold comfortably met its production targets while successfully executing the planned transition to new ore bodies at the MNV mine. At the same time, management made further progress on our two development projects, Darasun and Novosirokinskoye, and these remain on course for initial production in the first half of 2004 and 2005 respectively.”

Peter Daresbury, Executive Chairman, Highland Gold, said,

“This has been an impressive first half for Highland Gold, with the Group developing momentum following its flotation in December 2002.

“Since the period end we have announced a major acquisition, the high grade Mayskoye deposit, which will double the resource base of the Group to 17 million oz. We have also successfully purchased the operating assets at MNV that were previously leased.

“Highland Gold is well positioned to deliver its production and development programme for the rest of 2003, and to develop further its position as a low cost gold producer with sound growth prospects. The Board’s confidence is reflected in the decision to raise the interim dividend to 1.5 US cents per share.”

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Highland Gold Peter Daresbury, Executive Chairman
Ivan Koulakov, Managing Director

Brunswick Patrick Handley
Alison Howard

CHAIRMAN'S STATEMENT

Highland Gold Mining Limited (the "Group")

Interim Results for the six months to 30 June 2003

I am pleased to announce a solid set of results, good operational progress and further growth by acquisition at the Group level. At MNV, the Group's producing asset, we have increased production and efficiency and strengthened our position through purchasing assets previously leased. Development projects at Darasun and Novosirokinskoye are progressing according to plan. Production at Darasun is planned to start in the first half of 2004 on time and within budget, and we are finalising the feasibility study for Novosirokinskoye. The acquisition of the Mayskoye deposit will more than double our resource base and our business development team continues to review new acquisition opportunities.

Acquisition of the Mayskoye deposit

The Group has entered into a legal agreement to acquire JSC Mayskoye, the holder of the licence for the high grade Mayskoye gold deposit in the Chukotka region of North East Russia, for a total consideration of US\$34.9 million payable over two years. It is expected that the acquisition will be finalised by October 2003. The current license is valid until 2023. The deposit has been extensively explored and has estimated mineable reserves in the C1-C2 category of 3.7 million oz of gold at an average gold grade of 11.5 g/tonne. Resources at the deposit are calculated at 9 million oz of gold at an average grade of 11.4 g/tonne. It is anticipated that the ore will be processed with direct leaching technology for the first three years of production and proven biooxidation technology thereafter. On current estimates, capital expenditure to production will amount to US\$88.5 million. Production at Mayskoye will come on stream in 2006 to reach 180,000 oz of gold per year at full production. Current estimates of the total cash costs per ounce lie in the region of US\$160-170, subject to the completion of the feasibility study in October 2004.

This acquisition increases Highland Gold's total mineable gold reserves to 5.8 million ounces of gold equivalents (B and C1 under the Russian classification system) and B, C1 and C2 resources to 17 million ounces of gold equivalents.

Securing of assets at MNV

I am pleased to confirm that on 22 September 2003, MNV signed the sale & purchase agreement to acquire for US\$26.7 million all those production assets it had previously leased from the Khabarovsk Administration. Furthermore, the process of registration of all assets owned at MNV is approaching completion. The Board looks forward to developing MNV's presence in Khabarovsk and sustaining its contribution to the local community.

Strong financial performance

In the six months to 30 June 2003, the Group reported revenues of US\$31.4 million compared with US\$27.4 million for the six month period to 31 December 2002. Production at the MNV mine during H1 2002 pre-dated the incorporation of the Highland Gold Mining Limited and consequently financial performance figures for this period are not comparable, although production performance data for H1 2002 is stated below.

The average gold price achieved was US\$346/oz compared to US\$298/oz for the previous reporting period. The Group continues to operate an unhedged policy.

The Group continues to improve the efficiency of operations. Costs of sales decreased by 11% to US\$15.7 million compared to US\$17.6 million in the previous six month period due to non-recurring fair value adjustments of US\$2.0 million and to lower stripping costs. Stripping charges have decreased by almost US\$1.0 million as MNV is mining more underground ore than open-pit and in addition, a proportion of the stripping costs are now deferred in line with industry practice. Administrative expenses remained flat at US\$3.4 million.

The Group reported a net profit of US\$8.5 million for the first half of 2003, which represents a 57% increase over US\$5.4 million for the six month period to 31 December 2002. Earnings per share for the period amount to 7.7 US cents, compared to 5.2 US cents over the previous six month reporting period.

Cash flow from trading operations increased from US\$8.9 million to US\$14.5 million. However, increases in working capital of US\$8.8 million (H2 2002: US\$1.9 million) led to a net operating cash flow of US\$5.7 million (H2 2002: US\$7.0 million). The changes in working capital were due to the seasonality of supplies at MNV, an overall increase in stock to ensure the smooth running of the operations, and cash costs associated with the London listing.

For the first half of 2003, MNV cash operating costs (calculated on the basis of UK GAAP figures and in line with US Gold Institute guidelines) were US\$7 lower at US\$152/oz, due to the decrease in stripping costs. Total cash costs for the first half of 2003 were US\$3/oz lower at US\$176/oz. This takes into account an increase in taxes, linked to higher gold prices. Total production costs, including depreciation and other non-cash items, increased by US\$4/oz to US\$198/oz versus US\$194/oz in the previous period. This reflected higher depreciation charges linked to the construction of additional mining assets and to the purchase of equipment.

In line with production plans and budgets, the Group has spent US\$13.1 million in capital expenditure and plans to spend an additional US\$17.9 million by year-end for the improvement of operations at MNV and the development at Darasun.

As at 30 June 2003, the company had utilised US\$7.1 million out of a total facility of US\$30 million. Interest cover was 13.4 times and gearing was 21%. Since that date, the Group has successfully negotiated new borrowing facilities of US\$37 million bringing the total to US\$67 million. These lines will be used to support the development of Mayskoye and the purchase of the MNV assets.

In line with the Group's progressive dividend policy, and whilst maintaining a prudent approach to the Group's financing requirements, the Board announces an interim dividend of US\$0.015 per share totaling US\$1.65 million.

MNV production performance continuously improving:

	H1 2002	H2 2002	H1 2003
Total ore milled (tonnes), of which:	388,571	417,458	426,942
Open pit	198,774	189,138	116,773
Underground	174,545	200,307	267,938
Stockpile	15,252	28,013	42,231
Head grade (g/tonne)	7.90	7.10	7.14
Recovery (%)	91.9	91.57	92.03
Gold production	90,671	87,281	90,133

In the first half of 2003, the average head grade was 7.8g/tonne from underground mines and 6.3g/tonne from open pit mines. The head grade from underground and open pit ores currently mined varies between 7.0g/tonne to 12.0g/tonne and 5.0g/tonne to 8.0g/tonne respectively. The head grade from stockpiles is currently 4.8g/tonne.

In optimising the performance of its operations the Group achieved a successful transition to new ore bodies during the first six months of 2003. As a result, MNV produced 267,938 tonnes of ore from underground mines, an increase of 67,631 tonnes or 34% over the second half of 2002. Head grade of ore produced from underground mines during the first half of 2003 was 7.8 g/tonne, an increase of 10% over the second half of 2002. Consequently, gold in ore produced from underground mines increased by 47% over the second half of 2002, representing 67,169 oz during the first half of 2003 against 45,638 oz in the second half of last year.

The Group spent a total of US\$2.3 million in capital expenditure during the period at MNV and plans to spend approximately US\$3.8 million through to the end of 2003, mainly in the upgrading of mining equipment, the construction of a back-up power station to ensure reliability of supply and in the construction of an additional layer at the tailings dam to allow for increased production.

Development of mining assets on track

The construction of the Darasun project is proceeding in accordance with the projected timetable. US\$10.7 million in capital expenditure was spent on reconnecting and upgrading the electricity supply, commissioning of satellite communications, initiating development and production exploration in three of the four existing shafts, and beginning the construction of the new mill facilities. An additional US\$11.9 million will be spent by year end to further develop the mine, to purchase mining equipment and to complete the construction of the mill, the tailings dump and the first stage of the sludge storage. Production at Darasun is planned to start during the first half of 2004, with full production of an estimated 450,000 tonnes of ore in 2005. At these production rates the Group anticipates that an additional 40,000 oz and 120,000 oz of gold will be produced at Darasun in 2004 and 2005, respectively.

At Novoshirokinskoye, reserves re-estimation work is progressing and is due for completion by year end, as is a full feasibility study. Gold production is planned to commence in 2005.

Board appointments

The Board welcomed the appointment of Dmitri Korobov, Commercial Director, and Gennady Nevidomi, Production Director, as Executive Directors on 22 May 2003. Their commercial and technical expertise in gold mining in Russia and hands-on knowledge of operations will further strengthen the Board's experience.

Business Outlook

The Group is targeting total production of 194,000 oz of gold in 2003 compared with 178,000 oz of gold produced in 2002. It also intends to sustain its firm control of production costs within the parameters of Russian inflation.

We look forward to the first gold production at Darasun in the first half of 2004, and with Novoshirokinskoye and Mayskoye coming on stream sequentially. The Group is targeting production of an estimated 500,000 oz of gold in 2006.

The increase in the interim dividend underlines the Board's confidence in the Group's ability to develop a platform for further growth and consolidation in the Russian gold mining industry.

Forward looking statements

Certain statements within this announcement constitute forward looking statements. Such forward looking statements involve risks and other factors which may cause the actual results, achievements or performance of the Group to be materially different from any future results, achievements or performance expressed or implied by such forward looking statements. Such risks and other factors include, but are not limited to, general economic and business conditions, changes in government regulation, currency fluctuations (including the US\$/RUR rate), the gold price, the Group's ability to recover its reserves or develop new reserves, competition, changes in development plans and other risks. There can be no assurance that the results and events contemplated by the forward looking statements contained in this announcement will, in fact, occur. These forward looking statements are correct or represent honestly held views only as at the date of this announcement. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date of this announcement except as required by law or by any regulatory authority.

1. CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Six months to 30 June 2003 Unaudited US\$000</i>	<i>Six months to 31 December 2002 Restated US\$000</i>
TURNOVER		
Continuing operations	31,379	27,420
Cost of sales	(15,738)	(17,571)
GROSS PROFIT	15,641	9,849
Administrative costs	(3,400)	(3,479)
GROUP OPERATING PROFIT - ONGOING	12,241	6,370
Bank interest receivable	152	41
Gain on loan renegotiation	-	2,032
Bank interest payable and similar charges	(1,166)	(1,192)
Foreign exchange gains/(losses)	511	(59)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	11,738	7,192
Tax on profit on ordinary activities	(3,246)	(1,840)
PROFIT FOR THE FINANCIAL PERIOD	8,492	5,352
Dividends	(1,658)	(1,105)
PROFIT RETAINED FOR THE FINANCIAL PERIOD	6,834	4,247
RETAINED EARNINGS BROUGHT FORWARD	6,067	1,820
RETAINED EARNINGS CARRIED FORWARD	12,901	6,067

2. CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>Six months to 30 June 2003 Unaudited US\$000</i>	<i>Six months to 31 December 2002 Restated US\$000</i>
Profit for the period attributable to the members of the parent company and total gains and losses relating to the period	6,834	4,247
Prior year adjustment	(1,744)	
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT	5,090	

3. CONSOLIDATED BALANCE SHEET

	<i>At 30 June 2003</i> <i>Unaudited</i> <i>US\$000</i>	<i>At 31 December 2002</i> <i>Restated</i> <i>US\$000</i>
FIXED ASSETS		
Tangible assets	60,618	51,779
	60,618	51,779
CURRENT ASSETS		
Stocks	16,467	13,355
Debtors	19,811	10,931
Deferred stripping costs	1,217	501
Cash at bank and in hand	<u>6,968</u>	<u>26,525</u>
	44,463	51,312
CREDITORS: amounts falling due within one year	(17,245)	(24,242)
NET CURRENT ASSETS	27,218	27,070
TOTAL ASSETS LESS CURRENT LIABILITIES	87,836	78,849
CREDITORS: amounts falling due after more than one year	(9,131)	(8,570)
PROVISIONS FOR LIABILITIES AND CHARGES	(10,599)	(8,872)
MINORITY INTERESTS - EQUITY	(347)	(482)
	67,759	60,925
CAPITAL AND RESERVES		
Called up share capital	162	162
Share premium	54,696	54,696
Profit and loss account	12,901	6,067
	67,759	60,925

4. CONSOLIDATED CASH FLOW STATEMENT

	<i>Six months to 30 June 2003 Unaudited US\$000</i>	<i>Six months to 31 December 2002 Restated US\$000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	5,717	6,950
RETURN OF INVESTMENT AND SERVICING OF FINANCE		
Interest received	152	41
Interest paid on bank loans	(217)	(686)
Interest paid on finance leases	(602)	-
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE	(667)	(645)
TAXATION		
Russian profits tax paid	(2,815)	(3,913)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets	(13,056)	(8,350)
Receipts from sale of tangible fixed assets	-	350
Payments to acquire investments	-	(541)
Receipts from repayment of investments	-	768
NET CASH OUTFLOW ON CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(13,056)	(7,773)
ACQUISITIONS AND DISPOSALS		
Purchase of subsidiary undertakings	(28)	(2,430)
NET CASH OUTFLOW ON ACQUISITIONS AND DISPOSALS	(28)	(2,430)
EQUITY DIVIDENDS PAID	(1,105)	-
NET CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING	(11,954)	(7,811)
MANAGEMENT OF LIQUID RESOURCES		
Increase in short term deposits	5,000	-
FINANCING		
Issue of ordinary share capital	-	31,838
Share issue costs	-	(7,045)
New loans	-	8,932
Loans repaid	(7,171)	-
Repayment of capital element of finance leases	(452)	(1,379)
CASH (OUTFLOW)/INFLOW FROM FINANCING	(7,623)	32,346
(DECREASE)/INCREASE IN CASH	(24,577)	24,535

5. CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

(Decrease)/increase in cash	(24,577)	24,535
Repayment of capital element of finance leases	452	1,379
Cash outflow/(inflow) from decrease/(increase) in loans	7,171	(8,932)
Cash outflow from short term deposits	5,000	-
MOVEMENTS IN NET DEBT ARISING FROM CASHFLOWS	(11,954)	16,982
Re-negotiation of loan	-	2,032
New finance leases and fair value adjustments	(2,606)	(585)
Exchange differences	20	208
MOVEMENT IN NET DEBT	(14,540)	18,637
NET CASH/(DEBT) AT BEGINNING OF PERIOD	2,311	(16,326)
NET (DEBT)/CASH AT END OF PERIOD	(12,229)	2,311