HIGHLAND GOLD MINING LIMITED

IMPORTANT NOTICE

This document, comprising a draft admission document, is being distributed by W.H. Ireland Limited ("W.H. Ireland"), which is regulated by the Financial Services Authority, as nominated adviser to Highland Gold Mining Limited (the "Company") in connection with the proposed placing of Existing Ordinary Shares and New Ordinary Shares of the Company that are to be traded on the Alternative Investment Market of London Stock Exchange plc ("AIM") and admission of the issued and to be issued Ordinary Shares of the Company to trading on AIM ("Admission").

The information in this document, which is in draft form and is incomplete, is subject to updating, completion, revision, further verification and amendment. In particular, this document refers to certain events as having occurred which have not yet occurred but are expected to occur prior to publication of the final admission document or any supplemental prospectus relating to the Company. Furthermore, no assurance is given by the Company or W.H. Ireland that any New Ordinary Shares in the Company will be issued, Existing Ordinary Shares sold or that Admission will take place.

No representation is made by W.H. Ireland or the Company or any of their advisers, representatives, agents, officers, directors or employees as to, and no responsibility, warranty or liability is accepted for, the accuracy, reliability, reasonableness or completeness of the contents of this document. No responsibility is accepted by any of them for any errors, mis-statements in, or omissions from, this document, nor for any direct or consequential loss howsoever arising from any use of, or reliance on, this document or otherwise in connection with it.

This document does not constitute or form part of, and should not be construed as, an offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any Existing Ordinary Shares or New Ordinary Shares nor shall it, or any part of it, or the fact of its distribution, form the basis of or be relied on in connection with, any contract therefor.

Recipients of this document who intend to subscribe for New Ordinary Shares or purchase Existing Ordinary Shares in the Company following the issue of the prospectus in its final form are reminded that any such subscription or purchase may be made solely on the basis of the information contained in the admission document in its final form, which may be different from the information contained in this document. No reliance may be made for any purpose whatsoever on the completeness, accuracy or fairness of the information or opinions contained in this document.

In distributing this draft document in the United Kingdom W.H. Ireland is relying on the fact that all recipients of it are authorised persons or exempt persons (within the meaning of the Financial Services and Markets Act 2000) or are persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Financial Promotion Order") or are high net worth entities, and other persons to whom this document may otherwise lawfully be communicated, falling within Article 49(1) of the Financial Promotion Order (all such persons together being referred to as "relevant persons"). The investments to which this document relates are available only to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents. The distribution restrictions set out in Part I – Selling Restrictions of this document also apply to this draft document.

This document does not constitute an offer to sell, or the solicitation of an offer to buy, any Ordinary Shares to any person in any jurisdiction to whom or in which such offer or solicitation is unlawful and, in particular, should not be distributed to persons with addresses in the United States of America, Canada, Australia, Republic of South Africa, Republic of Ireland or Japan or in any other country outside the United Kingdom where such distribution may lead to a breach of any law or regulatory requirement.

The information in this document is confidential and must not be copied, reproduced or distributed to others at any time except for the purposes of analysis by certain employees and advisers of the recipient who have agreed to be bound by the restrictions contained herein. W.H. Ireland is acting as nominated adviser and broker to the Company and will not regard any person (whether or not a recipient of this document or other information in connection with the matters referred to herein) other than the Company as its customer in relation to the proposals contemplated by this document. Any persons interested in investing in the Company are recommended to seek their own independent financial advice.

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. IF YOU ARE IN ANY DOUBT ABOUT THE CONTENTS OF THIS DOCUMENT OR WHAT ACTION YOU SHOULD TAKE, YOU SHOULD IMMEDIATELY CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT OR OTHER INDEPENDENT FINANCIAL ADVISER WHO SPECIALISES IN ADVISING ON THE ACQUISITION OF SHARES AND OTHER SECURITIES AND IS AUTHORISED UNDER THE FINANCIAL SERVICES AND MARKETS ACT 2000 IN THE UNITED KINGDOM OR THE FINANCIAL SERVICES (JERSEY) LAW 1998, AS AMENDED, IN JERSEY. THE WHOLE OF THE TEXT OF THIS DOCUMENT SHOULD BE READ.

YOU SHOULD ALSO BE AWARE THAT AN INVESTMENT IN THE COMPANY INVOLVES A HIGH DEGREE OF RISK. YOUR ATTENTION IS DRAWN TO THE SECTION ENTITLED "RISK FACTORS" IN PART II OF THIS DOCUMENT.

The Directors of the Company, whose names appear on page 9 of this document, accept responsibility individually and collectively for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made for the whole of the issued and to be issued ordinary share capital of the Company to be admitted to trading on the Alternative Investment Market of the London Stock Exchange. It is expected that Admission will take place and that trading will commence on 17 December 2002. It is emphasised that no application is being made for the Ordinary Shares to be admitted to the Official List or to any other recognised investment exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The AIM Rules are less demanding than those of the Official List. London Stock Exchange plc has not itself examined or approved the contents of this document.

HIGHLAND GOLD MINING LIMITED

(Incorporated in Jersey under the Companies (Jersey) Law 1991, as amended, with registered number 83208)

Placing of 10,525,821 New Ordinary Shares and 1,052,627 Existing Ordinary Shares
(assuming the Manager's Option is not exercised) at 190p per share

Admission to trading on the Alternative Investment Market

Nominated Adviser and Broker
W.H. Ireland Limited

ORDINARY SHARE CAPITAL IMMEDIATELY FOLLOWING THE PLACING

Authorised			*Issued and fully paid*	
Amount	*Number*	*Ordinary Shares of £0.001 each*	*Amount*	*Number*
£300,000	**300,000,000**		**£110,526**	**110,525,821**

In connection with the Placing, certain existing Shareholders have granted W.H. Ireland the Manager's Option which is exercisable in whole or in part, once or more than once, upon notice by W.H. Ireland during the period commencing with the date of this document and ending 30 days after Admission. Pursuant to the Manager's Option, W.H. Ireland has an option to sell on behalf of certain existing Shareholders up to 1,578,947 Existing Ordinary Shares at the Placing Price, *inter alia*, to cover over-allotments or further allotments, if any, in connection with the Placing and to cover short positions resulting from stabilisation transactions.

The New Ordinary Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares and will rank in full for all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of this document.

This document, which comprises an admission document drawn up in accordance with the AIM Rules, has been issued in connection with the application for Admission. A copy of this document (which comprises a prospectus drawn up in accordance with The Public Offers of Securities Regulations 1995 (as amended) ("the POS Regulations")) has been delivered to the Registrar of Companies in England and Wales in accordance with Regulation 4(2) of the POS Regulations.

A copy of this document has been delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and he has given, and has not withdrawn, his consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Existing Ordinary Shares and New Ordinary Shares in the Company. It must be distinctly understood that, in giving these consents, neither the Registrar of Companies in Jersey nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statements made, or opinions expressed, with regard to it.

In connection with the Placing, W.H. Ireland may over-allot or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail for a limited period after the Placing Price is announced. However, there is no obligation on W.H. Ireland to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law, WH Ireland does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Placing.

Private investors' attention is drawn to the fact sheet of The Financial Services Authority ("the FSA") which explains to investors the significance of the fact that stabilisation may take place. The fact sheet can be obtained from the FSA website http://www.fsa.gov.uk and free of charge from the FSA whose address is 25 The North Colonnade, Canary Wharf, London E14 5HS.

W.H. Ireland is acting as the Company's nominated adviser and broker in connection with the Placing and Admission. W.H. Ireland will not be responsible to any other person for providing the protections afforded to customers of W.H. Ireland, or for providing advice in relation to the proposals contemplated by this document.

W.H. Ireland has not authorised the contents of any part of this document for the purposes of Regulation 13(1)(g) of the POS Regulations or otherwise and no liability whatsoever is accepted by W.H. Ireland for the accuracy of any information or opinions contained in this document, for which the Directors are solely responsible, or for the omission of any information.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, Existing Ordinary Shares or New Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan. Neither the Existing Ordinary Shares nor the New Ordinary Shares have been nor will be registered under the United States Securities Act of 1933 (as amended) nor under the securities legislation of any state of the United States or any province or territory of Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or in any country, territory or possession where to do so may contravene local securities law or regulations. Accordingly, the Ordinary Shares may not, subject to certain exceptions, be offered or sold directly or indirectly in or into the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan or to any national, citizen or resident of the United States of America, Canada, Australia, the Republic of South Africa, the Republic of Ireland or Japan.

The distribution of this document and the Placing of the Ordinary Shares in certain jurisdictions may be restricted by law. No action has been taken by the Company, the Existing Shareholders or W.H. Ireland that would permit a public offer of Ordinary Shares or possession or distribution of this document where action for that purpose is required. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer of, or an invitation to purchase, any Ordinary Shares in any jurisdiction in which such offer or invitation would be unlawful. Further information with regard to restrictions on offers and sales of the Ordinary Shares and the distribution of this document is set out in Part I – Details of the Placing.

Copies of this document will be available free of charge during normal business hours on weekdays (excluding Saturdays, Sundays and public holidays) from the date hereof until one month after Admission from the offices of W.H. Ireland Limited, Cannongate House, 62-64 Cannon Street, London EC4N 6AE and from the registered office of the Company.

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Expected timetable of principal events

Admission and commencement of dealings in the Ordinary Shares	17 December 2002
Ordinary Shares credited to CREST accounts	17 December 2002
Despatch of definitive share certificates	by 23 December 2002

Placing statistics

Placing Price per Ordinary Share	190p
Number of New Ordinary Shares to be issued pursuant to the Placing	10,525,821
Number of Existing Ordinary Shares to be sold pursuant to the Placing[1]	1,052,627
Number of Existing Ordinary Shares subject to the Manager's Option[2]	1,578,947
Number of Ordinary Shares in issue following the Placing	110,525,821
Percentage of enlarged issued share capital comprised by the New Ordinary Shares	9.5 per cent.
Market capitalisation of the Company following the Placing at the Placing Price	£210.0 million
Estimated net proceeds of the Placing receivable by the Company[3]	£16.2 million

The exchange rate from pounds sterling to United States dollars, based on the reference rate published by the Financial Times on • December 2002, the latest practicable date prior to publication of this document, was £•=US$1.00.

1 Assuming the Manager's Option is not exercised

2 The Manager's Option has been granted by certain existing Shareholders over a number of Existing Ordinary Shares equal to approximately 15% of the aggregate number of Ordinary Shares comprised in the Placing

3 The estimated net proceeds receivable by the Company are stated after deduction of the estimated commissions and expenses payable by the Company in connection with the Placing

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Definitions

The following words or expressions have the following meanings in this document, unless the context requires otherwise:

"the Act"	the Companies (Jersey) Law 1991, as amended
"Admission"	the admission of the Existing Ordinary Shares and the New Ordinary Shares of the Company to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Rules"	the rules published by the London Stock Exchange from time to time governing the admission to and operation of AIM
"Articles of Association" or "Articles"	the Articles of Association of the Company as amended from time to time
"Board" or "Directors"	the directors of the Company and their alternates, whose names and addresses are set out on page 9 of this document
"CBR"	Central Bank of the Russian Federation
"3C"	City Capital Corporation Limited, the capital markets adviser to the Company
"City Code"	The City Code on Takeovers and Mergers
"Combined Code"	the Principles Of Corporate Governance And Code Of Best Practice published by the Committee on Corporate Governance chaired by Sir Ronald Hampel in June 1998
"the Company" or "Highland Gold Mining"	Highland Gold Mining Limited, registered number 83208, a company incorporated in Jersey
"Competent Person" or "SRK"	Steffen, Robertson and Kirsten (UK) Ltd
"CREST"	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by CRESTCo Limited
"Darasun"	the Darasun gold mining complex and associated operations including the Darasun, Teremky and Talatui deposits located in the Chita region of eastern Russia as further described in this document
"Executive Directors"	those Directors of the Company who are executive directors and whose names and addresses are set out on page 9 of this document
"Existing Ordinary Shares"	the 100,000,000 Ordinary Shares in issue at the date of this document
"Gokhran"	State Institution for the Formation of the State Depository of the Precious Metals and Gems of the Russian Federation, Storage, Disposal and Use of the Precious Metals and Gems within the Ministry of Finance of the Russian Federation
"Group"	the Company and its subsidiaries and subsidiary undertakings
"Harmony" or "Harmony Gold Mining Company"	Harmony Gold Mining Company Limited, a company registered in the Republic of South Africa and described more fully in this document, listed on the Johannesburg Stock Exchange
"Irgiridmet"	Irkutsk Scientific Research Institute of Precious and Noble Metals and Diamonds
"Jersey Regulations"	the Companies (Uncertificated Securities) (Jersey) Order 1999
"London Stock Exchange"	London Stock Exchange plc
"Manager's Option"	the option granted to W.H. Ireland to sell on behalf of certain existing Shareholders up to 1,578,947 Existing Ordinary Shares at the Placing Price
"MAP of Russia"	Ministry for Anti-Monopoly Policy and Support of Entrepreneurship of the Russian Federation
"MNV"	the Mnogovershinnoe gold mining complex and associated operations located in the Khabarovsk region of far eastern Russia as further described in this document
"NAZ"	Russian open joint stock company "AP Nizhneamurzoloto" with registered office in the village of Mnogovershinnoe, Nikolaevsky district, Khabavsk, Russia
"New Ordinary Shares"	new Ordinary Shares in the Company to be issued in the Placing
"Non-Executive Directors"	those Directors of the Company who are non-executive directors and whose names and addresses are set out on page 9 of this document
"Novoshirokinskoye"	the Novoshirokinskoye gold and polymetallic mine and associated operations located in the Chita region of eastern Russia as further described in this document
"OAO NS"	OAO Novoshirokinskoye Rudnik, an 81.29% owned subsidiary of ZAO MNV incorporated in Russia

Definitions

"Official List"	the Official List of the UK Listing Authority
"OOO Darasun"	OOO Darasunsky Rudnik, a wholly owned subsidiary of Stanmix, incorporated in Russia
"OOO RDM"	OOO Russdragmet, a wholly owned subsidiary of Stanmix, incorporated in Russia
"Ordinary Shares"	ordinary shares of £0.001 each in the Company
"Placing"	the conditional placing of Existing Ordinary Shares and New Ordinary Shares by W.H. Ireland pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated • December 2002 between (1) the Company, (2) the Directors, (3) certain existing Shareholders and (4) W.H. Ireland, the principal terms of which are set out in paragraph 9(t) of Part V of this document
"Placing Price"	190p per Ordinary Share
"Placing Shares"	the Existing Ordinary Shares and New Ordinary Shares to be placed by W.H. Ireland pursuant to the Placing including, to the extent the Manager's Option is exercised, any Existing Ordinary Shares to be placed pursuant thereto
"POS Regulations"	The Public Offers of Securities Regulations 1995 (as amended)
"Regulations"	together the UK Regulations and the Jersey Regulations
"Shareholder"	a holder of Ordinary Shares
"SRK"	Steffen, Robertson and Kirsten (UK) Ltd
"SRK Report" or "Competent Person's Report"	the report by SRK set out in Part III of this document
"Stanmix "	Stanmix Holding Limited, registered number HE130354, a company incorporated in Cyprus, and a wholly owned subsidiary of the Company
"Stanmix Investments"	Stanmix Investments Limited, registered number HE128933, a company incorporated in Cyprus, and a wholly owned subsidiary of the Company
"THM"	Russian closed stock company "Trade House Mnogovershinnoe", a 100% subsidiary of ZAO MNV
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK GAAP"	UK Generally Accepted Accounting Principles
"UK Listing Authority"	the Financial Services Authority, acting in its capacity as a competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 of the United Kingdom, including where the context so permits any committee, employee or servant of such authority to whom any function of the UK Listing Authority may from time to time be delegated
"UK Regulations"	the Uncertificated Securities Regulations 2001 (SI2001 No. 3755) including any modification thereof or any regulations in substitution thereof made under Section 207 of the United Kingdom Companies Act 1989 and for the time being in force
"W.H. Ireland"	W.H. Ireland Limited
"ZAO Integra"	Russian closed joint stock company "Information Technologies in Mining and Geological Works" with registered address 35 Staromonetny pereulok, Moscow
"ZAO MNV"	ZAO Mnogovershinnoe, a wholly owned subsidiary of the Company
"ZAO Talatui"	ZAO Talatui, a wholly owned subsidiary of OOO Darasun, incorporated in Russia

Directors, company secretary and registered office

Directors	The Lord Daresbury *(Executive Chairman)* Ivan Eugene Koulakov *(Managing Director)* Duncan Antony Hilder Baxter *(Executive Director responsible for finance)* James Havelock Cross *(Non-Executive)* Thaddeus Steven Anthony Grobicki *(Non-Executive)* Christopher David Palmer-Tomkinson *(Non-Executive)* Peter McKenna *(alternate Director to Mr. Grobicki)* *All of:* Le Gallais Chambers 54 Bath Street St Helier Jersey JE4 8YD
Company secretary	Paternoster Secretaries Limited Le Gallais Chambers 54 Bath Street St Helier Jersey JE4 8YD
Head office and registered office	Le Gallais Chambers 54 Bath Street St Helier Jersey JE4 8YD

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Advisers

Nominated Adviser and Broker	W.H. Ireland Limited 11 St James's Square Manchester M2 6WH
Capital Markets Adviser to the Company	City Capital Corporation Limited Sion Hall 56 Victoria Embankment London EC4Y 0DZ
Auditors to the Company and Reporting Accountants	Ernst & Young LLP Becket House 1 Lambeth Palace Road London SE1 7EU
Solicitors to the Company	*As to English Law* Fox Brooks Marshall Century House St Peter's Square Manchester M2 3DN *As to Russian Law* PricewaterhouseCoopers CIS Law Offices, B.V. Kasmodamianskaya Nab. 52 Bld. 5 115054 Moscow Russia *As to Jersey Law* Bedell Cristin PO Box 75 26 New Street St Helier Jersey JE4 8PP
Solicitors to W.H. Ireland Ltd	Shepherd + Wedderburn Bucklersbury House 83 Cannon Street London EC4N 8SW Linklaters One Silk Street London EC2Y 8HQ
Competent Person	Steffen, Robertson and Kirsten (UK) Ltd Windsor Court 1-3 Windsor Place Cardiff CF10 3BX
Registrars	Capita IRG Offshore Limited Victoria Chambers Liberation Square 1-3 The Esplanade St Helier Jersey JE2 3QA

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Key information

The following information is derived from, and should be read in conjunction with, the full text of this document, and in particular with Part II – Risk Factors of this document.

Investors should read the whole of this document and not rely on key or summarised information.

Overview

Highland Gold Mining Limited was incorporated in Jersey on 23 May 2002 for the purpose of acquiring, consolidating and developing a portfolio of quality gold mining projects in the Russian Federation with good growth potential. It is the holding company of a group comprising Mnogovershinnoe ("MNV"), Russia's fourth largest gold producer in 2001, and two development projects – Darasun and Novoshirokinskoye.

Annual production at MNV for 2002 is targeted at 175,000 oz of gold. Proven and probable reserves at MNV amount to 2.3 million oz while measured, indicated and inferred resources amount to 3.0 million oz. The Darasun and Novoshirokinskoye projects are currently being advanced by the Group and, upon final resolution of the outstanding issues relating to those projects, further details of which are provided in Part I of this document, the Group would have a potential aggregate resource base of 8.0 million oz, comprising 7.2 million oz of gold and approximately 0.8 million oz of gold equivalents, including silver, lead and zinc by-products.

The Group has a successful Russian executive management team which, together with the Directors, is committed to the expansion of the Group's production base. Based on the successful completion of the Darasun and Novoshirokinskoye projects, the Group has the potential to add a further 160,000oz of gold production per year to the Group.

Group strategy

The abundance of natural resources and the recent positive developments in the Russian gold industry provide an opportunity for the Group, based on its existing assets, to pursue a strategy aimed at establishing a portfolio of Russian gold projects fulfilling the Group's technical and economic development criteria. In pursuing this strategy, the Group is able to apply its considerable experience accumulated during its development of the MNV mine. The Directors currently envisage that, in the near term, emphasis will be placed on the optimisation of the existing operations at MNV, the acquisition of the Darasun licences and the development of the Darasun project, and the completion of the development of Novoshirokinskoye. Further mining acquisition opportunities will also be pursued where such opportunities add value to shareholders and fulfil the Group's technical and economic criteria.

The Directors believe that its strategy of investing in a portfolio of operational and development assets in Russia, supported by access to international capital following Admission, should allow the Group to become a diversified mid-tier gold producer. The Directors believe the existing asset platform in the Group, together with its financial, technical and operational expertise, will provide a firm foundation for the achievement of the Group's strategic goals.

Selected financial information

The table below summarises the trading results of the Group's main trading subsidiary, ZAO MNV, for the three and a half years ended 30 June 2002, which includes the period prior to its acquisition by the Company. The information set out below has been extracted from the accountants' reports on the Company and ZAO MNV set out in Part IV of this document, which has been prepared on the basis of audited financial statements prepared in accordance with UK GAAP, and this information should be read in conjunction with that report.

	12 months ended 31 December			6 months ended 30 June
	1999 US$'000	**2000 US$'000**	**2001 US$'000**	**2002 US$'000**
Turnover	9,986	25,498	40,108	28,264
Profit before taxation	3,556	4,922	11,794	14,676
Net cash inflow from operating activities	5,542	4,098	11,374	14,478
Net assets	2,204	6,110	13,286	23,535

Key information

The net assets of the Group as at 30 June 2002, taking account of adjustments arising on the acquisition of ZAO MNV and OOO Darasun, were US$31.5 million.

The auditors' opinion on those financial statements was qualified as set out in Part IV of this document. The auditors' opinion also refers to fundamental uncertainties relating to ownership and legal title of certain fixed assets of ZAO MNV, although their opinion is not qualified in this respect.

Investment considerations

Prior to investing in the Ordinary Shares investors should consider, together with the other information contained in this document, the investment considerations set out in Part II – Risk Factors of this document. This section covers a variety of risks including, but not limited to, those associated with the gold mining industry, property rights, environmental issues and investment issues.

Current trading and prospects

For the six months to 30 June 2002, which includes the period prior to its acquisition by the Company, the Group's main trading subsidiary, ZAO MNV, reported revenue of US$28.3 million and profit before tax of US$14.7 million. For the ten months to 31 October 2002 the Group milled a total of 659,458 tonnes of ore and produced a total of 149,190 oz of gold with an average recovery grade of 7.1 g/t.

For the remainder of the financial year the Directors expect that MNV will continue to achieve satisfactory results from its existing operations. The Directors currently believe, subject to the satisfactory completion of feasibility studies and the award of the long term mining licences for the deposits at the Darasun complex, that the pre-production development of Darasun can be completed within 18 months. The Directors also expect the Group to be able to complete further aspects of the development of Novoshirokinskoye in due course although this outcome is not certain.

Based on performance to date in the second half of the current financial year, the Directors expect to report continued progress in the Group's operations and financial results. Based on information currently available to the Group, the Directors are optimistic about the Group's prospects.

Dividend policy

The Directors intend to pursue a progressive dividend policy whilst taking a prudent view of the Group's cash flows and capital requirements and maintaining an appropriate level of dividend cover.

On the basis of information currently known to the Company, the Directors currently intend to pay a final dividend in respect of the year ending 31 December 2002 in April 2003. The Directors currently intend that interim and final dividends will be paid in the September and April of each year respectively thereafter.

As a company incorporated in Jersey, the Company can only pay dividends if distributable profits are available for the purpose; as a holding company, the Company will be dependent upon dividends and interest distributed to it by its subsidiaries. As the Company is incorporated in Jersey with exempt company status, under existing legislation, dividends paid by the Company to UK resident Shareholders will not be subject to any Jersey withholding tax.

Details of the Placing

The total value of the Ordinary Shares comprised in the Placing (assuming the Manager's Option is not exercised) is £22.0 million, of which £20.0 million comprises New Ordinary Shares to be issued by the Company. The New Ordinary Shares represent 9.5% of the enlarged issued share capital of the Company following the Placing. The proceeds of the Placing, net of expenses, will be approximately £16.2 million.

W.H. Ireland has agreed to use all reasonable endeavours to procure subscribers and purchasers for the Placing Shares. The Placing is not being underwritten and it is conditional, *inter alia*, on the Existing Ordinary Shares and the New Ordinary Shares being admitted to trading on AIM. Further details are set out in paragraph 9(t) of Part V of this document.

Key information

In connection with the Placing, certain existing Shareholders have granted W.H. Ireland a Manager's Option which is exercisable, in whole or in part, once or more than once, upon notice by W.H. Ireland during the period commencing with the date of this document and ending 30 days after Admission. Pursuant to the Manager's Option, W.H. Ireland has an option to sell on behalf of certain existing Shareholders up to 1,578,947 Existing Ordinary Shares at the Placing Price, *inter alia*, to cover over-allotments or further allotments, if any, in connection with the Placing and to cover short positions resulting from stabilisation transactions. Any Existing Ordinary Shares sold by these existing Shareholders following the exercise of the Manager's Option will be sold on the same terms and conditions as those applicable to the New Ordinary Shares being issued in the Placing.

In connection with the Placing, W.H. Ireland may over-allot or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail for a limited period after the Placing Price is announced. However, there is no obligation on W.H. Ireland to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law, W.H. Ireland does not intend to disclose the extent of any over allotments and/or stabilisation transactions under the Placing.

Use of proceeds

The net proceeds of the Placing will be used by the Group to provide additional working capital across the Group's activities, for the development of the Group's existing assets and the repayment of certain Group borrowings. In particular, the funds will be applied towards completion of the programme being implemented to deliver efficiency gains at MNV, and to advance the progress on the development projects. The Directors currently estimate that the projected total capital expenditure for the Group during 2003 will be approximately US$35 million applied across the Group's operations described above.

The net proceeds of the Placing may also be applied towards possible acquisitions of, or investments in, additional gold mining or exploration assets that meet the Group's technical and economic criteria. The Company is not currently in any negotiations with any third party regarding any material acquisition or investment.

This key information is derived from, and should be read in conjunction with, the full text of this document, and in particular with Part II – Risk Factors of this document.

Investors should read the whole of this document and not rely on key or summarised information.

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Part I

Information on the Group

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Part I Information on the Group

Introduction

Highland Gold Mining Limited was incorporated in Jersey on 23 May 2002 for the purpose of acquiring, consolidating and developing a portfolio of quality gold mining projects in the Russian Federation with good growth potential. It is the holding company of a group comprising MNV, Russia's fourth largest gold producer in 2001, and two development projects – Darasun and Novoshirokinskoye.

Annual production at MNV for 2002 is targeted at 175,000 oz of gold. Proven and probable reserves at MNV amount to 2.3 million oz while measured, indicated and inferred reserves amount to 3.0 million oz of gold. Further details are provided on page 22 of this document. The Darasun and Novoshirokinskoye projects are currently being advanced by the Group and, upon final resolution of the outstanding issues relating to those projects, further details of which are provided in Part I of this document, the Group would have a potential aggregate resource base of 8.0 million oz, comprising 7.2 million oz of gold and approximately 0.8 million oz of gold equivalents including silver, lead and zinc by-products.

The Group has a successful Russian executive management team which, together with the Directors, is committed to the expansion of the Group's production base. Based on the successful completion of the Darasun and Novoshirokinskoye developments, the Group has the potential to add a further 160,000 oz of gold production per year to the Group.

Brief history of the business

The foundation of the Group's business has centred on the rehabilitation of the former gold mining operations at MNV following its closure in 1997. Following a change of ownership and under the leadership of Ivan Koulakov, now Managing Director of the Company, attention was focused on the restoration of workforce morale, the recommissioning of the fixed assets, reconstruction of the mining infrastructure, and the completion of new feasibility studies.

Production recommenced at MNV in 1999 and since that time the team has successfully modernised the plant, reduced operating costs and increased recoveries and productivity.

In May 2002, ZAO MNV was acquired by the Company, whose initial shareholders included Jersey-based investment interests, the board and management of the Group and Harmony. At that time, the Company placed new shares representing some 42% of its enlarged share capital principally with new investors including gold funds, other institutional investors, asset management clients of Fleming Family & Partners Limited and with Harmony. Since then the Group has further developed the acquisitions of Darasun and Novoshirokinskoye and continued to progress its commercial goals while addressing the operational and technical requirements for Admission.

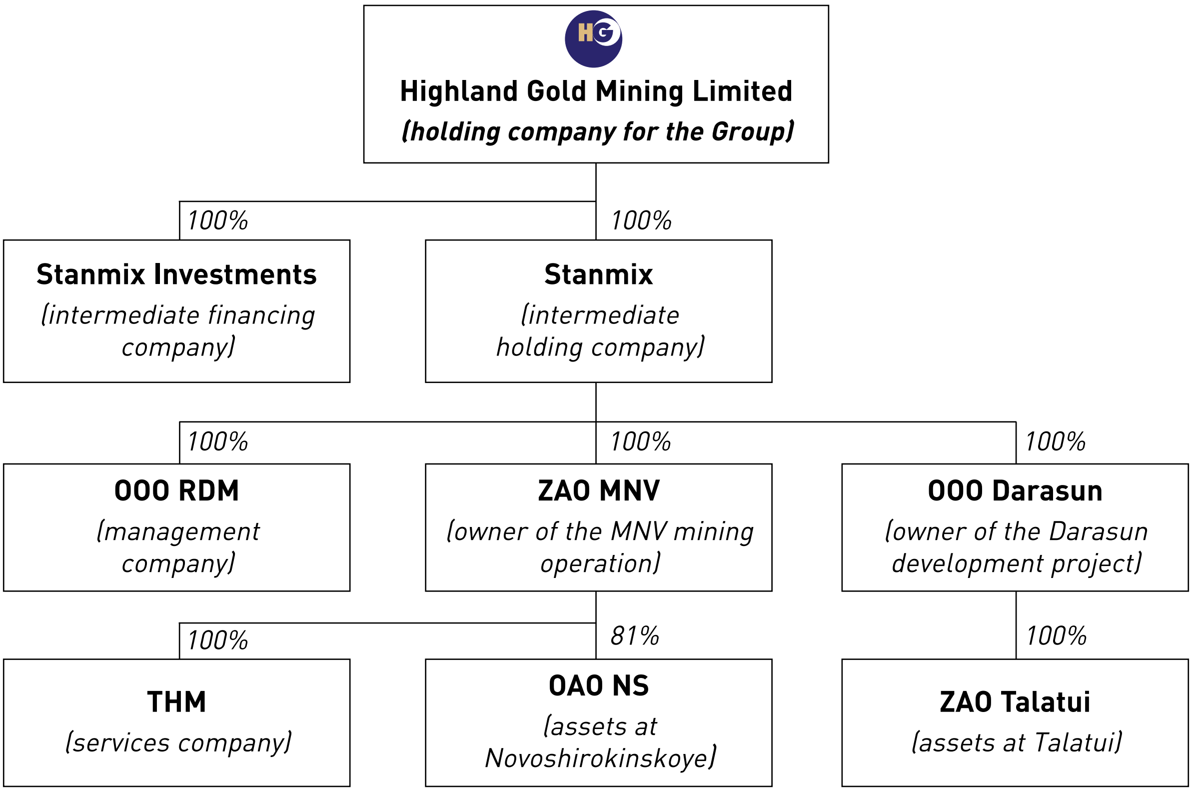
The Group is now positioned to apply the experience and skills of the management team, combined with the Group's international capabilities, to the continued development of MNV and the development projects and to the exploitation of other under performing gold assets in Russia.

Group structure

The Company holds its interests in its operations through its wholly-owned direct subsidiary Stanmix, incorporated in Cyprus. The majority of the senior management of the Group is based in Moscow where a number of the Group's centralised functions are based.

Part I Information on the Group

The Group structure may be illustrated as follows:



Further details of certain of the Group's key assets are set out in this Part I – The Group's business. In particular, further details of the Darasun project can be found on page 23 of this document and further details of the development of Novoshirokinskoye are set out on page 24 of this document.

Stanmix Investments is a wholly owned subsidiary of the Company incorporated in the Republic of Cyprus and established for the purpose of implementing the Group's financing strategy. ZAO MNV, OOO Darasun, ZAO Talatui and OAO NS, which are companies incorporated in Russia and subsidiaries of the Group, each own assets at the Mnogovershinnoe, Darasun and Teremky, Talatui and Novoshirokinskoye deposits respectively; THM provides catering services at Mnogovershinnoe. OOO RDM is a wholly owned subsidiary of the Group, incorporated in Russia and established solely for the purposes of providing management services to the Group's operating companies in Russia.

Further details of the structure of the Group are set out in paragraph 2 of Part V of this document.

Overview of mining environment in Russia

Natural resources in Russia have supported the development of some of the world's largest natural resources groups producing *inter alia* oil, natural gas, aluminium, nickel and platinum group metals. However, despite ranking fifth in the world's production of gold in 2001 and despite having numerous large-scale underdeveloped and undercapitalised gold assets, there is currently no single gold producer of in excess of 1 million oz per annum in Russia. The Directors believe that this reflects the slow evolution of the regulatory environment governing the gold industry in Russia in comparison with other minerals and resource sectors, and the significant political uncertainties which persisted during Russia's transition to a market economy.

The Directors believe that, since 1998, the Russian gold industry has undergone a period of fundamental change which has created more favourable conditions for groups contemplating the development and operation of gold mines in Russia. The Directors are of the view that certain of the key factors contributing to this include:

- the devaluation of the rouble in 1998 which has made the Russian mining industry more competitive
- the licensing in 1998 of Russian commercial banks to export gold
- the significant changes in the taxation environment, including the reduction of corporate tax rates from 35% to 24% and income tax rates from 35% to 13%

- the legislative and regulatory initiatives introduced by the Putin administration
- the abolition of the 5% export duty on gold export sales in 2002
- the increased availability of domestic and international bank finance on reasonable terms reflecting Russia's lower credit risk ratings

Whilst the Directors cannot guarantee that such favourable conditions will be maintained in future, they believe that the new mining environment in Russia creates an opportunity for a company such as Highland Gold Mining Limited, with an established gold producing operation and two development projects, to exploit opportunities in the Russian gold sector.

Group strategy

The abundance of natural resources and the recent positive developments in the Russian gold industry, as described above, provide an opportunity for the Group, based on its existing assets, to pursue a strategy aimed at establishing a portfolio of Russian gold projects fulfilling the Group's technical and economic development criteria. In pursuing this strategy, the Group is able to apply the considerable experience accumulated by MNV's management during the development of the MNV mine. The Directors currently envisage that, in the near term, emphasis will be placed on the optimisation of the existing operations at MNV, the acquisition of the Darasun licences (further details of which are provided on page 23) and the development of the Darasun project, and the completion of the development of Novoshirokinskoye. Further mining acquisition opportunities will also be pursued where the Directors believe such opportunities add value to shareholders and fulfil the Group's technical and economic criteria.

The Directors believe that the Group's strategy of investing in a portfolio of operational and development assets in Russia, supported by access to international capital following Admission, should allow the Group to become a diversified mid-tier gold producer. The Directors believe the existing asset base in the Group, together with its financial, technical and operational expertise, will provide a firm foundation for the achievement of the Group's strategic goals.

The Group's business

The principal activities of the Group are the operation of MNV, the fourth largest gold producer in Russia in 2001, and the acquisition and development of additional gold mining projects in Russia, one of which, Darasun, is already at an advanced stage of development. Proven and probable reserves at MNV amount to 2.3 million oz while measured, indicated and inferred resources amount to 3.0 million oz, and the Directors believe there is scope for further expansion of MNV's resource base through additional exploration.

The potential aggregate resource base of the Group, including the development projects where further progress is still required to bring the assets to full account (details of which are given below), is 8.0 million oz comprising 7.2 million oz of gold and approximately 0.8 million oz of gold equivalents, including silver, lead and zinc by-products.

Potential aggregate mineral resources

	Tonnage (kt)	Au Eq. Grade (g/t)	Au Eq. Content (koz)
B (Measured)	2,026	9.0	586
C1 (Indicated)	18,583	8.9	5,292
Sub-Total	20,609	8.9	5,878
C2 (Inferred)	8,125	8.3	2,170
Total	**28,733**	**8.7**	**8,048**

Source: SRK Report (table 1.1)

Potential aggregate ore reserves

	Tonnage (kt)	Au Eq. Grade (g/t)	Au Eq. Content (koz)
B (Proved)	2,130	7.1	480
C1 (Probable)	14,610	8.3	3,920
Total	**16,740**	**8.2**	**4,400**

Source: SRK Report (table 1.2)

Part I Information on the Group

The Directors believe that the Group's experienced Russian management team is one of its key assets which, over the last four years, has been responsible for the recommissioning of the MNV mine, which they have converted into one of Russia's major gold producers, as well as making substantial progress on the development projects.

The principal interests of the Group, and their location, are summarised below. Further details of the Group's mining assets are provided in the SRK Report in Part III of this document.

Mnogovershinnoe ("MNV")

Introduction

The Company has a 100% interest in its subsidiary ZAO MNV which owns and operates the Mnogovershinnoe gold mine which is situated in the Nikolaevsk area of the Khabarovsk Region in the far-east of the Russian Federation, approximately 650km north of the city of Khabarovsk. ZAO MNV has a licence for the extraction of gold ore which is valid until December 2018. Operations at MNV consist of both underground and open-pit mining of several high grade gold deposits. In addition, MNV has its own gold processing plant.

MNV was initially brought into production by its previous owners in 1991 and operated until 1997 when the mine was closed due to poor technical and financial performance and a lack of funds for reconstruction and development. Following a change of ownership, gold mining and gold extraction recommenced in 1999 under the direction of the new management team. Following capital investment in mining and metallurgical equipment, the technical performance of the mine has significantly improved over the last four years. In 1999 MNV milled a total of 168,255 tonnes of ore producing 48,625 oz of gold. In 2001 MNV milled a total of 630,535 tonnes of ore and produced 153,288 oz of gold, making it Russia's fourth largest gold producer in that year.

During the 6 months ended 30 June 2002 MNV milled a total of 388,571 tonnes of ore and produced 90,670 oz of gold at an average recovered grade of 7.3 g/t. During this period the average recovery was approximately 92%. In the six months to 30 June 2002 MNV reported cash operating costs of US$155/oz, down from US$190/oz for the previous year. During the 10 months ended 31 October 2002 MNV milled a total of 659,458 tonnes of ore and produced a total of 149,190 oz of gold at an average recovery grade of 7.1 g/t with the same average recovery of approximately 92%. In the 10 months to 31 October 2002 MNV reported cash operating costs of US$145/oz.

The Directors and management of MNV are targeting total production at MNV in the 12 month period to 31 December 2002 of in excess of 175,000 oz.

During the period from 1999 to 30 June 2002, MNV has been consistently profitable. Further financial information on the Group and on MNV is presented in Part IV of this document.

Reserves and Resources

SRK has examined the Russian classified reserve and resource statements for MNV and has considered them as falling within the categories as defined by the JORC Code as sub-divided below:

MNV mineral resources

	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	1,180	7.6	286
C^1 (Indicated)	7,000	9.9	2,216
Sub-Total	8,180	9.5	2,502
C_2 (Inferred)	1,740	10.8	536
Total	**9,920**	**9.7**	**3,038**

Source: SRK Report (Table 2.1)

MNV ore reserves

	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Proved)	1,310	6.6	276
C^1 (Probable)	6,690	9.4	2,015
Total	**8,000**	**8.9**	**2,292**

Source: SRK Report (Table 2.2)

SRK consider that there is potential to increase the mineral resource and ore reserve base presented in Tables 2.1 and 2.2 above. This potential occurs both as depth extensions to the existing ore bodies and in the form of other targets which have only undergone limited exploration to date.

Future Operations

The operations at MNV are broadly in accordance with a 10 year business plan which was prepared by ZAO Integra and the Russian State Institute of Production Technology in 2000 and adopted by ZAO MNV. This plan projected a total tonnage mined target of 750,000 tonnes in 2003 and then stabilising production at 800,000 tonnes per year from 2004 (comprising approximately 300,000 tonnes per year from the open-pit mining operation and approximately 500,000 tonnes per year from the underground operations). SRK considers this plan to be well within the capacity of the existing mining operations and production capabilities, as referred to in the SRK Report. The Directors estimate that MNV is already on track to mine in excess of 780,000 tonnes in 2002.

Target annual gold production is projected to increase to an average of approximately 200,000 oz from 2004 onwards. At the planned production levels, reserves are sufficient to sustain the MNV mining operations for at least 12 years.

The Directors currently estimate that capital expenditure at MNV during the 30 month period from 30 June 2002 to 31 December 2004, after various adjustments to the 10 year business plan referred to above, will be approximately US$18.9 million which includes approximately US$8.1 million for underground development, US$3.3 million for mill improvements and US$4.2 million for a diesel power station.

SRK has concluded that MNV is a modern, well equipped and well run mine with potential to increase volume by increasing production rates at lower operating costs.

Darasun

Introduction

The Darasun project is situated in the Chita Region of Eastern Russia and consists of an existing, but currently non-operational, gold mining complex having open-pit and underground mining development and mineral processing facilities. It consists of three deposits, Darasun, Teremky and Talatui. The Company holds a 100% interest in OOO Darasun which holds certain assets of the Darasun project including the current short term gold mining licences at Darasun and Teremky which expire in February 2003, and the long term gold mining licence for the Talatui deposit, which expires in 2012.

The Company recently acquired certain of the fixed assets required to redevelop the Darasun project, including all underground mining equipment and the majority of surface equipment, including lifting machinery, maintenance facilities, infrastructure and buildings. The process of registration of certain of these assets by OOO Darasun is in progress. Further details of these acquisitions can be found in paragraph 9 of Part V of this document. The Company will continue to seek to acquire the relevant assets and further develop the project in order to bring the mine into full production. Your attention is drawn to the risk factors set out in Part II of this document and, in particular, to the section headed "Property Rights".

The Darasun project has been the site of gold mining activity for over 100 years. Shafts were first sunk in 1905 to exploit near surface oxidised ore zones. Later, the shafts were deepened to exploit deeper un-oxidised ore zones. Approximately 3.9 million oz of gold has been extracted from Darasun up until the cessation of mining activities in 2000 since which time the underground infrastructure has been kept on a care and maintenance basis.

Gold Mining Licences

The Group has already secured a long term licence, valid until 2012, in respect of the Talatui deposit, although additional work is required for the Company to be fully compliant with the requirements of that licence, further details of which are set out in paragraph 12 of Part V of this document.

The Group is also seeking the award of new long-term mining licences for the Darasun and Teremky deposits after the expiry of the existing licences in February 2003. This is to be achieved through a tender process which is already underway. The Group submitted an application in August 2002. The period for application has now closed and the Company has not received any notification that there have been any submissions other than that lodged by the Group. While there can be no guarantee of a successful outcome, the Company believes it is the only bidder, already owns the majority of the mining infrastructure and has undertaken advanced feasibility studies. The Directors therefore believe that the Company is in a good position to be awarded the long term mining licences. The Directors expect the tender process to be completed by the end of December 2002. Your attention is drawn to the risk factors set out in Part II of this document and, in particular, to the section headed "Property Rights".

Reserves and Resources

The current status of the mining licences in relation to the Darasun project is described above. Reflecting the status of the licences, the reserves and resources shown in the tables below are included on an illustrative basis as if the Company owned the long term licences for all three deposits. The Darasun project has been examined by SRK and is included in the SRK Report in Part III of this document.

SRK has examined the Russian classified reserves and resource statements for the Darasun project and has considered them as falling within the categories defined by the JORC Code as sub-divided below:

Mineral resources of the Darasun deposits

	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	170	13.0	71
C_1 (Indicated)	6,380	9.7	1,984
Sub-Total	6,550	9.8	2,055
C_2 (Inferred)	2,910	11.4	1,065
Total	**9,450**	**10.3**	**3,120**

Source: SRK Report (Table 3.1)

Ore reserves of the Darasun deposits

	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Proved)	–	–	–
C_1 (Probable)	3,220	10.3	1,070
Total	**3,220**	**10.3**	**1,070**

Source: SRK Report (Table 3.2)

SRK also notes that, in addition to the above, some 4.5 million oz of gold are documented to exist in the Russian P category. While SRK does not consider this sufficiently explored to be considered as a mineral resource under the JORC Code it does consider this as an indication of the remaining exploration potential for the Darasun project, mostly as depth extensions to the known ore-bodies.

Future Operations

Future operations at the Darasun project are dependent on the successful award to the Company of the long term mining licences for the Darasun and Teremky deposits with acceptable licence conditions, and on full compliance with the mining licence for the Talatui deposit.

However, the Company has already engaged the Russian technical institute, Irgiridmet, to conduct a feasibility study for the redevelopment of the Darasun project. This feasibility study is expected to be completed in the early part of 2003. Existing feasibility studies by Irgiridmet indicate that an annual production rate of approximately 375,000 tonnes of ore could be achieved from the existing infrastructure – mostly from underground sources – with the exception of the upper portion of the Talatui deposit which would be mined by open pit methods. Detailed metallurgical testwork has been undertaken by Irgiridmet and results to date indicate that recoveries of approximately 89.5% should be achievable using a gravity and floatation process.

The Directors currently estimate that, subject to satisfactory completion of the feasibility studies outlined above, capital expenditure for the redevelopment of the Darasun project will be in the order of US$35 million over a period of 18 months from the decision being made to proceed with the project.

Novoshirokinskoye

The Company is in the process of completing the development of the Novoshirokinskoye gold and polymetallic mining project which is located in the Chita Region of Eastern Russia. To this end, the Company has already acquired an 81.29% interest in OAO NS which holds certain key assets which are essential to the future development of this project. The Company understands that the remaining minority interests in the share capital of OAO NS are held by a number of private individuals and the regional authorities and, at present, the Company has no plans to acquire these interests.

An extensive amount of mining infrastructure already exists on this project including equipped haulages and shafts (with winders) and a partially completed mill and processing facility. Further technical studies on the redevelopment of Novoshirokinskoye are currently being undertaken by Irgiridmet which are expected to be completed during the course of 2003. A previous estimate of resources undertaken by the Russian State

Commission on Mineral Resources in 1967 indicated total resources in the Russian B, C1 and C2 categories amounting to 9.4 million tonnes at a grade of 4.8 g/t gold, 83.9 g/t silver, 4.0% lead and 1.5% zinc. The total contained gold in this resource estimate amounts to approximately 1.0 million oz.

This development project is currently in progress and there can be no guarantee that it will be successfully completed, that the operation will be brought into production, or that the agreement relating to the acquisition of the Group's interest in OAO NS will not be open to challenges in the future. Amongst the issues to be addressed are the renewal of the current long term mining licence on acceptable terms to the Company and the completion of certain approvals and regulatory requirements. The Directors are not ascribing material value to this project at this time. The Company is not aware of any material contingent liability of OAO NS which may affect the Company. Your attention is drawn to the risk factors set out in Part II of this document.

Resources and Reserves

The SRK Report set out in Part III of this document has included an assessment of Novoshirokinskoye. Having regard to the matters set out above, the resources and reserves of Novoshirokinskoye are set out below on an illustrative basis.

Novoshirokinskoye mineral resources

	Tonnage (kt)	Au Grade (g/t)	Ag Grade (g/t)	Pb Grade (%)	Zn Grade (%)	Au Eq. Grade (g/t)[1]	Au Eq. Content (koz)[1]
B (Measured)	680	7.5	90.0	4.7	1.5	10.5	230
C_1 (Indicated)	5,200	3.5	96.9	3.9	1.9	6.5	1,092
Sub-Total	5,880	4.0	95.9	4.0	1.9	7.0	1,322
C_2 (Inferred)	3,480	2.1	70.4	3.2	1.6	4.5	504
Total	**9,360**	**3.3**	**86.6**	**3.7**	**1.8**	**6.1**	**1,826**

[1]Note: Gold equivalents were calculated by Irgiridmet using 0.013g per gram of Silver and 0.3g per percentage point of both Lead and Zinc. Metal prices used to derive these equivalents are as of 11 July 2002: Au – US$317.20/oz; Ag – US$5.07/oz; Lead – US$454/t; and Zinc – US$808/t.

Source: SRK Report (Table 4.1)

Novoshirokinskoye ore reserves

	Tonnage (kt)	Au Grade (g/t)	Ag Grade (g/t)	Pb Grade (%)	Zn Grade (%)	Au Eq. Grade (g/t)[1]	Au Eq. Content (koz)[1]
B (Proved)	820	5.6	67.5	3.52	1.14	7.9	208
C_1 (Probable)	4,700	3.0	87.5	3.00	1.41	5.5	831
Total	**5,520**	**3.4**	**84.6**	**3.08**	**1.37**	**5.8**	**1,039**

[1]Note: Gold equivalents were calculated by Irgiridmet using 0.013g per gram of Silver and 0.3g per percentage point of both Lead and Zinc. Metal prices used to derive these equivalents are as of 11 July 2002: Au – US$317.20/oz; Ag – US$5.07/oz; Lead – US$454/t; and Zinc – US$808/t.

Source: SRK Report (Table 4.2)

Future Operations

Subject to a successful completion of the development, which includes the renewal of the long term licence, completion of certain approvals and regulatory requirements, as well as a positive outcome to the feasibility studies, the Directors believe that the Novoshirokinskoye project could become a significant asset of the Group which could be brought into production as a polymetallic mining operation by 2005. In the event that the Company decides to progress the development of the Novoshirokinskoye project, it is likely that capital expenditure would amount to approximately US$14 million prior to bringing the mine into production.

Other opportunities

The Group is currently investigating the possible acquisition of a number of other gold opportunities which include exploration projects, development projects and existing gold producers. With its existing Russian management team and with a strong track record of successful mine development at MNV, the Directors are of the opinion that the Group is well placed to grow its business through further acquisitions, as well as through organic growth and productivity and efficiency improvements at its existing operations.

Further details of the Group's assets are detailed in the SRK report in Part III of this document.

Regulatory and Environmental

Businesses are required to rehabilitate site operations on closure in Russia. Environmental legislation in Russia is complex and requires businesses to, *inter alia*, provide measures for environmental protection and the restoration of the environment after use, and for obtaining the relevant and appropriate regulatory approvals, licences, permits and consents. The Group may, as a result, have to make provision for such closure and rehabilitation costs in the future which may exceed provisions already made and which may involve additional costs to the Group.

An overview of the mining regulatory framework in Russia can be found in paragraph 11 of Part V of this document.

Licences

In order to operate its business, the Group requires certain licences and other regulatory consents from various Russian federal and state authorities. In the past, the Group has breached certain terms and conditions of such licences and consents. This has not resulted in any material adverse regulatory action to date, and the Company is making significant efforts to remedy these past breaches.

Further information can be found in paragraph 12 of Part V of this document. Your attention is also drawn to the section headed "The Group's Licences" set out in Part II of this document.

Gold price

The Company has entered into gold sales contracts with a small number of Russian domestic banks. Further details of these contracts are set out in paragraph 10 of Part V of this document. The Company sells gold to its customers with reference to the CBR spot gold price at the time of delivery and does not engage in hedging policies.

Financial information

The table below summarises the trading results of the Group's main trading subsidiary, ZAO MNV, for the three and a half years ended 30 June 2002, which includes the period prior to its acquisition by the Company. The information set out below has been extracted from the accountants' reports on the Company and ZAO MNV set out in Part IV of this document, which has been prepared on the basis of audited financial statements prepared in accordance with UK GAAP, and this information should be read in conjunction with that report.

	12 months ended 31 December			6 months ended 30 June
	1999 US$'000	2000 US$'000	2001 US$'000	2002 US$'000
Turnover	9,986	25,498	40,108	28,264
Profit before taxation	3,556	4,922	11,794	14,676
Net cash inflow from operating activities	5,542	4,098	11,374	14,478
Net assets	2,204	6,110	13,286	23,535

The net assets of the Group as at 30 June 2002, taking account of adjustments arising on the acquisition of ZAO MNV and OOO Darasun, were US$31.5 million.

The auditors' opinion on those financial statements was qualified as set out in Part IV of this document. The auditors' opinion also refers to fundamental uncertainties relating to ownership and legal title of certain fixed assets of ZAO MNV, although their opinion is not qualified in this respect.

Board of Directors

The Board comprises an Executive Chairman, two Executive Directors and three Non-Executive Directors, as set out below.

The Lord Daresbury (Aged 49) – Executive Chairman – appointed director 18 June 2002

Peter Daresbury, MA, DL, was educated at Cambridge and London Business School. He joined Greenalls Group plc in 1977, becoming a director in 1984, managing director in 1993 and chief executive in 1996. After the sale of the pubs & restaurants arm in 1999, he was appointed non-executive chairman of the group which was renamed, De Vere Group plc. He is also non-executive chairman of Aintree Racecourse Company Limited and was formerly a non-executive director of First Leisure plc. He is chairman of the Company's nominations committee.

Ivan Koulakov (Aged 34) – Managing Director – appointed director 18 June 2002
Ivan Koulakov graduated as a mechanical engineer from the Department of Materials and Technology at Moscow State Technical University, Bauman and as an economist from the Department of Finance and Banking at the Financial Academy of Government of the Russian Federation. He became chairman of ZAO Oil Finance in 1995, and then chairman of the board of directors of ZAO MNV in 1998. Since then he has led the management team in the development of MNV and the expansion into the development projects.

Mr. Koulakov has been instrumental in the development of MNV and is now a substantial shareholder in the Company, shares in the Company having been issued to him under the terms of an equity participation agreement dated 15 November 2002, further details of which can be found in paragraph 9(e) of Part V of this document.

Further details relating to the terms of his employment can be found in paragraph 7 of Part V of this document.

Duncan Baxter (Aged 50) – Executive Director responsible for finance – appointed director 8 December 2002
Duncan Baxter commenced his career in banking in 1973 with Barclays International Bank in Harare, Zimbabwe before moving to the treasury department of RAL Merchant Bank in 1978. He moved to Jersey in 1984 joining Commercial Bank (Jersey) Limited where he was promoted to director in 1985. After its acquisition by Swiss Bank Corporation in 1988, he was appointed managing director and was thereafter responsible for developing the bank's operations in Jersey. In 1998, he left Swiss Bank Corporation to pursue a number of consultancy projects for various international banks and investment management companies. He is a Fellow of the Institute of Chartered Secretaries, Institute of Bankers, and Securities Institute, and is responsible for the Group finance function in Jersey.

James Cross (Aged 54) – Non-Executive Director – appointed director 9 October 2002
James Cross graduated from the University of Witwatersrand in South Africa. He has been involved in banking since 1968. His first senior position was with Nedbank in 1978. He was appointed in 1985 in London as head of trading at Union Bank of Switzerland, and then returned to South Africa in 1987 as general manager of the South African Reserve Bank, responsible for the marketing of all South Africa's gold production. He was promoted to deputy governor of the South African Reserve Bank in 1997, and senior deputy governor in 1999. He retired on expiry of his contract to pursue various consultancy roles. He is a fellow of the Institute of Bankers in South Africa. He is chairman of the Company's audit committee.

Ted Grobicki (Aged 53) – Non-Executive Director – appointed director 18 June 2002
Ted Grobicki graduated from Rhodes University in South Africa, followed by post graduate studies in mineral exploration in London. After fulfilling various roles within mining and exploration companies in South Africa, Namibia and Zimbabwe, Mr. Grobicki was appointed chief executive of Texas Gulf Inc South Africa in 1979. He has since served at a senior executive level in a wide range of public and private companies in the mining sector, and was appointed as non-executive director of Harmony in 1994. With Harmony's merger with Kalahari Goldridge Mining Company Limited and West Rand Consolidated Mining Limited in 1999, he was appointed as executive director of Harmony focusing on new business. Mr. Grobicki has 30 years' experience in all aspects of the mining industry, including exploration, evaluation, development, mine management and financial and corporate management. He now oversees Harmony's overseas operations.

Christopher Palmer-Tomkinson (Aged 60) – Non-Executive Director – appointed director 17 September 2002
Christopher Palmer-Tomkinson graduated from Oxford University with a law degree and joined Cazenove in 1963, where he served as a partner from 1972 until May 2001 and a managing director of corporate finance until May 2002. During his career with Cazenove he was involved in the firm's international business and was responsible at various times for Cazenove's Australasian and African business which enabled him to focus on the resources sector. He has also served on the board of Henderson Electric and General Trust plc since 1983. He is chairman of the Company's remuneration committee.

Peter McKenna (Aged 51) – alternate to Ted Grobicki – appointed alternate director 18 June 2002
Peter McKenna graduated from University of London with a geology degree. Mr. McKenna has 29 years' experience in the gold mining industry, based in South Africa, with Johannesburg Consolidated Investment Co. Ltd (later JCI Ltd), Western Areas Gold Mine, West Rand Consolidated Mining Limited and Harmony in the fields of exploration and mine geology, ore reserve evaluation, corporate finance and new business development (including ventures in Africa, Australia, North America and Russia). Mr. McKenna is a member of the executive committee of Harmony with responsibility for new business development.

Senior Management and Executive Committee

Senior Management

Dmitri Korobov (Aged 31) – Deputy General Director, ZAO MNV
Dmitri Korobov graduated as a mechanical engineer from the Department of Materials and Technology at Moscow State Technical University, Bauman. He became deputy general director of ZAO Oil Finance in 1997, and then a director of ZAO MNV in 1998. He has been instrumental in the development of ZAO MNV together with Ivan Koulakov since then and is responsible for the finance department of the Company in Moscow.

Gennady Nevidomi (Aged 31) – Director, ZAO MNV
Gennady Nevidomy graduated as a mechanical engineer from the Department of Materials and Technology at Moscow State Technical University, Bauman. He was head of the analytical department of ZAO Oil Finance from 1997 until 2000 when he was appointed as a director of ZAO MNV and head of the Moscow office. He is also responsible for planning and production at the Company's mining operations.

Yuri Filtsev (Aged 57) – Technical Director, ZAO MNV
Yuri Filtsev was educated at Tomsk Politechnical Institute graduating in 1969. He has since held senior positions with a number of mining and chemical production companies, including Dukat Silver. He was appointed as technical director at ZAO MNV in 2001.

Alexander Mikhaluk (Aged 54) – Chief Geologist, ZAO MNV
Alexander Mikhaluk was educated at Ordzhonikidze Mining and Metallurgical Institute, specializing in geology and exploration of precious metals deposits. He has worked for a number of mining companies including as deputy chief geologist of OAO NAZ between 1994 and 1998 and as chief geologist at ZAO MNV since 1998.

Yuri Borsh (Aged 49) – General Director, ZAO MNV
Yuri Borsh graduated from the mining department of the Frunzensky Politechnical Institute in 1977, after which he spent 9 years as underground mine chief engineer at Darasun followed by 12 years as deputy director of production at the Deputatsky mine. He was appointed general director of the MNV mine in 2001.

Mikhail Cheine (Aged 47) – Chief of Finance, ZAO MNV
Mikhail Cheine graduated in economics and finance from St. Petersburg Academy of State Administration and Management in 1997 and was awarded a post graduate diploma in business administration from the University of Surrey in 1998. Prior to this he coordinated the research team and helped to establish Komi Arctic Oil, a joint venture between Gulf of Canada and Komineft of Russia. In 1996, he was appointed managing director of Quest Petroleum Exploration, then in 1999 General Director of OOO JV Amkomi, a Russian subsidiary of Aminex PLC, and then Finance Director of Trubocomplekt Corporation (UK) in 2000 before joining ZAO MNV as Chief of Finance in February 2002. He is an associate of the Russian Institute of Professional Accountants.

Executive Committee

In addition to the Board, the Company has appointed an Executive Committee of senior managers responsible for the day to day management of the Group's operations. The Executive Committee currently comprises Lord Daresbury, Mr. Koulakov, Mr. Korobov, Mr. Nevidomi, Mr. Grobicki and Mr. McKenna.

Employees

The Group has approximately 2,100 employees. Of these, a total of 1,976 are employed in the Group's mining and administrative activities at MNV, Darasun and Novoshirokinskoye with a further 91 in the Group's offices in Khabarovsk, Nikolaevsk and Komsomolsk where certain administration, logistics and security functions are carried out. In addition, the Group employs a total of 45 people in Moscow. Approximately 700 of the Group's employees are members of a trade union.

Harmony

Harmony is the fifth largest gold producer in the world and had a market capitalisation of US$• billion as at • December 2002. Harmony has completed 23 acquisitions in the past 6 years, growing its annual gold production from approximately 560,000 oz to a projected 3.1 million oz in the period ending 30 June 2003. Over the same period, Harmony has increased the quality and quantity of its gold reserve base to an estimated 49 million oz at 30 June 2002.

While the majority of its operations are in South Africa, Harmony has, through a number of acquisitions since 2000, established a production base in Australia amounting to in excess of 500,000 oz of gold annually. Harmony expects to further expand its operations, both within South Africa and internationally, through organic growth, exploration and acquisitions. Harmony currently undertakes gold exploration in South Africa, Australia and Peru.

Harmony believes that Russia offers considerable mineral opportunities with high quality multi-million oz gold deposits and that attractive gold investment opportunities exist for a company having financial strength and strong operational expertise in both underground and open-pit mining operations.

Harmony believes that MNV, Darasun and Novoshirokinskoye are assets of high quality, and that the Group has the potential to grow into a significant low-cost gold producer. The acquisition of its shareholding in the Company represented Harmony's first direct investment in the Russian gold mining industry.

Mr. Grobicki, a Non-Executive Director of the Company, is an executive director of Harmony. Harmony has received South African Reserve Bank approval for its investment in the Company.

Harmony held an interest in 32.5% of the issued share capital of the Company immediately prior to the Placing and has indicated to the Board that it intends to apply for 2,511,947 New Ordinary Shares in the Placing, which would result in its shareholding at the date of Admission representing 31.7 per cent. of the enlarged issued share capital of the Company.

Corporate governance

The Company intends, where practicable for a company of its size and nature, to comply with the main provisions of the Principles Of Good Governance And Code of Best Practice ("the Combined Code") which applies to listed companies. The Company has appointed three Non-Executive Directors to bring an independent view to the Board, and to provide a balance to the executive directors.

An Audit Committee consisting of the Non-Executive Directors has been established to operate with effect from Admission. The Audit Committee is chaired by Mr. Cross. It will meet at least twice a year and will be responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on and for meeting the auditors and reviewing their reports relating to the accounts and internal control systems.

In addition, a Remuneration Committee consisting of the Non-Executive Directors has been established prior to Admission. The Remuneration Committee is chaired by Mr. Palmer-Tomkinson and will meet at least twice a year and will be responsible for reviewing the performance of the Executive Directors and other senior executives and for determining appropriate levels of remuneration.

Furthermore, a Nominations Committee consisting of Lord Daresbury and the Non-Executive Directors has been established to decide upon the appointment of senior management and directors to Group companies. The Nominations Committee is chaired by Lord Daresbury.

The Company has adopted and will operate a share dealing code for Directors and relevant employees on the same terms as were previously set out in the London Stock Exchange Model Code for companies whose shares have been admitted to AIM.

The Board has also considered the guidance published by the Institute of Chartered Accountants in England and Wales (commonly known as the Turnbull Report) concerning the internal control requirements of the Combined Code. In line with the Turnbull Report, the Board intends regularly to review key business risks in addition to the financial risks facing the Group in the operation of its business.

Jersey tax

The Company is a Jersey incorporated company with exempt company status. It is the intention of the Directors to ensure that the Company continues to meet the conditions for exempt company status and to conduct its affairs in such a manner that it is not regarded as tax resident in any jurisdiction. However, the tax position of the Company will be reviewed from time to time and it is possible that the Company could in the future become resident for the purposes of taxation in Jersey or another jurisdiction.

Current trading and prospects

For the six months to 30 June 2002, which includes the period prior to its acquisition by the Company, the Group's main trading subsidiary, ZAO MNV, reported revenue of US$28.3 million and profit before tax of US$14.7 million.

For the ten months to 31 October 2002 the Group milled a total of 659,458 tonnes of ore and produced 149,190 oz of gold with an average recovery grade of 7.1 g/t.

For the remainder of the current financial year the Directors expect that MNV will continue to achieve satisfactory results from its existing operations. The Directors currently believe, subject to the satisfactory completion of feasibility studies and the successful resolution of the project's long term mining licences, that the pre-production development of Darasun can be completed within the next 18 months. The Directors also expect the Group to be able to complete further aspects of the development of Novoshirokinskoye in due course although this outcome is not certain.

Based on performance to date in the second half of the current financial year, the Directors expect to report continued progress in the Group's operations and financial results. Based on information currently available to the Group, the Directors are optimistic about the Group's prospects.

Dividend policy

The Directors intend to pursue a progressive dividend policy whilst taking a prudent view of the Group's cash flows and capital requirements and maintaining an appropriate level of dividend cover.

On the basis of information currently known to the Company, the Directors currently intend to pay a final dividend in respect of the year ending 31 December 2002 in April 2003. The Directors currently intend that interim and final dividends will be paid in the September and April of each year respectively thereafter.

As a company incorporated in Jersey, the Company can only pay dividends if distributable profits are available for the purpose. As a holding company, the Company will be dependent upon dividends and interest distributed to it by its subsidiaries. As the Company is incorporated in Jersey with exempt company status, under current legislation dividends paid by the Company to UK resident shareholders will not be subject to any Jersey withholding tax.

Reasons for Admission

The Directors believe that with the re-emergence of the Russian gold sector as a viable and growing industry there is significant potential for developing gold projects in Russia. The Directors consider that it is important for the Company to have access to capital to finance the further development of its assets and future acquisitions, and an international investor base which understands the mining industry. Accordingly, the Company is seeking to have its Existing Ordinary Shares and the New Ordinary Shares admitted to AIM.

Details of the Placing

Assuming the Manager's Option is not exercised, the Placing amounts to a total of 11,578,448 Ordinary Shares, including the issue of 10,525,821 New Ordinary Shares and sales by certain existing Shareholders of 1,052,627 Existing Ordinary Shares. These Existing Ordinary Shares represent 9.1% of the total number of Ordinary Shares included in the Placing.

The New Ordinary Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares and will rank in full for all dividends and other distributions declared, made or paid on the Ordinary Shares after the date of this document.

The total value of the Ordinary Shares comprised in the Placing (assuming the Manager's Option is not exercised) is £22.0 million, of which £20.0 million represents New Ordinary Shares issued by the Company. The New Ordinary Shares represent 9.5% of the enlarged issued share capital of the Company following the Placing. The proceeds of the Placing to the Company, net of expenses, will be approximately £16.2 million.

W.H. Ireland has agreed to use all reasonable endeavours to procure subscribers and purchasers for the Placing Shares. The Placing is not being underwritten and it is conditional, *inter alia*, on the Existing Ordinary Shares and the New Ordinary Shares being admitted to trading on AIM. Further details are set out in paragraph 9(t) of Part V of this document.

Over-allocation and stabilisation

In connection with the Placing, certain existing Shareholders have granted W.H. Ireland the Manager's Option which is exercisable, in whole or in part, once or more than once, upon notice by W.H. Ireland during the period commencing with the date of this document and ending 30 days after Admission. Pursuant to the Manager's

Option, W.H. Ireland has an option to sell on behalf of certain existing Shareholders up to 1,578,947 Existing Ordinary Shares at the Placing Price, *inter alia*, to cover over-allotments or further allotments, if any, in connection with the Placing and to cover short positions resulting from stabilisation transactions.

Any Existing Ordinary Shares sold by the existing Shareholders following the exercise of the Manager's Option will be sold on the same terms and conditions as those applicable to the New Ordinary Shares being issued in the Placing.

In connection with the Placing, W.H. Ireland may over-allocate or effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail for a limited period after the Placing Price is announced. However, there is no obligation on W.H. Ireland to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Save as required by law, W.H. Ireland does not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Placing.

Allocation and pricing

The rights attached to the New Ordinary Shares and the Existing Ordinary Shares will be uniform in all respects and all of the Ordinary Shares will form a single class for all purposes. The proportions in which Ordinary Shares to be issued or sold under the Placing comprise Existing Ordinary Shares and New Ordinary Shares has been determined at the discretion of W.H. Ireland. Existing Ordinary Shares will be transferred by the selling Shareholders (and, to the extent the Manager's Option is exercised, the grantors thereof) and New Ordinary Shares will be issued by the Company pursuant to the Placing free of all encumbrances and will grant the new owner full title.

Use of proceeds

The Company will receive the net proceeds of the issue of the New Ordinary Shares. The net proceeds are expected to be approximately £16.2 million after the deduction of commissions and other fees and expenses of approximately £3.8 million payable by the Company in connection with the Placing.

The net proceeds of the Placing will be used by the Group to provide additional working capital across the Group's activities, for the development of the Group's existing assets and the repayment of certain Group borrowings. In particular, the funds will be applied towards completion of the programme being implemented to deliver efficiency gains at MNV, and to advance the progress on the development projects. The Directors currently estimate that the projected total capital expenditure for the Group during 2003 will be approximately US$35 million applied across the Group's operations described above.

The net proceeds of the Placing may also be applied towards possible acquisitions of, or investments in, additional gold mining or exploration assets that meet the Group's technical and economic criteria. The Company is not currently in any negotiations with any third party regarding any material acquisition or investment.

Lock-in arrangements and Directors' share sales

Except where outlined in this document, none of the Directors or their related parties are applying for New Ordinary Shares or are selling any of the Existing Ordinary Shares currently held by them in the Placing. Assuming the Manager's Option is not exercised, the Directors' aggregate interests in the issued ordinary share capital of the Company following Admission will amount to 25,120,962 Ordinary Shares (representing 22.7% of the enlarged issued share capital of the Company).

The Directors (other than Mr. Koulakov) have entered into arrangements in respect of their shareholdings whereby they have each agreed (subject to certain exceptions) not to dispose of (and to use their respective reasonable endeavours to procure that no person connected to each such person will dispose of) any interest in the Ordinary Shares for a period of six months following Admission, and that for a further period thereafter of six months they will not dispose of any Ordinary Shares other than through W.H. Ireland or the Company's broker from time to time.

Mr. Koulakov has entered into an agreement in respect of his shareholding whereby he has agreed (subject to certain exceptions) not to dispose of (and to use his reasonable endeavours to procure that no person connected to him will dispose of) any interest in Ordinary Shares in the period to 31 December 2004 or the second anniversary of Admission (whichever is later) and for a further period of six months thereafter they will not dispose of any Ordinary Shares other than through W.H. Ireland or the Company's broker from time to time.

All the major Shareholders in the Company (defined for the purposes of this paragraph as those holding in excess of 3% of the Company prior to Admission as set out in paragraph 3(d) of Part V of this document) have entered into arrangements in respect of their shareholdings whereby, following the Placing, they have each agreed that for a period of six months from Admission they will not dispose of any interest in the Ordinary Shares for a period of six months following Admission, and that for a further period thereafter of six months they will not dispose of any Ordinary Shares other than through W.H. Ireland or the Company's broker from time to time. Certain of those major Shareholders, who are members of the concert party described in Part I – The City Code on Takeovers and Mergers, may however dispose of Ordinary Shares, subject to the requirements of the Takeover Panel, to other members of that concert party provided the transferee has entered into the same arrangements as those described above.

Certain of the other Shareholders in the Company (whose names are set out in the final paragraph of paragraph 9(y) of Part V of this document), whose aggregate shareholdings in the Company will amount to approximately 5.9 per cent. of the issued share capital of the Company (assuming the Manager's Option is not exercised) following Admission, have entered into arrangements in respect of their shareholdings whereby, following the Placing, they have each agreed that they will not dispose of any interest in Ordinary Shares for a period of six months from Admission without obtaining W. H. Ireland's prior consent, which is not to be withheld in the case of an orderly disposal, and that for a further period thereafter of six months they will not dispose of any Ordinary Shares other than through W. H. Ireland or the Company's broker from time to time. Of these Shareholders, The Wyfold Foundation, FF&P Asset Management Limited and Philip Fleming may, however, dispose of Ordinary Shares, subject to the requirements of the Takeover Panel, to other members of the concert party described in Part 1 – The City Code on Takeovers and Mergers provided the transferee has entered into the same arrangements as those described above.

Duncan Baxter is applying for 10,000 Ordinary Shares in the Placing. Christopher Palmer-Tomkinson is applying for 52,632 Ordinary Shares in the Placing. Lord Daresbury is intending to dispose of 200,000 Existing Ordinary Shares in the Placing. Ivan Koulakov is intending to dispose of 382,500 Existing Ordinary Shares in the Placing and the Manager's Option to the extent it is exercised.

CREST

The Directors intend to apply for the Existing Ordinary Shares and the New Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Existing Ordinary Shares and the New Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish.

CREST is a voluntary system and holders of Existing Ordinary Shares and New Ordinary Shares who wish to receive and retain share certificates will be able to do so.

The City Code on Takeovers and Mergers

The Panel on Takeovers and Mergers ("Takeover Panel") is the regulatory body which publishes and administers the City Code, which applies to all public companies resident in the UK, the Channel Islands or the Isle of Man. Under Rule 9 of the City Code, any person who acquires shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30% or more of the voting rights of a company is, except with the consent of the Takeover Panel, required to make a general offer in cash to all shareholders of that company for the remaining issued shares not then owned by him (or persons deemed under the City Code to be acting in concert with him) at not less than the highest price paid by him for ordinary shares within the previous 12 months ("the mandatory bid obligation").

Harmony is the current holder of 32.5% of the existing ordinary share capital of the Company. Harmony has indicated to the Board that it intends to apply for 2,511,947 Placing Shares which would result in its shareholding at the date of Admission representing 31.7 per cent. of the enlarged issued share capital of the Company.

Interests relating to Fleming Family & Partners Limited ("FF&P") amounting to 36.13% of the existing Ordinary Shares form a concert party for the purposes of the City Code (including the holdings of Lord Daresbury, James Cross, Christopher Palmer-Tomkinson, The Regent Trust Company Limited, Hightops Gold Limited, London & Lochside Investments Limited, all the shareholders whose names appear in the first table in paragraph 18(l) of Part V of this document and other employees of FF&P who applied for Ordinary Shares in the placing effected by the Company on 31 May 2002 and whose names are not required to be disclosed on account of the small size of their holdings). The Board has been advised that it is the intention of the interests relating to FF&P to apply for such number of Placing Shares as would, subject to the allocation policy, result in maintaining or reducing their aggregate shareholdings in the enlarged share capital of the Company following the Placing.

If at any time either of Harmony, or the group of interests relating to FF&P (for so long as they remain in concert), wishes to increase its percentage holding in the Company, that party may be required to make a mandatory offer for the outstanding Ordinary Shares in the Company not already owned by that party under Rule 9 of the City Code.

Selling Restrictions

The distribution of this document and the Placing of Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.

France

Each of W.H. Ireland and the Company and each of the selling Shareholders has represented, warranted and agreed that, (i) except as provided for in this document, it has not offered or sold and will not offer or sell, directly or indirectly, any Ordinary Shares to the public in the Republic of France and (ii) offers and sales of Ordinary Shares under the Placing are being made in the Republic of France only to qualified investors and/or to a limited number of investors as defined and in accordance with Articles L.411-1 and L.411-2 of the French *Code monétaire et financier* and Decree No. 98-880 dated 1 October 1998 relating to offers to qualified investors *(investisseurs qualifiés*).

In addition, each of W.H. Ireland and the Company and each of the selling Shareholders has represented, warranted and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France, the admission document or any other offering material relating to the Ordinary Shares other than to investors to whom offers and sales of Ordinary Shares in the Republic of France may be made as described above.

Switzerland

The Ordinary Shares of the Company are being placed in Switzerland on the basis of a private placement. This document does not, therefore, constitute a prospectus under the meaning of Art. 652a of the Swiss Federal Code of Obligations.

Germany

The Ordinary Shares have not been and will not be publicly offered in the Federal Republic of Germany and, accordingly, no securities sales prospectus (*Verkaufsprospekt*) for a public offering of the Shares in the Federal Republic of Germany in accordance with the Securities Sales Prospectus Act of 13 December 1990, as amended (*Wertpapier-Verkaufsprospektgesetz*), has been or will be published or circulated in the Federal Republic of Germany. Each of W.H. Ireland, the Company and each of the selling Shareholders has represented and agreed that it has only offered and sold and will only offer and sell the Ordinary Shares in the Federal Republic of Germany in accordance with the provisions of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) and any other laws applicable in the Federal Republic of Germany governing the issue, sale and offering of securities. Any resale of the Ordinary Shares in the Federal Republic of Germany may only be made in accordance with the provisions of the Securities Sales Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sate and offering of securities.

Russia

The Ordinary Shares have not been registered with the Federal Commission for the Securities Market of the Russian Federation and accordingly may not be placed, traded or advertised in the securities market of the Russian Federation.

Each of W.H. Ireland, the Company and each of the selling Shareholders has agreed that the Ordinary Shares will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless to the extent permitted under Russian law.

Part I Information on the Group

Forward looking statements

Certain statements within this document, including in the parts of the document under the headings "Key Information" and "Information on the Group", 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 Group's ability to recover its reserves or develop new reserves, competition, changes in development plans and other risks described in Part II – Risk Factors of this document. There can be no assurance that the results and events contemplated by the forward looking statements contained in this document will, in fact, occur. These forward looking statements are correct or represent honestly held views only as at the date of this document. 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 document except as required by law or by any regulatory authority.

Part II

Risk factors

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Part II Risk factors

In addition to the other information set out in this document, the following specific risk factors should be considered carefully in evaluating whether to make an investment in the Company. If any of the following risks actually occur, the Group's business, financial condition, results or future operations could be materially adversely affected. In such a case, the price of its shares could decline and investors may lose part or all of their investment.

The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should consult a person authorised under the UK Financial Services and Markets Act 2000 and/or the Financial Services (Jersey) Law 1998, as amended, who specialises in advising on the acquisition of shares and other securities.

Those risk factors which should be taken into account in assessing the Group's activities and the suitability of the investment offered in this document are not necessarily limited to the matters set out below.

General mining and processing risk

There are risks inherent in the development and exploitation of mineral deposits. The business of mining, by its nature, involves risks and hazards often outside the Group's control including geological, geotechnical and seismic factors, industrial and mechanical accidents, unscheduled plant shutdowns or other processing problems, technical failures, labour disputes and environmental hazards. The exploration, development and production of natural resources is an activity that involves financial risk.

As is common with all mining operations, there is uncertainty and therefore risk associated with the Group's operating parameters and costs. These can be difficult to predict and are often affected by factors outside the Group's control.

Further information on the specific risks associated with the Group's mining operations are set out in section 5 of the SRK Report in Part III of this document.

General mineral exploration risks

General exploration in the mining industry contains an element of risk and there can be no guarantee that the estimates of quantities and grades of minerals disclosed will be available to extract. With all mining operations there is uncertainty, and therefore risk, associated with operating parameters and costs resulting from the scaling up of extraction methods tested in pilot conditions. Mineral exploration is speculative in nature and there can be no assurance that any mineralisation discovered will result in an increase in a group's proven and probable reserves.

If reserves are developed, it can take a number of years from the initial phases of drilling and identification of mineralisation until production is possible, during which time the economic feasibility of production may change. Substantial expenditures may be required to establish ore reserves through drilling, to determine metallurgical processes to extract metals from ore and, in the cases of new properties, to construct mining and processing facilities. As a result of these uncertainties, there can be no assurance that exploration programmes will result in any new commercial mining activities being brought into operation.

Reserve and resource estimates

The Company has derived the ore reserves and resources presented in this document from the calculations and estimates prepared by the management and reported in the Competent Person's Report set out in Part III of this document. Reserves figures are estimates and there can be no assurance that they will be recovered or that they can be brought to profitable production. Reserve and resource estimates may require revision based on actual production experience. Further, a decline in metal prices may render lower grade material uneconomic to recover and may in certain circumstances ultimately lead to a restatement of reserves.

Gold price volatility and exchange rate risks

The market price of gold is volatile at times and is affected by numerous factors which are beyond the Group's control. These include global and regional economic and political events, international economic trends, as well as a range of other market forces. Additionally, the purchase and sales of gold by central banks or other large holders or dealers may also have an impact on the market price. Sustained downward movements in gold market prices could render less economic, or uneconomic, any of the gold extraction and/or exploration activities to be undertaken by the Group.

The Group's income is subject to exchange rate fluctuations and may become subject to exchange control or similar restrictions.

Gold is sold throughout the world principally in US dollars but the Group's operating costs are incurred principally in Russian roubles. The rouble has suffered significant depreciation relative to the US dollar in recent years, particularly following the financial crisis of August 1998. The ability of the Russian Government and the Central Bank to reduce the volatility of the rouble will depend on many political and economic factors, including their ability to control inflation and the availability of foreign currency. Any significant and sustained appreciation of the Russian rouble against the US dollar could serve to materially reduce the Group's revenues and profitability.

Operational considerations

The Group's operational targets, including expansion plans, are subject to the completion of planned operational goals on time and according to budget, and are dependent on the effective support of the Group's personnel, systems, procedures and controls. Any failure of these may result in delays in the achievement of operational targets and expansion plans with a consequent adverse effect on the Group's financial performance and outlook.

The locations of all of the Group's current gold operations dictate that climatic conditions have an impact on operations, and in particular, severe weather could disrupt the delivery of supplies, equipment and fuel. It is therefore possible that gold production levels might fluctuate and income be deferred. In addition, ore is currently extracted from a large number of sources, many of which are interdependent. Scheduling of activities is accordingly complex and there is a risk that ore supply might be adversely affected as a result.

Unscheduled plant shut-downs at the Group's operations due to mechanical or other failures or industrial relations related issues or problems or issues with the supply of goods or services could have a serious impact on the financial performance of those operations.

Further information on the specific risks associated with the Group's mining operations are set out in section 5 of the SRK Report in Part III of this document.

Project development risks

The Company plans to continue to develop its operations and new projects. At Darasun the Company is in the process of the renewal of its long term mining licences and the registration of certain of its fixed assets. At Novoshirokinskoye, successful development of the project requires, *inter alia*, the renewal of the long term mining licence on acceptable terms to the Company and the completion of certain approvals and regulatory requirements. There can be no assurance that these projects will be fully developed in accordance with the Group's current plans or completed on time or to budget, nor that the agreement relating to the acquisition of the Group's interest in OAO NS will not be successfully challenged.

The Group's development projects have no recent operating history upon which to base estimates of future cash operating costs. Estimates of resources and cash operating costs are to a large extent based upon the interpretation of geological data obtained from drill holes, large scale underground development and, in the case of Darasun, a 70 year history of mine production. The feasibility studies derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the orebody, expected recovery rates, comparable facility and equipment operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns may differ from those currently estimated.

Additionally, the resources underlying these projects require further evaluation and capital expenditure in order to bring them into production, as referred to in Part I of this document. Future work on the development of these projects (and any additional projects pursued by the Group in due course) and the levels of production and financial returns arising therefrom may be delayed or adversely affected by factors outside the control of the Group.

Future developments

The Group's strategy depends to a certain extent on its ability to make additional acquisitions of gold mining rights or assets. The Group cannot guarantee that it will be able to identify appropriate properties or negotiate acquisitions on favourable terms or that it will be able to obtain the financing necessary to complete such future acquisitions. If the Group is unable to acquire additional mineral rights on properties, it cannot be certain that it will be able to expand or replace its current production with new reserves in an amount sufficient to sustain the life of its mining operations beyond the current life of its reserves.

Russia's physical infrastructure

Russia's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past decades. Particularly affected are the rail and road networks; power generation and transmission; communications systems; and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum quality requirements. The federal government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs. The deterioration of infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds cost to doing business in Russia and can interrupt business operations and this could have a material adverse effect on the Company.

Power supply

The Group's operations at MNV are dependent on the regional power supply, repairs to which are often required due to local weather conditions, and the control over which is external to the Group. The regional authority have notified the Company of its intention to carry out substantial improvements to the power lines in August 2003 resulting in the possible restriction of power to MNV at that time. In mitigation of this risk, the Company has an existing emergency power supply which enables the mine to operate at reduced capacity. Furthermore, the Company is in the process of constructing its own power supply after which the MNV operation will be self-sufficient in this respect. The Directors currently anticipate that this will be completed by August 2003. In the interim, the Directors cannot guarantee that power shortages to the mine will not occur, although to date ZAO MNV has not experienced any restrictions to the power supply that have materially affected its operations. Similar risks to power supply may exist at the Darasun and Novoshirokinskoye mines.

The Group's licences

The Group's exploration, mining and processing activities are dependent upon the granting of appropriate licences, concessions, leases, permits and regulatory consents which may be granted for a defined time period. These may be subject to limitations and may provide for withdrawal in certain circumstances. There can be no assurance that when granted they will be renewed or if so, on what terms.

The gold licence held by ZAO MNV is valid until 31 December 2018 and supports the current level of gold production in the Group. This licence is a production licence entitling ZAO MNV to extract gold, silver and accompanying metals from the MNV deposit field. The gold licence imposes certain requirements on ZAO MNV with respect to production targets and quantities of ore to be refined. Other requirements include an obligation over time to take steps to create an economically feasible gold refinery in the Khabarovsk Region and further conditions exist with respect to environmental matters, the safety of operational sites and of local residents and the insurance arrangements for employees.

ZAO MNV has not fully complied with certain licence obligations. These areas of non-compliance are not regarded by the Directors as those which limit the future operations of the Company. In some cases there could be adverse consequences of any non-compliance ranging from penalties to, in extreme cases, withdrawal, suspension or restriction of the licence or related contracts. The Company is in the process of addressing, where possible, the historic breaches and ensuring that any breaches in the future will be minimal. There have been no material adverse consequences for the Group to date in respect of the past breaches but there can be no assurance that this will remain the case in the future.

ZAO MNV does not currently hold all the required licences for its activities including licences to mine limestone, a licence to carry out motor trucking for customers and a licence for the use of chemically hazardous production facilities. The failure to obtain such licences could render ZAO MNV subject to administrative penalties or theoretically result in the liquidation of ZAO MNV or the withdrawal, suspension or restriction of the gold licence. The absence of these licences to date has not materially affected the operations of the Company. The Directors are in the process of obtaining all of the required licences and, whilst the current absence of such licences has not, to date, created any material adverse consequences for the Group, the Directors cannot guarantee that this will remain the case in future.

The Group's licences to operate the mine at the Darasun and Teremky deposits currently expire in February 2003. New licences to operate the Darasun and Teremky deposits until 2022 are expected to be granted following the completion of a tender process in which the time limit for participation has now expired. While the Directors believe the Group is the only bidder for the new licences and the Directors are confident that the licences should be awarded to the Group, the Directors cannot guarantee such an outcome to the tender process at this time.

Furthermore, although the Group currently holds the long term licence for mining operations at Talatui, further work is required by the Company for it to be fully compliant with the terms of the licence.

The Directors intend to make an application for the renewal of the long term licence for the Novoshirokinskoye mine during the course of completion of the development of Novoshirokinskoye.

Withdrawal of licences or failure to secure requisite licences at any of the Group's operations may have a material adverse impact on the business, operations and financial performance of the Group.

Property rights

Russian law is uncertain and the risks associated with the legal system include (i) the untested nature of the independence of the judiciary, (ii) the inconsistencies among laws, Presidential decrees and Government and ministerial orders and resolutions, (iii) the lack of judicial or administrative guidance on interpreting the laws, (iv) a high degree of discretion on the part of the governmental authorities, (v) conflicting local, regional and federal laws and regulations, (vi) the relative inexperience of judges and courts in interpreting new legal norms; and (vii) the unpredictability of enforcement of foreign judgements and arbitral awards.

In particular, during Russia's transformation from a centrally planned economy to a market economy, legislation has been enacted to protect private property against expropriation and nationalisation. However, it is possible that due to the lack of experience in enforcing these provisions and due to potential political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of the Company's assets, potentially without adequate compensation, would have a material adverse effect on the Company.

MNV does not have registered title to certain of its immovable assets and there can be no assurance that such title will be conclusively established and registered in the future. In addition, MNV and Darasun have not become the registered owners or leaseholders in respect of some of the property that was purchased or leased by them. There is a risk that the Group's title to such property may not be established and may be challenged. Although this risk decreases after the registration of property rights, there can be no assurances that such challenges will not occur in the future. Such challenges, if successful, may materially affect the ability of the Company to carry on its operations.

MNV leases some of the property (e.g. gold factory, mining refinery and mining constructions) from the regional administration. The latter identified some immaterial breaches of the lease terms by MNV that may entitle the administration to take court action to terminate the lease. The regional administration has not taken any such action to date, although there can be no assurance that such action will not be taken in the future. Should the lease be terminated MNV will cease to have the right to operate such property. In addition, it is possible that these assets might be privatised in the future and that ZAO MNV might not be successful in winning any open tender and hence another party might become the lessor of the assets. Such an outcome might affect ZAO MNV's ability to continue to operate these assets in the future and hence its ability to continue to operate as a going concern.

Environmental issues

The Group's operations are subject to environmental regulation (including regular environmental impact assessments and permitting) in the jurisdiction in which it operates. Russian environmental legislation consists of numerous federal and regional regulations which quite often conflict with each other and cannot be consistently interpreted. As a result, full environmental compliance may not always be ensured. ZAO MNV operates a significant number of production facilities which generate or release hazardous or toxic substances, chemicals, pollutants or other waste capable of causing damage to human and animal life or to the environment. ZAO MNV has obligations relating to the storage of explosives and has obligations to insure risks of harm or damage that may be caused by its production facilities.

ZAO MNV's operations have not at all times been in accordance with the underlying environmental requirements in respect of the above matters, creating a risk that ZAO MNV's operations might be restricted, suspended or terminated by an authorised state agency. The Directors are taking steps to ensure that any non-compliance with environmental requirements will be addressed or otherwise kept to a minimum. ZAO MNV has not experienced any adverse consequences from these breaches to date but there can be no assurance that the Group will not suffer any materially adverse consequences from the past breaches in the future.

Environmental regulation in Russia is likely to evolve in a manner which will require stricter standards and enforcement, increased penalties for non-compliance, more stringent environmental assessment of proposed projects and a heightened degree of responsibility for companies and their directors and employees. This may have the effect of increasing the costs of environmental compliance across the Group.

Uninsured risks

The insurance industry is not yet well developed in Russia and many forms of insurance protection used in economically developed countries are unavailable on the terms common in such countries. Furthermore, the Group, as a participant in mining and exploration activities, may become subject to liability for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs. The Group may incur a liability to third parties (in excess of any insurance cover) arising from pollution or other damage or injury. The Directors have taken practical steps to ensure that certain aspects of the Group's business are covered by appropriate insurance arrangements.

Reliance on the Company's operating results as an indication of future results

The Company's operating results may fluctuate significantly in the future due to a variety of factors including, but not limited to, mining, processing, development and exploration risks, other operational considerations, the gold price, exchange rates, and regulatory, political and economic factors, many of which are beyond the Group's control. Accordingly investors should not rely on comparisons of the Company's results to date as an indication of future performance.

Group structure and restrictions on dividends

The Company's results and its financial condition are entirely dependent on the trading performance of members of the Group. The Company's ability to pay dividends will depend on the level of distributions, if any, received from the Company's operating subsidiaries. Certain of the Company's operating subsidiaries may from time to time be subject to restrictions on their ability to make distributions to the Company including as a result of restrictive covenants contained within loan agreements, foreign exchange limitations, regulatory, fiscal and other restrictions. There can be no assurance that such restrictions will not have a material adverse effect on the Group's results or financial condition.

The Civil Code and the Federal Law on Joint-Stock Companies provide that the shareholders in a Russian joint-stock company are not liable for the obligations of the joint-stock company and bear only the risk of loss of their investment. This may not be the case, however, when one company (the parent) is capable of determining decisions made by another company (the subsidiary). The parent company may bear joint and several liability for transactions concluded by the subsidiary in carrying out those decisions. It may also be liable for the debts of the subsidiary if the subsidiary becomes insolvent or bankrupt owing to the action or inaction of the parent company.

Labour

A significant proportion of the Group's employees are unionised. Whilst the Group has not been materially adversely affected by any labour related developments or industrial actions in the past there can be no assurance that such developments or actions may not occur in the future. Such occurrences may affect the financial results or financial condition of the Group.

Dependence on key personnel

The Company is dependent on the services of certain key members of the executive management team. While the Company has entered into employment contracts with such employees, the retention of their services cannot be guaranteed. The Directors are taking practical steps to ensure that key man insurance is taken out in respect of relevant members of the team. The loss of any key management may have an adverse effect on the Group's business.

Financing

The Group has limited financial resources. Further exploration and the development of one or more of the Group's properties may be dependent upon the Group's ability to obtain financing through the raising of additional equity or debt financing or other means. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities. There can be no assurance that such funding required by the Group will be made available to it and, if such funding is available, that it will be offered on reasonable terms. If the Group is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations or anticipated expansion.

Litigation

Legal proceedings may arise from time to time in the course of the Group's business. There have been a number of cases in recent history where the rights and privileges of mining companies have been the subject of litigation and the Directors cannot preclude that such litigation may not be brought against the Company in future from time to time. Details of claims filed against ZAO MNV in respect of the acquisition of a 25% interest in ZAO MNV from NAZ in May 2002 can be found in paragraph 13 of Part V of this document. Although the Russian court of first instance fully dismissed the claims on 23 August 2002, there remains some opportunity for the claimant to appeal for a limited period. The Directors have taken legal advice on this matter and, based on that advice, have no reason to believe that this judgment will be successfully appealed.

Taxation

The Company is a Jersey incorporated company with exempt company status. The Directors currently intend to ensure that the Company continues to meet the conditions for exempt company status and to conduct its affairs in such a manner that it is not regarded as tax resident in any jurisdiction.

The Group has been structured in a tax efficient manner taking into account, *inter alia*, the current Cyprus-Russia double taxation treaty and the current Jersey tax legislation. If any aspect of this is successfully challenged by the relevant tax authorities, Group companies may incur additional tax liabilities which could adversely affect the results of the Group.

It is possible that in the future the Group's tax position could change as a result of a change of law or practice of any relevant taxation authority or the renegotiation of the Cyprus-Russia double taxation treaty, or as a result of any change in the management or conduct of the Company's affairs.

Investment risk

Although the Ordinary Shares are to be admitted to trading on AIM this should not be taken as implying that there will be a liquid market in the Ordinary Shares. The Ordinary Shares will not be listed on the Official List.

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment. In addition, the market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets. The price at which investors may dispose of their Ordinary Shares may be influenced by a number of factors, some of which may pertain to the Company and others of which may be outside the Group's control.

Political and economic risks

Russia has been undergoing a substantial political transformation from a centrally controlled command economy under communist rule to a pluralist market-orientated democracy. There can be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system may be vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in government policies. Changes may occur in its political, economic, fiscal and legal systems which might affect the ownership or operation of the Group's interests, including, *inter alia*, changes in exchange control regulations, ownership of mining rights, changes of government and changes in legislative or regulatory regimes. There is no guarantee that future changes in legislation will not affect the Group retrospectively.

In addition, in view of the Group's activities in overseas jurisdictions, legal uncertainties, ambiguities, inconsistencies and anomalies, which would not necessarily exist in the UK or Jersey, may arise. In particular difficulties may arise in seeking to obtain redress through the legal courts in overseas jurisdictions.

Shares available for future sale

The Group is unable to predict whether substantial amounts of Ordinary Shares will be sold in the open market following termination of the restrictions as set out in Part I – Lock-in arrangements and Director's share sales of this document. Any sales of substantial amounts of Ordinary Shares in the public market, or the perception that such sales might occur, could materially and adversely affect the market price of the Ordinary Shares.

Possible volatility of the price of the Ordinary Shares

Following Admission the market price of the Ordinary Shares could be subject to significant fluctuations due to various facts and events, including any regulatory or economic changes affecting the Group's operations, variations in the Group's operating results, the gold price, developments in the Group's business or its competitors, or to changes in market sentiment towards the Ordinary Shares. The Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. In addition, stock markets from time to time suffer significant price and volume fluctuations that affect the market prices for securities and which may be unrelated to the Group's operating performance. Any of these events could result in a decline in the market price of the Ordinary Shares from time to time.

Forward looking statements

Certain statements within this document, including in the parts of this document under the headings "Key Information" and "Information on the Group", 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 Group's ability to recover its reserves or develop new reserves, competition, changes in development plans and other risks described in this Part II – Risk Factors. There can be no assurance that the results and events contemplated by the forward looking statements contained in this document will, in fact, occur. These forward looking statements are correct only as at the date of this document. The Company will not undertake any obligation to release publicly any revisions to these forward looking statements to reflect events, circumstance or unanticipated events occurring after the date of this document except as required by law or by any regulatory authority.

General

The risks noted above do not necessarily comprise all those potentially faced by the Company and are not intended to be presented in any assumed order of priority. Reference should also be made to the risks noted in the Competent Person's Report in Part III and the Accountants' Reports in Part IV of this document.

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Part III

Competent person's report

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SRK Consulting
Engineers and Scientists

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• December 2002

The Directors
Highland Gold Mining Limited.
Le Gallais Chambers
54 Bath Street
St Helier
Jersey JE4 8YD

The Directors
W.H. Ireland Limited
11 St James's Square
Manchester
M2 6WH

Dear Sirs

1 INTRODUCTION

1.1 Background

Highland Gold Mining Limited (the "Company") is proposing to seek admission of its ordinary shares to trading on the Alternative Investment Market (AIM) of the London Stock Exchange. SRK Consulting (SRK) has been requested to prepare this independent competent person's report (CPR) in connection with this listing.

This CPR comprises an independent report of the technical aspects of the Company's mining assets. Although not a specific requirement for an AIM admission, this CPR has been prepared according to the guidelines set out in Chapter 19 of the Listing Rules of the United Kingdom Listing Authority (UKLA).

SRK understands that this CPR will be included in a circular, which will comprise an admission document drawn up in accordance with the AIM Rules in connection with an application for the admission of its Ordinary Shares to trading on AIM.

1.2 Assets Reviewed

The principal subject of this review is the Company's 100% interest in the Mnogovershinnoe Gold Mine (Mnogovershinnoe), in the Khabarovsk Territory of the Russian Federation. This mine is currently operating and producing in the order of 180,000 oz of gold per year.

The Company also has a 100% interest in the Darasun Gold Mine (Darasun), located in the Chita Region of the Russian Federation, which was closed in 2000 having operated for approximately 100 years. The reason for this closure was lack of investment and unsuitable working practices as opposed to lack of reserves. The Company is in the process of refurbishing and upgrading the underground and surface infrastructure of Darasun, inclusive of a new metallurgical processing plant.

Finally the Company has an approximate 81% interest in the Novoshirokinskoye poly-metallic project (Novoshirokinskoye) located in the Chita Region of the Russian Federation. A considerable amount of underground and surface infrastructure exists at Novoshirokinskoye including the major elements of a lead/zinc metallurgical processing plant. The Company plans to refurbish and modify the existing infrastructure and install a gold recovery circuit.

Tables 1.1 and 1.2 below present the Company's consolidated Mineral Resource and Ore Reserve statements for these assets. Metal content is expressed as Au equivalents due to the poly-metallic nature of Novoshirokinskoye. Commodity specific details are presented in resource and reserve tabulations for each asset later in this report.

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Registered in England and Wales
Reg. No. 1575403

Also At:
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Registered Address:
21 Gold Tops,
Newport,
Gwent.
NP9 4PG

Offices in:
Australia
North America
Southern Africa
South America

THE QUEENS AWARD FOR EXPORT ACHIEVEMENT

Table 1.1 Potential Aggregate Mineral Resource Statement

	Tonnage (kt)	Au Eq. Grade (g/t)	Au Eq. Content (koz)
B (Measured)	2,026	9.0	586
C1 (Indicated)	18,583	8.9	5,292
Sub-Total	20,609	8.9	5,878
C2 (Inferred)	8,125	8.3	2,170
Total	**28,733**	**8.7**	**8,048**

Table 1.2 Potential Aggregate Ore Reserve Statement

	Tonnage (kt)	Au Eq. Grade (g/t)	Au Eq. Content (koz)
B (Proved)	2,130	7.1	480
C1 (Probable)	14,610	8.3	3,920
Total	**16,740**	**8.2**	**4,400**

Figure 1.1 is a location plan for the Company's assets.

1.3 Basis of SRK's Review

In preparing this CPR, SRK has:

- undertaken site visits to Mnogovershinnoe, Darasun and Novoshirokinskoye in August 2002;
- reviewed technical information provided by the Company and its consultants;
- held discussions with the employees of the Company and its consultants;
- reviewed the Company's estimates and classifications of Mineral Resources and Ore Reserves and commented on these; and
- reviewed the technical inputs into the working capital model prepared by the Company.

SRK has not included as part of this review any work to confirm the ownership rights of the Company to its assets or the validity of its mining and exploration licences.

1.4 Qualifications of Consultants

SRK is part of an international group (the SRK Group) which comprises over 500 professional staff offering expertise in a wide range of engineering disciplines.

The SRK Group's independence is ensured by the fact that it holds no equity in any project and that its ownership rests solely with its staff. The SRK Group has a demonstrated track record in undertaking independent assessments of resources and reserves, project evaluations and audits, competent person's reports and independent feasibility evaluations to bankable standards on behalf of exploration and mining companies and financial institutions world-wide. The SRK Group also has specific experience in transactions of this nature.

This report has been prepared by a team of consultants and associates sourced from SRK over a 3-month period. All aspects, inclusive of geology, resource/reserve estimation and classification, open-pit and underground mining, geotechnical engineering, mineral processing, hydrogeology and hydrology, environmental management and mining economics have been reviewed by full time employees or associates of SRK.

Neither SRK nor any of the audit team employed in the preparation of this report has any beneficial interest in the assets of the Company. SRK will be paid a fee for this work in accordance with normal professional consulting practice.

The individuals responsible for this report, listed below, have extensive experience in the mining industry and are members in good standing of appropriate professional institutions.

Mike Armitage, C. Eng., C. Geol., MIMMM, PhD;

Richard Clayton, FGS, MSc;

Dick Watts, FSAIMM, BEng;

Ian Brackley, C.Eng, MIMMM, FSAIMM, MICE, PhD;

Howard Nicholson, C.Eng, BEng;

Brian Smith, NHD.

Figure 1.1


EAST SIBERIAN SEA
SEA OF OKHOTSK
YAKUTSK
RUSSIA
Mnogovershinnoe
KHABAROVSK
LAKE BAIKAL
Darasun
CHITA
IRKUTSK
Novoshirokinskoye
VLADIVOSTOK
ULAAN BAATAR
CHINA
MONGOLIA
SEA OF JAPAN
TOKYO
JAPAN
BEIJING
ARCTIC CIRCLE
KILOMETRES
November 2002
PROJ. No. U2078
HIGHLAND GOLD MINING LIMITED
SRK Consulting
Engineers and Scientists
Location of the Company's Assets
Fig 1.1

1.5 Reliance on and Limitation of Data

The opinions expressed by SRK in this document are based on observations made during site visits to the Company's assets held over a 10 day period in August 2002. These observations have been supplemented by discussions held with relevant operational and management personnel and documentation either provided to SRK by the Company, or requested during and following the site visits. All the information received has been accepted by SRK in good faith. SRK has not undertaken any independent testing, analyses or calculations beyond limited high level checks intended to give SRK comfort in the material accuracy of the data provided.

2 MNOGOVERSHINNOE

2.1 Introduction

This section describes and comments upon the main technical aspects of Mnogovershinnoe gold mine including the geological setting and resources, the mining operations and reserves, mineral processing facilities and waste disposal, environment and water management, infrastructure and human resources.

2.2 Location/Access

Mnogovershinnoe is located in the Nikolaevsk area of the Khabarovsk Territory in the far-east of the Russian Federation. The mine is located some 650 km north of the city of Khabarovsk and is accessed from Nikolaevsk-na-Amure, the principal regional centre, via a 132 km long gravel road. Most equipment and material is delivered to the operation between the months of May and October. A winter road provides access for the remainder of the year. The winter is characterised by heavy snowfalls usually starting in November.

Figure 2.1 is a location plan for Mnogovershinnoe.

2.3 History

The Mnogovershinnoe deposit was discovered in 1959 and detailed exploration commenced in 1963. Preliminary construction started in 1979, the mineral processing facilities were constructed between 1990 and 1993 and preliminary production started in 1991. Between 1991 and the present day the mine has produced some 500,000 oz of gold.

2.4 Geology

2.4.1 Regional Geology

The Mnogovershinnoe gold deposits are located at the junction of the Amgun synclinorium and the East Sikote-Alin volcanic belt. The area is characterised by numerous faults which control the location and orientation of the volcanics, intrusives and gold and silver mineralisation. The mineralisation covers an area of some 120 km^2 which is divided equally into two parts by a north-west trending fault. The basement rocks consists of Mesozoic sandstones, shales and clay. Both these basement sediments and the overlying volcanics are intruded by dykes of granodiorite, granite and porphyries.

Major north-east orientated fractures containing large quartz veins and veinlets control the mineralisation, the geometries of which are further complicated by later north-west orientated faults.

2.4.2 Deposit Geology

The ore bodies at Mnogovershinnoe are located within two zones, the Main Zone and the Intermediate Zone. The Main Zone is some 5.8 km long and contains the Central, Upper and Reindeer ore bodies. The Intermediate Zone is some 6.2 km long and is located 1.5 km north-west of the Main Zone and contains the Intermediate I and II ore bodies together with the South, Flank, North, Deep, Quiet and Boulder ore bodies. The overall width of the two zones is some 2.5 km. All the ore bodies strike north-east and dip to the north-west. Generally both ore body thickness and gold grade distribution is highly irregular.

The Main Zone is confined to a steeply dipping fault with a north-east strike. It consists of a central quartz vein system surrounded by a zone of veinlet-impregnated silicification. The thickness of the total zone varies from 10 m to 60 m. The zone structure is complicated by numerous post-mineralisation faults, and intrusions.

The Intermediate Zone is also confined to a steeply dipping fault with a north-east strike and consists of a thick quartz vein surrounded by a halo of quartz veinlets. The total zone thickness varies between 20 m to 80 m. The Intermediate Zone is subdivided into blocks by a number of north-west faults with vertical displacement.

Figure 2.2 is a geological map of Mnogovershinnoe. Figure 2.3 is an example cross-section through the upper orebody at Mnogovershinnoe. Figure 2.4 is long-section of the Intermediate zone at Mnogovershinnoe.

Figure 2.1

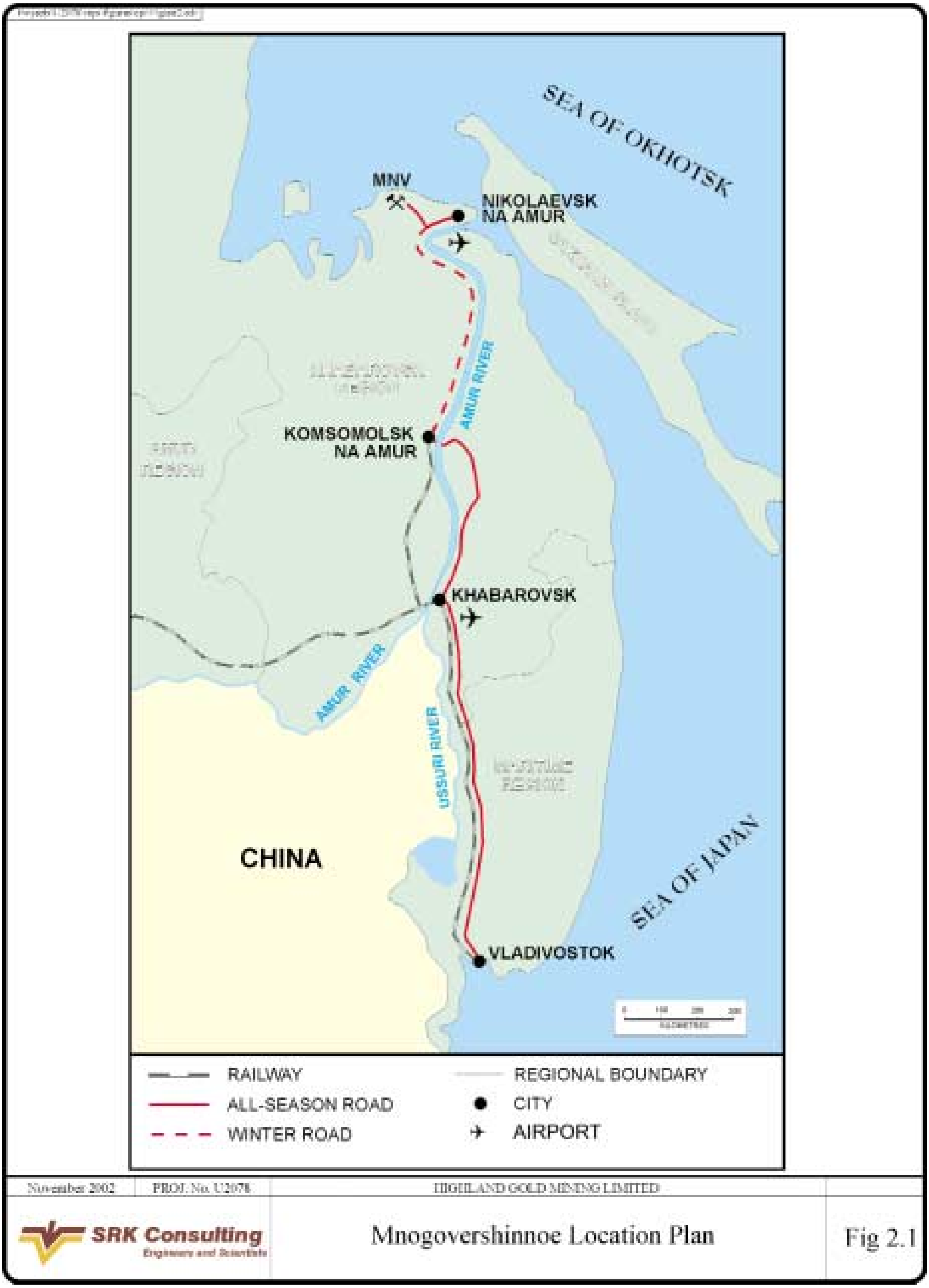

SEA OF OKHOTSK
MNV
NIKOLAEVSK NA AMUR
AMUR RIVER
KOMSOMOLSK NA AMUR
KHABAROVSK
AMUR RIVER
USSURI RIVER
CHINA
SEA OF JAPAN
VLADIVOSTOK
RAILWAY
ALL-SEASON ROAD
WINTER ROAD
REGIONAL BOUNDARY
CITY
AIRPORT
November 2002
PROJ. No. U2078
HIGHLAND GOLD MINING LIMITED
SRK Consulting
Engineers and Scientists
Mnogovershinnoe Location Plan
Fig 2.1

Figure 2.2

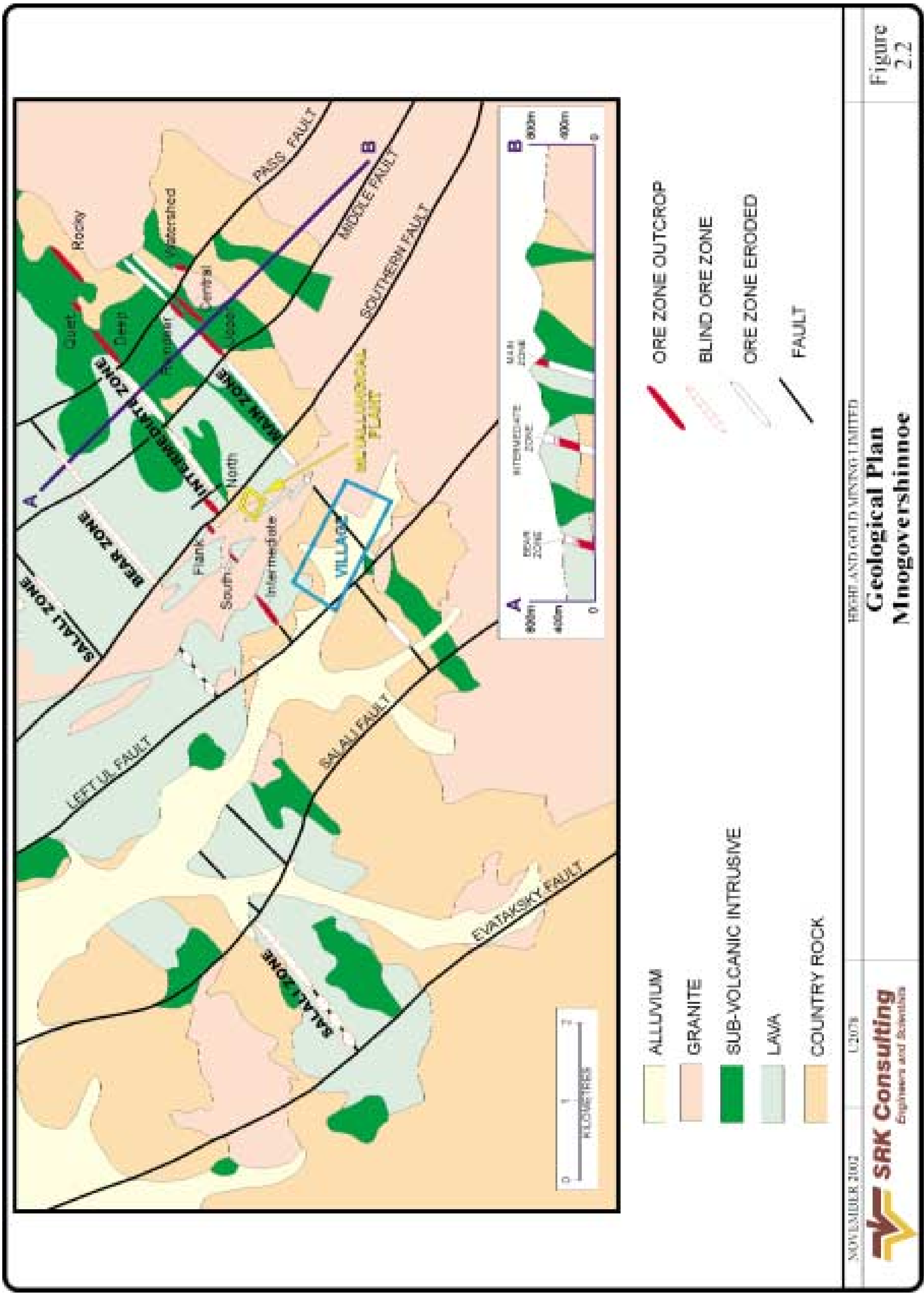

PASS FAULT
MIDDLE FAULT
SOUTHERN FAULT
LEFT UL FAULT
SALALI FAULT
EVATAKSKY FAULT
MAIN ZONE
INTERMEDIATE ZONE
BEAR ZONE
SALALI ZONE
SALALI ZONE
Rocky
Watershed
Quiet
Deep
Central
North
Flank
South
Intermediate
VILLAGE
A
B
MAIN ZONE
INTERMEDIATE ZONE
BEAR ZONE
800m
400m
0
KILOMETRES
0
1
2
ALLUVIUM
GRANITE
SUB-VOLCANIC INTRUSIVE
LAVA
COUNTRY ROCK
ORE ZONE OUTCROP
BLIND ORE ZONE
ORE ZONE ERODED
FAULT
HIGHLAND GOLD MINING LIMITED
Geological Plan
Mnogovershinnoe
Figure 2.2
NOVEMBER 2002
SRK Consulting
Engineers and Scientists

Figure 2.3

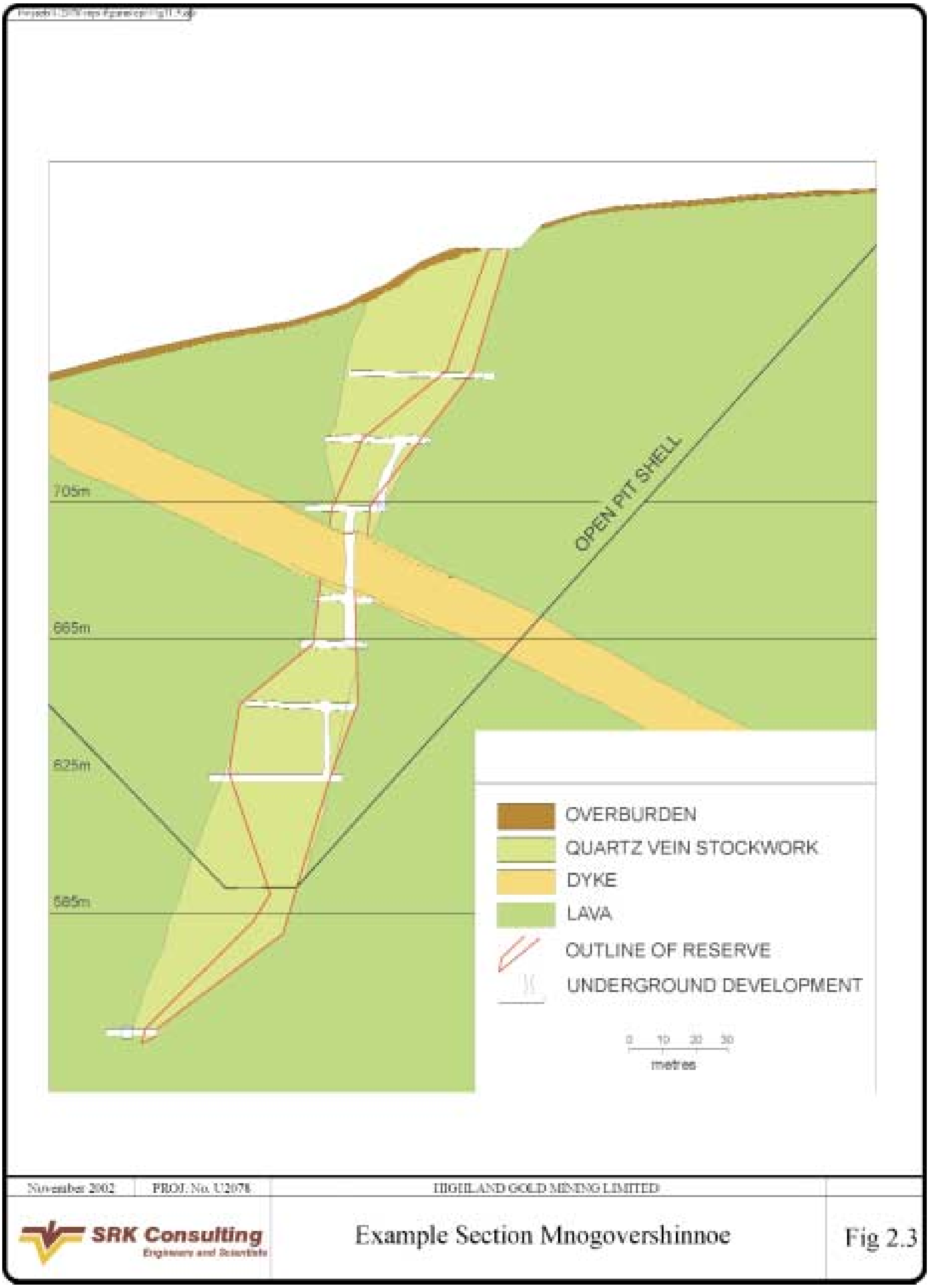
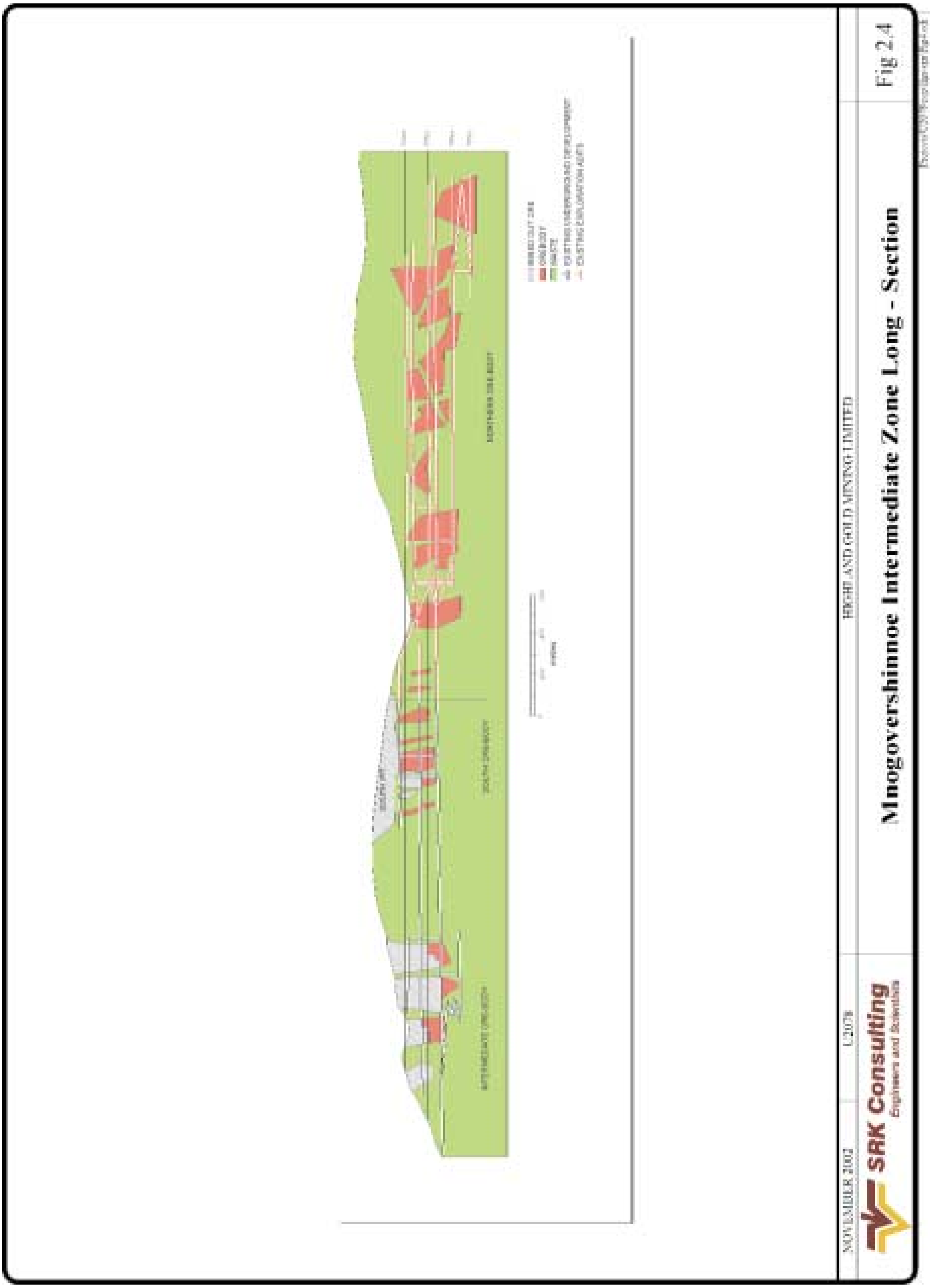

705m
665m
625m
585m
OPEN PIT SHELL
OVERBURDEN
QUARTZ VEIN STOCKWORK
DYKE
LAVA
OUTLINE OF RESERVE
UNDERGROUND DEVELOPMENT
0 10 20 30
metres
November 2002
PROJ. No. U2078
HIGHLAND GOLD MINING LIMITED
SRK Consulting
Engineers and Scientists
Example Section Mnogovershinnoe
Fig 2.3

Figure 2.4


NOVEMBER 2002
U2078
HIGHLAND GOLD MINING LIMITED
SRK Consulting
Engineers and Scientists
Mnogovershinnoe Intermediate Zone Long - Section
Fig 2.4

2.4.3 Mineralogy

The Mnogovershinnoe ore bodies are characterised as gold-chalcedony-quartz, low sulphide, veins. Quartz constitutes more than 95% of the ore bodies. Gold is distributed irregularly in the form of fine disseminated impregnations, small individual pockets and thin veinlets.

The majority (92-96%) of the gold and silver (80-90%) occurs in a free form amenable to standard cyanidation leaching. Some amounts also occur as fine inclusions in quartz, other rock-forming minerals and sulphides.

Visible gold is uncommon and cyanide leaching test work confirms that the gold is non-refractory, with extraction levels of 95% being achievable at standard grind parameters.

2.5 Mineral Resources and Ore Reserves

2.5.1 Quantity and Quality of Available Data

Resource estimates at Mnogovershinnoe are derived using a combination of information from surface trenches, underground workings and diamond drill holes.

Both surface and underground diamond drilling has been undertaken at the mine. Holes were begun using 90 mm diameter core and reduced to 76 mm or further where necessary. Historical core recovery averaged 70%, which is poor when compared to modern industry standards. The core was split in half in order to obtain samples unless the core diameter was less than 55 mm where the whole core was taken for analysis. Although the core recovery is poor SRK consider this will not have a material impact on the stated reserves as these are predominately based on underground development sampling. Current drilling now averages a core recovery of 95% which is within industry norms.

Trenches were dug at 20 to 25 m intervals perpendicular to the trend of the ore bodies. These were then sampled at regular intervals over the full width of the ore body.

Exploration drives were driven on levels 80 m apart with local 40 m sub-levels where deemed necessary due to geological complexity. Cross-cuts were developed from the development drives every 20 to 25 m to fully intersect the width of the ore bodies. Where the ore bodies are geologically complex the cross-cut spacing was reduced to 10 m.

Channel sampling was used to sample the entire width of the ore bodies and the adjacent host rock in both the cross-cuts and the trenches. These channels were cut 3 cm depth and 10 cm wide with an average length of 1 m.

Assaying was performed using fire assay techniques on two 50 g samples for each analysis. Both gold and silver were assayed for most of the samples. SRK has not directly reviewed any quality control data but understand that full quality control procedures were applied. This is supported by SRK's experience of exploration data gathered during Soviet times.

Although SRK has not been able to directly observe the sampling or assaying techniques applied during the exploration of Mnogovershinnoe ore bodies, in SRK's experience these were generally diligently applied during the Soviet era and included independent laboratory checks. In summary, in SRK's opinion the quantity and quality of the data at Mnogovershinnoe is sufficient to support the Mineral Resource and Ore Reserve estimates presented in Section 2.5.3 below.

2.5.2 Estimation Methodology

Separate resource estimates for each ore body were calculated and maintained on Vertical Longitudinal Projections (VLPs) and were last approved by the State Commission on Mineral Reserve in November 2000. The methodology used to derive the estimates is described below. This approach is typical for Russian operations.

- Ore body outlines were defined on development plans using a 4.0 g/t Au assay cut-off for underground resources and 2.0 g/t Au for open-pit resources. A minimum horizontal ore body width of 0.8 m or a minimum metal accumulation of 2.8 m.g/t Au was also applied. Mean ore body grades were calculated for each full intersection. These and the horizontal ore body widths were plotted on the respective ore body VLP.
- Resource blocks were then delineated on the VLPs bounded by existing and planned development levels and raises. If a crosscut grade was below 3.5 g/t Au, then the block boundary was drawn one half of the way between the 'pay' crosscut and the 'unpay' crosscut. The maximum width of any waste or unpay ore included in the defined ore body contours was 4 m.
- Block tonnages were determined by measuring the block areas, calculating average horizontal ore body thickness from sampling data within the block, determining a block volume and multiplying this by a density of 2.64 t/m3.
- Block grades were determined by averaging all the ore body width weighted grade intersections within the block. Anomalous intersections, those contributing more than 20% of the total calculated gold accumulation in one block, were cut to 20% and the average recalculated. This is a standard Russian approach.

  The resulting block tonnages were then classified as B, C1 or C2. Blocks which have been defined by development on 40 m levels with 20 m cross-cuts and raises between levels are defined as B. Blocks which have been defined by development on 80 m levels with 20 m cross-cuts and some raises between levels are defined as C1. Blocks which are only delineated on one side by development and/or by irregular drill hole intercepts are classified as C2.

P resources are those areas generally down dip from the current workings and drill hole intersection where tonnes and grade have been postulated based on adjacent defined resources.

The classification methodology used gives an estimate of the resources at various levels of amenability to mining. Broadly speaking, SRK considers the B resources to be within the "Measured" category as defined by the Australasian Code for the Reporting of Mineral Resources and Ore Reserves (the "JORC Code"), the C1 resources to be within the "Indicated" category and the C2 resources to be within the "Inferred" category. This is reflected in the Mineral Resource statement given in Section 2.5.3 below. SRK considers the P category estimates to represent further exploration potential.

2.5.3 Mineral Resource and Ore Reserve Statements

While SRK has not undertaken any check calculations nor directly verified the underlying data, SRK considers that the resource estimates were derived in a thorough and professional manner and is confident, based on the documents reviewed and discussions held that the estimates as a whole are unbiased.

SRK is also confident that the Russian estimation methodology is appropriate to the character of the geology and considers that the resulting estimates of grade and tonnage are likely to be conservative in view of the cutting methodology. SRK was informed on site that historical reconciliation figures show variations of less than 10% for both tonnage and grade.

Notwithstanding the above, the Russian estimates have been recorded in hard copy form only and are consequently difficult to interrogate at different cut-off grades or to use to develop a computerised mining schedule. It is SRK's understanding, however, that the mine plan to adopt a computerised three-dimensional resource modelling package in the near future.

Tables 2.1 and 2.2 below present the Company's latest Mineral Resource and Ore Reserve statements for Mnogovershinnoe.

Table 2.1 Mnogovershinnoe Mineral Resource Statement (as of 01/01/02)

	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	1,180	7.6	286
C^1 (Indicated)	7,000	9.9	2,216
Sub-Total	8,180	9.5	2,502
C_2 (Inferred)	1,740	10.8	536
Total	**9,920**	**9.7**	**3,038**

Table 2.2 Mnogovershinnoe Ore Reserve Statement (as of 01/07/02)

	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Proved)	1,310	6.6	276
C^1 (Probable)	6,690	9.4	2,015
Total	**8,000**	**8.9**	**2,292**

Some 3.3 mt of the above reserve at a grade of 7.5 g/t (787,000 oz) is exploitable by open-pit methods. The remainder will be exploited using underground methods. Mining losses of 10% and dilution of 25% have been applied in the derivation of these reserves.

2.5.4 Potential for Further Mineral Resources and Ore Reserves

SRK consider that there is potential to increase the Mineral Resource and Ore Reserve base presented in Tables 2.1 and 2.2 above. This potential occurs both as depth extensions to the existing ore bodies and in the form of other targets which have only undergone limited exploration to date.

2.6 Mining

2.6.1 Mining Methods

Open Pit

At the time of SRK's visit Mnogovershinnoe was operating a single open-pit. The waste was transported in the order of 1.6 km to an adjacent valley where it was dumped. At the time of writing additional pits have been opened and are producing ore.

Mining is standard open pit benching. Waste benches of 10 m and ore benches of 5 m are drilled using Russian-made drills with hole diameters of 125 mm to 250 mm. Holes are charged with Anfo and the blasting ratio is 0.25 kg/t of rock (ore and waste). The overall pit slopes are between 45o and 55o and there appear to be no side wall stability problems. The mountainous topography enables the pits to be designed to minimise pumping and maximise the advantages of downhill haul gradients.

Primary loading is done using small (4-5 m^3) electric rope shovels of CIS origin. Belaz trucks of 27 t and 40 t capacity are used for ore and waste transport. Ancillary operations including haul road construction and maintenance is undertaken using a variety of machines of various origins including some Caterpillar dozers.

Underground
Access to the underground mine is via adits in the side of the hill below the open pit. The principal entry for men and materials is the No. 8 Adit on the 380 m level. The main ore and waste haulage is via the No11 Adit on the 310 level. This adit is currently being extended towards the Northern orebody of the Intermediate Zone and is expected to arrive by the end of 2004 enabling these reserves to be accessed.

The mining method currently in use is long hole sub-level caving with an interval of 14 m between sub-levels. 100 mm diameter long holes are drilled up from each sub-level using a Russian drill rig which, although effective, is slow by industry standards. Increased productivity may be achieved by replacing this with a more modern unit. Anfo, the main explosive, is loaded pneumatically and blasted at the end of each shift. Development is undertaken using modern mobile drill rigs and LHDs.

Blasted ore is loaded from the draw points using modern diesel-powered 3.5m3 LHDs. The ore is tipped into a central ore pass system where it gravitates into a series of loading chutes on the No11 level. Ore and waste is loaded from the chutes into 2.6 m3 wagons which are hauled to the tip at the mouth of the adit by a locomotive powered by electricity from an overhead power line. Ore and waste is loaded at the tip by a conventional front end loader into 40 t off-road trucks and transported 3.6 km to the mill or the waste dump.

2.6.2 Underground Conditions
Ground conditions are good with very occasional need for roof support. The current use of shotcrete in certain areas is very effective and SRK considers that its use, in conjunction with roof bolts, should be considered as a replacement for the steel arch supports currently in use. Ventilation is adequate and, despite the use of diesel LHDs, the general mine atmosphere is good. Safety statistics are satisfactory and compare favourably with similar worldwide operations.

2.6.3 Dilution and Mining Losses

Open Pit
SRK understand that mining losses and dilution are currently running at approximately 5% and 17% respectively. Ore delineation and grade control post blasting is controlled by grab samples taken in the predicted ore zone on a 1 m square grid. Grab sampling is not considered a standard worldwide mining industry approach to grade control in open-pit mining. The sampling of blast hole cuttings is more commonly applied and is considered to enable more flexibility in the control on the mined grade. In SRK's opinion the use of blast hole sampling for grade control together with blast heave monitoring could facilitate a reduction in the current levels of dilution. Notwithstanding this the practices applied at Mnogovershinnoe enable the mine to operate close to the planned 2% mining loss and 18% dilution levels assumed by its operating plan for the open-pits.

Underground
Sub-level caving in irregular ore bodies will always result in high mining losses. Production long hole drilling is seldom accurate and mining losses in excess of 10% can be expected.

Dilution in any caving operation will be high and depends on the sampling and control of the drawpoints once the stope has caved and is filled with waste. This is not currently performed at Mnogovershinnoe. Current levels of dilution of above 30% are high. SRK consider that there is scope to reduce the dilution of grade by caved waste through grade control at a stope level. Currently sampling of the run-of-mine ore is undertaken at the tipping station.

2.6.4 Production Schedule
Mnogovershinnoe is currently producing some 750 kt of ore a year from a combination of open-pits and underground mining operations. It is planned to increase this output to 800 ktpa (open pit 300 kt, underground 500 kt) over the next 2 years. This is well within the capacity of the existing operations which should be capable of producing up to 1 million tpa. Future production is based on a 10 year plan produced in 2000.

2.6.5 Operating Costs

Open Pit
The operating cost per tonne of ore is in the range of US$0.9 to US$1.1 per tonne of rock moved (for both ore and waste) depending on the hardness of the rock and the quantity of blasting required. This is within the cost range that could be expected from operations of similar size using similar equipment. These costs include all materials, labour, transport and power costs as well as depreciation and an administration component. As of the end of July 2002 the year to date average open-pit mining cost at Mnogovershinnoe was US$1.01 per tonne moved. The mine plan to reduce this to an average of US$0.82 over the next two years. This reduction appears to be primarily due to an increase in waste stripping reducing the unit rate. The cost per tonne of ore, however, is expected to stay reasonably constant at approximately US$10.

Underground
The year to date underground operating costs at Mnogovershinnoe have averaged approximately US$16.25 per tonne of ore. This cost includes labour, materials, power, transport, administration and depreciation. The mine plan to reduce this unit rate to approximately US$11 per tonne of ore over the next two years. It appears that this unit rate reduction is a function of the planned increase in

production and the resulting productivity savings. While SRK has not confirmed the achievability of these cost reduction SRK does consider these reduced costs to be similar to those achieved at similar operations world-wide.

2.6.6 Capital Expenditure

SRK understand that the Company plans to expend some US$11 million on mining related capital over the next two years. Some US$8 million is required for capital development of both underground and open-pit orebodies. While SRK have not reviewed this expenditure in detail, SRK do consider this to be a reasonable amount for operations of this nature.

2.7 Mineral Processing

2.7.1 Process Flowsheet

Pre-blended ore is delivered to the plant feed hopper by trucks, which either direct tip or stockpile for subsequent feeding via front-end loader. The trucks are routed over a weighbridge to provide a physical crosscheck against the mill weightometers for tonnage reconciliation. A grizzly prevents over size rocks entering the 400 t capacity bin.

Ore is withdrawn from the base of the bin by an apron feeder, which is then fed through a 900 mm by 1200 mm jaw crusher set with a 300 mm gap. The ore is reasonably abrasive and jaw liners are changed or turned every 8 weeks. Crushed ore is conveyed to a series of 14 feed hoppers, providing surge storage of 2,240 t.

The milling circuit comprises two 7.0 m x 2.3 m SAG mills each fitted with 1,600 kW motors and two 3.6 m x 4.0 m ball mills each fitted with 1,000 kW motors. The normal running format is to operate one SAG mill with both ball mills. Ore is fed into the SAG mill at a rate of 100 tph, being controlled by monitoring the power draw on the mill and measurement by a belt weightometer. 100 mm diameter steel grinding balls are added to the charge in order to assist breakage of the ore.

SAG discharge pulp passes into a spiral classifier. Overflow with a size specification of 60% minus 74 microns is routed to a pump sump, with the coarse material being recycled to the SAG mill feed. The spiral overflow is pumped through a series of hydro cyclones generating a final product of 85% minus 74 microns. Cyclone underflow is fed through the ball mills loaded with 60 mm steel balls, the discharge being routed to the cyclone feed sump in a closed circuit loop.

There is no gravity gold circuit in the plant. MNV removed this after acquiring the mine due to security concerns and being an unnecessary complication in the flow sheet.

Cyclone overflow is screened to remove woodchips and thickened to a density of between 50 to 60% solids before being pumped to the cyanide leach circuit. Following pH adjustment, sodium cyanide is added at a rate of between 0.8 to 1.0 kg per tonne of ore and the pulp is then leached for approximately 10 hours. The pulp then passes through the resin absorption circuit, where leaching of gold from the ore and absorption onto the resin particles continues for a further 10 to 12 hours.

Loaded resin is periodically removed from the leaching circuit and treated through the desorption and electro winning system to generate plated cathode gold. This gold is then smelted to produce bullion bars, which are shipped off site for final refining.

Leached pulp containing approximately 300 to 400 ppm residual cyanide is neutralised using the calcium hypochlorite technique, prior to being deposited in a tailings facility approximately 4 km from the plant. All decanted water is recycled from the dam and returned to the plant, any additional make up water requirements are drawn from a nearby stream.

Figure 2.5 is a schematic flow diagram of the mineral processing facilities at Mnogovershinnoe.

2.7.2 Historical Performance

Table 2.3 Mill Performance 1999-2001

Year	1999	2000	2001
Ore Treated, Tonnes	168,255	411,926	630,535
Head Grade, g/t Au	9.92	8.74	8.13
% Au Recovery	92.85	92.30	93.05
Gold Produced, Kg	1550	3323	4770

Since resumption of milling operations in 1999 it can be seen that tonnage treated has climbed significantly to levels well above that achieved under previous management. Additionally, gold recovery in the range of 92 to 93% has been in line with metallurgical test work estimates and has been relatively constant over the ore treatment rate 168,000 to 630,000 tonnes, indicating that at these throughput levels the design criteria for high extraction efficiencies are being met e.g. fineness of grind, leach retention time.

Figure 2.5

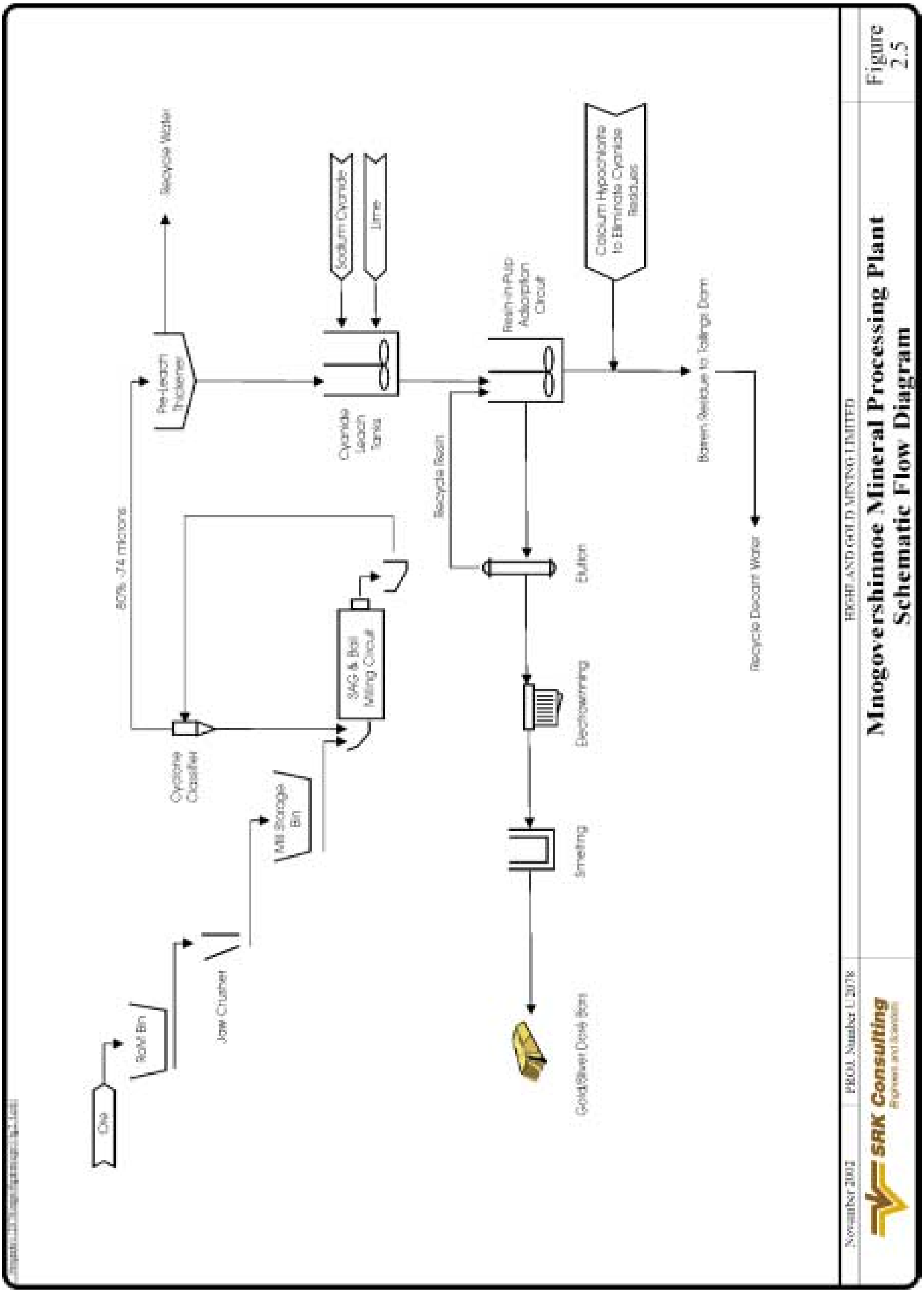

Ore
ROM Bin
Jaw Crusher
Mill Storage Bin
Cyclone Classifier
SAG & Ball Milling Circuit
80% -74 microns
Pre-Leach Thickener
Recycle Water
Sodium Cyanide
Lime
Cyanide Leach Tanks
Resin-in-Pulp Adsorption Circuit
Recycle Resin
Elution
Electrowinning
Smelting
Gold/Silver Doré Bars
Calcium Hypochlorite to Eliminate Cyanide Residues
Barren Residue to Tailings Dam
Recycle Decant Water
HIGHLAND GOLD MINING LIMITED
Mnogovershinnoe Mineral Processing Plant
Schematic Flow Diagram
November 2002
PROJ. Number U2078
SRK Consulting
Figure 2.5

Table 2.4 Mill Performance Year to Date

Month	Jan	Feb	Mar	April	May	June	July
Ore Treated, Tonnes	61,268	60,412	67,426	64,528	70,832	64,105	63,050
Head Grade, g/t Au	7.26	7.27	8.37	8.63	7.60	8.20	8.23
% Au Recovery	92.8	91.5	90.4	92.9	92.3	91.6	92.4
Gold Produced, Kg	412	402	510	518	497	481	479

If the above year to date averages are extrapolated forward for the full year, the indications are that the processing plant will treat close to 775,000 t this financial year against a planned budget of 710,000 t. Provided head grade is maintained at the seven-month average of 7.9 g/t, gold recovered will be in the region of 5,650 kg. At these higher level rates of throughput it is observed that year to date % recovery levels, at just below 92%, are approximately 1% below earlier years; perhaps indicating that at these treatment levels the optimum design criteria parameters are being reached. This may also be due to slightly lower head grades in the year to date when compared with previous years. SRK would recommend that a study be undertaken into whether relatively minor amounts of capital of the order of US$250,000 should be expended on additional leach capacity. At the current time SRK consider that future recoveries will be in the order of 91 to 91.5% as opposed to the planned 92.3%.

Recent monthly reports indicate that less than 10% of the silver content of the mill feed is being recovered at present. In SRK's opinion this is due to under capacity of the resin plant to recover both gold and silver. In view of this constraint the mine management quite rightly aim to maximise gold recovery. SRK considers that some US$750,000 per annum of silver revenue could be achieved following the installation additional capacity at a cost of perhaps US$1 million. This is currently being investigated by Mnogovershinnoe.

2.7.3 Metallurgical Accounting

Table 2.5 Year to Date Metallurgical Accounting

	Jan	Feb	Mar	April	May	June	July	Tot/Ave
W/bridgeTonnes	61145	60335	67236	64843	71526	63327	63063	451475
Milled Tonnes	61268	60412	67426	64528	70832	64105	63050	451621
Mill Grade	7.26	7.27	8.37	8.63	7.60	8.20	8.23	7.94
Tails Grade g/t	0.53	0.62	0.81	0.61	0.58	0.69	0.62	0.64
Recovered Grade g/t	6.72	6.65	7.56	8.02	7.02	7.50	7.60	7.30
Recovered and Tails Grade g/t	7.24	7.27	8.36	8.63	7.60	8.21	8.23	7.93
Mined Grade g/t	7.23	7.23	8.42	8.63	7.58	8.23	8.23	7.94

From information provided by Mnogovershinnoe personnel, standards of metallurgical accounting appear to be exceptionally high, with virtually no variations in cross check methods.

Tonnage measured to the mill versus mill weightometer readings varies by only 0.03%. Considering that the weighbridge method relies upon moisture measurements of run-of-mine (RoM) ore to accurately determine tonnage this is exceptionally close agreement. Normally one would expect a 1 to 2% variation to be acceptable.

Similarly, the recovered and tails gold reconciliation versus sampled mill head grade and delivered mined head grade is almost 100%. In most operating mines there is a constant variation between the two, normally in the region of +/– 5%.

2.7.4 Operating Costs

While SRK has not reviewed all aspects of the mill operating cost in detail SRK has reviewed key data illustrating unit reagent consumption rates and power draw. This information provides a significant base upon which to evaluate around 60 to 70% of the unit operating cost, with the remainder comprising manpower costs, maintenance, assays, overheads and costs associated with tailings storage.

Information provided to SRK by the mine indicates total metallurgical costs were in the range of US$10.21 and US$10.94 per tonne of ore milled for the seven months in 2002. SRK consider these to be reasonable for this size of operation. The figures quoted for the coming period through to 2004 indicate that Mnogovershinnoe management consider that this level will be maintained, being in the region of US$10.50 per tonne milled.

Since start-up in 1999 the amount of cyanide consumed per tonne of ore milled has steadily increased each year from 0.55kg/t in 1999 to 0.83kg/t in 2002. This is a significant increase, which will have increased working costs by approximately US$0.50/t milled. SRK were advised that this has been due to an increased quantity of mill feed sourced from a specific ore body which contains a higher proportion of cyanide consuming copper. It is advised that by the close of 2002 this ore will comprise 70% of the feed mix, having risen from 20%.

Similarly, it is planned to introduce feed from another ore body sometime in 2003. Material from this ore body has been tested with the results indicating similar or worse consumption rates.

This factor does not appear to have been considered in the current forecast and SRK consider it is possible that there may be a 10 to 15% increase in the consumption of cyanide (an extra US$0.18 to US$0.30 per tonne milled) over and above that assumed in the mine plan.

Despite the above comment on cyanide consumption SRK consider that there is some scope to improve operating costs through the monitoring and testing of reagent consumption on an ongoing basis. It is SRK's understanding that the designed consumption criteria are at present rigidly adhered to.

2.7.5 Capital Expenditure

In discussion with senior operations personnel it was apparent that only minor expenditures of a capital nature are anticipated in the foreseeable future. These will likely include the following;

- A change of the neutralisation process from the calcium hypochlorite method to the Inco process. No figures were discussed but SRK estimate this modification would be less than US$300,000.
- An up rating of the tailings pump system is likely to be required as the height of the tailings dam is raised. SRK estimate that this would not exceed US$50,000.
- The present control room is adequate but very antiquated. Mine management are considering modernising this by the installation of a computerised system. SRK believe this would be a positive change and estimate that the cost to achieve this should not exceed US$100,000.

2.7.6 Tailings Disposal

The Mnogovershinnoe tailings disposal site is a valley impoundment with a 33 metre high embankment and a deposition area of about 50 hectares. The impoundment is almost full, and the embankment is being raised to provide an additional year of capacity. It will subsequently be raised ten metres to serve for a further eight years. A new site for later deposition has been identified.

The outer embankment is a rockfill structure with a clay core, but no toe drains, and the basin itself is lined with clay to reduce seepage. The valley stream has been diverted around the impoundment in a canal.

SRK has not reviewed the tailings impoundment design, but it was carried out by a technical institute to Russian standards, it appears robust, and the inspection revealed no signs of instability. There is a considerable flow of water from an excavated pit beyond the toe, but the water is clear, and it was explained that the flow is from an engineered drain collecting upstream water from the old stream bed.

There is an Emergency Preparedness Plan in place in the event of a tailings dam failure, and this plan has been approved by the General Director, Civil Authorities and the town administration.

A capital allowance of US$4 million has been made for the tailings impoundment between 2002 and 2007, which is 17% of the total projected capital investment in that period. SRK understands that the bulk of this amount is for earthworks related to the downstream dam raises.

2.8 Infrastructure

As an operating mine Mnogovershinnoe has a well developed infrastructure. Electricity is supplied through the Russian Grid. In addition to this supply the Company propose to install an 8 Mw power generation station on site at a capital cost of US$5 million. The purpose of this is to cover a shortfall in power supply scheduled for 2004 when the local grid power station is due to undergo refurbishment, and also as emergency cover beyond that date. SRK consider that this is more than adequate and should guarantee power supplies in the near to medium term.

There is an ample supply of water from the local river sufficient for the needs of the mine, the process plant and the township.

Finally, the mine is fully provided for in terms of workshop facilities together with living and office accommodation.

2.9 Environment and Water Management

2.9.1 Environment

Mnogovershinnoe is located in the basin of the Amur, the biggest river in the Russian far east. The rivers and streams of the mine area are spawning waters, and there are commercial fisheries downstream. As a result, the residents of the Nikolayevsk-na-Amure area are concerned about river pollution and the prevention of pollution of the water courses is a high priority.

In accordance with Russian procedures, the solid, liquid and atmospheric discharges have been predicted and compared to maximum limits given in the regulations. In certain cases, levels of discharge which are higher than the standards have been agreed and permitted by the authorities. The actual discharges are monitored by the mine, and a fee is paid to the authorities based on these actual quantities. If the discharge of any particular component exceeds the maximum allowable level, the regulators have the authority to prosecute or even, in extreme and rare circumstances, to close the mine.

The gold extraction process uses cyanide, and the largest potential source of river pollution is the tailings impoundment. Cyanide is destroyed at the plant by the addition of calcium hypochlorite, and decant water is recycled to the plant. Underground water and sewage water is treated before being discharged to the river.

Mnogovershinnoe has an Environmental Officer and an environmental laboratory for the regular measurement of liquid and atmospheric discharges. SRK is informed that these discharges have never exceeded the regulatory limits. The environmental team also monitors a network of boreholes and surface water sampling points to ensure that the groundwater and streams are not affected by any uncontrolled discharges. The stream that drains the mine and plant area was observed to be clear and apparently unpolluted. This observation was confirmed by the Environmental Officer.

SRK's impression was that the mine management is committed to good environmental practices, and that environmental management on the mine is to a reasonable or good standard.

The environmental monitoring costs and payments to the environmental authorities are low, and included in the operating costs. At present SRK estimates that the environmental liability at Mnogovershinnoe on closure would be in the order of US$5 million to US$7 million. It is possible, although unlikely, that proposed changes in the Russian environmental legislation may result in closure costs in excess of the numbers quoted here.

2.9.2 Water Management

Underground mine water is treated and recycled for use in the mine. Any excess is discharged to the river in accordance with the permits. Treated sewage water is also discharged to the river. SRK is informed that monitoring data indicates that these discharges conform to the conditions of the permits.

Make-up water is taken from the river, and there is sufficient water for the proposed increase in tonnage.

Seepage below the toe of the tailings embankment seeps to the streams. While considerable attention has been paid to this seepage since 1999, and a toe storage pond has been constructed, the full mechanics of this seepage is not yet understood.

2.10 Human Resources

Mnogovershinnoe employs 1,300 out of a total population of the mine township of 3,500. The mine appears to be adequately staffed with appropriately skilled personnel. Mnogovershinnoe personnel policy is carried out in accordance with the Labour Code of the Russian Federation. SRK has been informed that approximately 60% of the staff are unionised but there is no history of serious disputes.

The township is an independent municipality, and is not the direct responsibility of the mine.

With regard to major communicable diseases including TB, hepatitis and AIDS, SRK is informed that there is no incidence of disease at the mine or the municipality.

2.11 SRK Comments

Although SRK has not undertaken any check calculations nor directly verified the underlying data, SRK considers that the resource and reserve estimates at Mnogovershinnoe were derived in a thorough and professional manner and is confident, based on the documents reviewed and discussions held that the estimates as a whole are unbiased.

In SRK's opinion the mine is a modern, well equipped and well run underground and open-pit mining operation. Planned production is well within the capacity of the operation with the potential to produce up to 1Mt per annum of ore. There are opportunities to improve mining productivities and to reduce dilution with improved grade control practices. Current and planned operating costs are considered to be reasonable and in SRK's experience comparable to other similar operations.

The mill is modern with considerable spare capacity over and above the planned milling rate. Since the re-opening of the mine in 1999 tonnage throughput has steadily increased. Metallurgical recoveries have been in line with the metallurgical testwork. However, recent indication are that leaching capacity is a constraint at the current and planned production rates which may result in slightly lower recoveries of some 91% to 91.5% in future years. Recent silver recoveries at Mnogovershinnoe average below 10%. In SRK's opinion this is due to leaching constraints and higher silver recoveries present a possible upside which could be achieved with minimal capital and operating expenditure.

Current and planned process operating costs are reasonable; however, there is a possibility of increased cyanide consumption rates in the future as the nature of the ore feed changes. This may add between US$0.18 to US$0.30 to the processing cost per tonne of ore. Notwithstanding this, there is also an opportunity to reduce costs through the monitoring and adjustment of consumption rates on an ongoing basis.

The infrastructure supporting the mine including power and water supply is well developed and considered adequate to support ongoing operations. SRK are not aware of any material staffing or social issues and consider the operations to be well managed.

SRK's impression was that the mine management is committed to good environmental practices, and that environmental management on the mine is to a reasonable or good standard. SRK understand that there is no closure provision at present and recommend that this is put in place. Given SRK's understanding of the site and environmental regulations in Russia SRK consider that a total provision in the order of US$7 million should prove sufficient.

In summary SRK consider Mnogovershinnoe to be a modern, well equipped and well run mine with considerable upside potential.

3 DARASUN

3.1 Introduction

This section describes and comments upon the main technical aspects of Darasun including the geological setting and resources, the mining operations and reserves, mineral processing facilities and waste disposal, environment and water management, infrastructure and human resources.

SRK understand that studies are currently underway investigating the potential to redevelop the mine. These include the development of an underground and open-pit mining plan and detailed process plant design. In addition to the existing underground and surface infrastructure comment is also given on the plans to refurbish and re-open the mine.

3.2 Location/Access

Darasun is located in the Tungokochensky District of the Chita Region in the eastern Russian Federation. The mine is located some 260 km from the city of Chita with access by gravel and tarred roads. The nearest railway station is at Shilka some 80 km to the south on a gravel road. The climate is strongly continental with short hot summers and long cold winters. Annual precipitation is low resulting in little snow in the winter. Mining is a principal industry of the Chita Region.

Figure 3.1 is a location plan for Darasun and Novoshirokinskoye.

3.3 History

Placer mining at Darasun started in the late 19th Century leading to the discovery of the source vein deposits. Shafts were sunk in 1905 to exploit the oxidised portion of these veins. Mining activities increased in scale during the 1910's and 1920's resulting in the deepening of the shafts in 1927 in order to extract deeper un-oxidised ores. It is reported that some 120 t (3.85 Moz) of gold was extracted between the start of operations at Darasun and the cessation of mining in 2000. Since the cessation of mining that underground infrastructure has been kept on care and maintenance whilst most of the surface equipment has been removed from site.

3.4 Geology

3.4.1 Regional Geology

The Darasun deposits occur within the Darasun-Mogocha zone of the Transbaikal gold-molybdenum belt. The deposits are located in a 60 km2 area containing numerous gold and silver occurrences. The basements rocks consists of early Palaeozoic metamorphosed gabbros which are intruded by Middle-Palaeozoic to early Mesozoic intrusives. The gold mineralisation is considered to be associated with Middle to Late Jurassic fault controlled intrusives represented as stocks and dykes.

The structural geology is dominated by north-north-east trending faults. These faults control dykes, zones of explosion breccia and zones of hydrothermal alteration. Major faults split the mineralised area into three blocks; Darasun United Mine, Teremky and Talatui.

3.4.2 Deposit Geology

The deposits at Darasun occur as thin quartz-sulphide veins. Some 140 individual veins have been identified in the Darasun area. The ore bodies consist of a thin quartz veins, generally from 5 cm to 15 cm in thickness, surrounded by a halo of lower grade disseminated mineralisation. The overall thicknesses of the zones are between 0.6 and 1.5 m. Although thin, the ore zones are laterally extensive both along strike (up to 2 km) and down dip (1 to 1.2 km).

The veins at Darasun trend both to the north-west and to the north-east. The north-west trending veins are relatively small and generally do not exceed 500 m in strike length. The north-east trending veins are economically more significant. These are sub-vertical in nature and contain steeply plunging pay shoots which in places can be traced from surface to in excess of 500 m depth. These pay shoots alternate with pinches to the veins which often extend for tens or hundreds of metres along strike.

Figure 3.2 is a geological map of Darasun. Figure 3.3 is an example cross-section through the Darasun orebodies. Figure 3.4 is long-section of the of the Darasun veins.

3.4.3 Mineralogy

At shallow levels the ore veins are composed mainly of quartz, pyrite and arsenopyrite while at deeper levels quartz, pyrrhotite and chalcopyrite predominate. Typically the veins consist of 32% quartz, 14% pyrite and 11% carbonates.

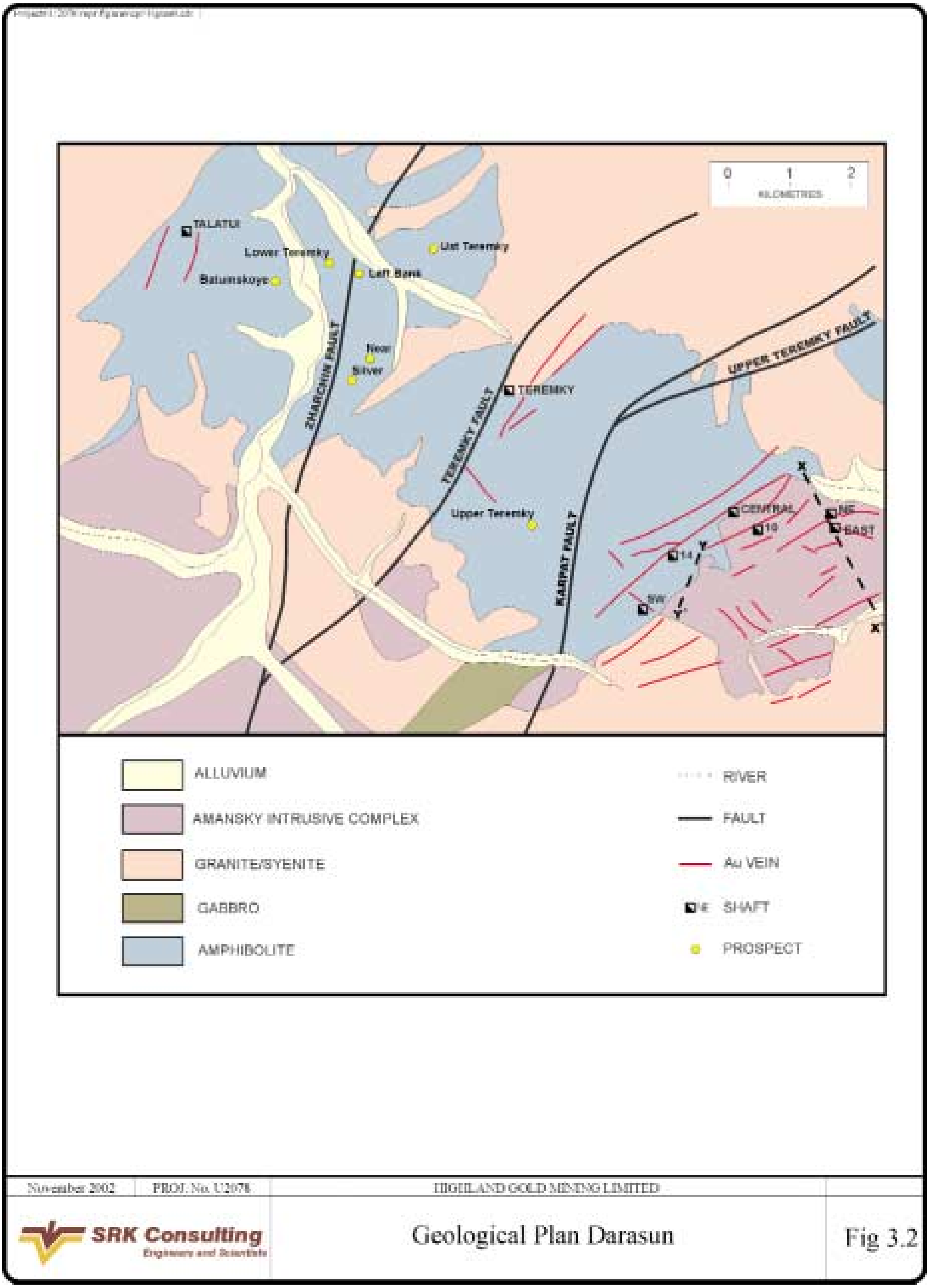
The gold is usually associated with the sulphides and tends to occur as small inclusions within these. A significant amount is free (up to 30%) and ranges in size from 250 microns down to several microns.

The level of arsenic in the ore is around 0.6% but no mercury or antimony is present. In essence the ore is non-refractory.

Figure 3.1


0 25 50
Darasun
CHITA
Nerchinsk
Shilka
Novoshirokinskoye
Gaz Zavod
OLOCHI
RUSSIA
MONGOLIA
CHINA
HULUN LAKE
AIRPORT
HIGHLAND GOLD MINING PROJECT
RAILWAY
ROAD
November 2002
PROJ. No. U2078
HIGHLAND GOLD MINING LIMITED
SRK Consulting
Engineers and Scientists
Darasun and Novoshirokinskoye Location Plan
Fig 3.1

Figure 3.2



Geological Plan Darasun

Fig 3.2

Figure 3.3

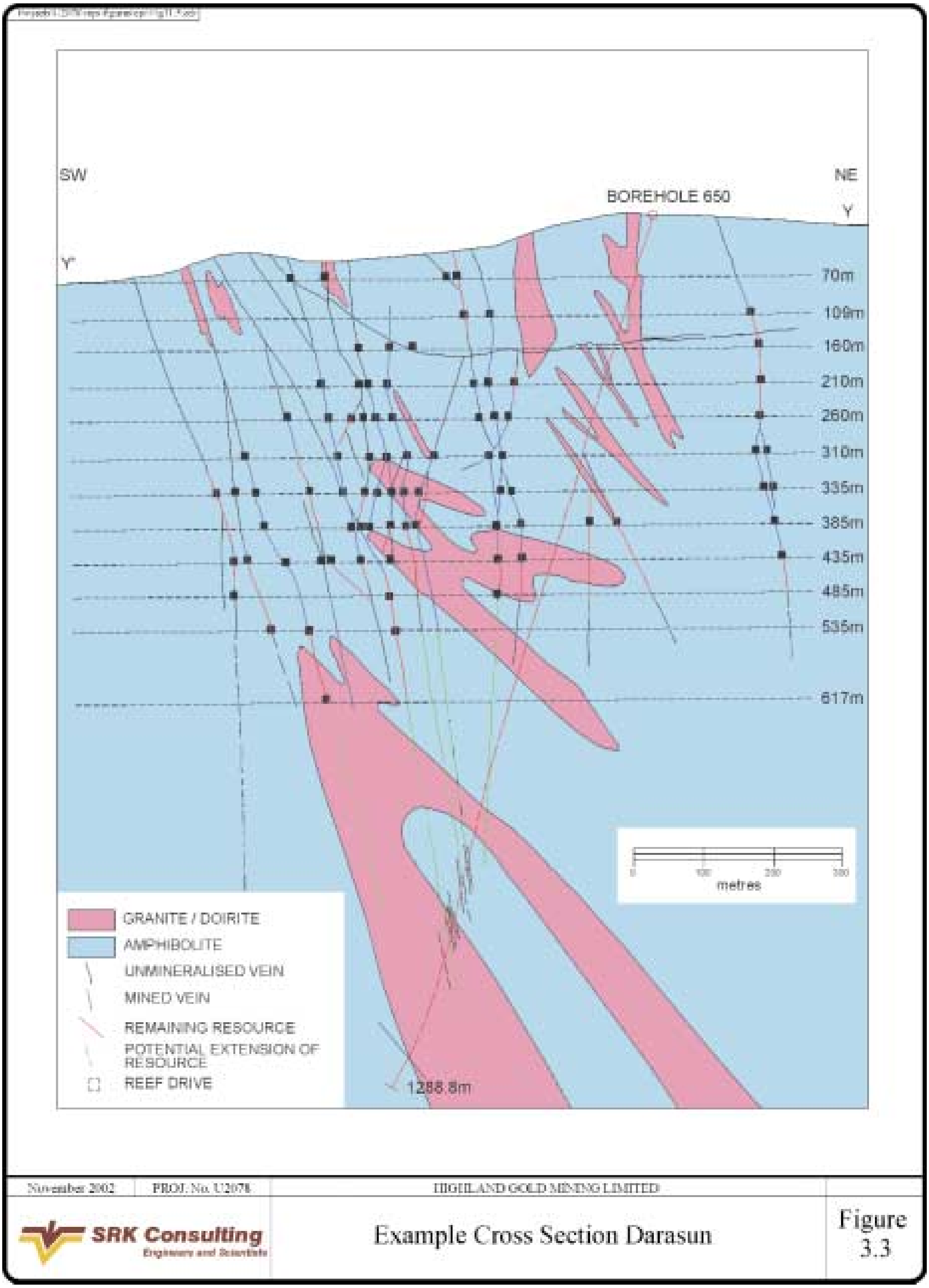
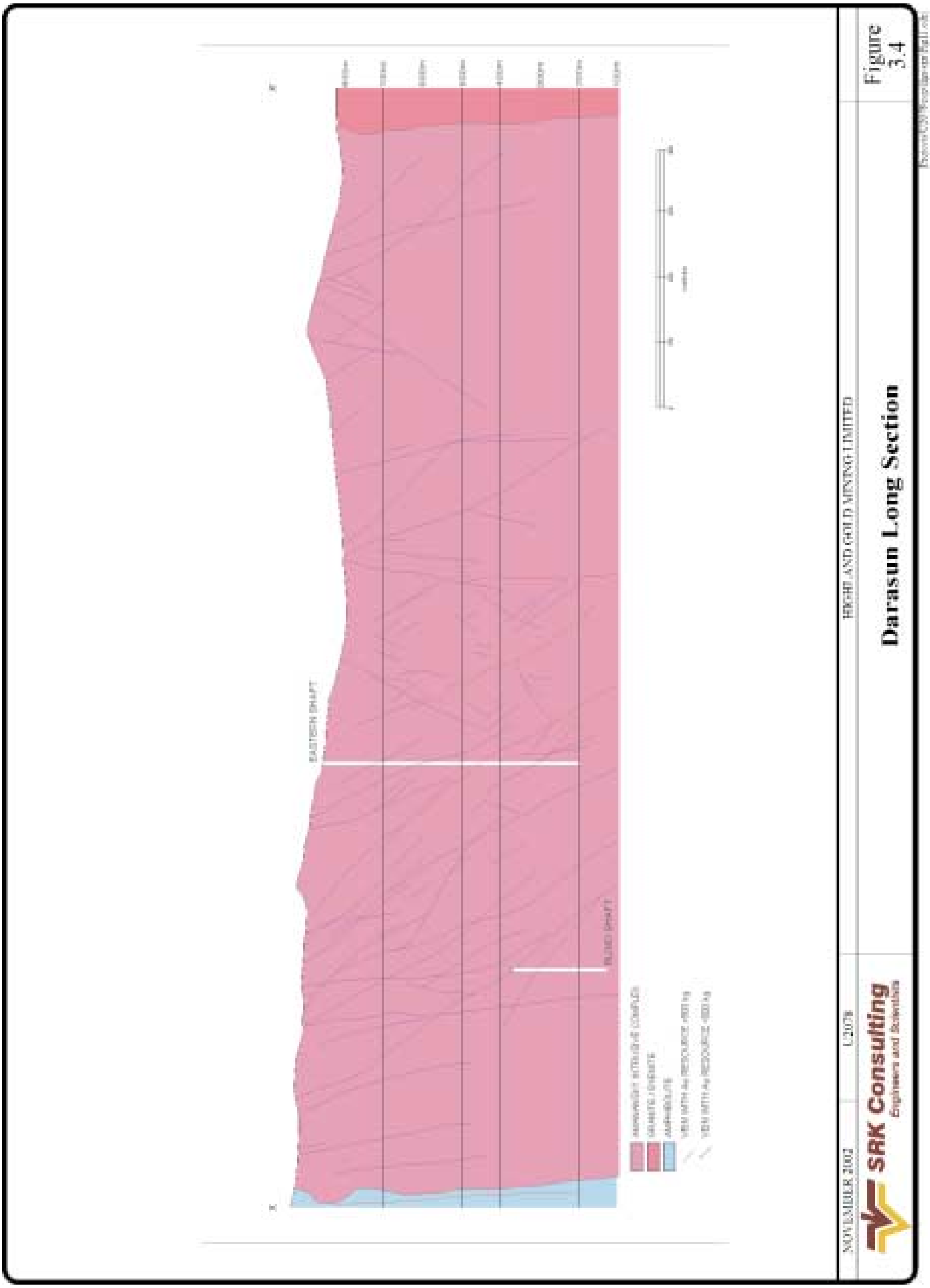

SW
NE
BOREHOLE 650
Y
Y'
70m
109m
160m
210m
260m
310m
335m
385m
435m
485m
535m
617m
metres
GRANITE / DOIRITE
AMPHIBOLITE
UNMINERALISED VEIN
MINED VEIN
REMAINING RESOURCE
POTENTIAL EXTENSION OF RESOURCE
REEF DRIVE
1288.8m
November 2002
PROJ. No. U2078
HIGHLAND GOLD MINING LIMITED
SRK Consulting
Engineers and Scientists
Example Cross Section Darasun
Figure 3.3

Figure 3.4


EASTERN SHAFT
BLIND SHAFT
HIGHLAND GOLD MINING LIMITED
Darasun Long Section
Figure
3.4
NOVEMBER 2002
SRK Consulting
Engineers and Scientists

3.5 Mineral Resources and Ore Reserves

3.5.1 Quantity and Quality of Available Data

The resource estimates at Darasun are derived using a combination of samples from underground workings and diamond drill holes.

Both surface and underground diamond drilling has been undertaken at the mine. Core recovery averaged between 78 and 94% which is below what is expected by modern industry standards. The core was split in half in order to obtain samples for analysis.

Exploration drives were driven on levels 50 m apart. Given the width of the ore bodies the full width of these is exposed in the back of the drives. Raises between levels were also sampled.

Channel sampling was used to sample the entire width of the ore bodies and the adjacent host rock. These channels were cut 3 cm depth and 10 cm wide with an average length of 1 m. The veins and their surrounding alteration zones were sampled separately.

Assays were performed using fire assay techniques at Darasun laboratory. Both gold and silver were assayed for most of the samples. SRK have not been able to review any quality control data but understands that full quality control procedures were applied. A 1993 report reviewed by SRK documented that the quality control results were generally within the state proscribed limits.

SRK has not been able to directly observe the sampling or assaying techniques applied during the exploration of Darasun ore bodies. However, SRK have reviewed documentation which indicates that appropriate quality control procedures were undertaken and included independent laboratory checks.

3.5.2 Estimation Methodology

As at Mnogovershinnoe, resource estimates at Darasun were produced for each ore body on a VLP. These were updated for ongoing exploration but not for mining. The methodology used to derive the estimates is described below.

- Ore body outlines were defined on development plans using a 3.5 g/t Au assay cut-off. A minimum horizontal ore body width of 0.9 m was also applied. Mean ore body grades were calculated for each full intersection. These and the horizontal ore body widths were plotted on the respective ore body VLP.
- Resource blocks were then delineated on the VLPs bounded by existing and planned development levels and raises. If a crosscut grade was below 3.5 g/t Au, then the block boundary was drawn one half of the way between the 'pay' crosscut and the 'unpay' crosscut. The maximum width of any waste or unpay ore included in the defined ore body contours was 12 m.
- Block tonnages were determined by measuring the block areas, calculating average horizontal ore body thickness from sampling data within the block, determining a block volume and multiplying this by the density for each vein.
- Block grades were determined by averaging all the ore body width weighted grade intersections within the block. Anomalous intersections, those contributing more than 20% of the total calculated gold accumulation in one block, were cut to 20% and the average recalculated. In some cases a figure of 10% was used depending on the particular circumstances of that area.

The resulting block tonnages were then classified as B, C1 or C2. Blocks which have been defined by development on all sides are defined as B. Blocks which have been defined by development on 50 m levels and raises between levels are defined as C1. Blocks which are more than 100 m from the nearest development but contain some drill hole information are classified as C2.

P resources are those areas generally down dip from the current workings and drill hole intersections where tonnes and grade have been postulated based on adjacent defined resources.

The classification methodology used gives an estimate of the resources at various levels of amenability to mining. Broadly speaking, SRK considers the B resources to be within the "Measured" category as defined by the Australasian Code for the Reporting of Mineral Resources and Ore Reserves (the JORC Code), the C1 resources to be within the "Indicated" category and the C2 resources to be within the "Inferred" category. This is reflected in the Mineral Resource statement given in Section 3.5.3 below. SRK considers the P category estimates to represent further exploration potential.

3.5.3 Mineral Resource and Ore Reserve Statements

While SRK has not undertaken any check calculations nor directly verified the underlying data, SRK is confident based on the documents reviewed and discussions held that the estimates as a whole are unbiased. Overall, SRK considers that the resource estimates at Darasun were derived in a thorough and professional manner. SRK is also confident that the general approach is appropriate to the character of the geology allowing for the adjustments for operation performance discussed below.

Reports reviewed by SRK indicate that reconciliation between predicted and mined tonnes at grade at Darasun was good and generally no more than ± 10%. However, the reconciliation at Teremky is reported as being poor with up to 70% negative variations. It is stated that this is a function of poor mining practices and unexpected geological complexity. SRK understands that the resource figures for Teremky presented in table 3.1 have been adjusted to take account of this historical performance. No large scale mining has been performed at Talatui to date.

The figures in Table 3.1 present the Company's Mineral Resource statement for Darasun.

Table 3.1 Darasun Mineral Resource Statement

Darasun United Mine	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	170	13.0	71
C1 (Indicated)	2,080	14.5	966
Sub-Total	2,250	14.3	1,037
C_2 (Inferred)	1,490	16.3	780
Total	**3,740**	**15.1**	**1,817**

Teremky	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	–	–	–
C1 (Indicated)	98	15.1	48
Sub-Total	98	15.1	48
C_2 (Inferred)	158	9.7	49
Total	**256**	**11.8**	**97**

Talatui (Open-pit)	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	–	–	–
C_1 (Indicated)	1,270	7.7	313
Sub-Total	1,270	7.7	313
C_2 (Inferred)	–	–	–
Total	**1,270**	**7.7**	**313**

Talatui (Underground)	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	–	–	–
C_1 (Indicated)	2,932	7.0	657
Sub-Total	2,930	7.0	657
C_2 (Inferred)	1,260	5.8	236
Total	**4,190**	**6.6**	**893**

Total Darasun	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Measured)	170	13.0	71
C_1 (Indicated)	6,380	9.7	1,984
Sub-Total	6,550	9.8	2,055
C_2 (Inferred)	2,910	11.4	1,065
Total	**9,450**	**10.3**	**3,120**

In addition to the above resources some 145 t of Au is documented to exist in the P category of all three deposits. While SRK do not consider this sufficiently explored to be considered as a Mineral Resource it does serve as an indication of the remaining exploration potential of the Darasun deposits as discussed in Section 3.5.4 below.

Table 3.2 presents the Company Ore Reserve statement for the Darasun operations.

Table 3.2 Darasun Ore Reserve Statement

Darasun United Mine	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Proved)	–	–	–
C_1 (Probable)	1,820	12.8	749
Total	**1,820**	**12.8**	**749**

Teremky	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Proved)	–	–	–
C_1 (Probable)	54	18.5	32
Total	**54**	**18.5**	**32**

Talatui (Open-pit)	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Proved)	–	–	–
C_1 (Probable)	1,340	6.7	289
Total	**1,340**	**6.7**	**289**

Total Darasun	Tonnage (kt)	Au Grade (g/t)	Au Content (koz)
B (Proved)	–	–	–
C_1 (Probable)	3,220	10.3	1,070
Total	**3,220**	**10.3**	**1,070**

Mining losses of 6% and dilution of 30.5% have been applied in the derivation of the reserves for Darasun United Mine and Teremky. At Talatui the applied mining losses and dilution are 2.5% and 12.5% respectively.

3.5.4 Potential for Further Mineral Resources

Historically the mining operations at Darasun have replaced the reserves depleted by mining through the discovery of additional resources and reserves following ongoing exploration. Given the geological nature of the deposits SRK consider that this is likely to continue to be the case should mining operations resume. Most of this potential, however, is at depth with as yet unknown implications with regard to the costs and feasibility of extraction. This aside, SRK consider the geological potential of Darasun to be high.

3.6 Mining

3.6.1 Existing Infrastructure

Ore transport at Teremky is track mounted using battery locomotives hauling 2.2 t capacity mine cars. The cars are loaded into the cage and hoisted to surface. Although the Teremky shaft is in good condition, its capacity is limited to 75,000 t per year. This capacity could be increased significantly by replacing the counter weight with a second cage but this would involve major modification to the shaft infrastructure and winder.

Ore transport at the main Darasun United workings is track mounted using battery locomotives hauling 1 t capacity mine cars. The cars are loaded into the cage and hoisted to surface. There are two winding shafts that are currently capable of winding about 160,000 t of ore a year (including Darasun South-West shaft).

Overall ore hoisting capacity at the Darasun Mine Complex is currently 235,000 t per year. It is planned to raise this to 275,000 t a year and, with some optimisation of materials and men transport, it should be possible to hoist in excess of 300,000 t a year with the present facilities. In SRK's opinion the underground mines should be capable of providing sufficient ore to meet this target.

Figure 3.5 is a schematic diagram of the shaft layout at Darasun.

3.6.2 Mining Methods

It is planned to mine the upper portion of the Talatui deposit area by open-pit methods. This portion of the ore body is immediately adjacent to the exploration shaft and outcrops in the floor of a valley. A scoping study has been completed and conceptual designs indicate that there is approximately 1.3 million tonnes of ore available at an average gold grade of 6.7 g/t Au. The geometry of the ore body and the surface topography appear to be suitable for opencast mining, but the detailed pit design and economic evaluation remain incomplete.

A room and pillar mining method is used at Teremky which SRK considers to be appropriate but which could be refined to reduce dilution and improve productivity. The shallow dip of the ore body necessitates the use of mechanical scrapers to move the ore from the stopes to the haulage system.

The steeply dipping ore body at Darasun is conducive to the use of simple gravity-based mining methods and shrinkage stoping, the method used until mining ceased, is therefore entirely appropriate. The levels of dilution were, however, very high and it is understood that the problem of sidewall spalling, which increases with depth, was extremely difficult to control. SRK considers that it should be possible to introduce some form of side wall support in the stope, possibly using roofbolts, in order to reduce the high level of dilution.

3.6.3 Underground Conditions

It is proposed that the South West Shaft will be the centre of gravity of future mining operations. Ground conditions in the footwall and ore body drives are generally good with very little need for roof support.

Observed ground conditions at the Teremky Mine were excellent. The footwall access drives are in good condition and there are very few areas where any form of roof support is necessary. Working conditions in the stopes are also good where the only evidence of support is the occasional ore pillar.

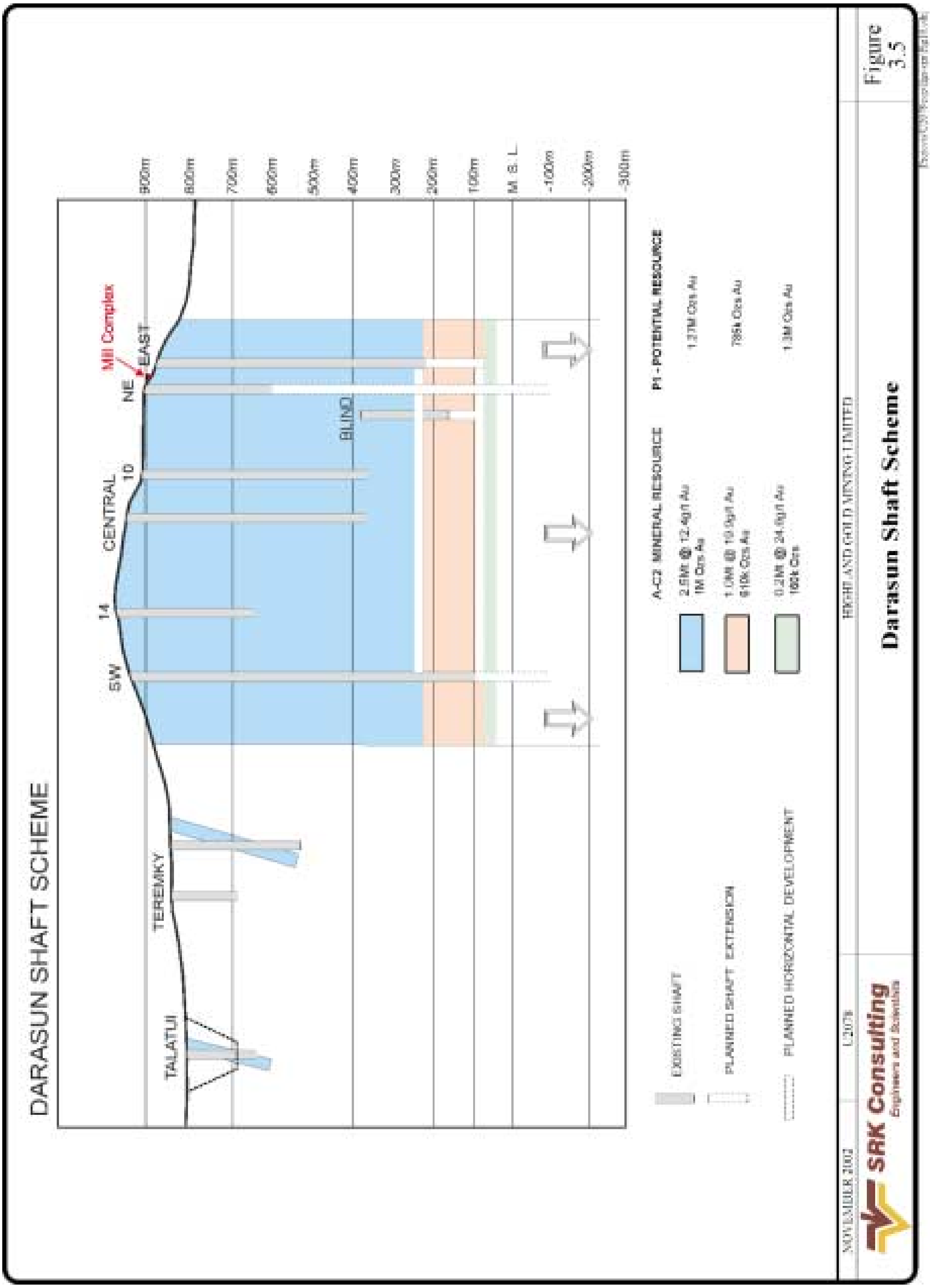
The exploration workings at Talatui are flooded therefore SRK were unable to inspect ground conditions at this operation.

3.6.4 Dilution and Mining Losses

At Teremky the mining width, of approximately 1.8 m, is well in excess of the 1.3 m ore zone average thickness resulting in dilution of more than 30%. SRK considers that this could be improved to ±25% by better geological and mining control within the stopes with further gains to of up to 10% by more selective mining. Mining losses have not been quantified but there is no reason why they should be more than 5%.

At Darasun the lack of cohesiveness immediately adjacent to the ore body leads to spalling of the stope sidewalls and is the primary source of dilution which is estimated to be in excess of 30%. Historical figures for mining losses show an average of 4% which is reasonable for the shrinkage mining applied to this ore body.

Figure 3.5


DARASUN SHAFT SCHEME
TALATUI
TEREMKY
SW
14
CENTRAL
10
BLIND
NE
EAST
Mill Complex
900m
800m
700m
600m
500m
400m
300m
200m
100m
M. S. L
-100m
-200m
-300m
EXISTING SHAFT
PLANNED SHAFT EXTENSION
PLANNED HORIZONTAL DEVELOPMENT
A-C2 MINERAL RESOURCE
2.5Mt @ 12.4g/t Au
1M Ozs Au
1.0Mt @ 19.0g/t Au
610k Ozs Au
0.2Mt @ 24.6g/t Au
160k Ozs
P1 - POTENTIAL RESOURCE
1.27M Ozs Au
785k Ozs Au
1.3M Ozs Au
HIGHLAND GOLD MINING LIMITED
Darasun Shaft Scheme
Figure 3.5
SRK Consulting
Engineers and Scientists
NOVEMBER 2002

3.6.5 Projected Operating and Capital Costs

SRK has not been provided with up to date mining operating costs estimates based on a detailed operating plan. The costs below have been sourced from the reviewed documentation and are approximate in nature and subject to further technical-economic studies. They should therefore only be used as a guide at the present time.

At the main Darasun complex a study conducted in 2001 estimated that the operating cost per tonne of ore would be +/– US$19 inclusive of amortisation costs. At Teremky the same study estimated an average operating cost of +/– US$28 per tonne of ore. SRK consider these to be very high when compared to similar operations elsewhere.

The open-pit mining cost for Talatui is estimated as +/– US$14 per tonne of ore.

SRK understand that the Company plans to expend some US$5 million on mining related capital over the next two years. Some US$3.4 million is required for heavy open-pit mining equipment. SRK have not reviewed this expenditure in detail but do consider the total amount to be a reasonable amount given SRK's knowledge of the proposed operations. However, SRK do recommend that the economics of the open-pit operation is confirmed before any purchases of heavy equipment are made.

3.7 Mineral Processing

3.7.1 Metallurgical Testwork

Following the Company becoming involved in the project samples of ore from the central Darasun area, Teremky and the Talatui potential open pit have been submitted to the laboratories of Irgiredmet in Irkutsk for process testwork. Approximately 10 t of sample have been collected for this work.

Since the inception of a treatment plant at Darasun the ore types have been the subjects of numerous metallurgical investigations, which have considered just about every conceivable treatment route. Areas examined have included milling, gravity concentration, roasting, magnetic separation, acid oxygen leaching, direct cyanide leaching, biological oxidation of concentrates and super fine grinding. It appears that in the current suite of testing Irgiredmet have basically pursued two avenues, namely direct whole ore cyanide leaching and treatment of a flotation and gravity gold concentrate.

Milling the three ore types to around 80% – 74 microns and subjecting the pulp to cyanide leaching results in an average gold extraction of 88.6%. This figure is reduced by the relatively low recovery of 84.3% from the Darasun ores, compared to in excess of 92% for the Teremky and Talatui ores. As this method is operationally the simplest and similar to its Mnogovershinnoe plant, SRK would recommend that further work along this route be conducted to establish the reason for the lower recovery on Darasun ore.

Using the gravity and flotation route resulted in an average gold recovery of 89.5%, this being 0.9% higher than the whole ore leach route. However, the treatment route is more complicated, comprising more unit processes and may result in additional costs and be subject to more rigorous operational and engineering control.

Whilst the final report from Irgiredmet is awaited it appears that the flotation route is the preferred selection by the Company. SRK accept that this treatment route will be satisfactory but do consider it worthwhile to undertake a detailed capital and operating cost comparison between the two methods, in order to definitively confirm which route is the most economic. Such an analysis could be completed quickly, without impinging on the project schedule.

3.7.2 Proposed Mineral Processing Plant

The Company plans to utilise the existing mill buildings and a few selected items of old equipment. The mill building is, however, in a very poor condition and will require significant upgrading and SRK considers, without seeing the final layout plans, that retrofitting a new plant into the old building could lead to a cramped and non-linear flow route. Ideally, it would make sense to develop a new site and building but the costs of doing so may be prohibitive. This cost may, however, be offset by the recovery of spilt gold from the foundations of the old mill building. In SRK's experience this can result in the recovery of a significant amount of gold lost from previous production.

Ore will be delivered to the treatment plant from underground sources in tipping cars and by truck from the Talatui open pit. It will then be crushed using a jaw crusher to all passing 300 mm and then stored in a series of ore holding bins.

Ore will be reclaimed at a rate of 47 tph (equivalent to an annual capacity of 375,000 t) and fed to an existing 5.0 m x 2.3 m SAG mill fitted with a 650 kW motor. Having reviewed the milling characteristics of the ore and the proposed power on the mill units, SRK believes that this design feed rate is achievable. A discharge grate will remove critical size pieces of ore at 50 mm, which will then be crushed through a cone crusher. The crusher product will then feed a new 3.2 m x 5.4 m ball mill fitted with a 650 kw motor. It is planned that this mill will be supplied from China. Working in closed circuit with a spiral classifier and hydro cyclones the mill products will be treated through centrifugal gravity concentrators to recover coarse gold. This gravity concentrate will be further upgraded on shaking tables to produce a directly smeltable product.

Cyclone overflow with a product size in the range of 80% minus 74 microns will be mixed with xanthate collector and fed through rougher flotation units. Floated concentrates will pass through a series of cleaner flotation cells in order to enhance the gold tenor of the concentrate. The final cleaner product will be milled in existing 2.1 m x 3.0 m ball mills, to produce a concentrate of 95% passing 40 microns. Residual tailings from the float cells will flow by gravity to an existing tailings dam, with decanted water being recycled to the treatment plant.

The milled concentrate will be thickened and treated with lime for several hours (in order to reduce cyanide consumption) prior to being leached through a cyanide circuit. Leached pulp will pass through a carbon in pulp plant, during which time the leached gold will be loaded onto activated carbon particles. It is intended to use a Chinese constructed plant for this process, exactly the same as a unit already operating at the Ryabinoviy Mine in Russia.

The loaded activated carbon will be periodically removed from the leach circuit and be subjected to a stripping and regeneration cycle before being reused in the process circuits. The gold bearing solution from the strip cycle will pass through electro winning cells in order to plate out the gold. The plated gold will be smelted into doré bars prior to shipment for final refining.

Barren pulp from the leach circuit will be subjected to a neutralisation stage in order to destroy residual cyanide. This pulp will be filtered, the solution returning to the process circuit and the solid cake transported to a separate tailings impound lined with HDPE.

A fully equipped assay laboratory is still operational at the mine site, capable of treating around 120 samples per day. SRK undertook a visit to this laboratory and were satisfied that the methods and equipment utilised were suitable for obtaining reliable analyses.

3.7.3 Projected Operating and Capital Costs

An operating cost has been developed for the treatment plant, with the costs based on reagent consumptions derived from the preliminary results of the Irgiredmet work completed to date. Costs for manpower, engineering spares and power have been generated in house based upon reasonable estimates and staffing structures. At this time the cost per tonne has been established at US$9.80, which for a relatively low throughput plant appears reasonable. In reviewing the cost basis SRK established that depreciation was being included as a cash cost and if this were removed then the actual cost would be around US$8.50/t.

The Company engineering personnel have undertaken a capital cost estimate for the mill and tailings dam, which at this early stage equates to US$7.9 million. Most of the equipment costs associated with the project have been taken directly from supplier quotes e.g. the Chinese ball mill and gold absorption circuitry. However, as the mill layout is unconfirmed and with no detailed designed plans SRK would view this estimate as being only at the scoping study phase of accuracy i.e. +/– 30%. SRK understand that the design is near completion which will enable more accurate capital estimates to be made.

3.7.4 Tailings Disposal

The capacity of the existing flotation tailings impoundments is exhausted. A raise of 6 m has been designed by the Zabaikal Tzsvetmet Institute at Chita. The outer embankment is of rockfill with a clay core, and without underdrains. The original design for the raise was carried out in 1995, and this design will be reviewed in the light of new regulations.

The smaller quantity of concentrate tailings will contain cyanide, but the cyanide will be destroyed at the plant. Nevertheless, the regulations stipulate that this material must be placed in a lined impoundment, which will be adjacent to the flotation tailings impoundment. SRK has been informed that the tailings will also be neutralised with lime and treated with iron vitriol for arsenic removal. The tailings at Darasun do not appear to be acid-generating.

3.8 Infrastructure

Electricity is supplied through the Russian Grid. The supply line appears to be in good condition and, the sub-stations and switchgear are simple, strong and durable. There have been minor interruptions to the supply, but security and continuity of electricity supply do not appear to be a problem.

There is an ample supply of water from the local river sufficient for the needs of the mine, the process plant and the township.

Numerous office accommodation and workshops exist at the mine in various states of repair. However, principal items such as the assay laboratory, metal working facilities and a foundry appear to be in good working order.

3.9 Environment and Water Management

3.9.1 Environment

The main environmental issues at Darasun are social issues. Darasun town has a large population of 7,000 which previously relied on the mine for work. SRK did not investigate social conditions, but the appearance of some residents indicated considerable poverty. Although the mine will only employ 1,300, and some of these will be from outside Darasun, the economic benefits to this town will be immense. The Company has a policy of employing local people wherever possible.

The buildings of the plant area have been partially demolished and most of the equipment has been removed. Pumping of the three shafts continues, and the water is discharged untreated to the Darasun River. Deposits of old process waste and discarded materials are present throughout the site. The most noticeable deposits are in the principal local stream channel, where there are dumped piles of waste, and disturbance from previous alluvial mining.

During the previous mine operation, environmental permits were in place, but it is understood that these must be replaced by new estimates of emissions on which the environmental costs will be based. At present, the Russian Environmental Inspectorate is reviewing the national rules and regulations, and changes are anticipated. For this reason, the final design of tailings disposal sites and other environmental measures are delayed. As an example, the use of calcium hypochlorite for the destruction of cyanide may be banned and linings may be required for tailings facilities.

SRK has been informed that the Company has no present liability to pay environmental levies, which will only become due when mining starts. the Company is currently negotiating an agreement absolving the company from liability for past environmental damage. A previous report mentions the possibility that housing may be founded on ground contaminated by concentrate roasting waste. On the presumption that the Company will not be legally responsible for existing environmental impacts, an environmental audit is necessary to define those existing impacts before the start of construction. An Environmental Management Plan and a conceptual closure and rehabilitation programme are also necessary, with estimates of the associated costs. The Chita State Technical University is conducting an environmental audit at Darasun. The report will include assessments of the environmental impact of mining, and will recommend procedures to minimize these impacts. Notwithstanding the results of this audit in SRK's opinion remedial works need to be undertaken before the re-opening of the mine. Given the fact that the Company is not liable for these works it is unclear at the present who will fund and undertake the remediation.

Submissions to the various authorities, including the Fisheries, the Hunting Department, the Regional Sanitary and Ecological Service and the Baikal Lake Water Inspector have commenced. More than 12 approvals have already been received from these bodies.

At present SRK estimate that the environmental liability on closure at Darasun would be in the order of US$5 million to US$7 million. It is possible although unlikely that the change in the Russian environmental legislation may result in closure costs in excess of the numbers quoted here.

3.9.2 Water Management

Water supply will be from a well field, and SRK has been informed that the adequacy of this well field has been confirmed.

Water is pumped from the underground workings through the three shafts and discharged to the stream passing through Darasun. This water is coloured and contaminated. Records from 1996 showed that the water from Teremky shaft contained high levels of calcium, magnesium, sulphates and suspended solids. It is presumed that a treatment plant will be installed, and that much of the underground water will be used in the mine process.

3.10 Human Resources

Darasun has retained many of its senior staff during its time on care and maintenance. In addition to this many of the mine's former employees are still resident in the settlement at Darasun. In light of this and considering the current active mining industry in the Chita region in SRK's opinion there should be little difficulty staffing the mine with appropriate personnel upon resumption of operations.

SRK understand that the former General Director of Mnogovershinnoe who had a key role in the recent improvements in Mnogovershinnoe's performance will lead the project team managing the development of both Darasun and Novoshirokinskoye.

3.11 SRK Comments

Although SRK has not undertaken any check calculations nor directly verified the underlying data, SRK considers that the resource and reserve estimates at Darasun were derived in a thorough and professional manner and is confident, based on the documents reviewed and discussions held that the estimates as a whole are unbiased.

SRK consider that the planned underground mining methods are suitable and that the shafts and infrastructure should be capable of supporting the planned production. Additionally there are opportunities to reduce previously achieved dilution levels through greater mining control on the stoping width and also stope side wall support. Ground conditions in the areas of the mines visited were good.

Work completed to date indicates that the Talatui deposit is potentially amenable to open-pit mining. However, detailed design work has yet to be completed and therefore the technical and economic feasibility of the open-pit reserves has yet to be determined.

In SRK's opinion mining operating costs for both the underground mines appear high when compared with SRK's experience of similar operations elsewhere.

Work is currently underway to finalise design of a new mineral processing plant for the combined Darasun operations. Currently the Company favour an approach which includes a flotation circuit in order to improve recoveries. However, SRK consider that the improvement in recoveries may be offset by higher operating costs due to the complexity of the process route. SRK therefore recommend that this is investigated before construction. Although the design work is not complete SRK consider that the conceptual design presented by the Company is capable of achieving the planned throughput. SRK also consider the planned operating costs to be reasonable. The planned capital costs presented by the Company are considered reasonable whilst being subject to a large degree of uncertainty until the design is complete.

The Company intend to utilise the existing mill building in order to minimise capital expenditure. This could potentially result in a cramped operation and non-linear flow routes which may result in higher operating costs. In SRK's experience significant amounts of gold can be recovered from the foundations of mill buildings which have operated for tens of years. This, together with potential operating efficiencies, may help offset the cost of a new building.

SRK consider that the infrastructure including power and water supply, although in some need of refurbishment, is adequate for the planned future operations. In SRK's opinion there should be little difficulty staffing the mine with appropriate personnel upon resumption of operations.

The main environmental issues at Darasun are social. The economic benefits to the town from re-opening the mine will be immense. SRK have been informed that the Company has no liability for the environmental impact of historical operations. However, SRK recommend that this position is clarified and that a baseline study to quantify the previous environmental impact is conducted before operations recommence. SRK understand that an environmental audit including a baseline study is underway. Notwithstanding the results of this audit in SRK's opinion remedial works need to be undertaken before the re-opening of the mine. Given the fact that the Company is not liable for these works it is unclear at the present who will fund and undertake the remediation.

In summary SRK consider Darasun to have good potential to become an operating mine subject to the completion of positive feasibility studies into the technical-economic viability of any mining and refurbishment plans. Much of the underground infrastructure is already in place and can be refurbished with limited capital expenditure while plans are well developed to install new processing equipment.

4 NOVOSHIROKINSKOYE

4.1 Introduction

This section describes and comments upon the main technical aspects of the Novoshirokinskoye poly-metallic project including the geological setting and resources, planned mining operations, existing and proposed mineral processing facilities and waste disposal, environment and water management, infrastructure and human resources. Comment is also made on the plans to develop the project into the future.

Since 1997 a study has been underway to investigate the gold and silver potential of the project. This study is by external consultants Irigiredmet which is examining the feasibility of producing lead and zinc concentrates as well as recovering the gold and silver on site.

4.2 Location/Access

Novoshirokinskoye is located in the Gaz-Zavod district of the Chita region of southern Russia some 70 km from the Chinese border. Access is to the site is by a combination of tarred and gravel roads with the nearest railway station being located at Klichka some 200 km south of the project. The climate is strongly continental with short hot summers and long cold winters. Annual precipitation is low resulting in little snow in the winter.

4.3 History

The deposit at Novoshirokinskoye was discovered in 1951 and extensively explored between 1956 and 1962. A development plan for a base metal mine was formulated in 1969 and construction of the project began in 1970. The construction work progressed slowly and was suspended in the 1970's. A modified development plan which proposed a production rate of 450,000 tonnes per annum of ore was approved in 1988 but construction was again suspended in 1994 after the majority of the construction work was complete due to the prevailing economic conditions and the termination of centralised state funding.

4.4 Geology

4.4.1 Deposit Geology

The Novoshirokinskoye deposit occurs in a 20 m to 300 m thick fault zone hosted by a sequence of Upper Jurassic volcanic and sedimentary rocks. The mineralisation is confined to the central portion of the zone with a strike length of up to 2.2 km and to a maximum depth of 700 m. 17 en-echelon ore bodies have been delineated of which the "Main", "V" and "VII" ore bodies are the largest constituting 91% of the resource.

The ore bodies are vein like in nature with pinch and swell structures and numerous splays. Towards the centre of the structure these often merge together forming thicker zones of mineralisation. The ore bodies strike to the north-west and dip at between 30° to 82° to the south-west. The Main ore body lies in the central part of the deposit and has a strike length of 670 m and an average thickness of 6.6 m. The V ore body is located some 20 m to 25 m from the Main ore body and has a strike length of some 540 m and an average thickness of 3.5 m. The Main and the V ore body coalesce in some areas. The VII ore body is located to the south-east of the V ore body and has a strike length of 625 m and an average thickness of 3.6 m.

The average depth of oxidation is 18 m from the surface with only weakly oxidised ore above this level. Novoshirokinskoye is also located in a zone of perma-frost which varies in depth between 38 m and 123 m.

Figure 4.1 is a geological map of Novoshirokinskoye. Figure 4.2 is a cross-section through Novoshirokinskoye.

4.4.2 Mineralogy

The ore is mainly lead/zinc sulphide mineralisation with associated gold and silver in host rocks predominantly containing quartz, carbonates and sericites. Additional accessory minerals are pyrite, chalcopyrite and various iron and copper oxides. It is noted that the mineralisation is fairly homogenous through the deposit with little variation being displayed.

Lead in the form of galena is the major mineral in the range 4 to 5%, with sphaleritic zinc comprising 1.5 to 2%. Average gold and silver grades are around 4 g/t and 90 g/t respectively.

A review of translated documentation indicates that the gold and silver is fine grained and appears to have a strong association with the galena. However, additional associations with the sphalerite and host rock minerals indicate that the whole suite of mineralisation would need to be targeted for treatment in order to achieve high levels of precious metal recovery.

Figure 4.1

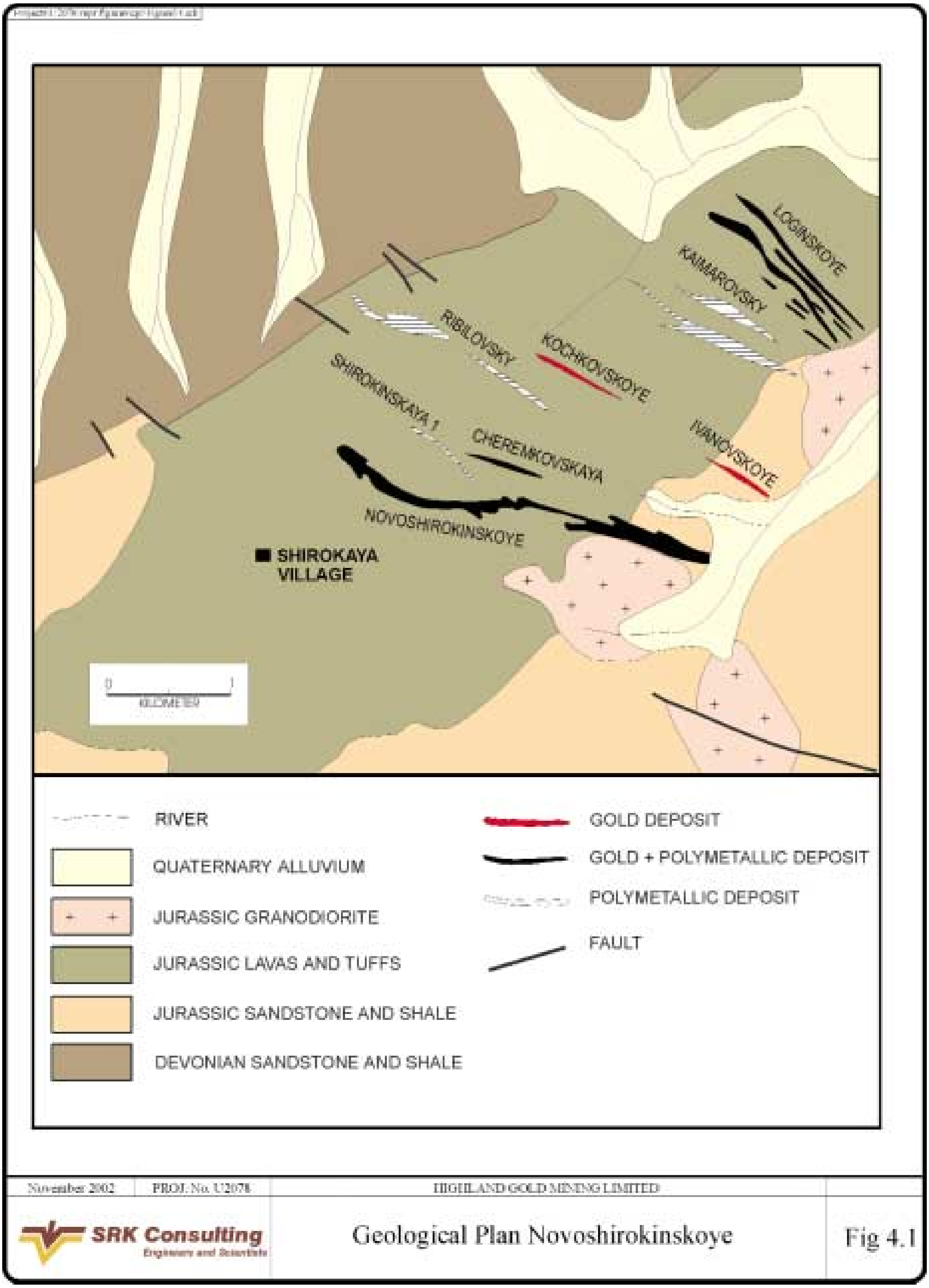
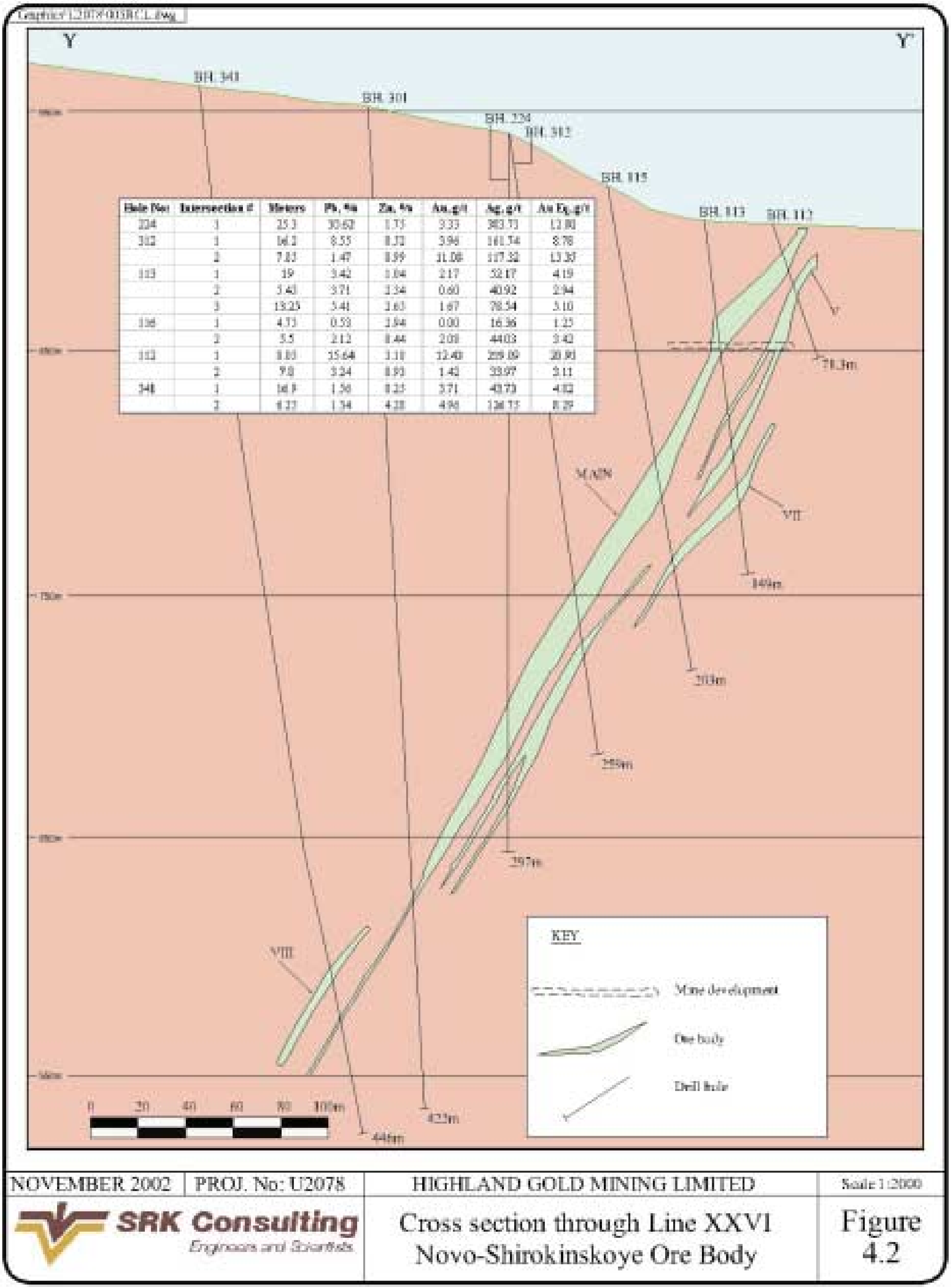

LOGINSKOYE
KAIMAROVSKY
RIBILOVSKY
KOCHKOVSKOYE
SHIROKINSKAYA 1
CHEREMKOVSKAYA
IVANOVSKOYE
NOVOSHIROKINSKOYE
SHIROKAYA VILLAGE
0
1
KILOMETER
RIVER
QUATERNARY ALLUVIUM
JURASSIC GRANODIORITE
JURASSIC LAVAS AND TUFFS
JURASSIC SANDSTONE AND SHALE
DEVONIAN SANDSTONE AND SHALE
GOLD DEPOSIT
GOLD + POLYMETALLIC DEPOSIT
POLYMETALLIC DEPOSIT
FAULT
November 2002
PROJ. No. U2078
HIGHLAND GOLD MINING LIMITED
SRK Consulting
Engineers and Scientists
Geological Plan Novoshirokinskoye
Fig 4.1

Figure 4.2



Hole No:	Intersection #	Meters	Pb, %	Zn, %	Au, g/t	Ag, g/t	Au Eq, g/t
224	1	25.3	30.62	1.75	3.33	383.73	12.80
312	1	16.2	8.55	0.32	3.96	161.74	8.78
	2	7.83	1.47	0.99	11.08	117.32	13.37
113	1	19	3.42	1.04	2.17	52.17	4.19
	2	3.43	3.71	2.34	0.60	40.92	2.94
	3	13.25	3.41	2.63	1.67	78.54	3.10
108	1	4.73	0.53	2.84	0.00	16.36	1.23
	2	5.5	2.12	0.44	2.08	44.03	3.42
112	1	8.83	15.64	3.18	12.40	259.09	20.90
	2	9.8	3.24	0.93	1.42	33.97	3.11
348	1	16.9	1.38	0.23	3.71	43.73	4.02
	2	8.27	1.34	4.28	4.98	126.73	8.29

4.5 Mineral Resources and Ore Reserves

4.5.1 Quantity and Quality of Available Data

The resource estimates at Novoshirokinskoye were derived using a combination of information from surface trenches, underground workings and diamond drill holes.

The deposit was initially explored using trenches which were excavated at 10 to 50 m intervals perpendicular to the trend of the ore bodies. These were sampled at regular intervals over the full width of the ore body.

Surface drill holes were then used to explore the ore bodies indicated by the trenching and were drilled on a 50-60 m square grid. A wider 100-120 m square grid was used to explore down-dip extensions to the ore bodies. Core recoveries averaged 88%. The holes were surveyed for deviations every 20 to 50 m down-hole. These are recorded as being small and within acceptable limits.

Exploration drives were driven on levels 50 m apart. Cross-cuts were developed from the development drives to fully intersect the width of the ore bodies. These were spaced every 50 m to 100 m. Underground drill holes were used to sample the areas between the 100 m spaced cross-cuts. A comparison between the grades and thickness exposed in the development and those indicated by the drill holes showed only small differences.

Channel sampling was used to sample the entire width of the ore bodies and the adjacent host rock in both the exploration drives and the trenches. These channels were cut 5 cm deep and 10 cm wide with an average length of 1 m.

Assays were undertaken at two centralised laboratories. Both internal and external quality control procedures were applied which is reported to have displayed no major biases or discrepancies in the results.

It is SRK's opinion that the quantity and quality of the data at Novoshirokinskoye is sufficient to support the Mineral Resource estimates presented in Section 4.5.3 below.

4.5.2 Estimation Methodology

The methodology used to derive the estimates is described below.

- Ore body outlines were defined on development plans using a 2.9 % Pb-equivalent assay cut-off. A minimum horizontal ore body width of 0.8 m was also applied. The conversion factors used to derive the Pb equivalents were 0.6 for Zn, 0.13% Pb per 1 g/t Au and 0.0027% Pb per 1 g/t Ag. Mean ore body grades were calculated for each full intersection. These and the horizontal ore body widths were plotted on the respective ore body VLP.
- Resource blocks were then delineated on the VLPs bounded by existing and planned development levels and raises. If a crosscut grade was below 3.8 % Pb equivalent, then the block boundary was drawn one half of the way between the 'pay' crosscut and the 'unpay' crosscut. The maximum width of any waste or unpay ore included in the defined ore body contours was 3 m.
- Block tonnages were determined by planimetering the block areas, calculating average horizontal ore body thickness from sampling data within the block, determining a block volume and multiplying this by a density of 3.1 t/m^3.
- Block grades were determined by averaging all the ore body width weighted grade intersections within the block. Anomalous intersections, those contributing more than 20% of the total calculated metal accumulation in any one block, were cut to 20% and the average recalculated.

The resulting block tonnages were then classified as B, C1 or C2. Blocks which have been defined by development and drilling on a 50-60m square grid are defined as B. Blocks which have been defined by drilling on a 100-150 m square grid are defined as C1. Block which are only delineated by irregular drill hole intercepts but which occur adjacent to C1 areas are classified as C2.

P resources are those areas generally down dip from the current workings and drill hole intersection where tonnes and grade have been postulated based on adjacent defined resources.

The classification methodology used gives an estimate of the resources at various levels of amenability to mining. Broadly speaking, SRK considers the B resources to be within the "Measured" category as defined by the Australasian Code for the Reporting of Mineral Resources and Ore Reserves (the JORC Code), the C1 resources to be within the "Indicated" category and the C2 resources to be within the "Inferred" category. This is reflected in the Mineral Resource statement given in Section 4.5.3 below. SRK considers the P category estimates to represent further exploration potential.

4.5.3 Mineral Resource and Ore Reserve Statement

SRK has reviewed the documentation supporting the resource estimate in Table 4.1 but has not inspected and reviewed the VLP's used to present the sample data and derive the tonnage and grade estimates. However, SRK consider that the supporting documentation indicates an appropriate approach was used and sufficient review and quality control procedures were applied. The resource presented below was endorsed by the State Commission on Mineral Resources in 1967 following what appear to be conservative adjustments to some of the block grades.

Tables 4.1 and 4.2 below presents the Company's latest Mineral Resource and Ore Reserve statements.

Table 4.1 Novoshirokinskoye Mineral Resource Statement

	Tonnage (kt)	Au Grade (g/t)	Ag Grade (g/t)	Pb Grade (%)	Zn Grade (%)	Au Eq. Grade (g/t)[1]	Au Eq. Content(koz)[1]
B (Measured)	680	7.5	90.0	4.7	1.5	10.5	230
C_1 (Indicated)	5,200	3.5	96.9	3.9	1.9	6.5	1,092
Sub-Total	5,880	4.0	95.9	4.0	1.9	7.0	1,322
C_2 (Inferred)	3,480	2.1	70.4	3.2	1.6	4.5	504
Total	**9,360**	**3.3**	**86.6**	**3.7**	**1.8**	**6.1**	**1,826**

1 Note: Gold equivalents were calculated by Irgiridmet using 0.013g per gram of Silver and 0.3g per percentage point of both Lead and Zinc. Metal prices used to derive these equivalents are as of 11 July 2002: Au – US$317.20/oz; Ag – US$5.07/oz; Lead – US$454/t; and Zinc – US$808/t.

Table 4.2 Novoshirokinskoye Ore Reserve Statement

	Tonnage (kt)	Au Grade (g/t)	Ag Grade (g/t)	Pb Grade (%)	Zn Grade (%)	Au Eq. Grade (g/t)[1]	Au Eq. Content(koz)[1]
B (Proved)	820	5.6	67.5	3.52	1.14	7.9	208
C_1 (Probable)	4,700	3.0	87.5	3.00	1.41	5.5	831
Total	**5,520**	**3.4**	**84.6**	**3.08**	**1.37**	**5.8**	**1,039**

1 Note: Gold equivalents were calculated by Irgiridmet using 0.013g per gram of Silver and 0.3g per percentage point of both Lead and Zinc. Metal prices used to derive these equivalents are as of 11 July 2002: Au – US$317.20/oz; Ag – US$5.07/oz; Lead – US$454/t; and Zinc – US$808/t.

Mining losses of 10% and dilution of 20% have been applied in the derivation of these reserves.

4.5.4 Potential for Further Mineral Resources

The most immediate potential for further Mineral Resources at Novoshirokinskoye may lie in the re-estimation of the resources using gold as the primary product. SRK has been informed that significant areas of economic gold mineralisation were rejected from the most recent resource estimate on the basis of low Pb grades. In addition to this there is also the potential to upgrade and possibly increase the quantity of resources down-dip from the current workings and sampled areas.

4.6 Mining

4.6.1 Existing Infrastructure

The underground mine is fully developed to the extent that some of the stopes have been drilled and blasted and broken ore is present in the draw points. The haulages are fully equipped with compressed air mains, water pipes and pumping mains. The pipe work appears to be in good condition. A full inventory of mining equipment was not available but the loading and hauling equipment seen underground was outdated and in a bad state of repair. It would seem likely that all the underground mining equipment would have to be replaced with modern drill rigs, diesel LHDs and new locomotives and rolling stock.

The man-riding and materials shaft is concrete-lined and in excellent condition and extends to 250 metres below the collar. The shaft stations are well equipped with double track entries and overhead lifting facilities. The rock hoisting shaft is 200 metres deep and is comprehensively equipped with skips and a flask loading system. This shaft was not inspected but it is understood that it was constructed to the same standard as the men and materials shaft. The mine has a fully developed ore and waste handling system with separate passes for ore and waste on each level.

The winders for both shafts are modern units and are in good operating condition. It will be necessary for both installations to undergo a full inspection and service and it would be prudent to change the winding ropes.

Figure 4.3 is a long-section through Novoshirokinskoye.

4.6.2 Mining Methods

Novoshirokinskoye was developed as a longhole open stoping operation. This mining method is suitable for the current lead/zinc ore body but might require modification when the gold mineralisation and resultant ore body are finally defined. The mine has been developed down to the first 3 levels (levels are at 50 m vertical intervals) and there is reportedly some 9 years of ore available, at 450 kt per year, from these 3 levels.

4.6.3 Underground Conditions

Footwall and hanging wall strata are competent and mining conditions generally are excellent. There is very little roof support and the areas that have been developed require no significant rehabilitation.

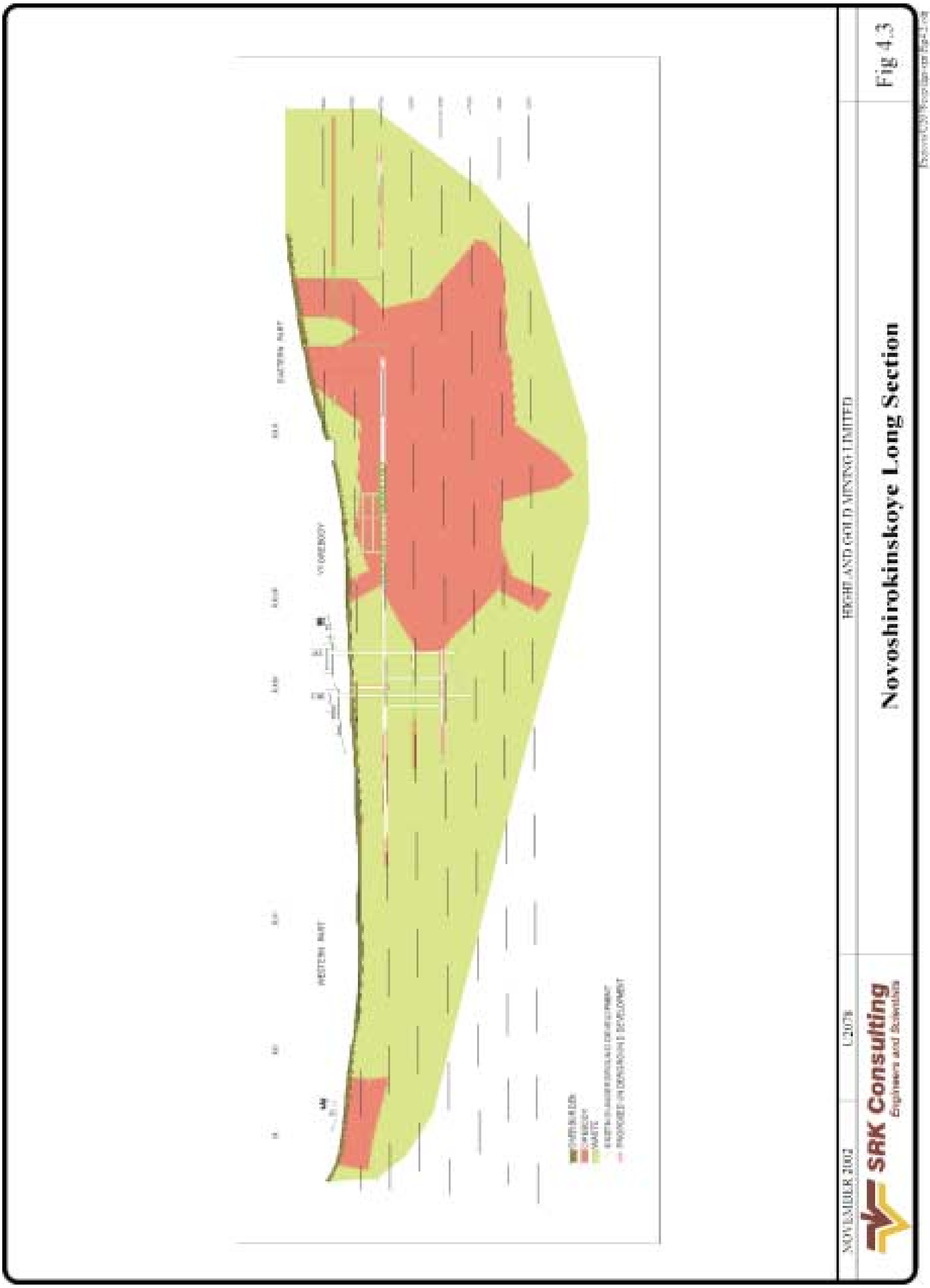
4.6.4 Dilution and Mining Losses

Longhole open stoping is a bulk mining method used for massive low grade ore bodies. If the current mining method is continued when Novoshirokinskoye re-starts, mining losses of 5%-10% and dilution of 15%-20% can be expected.

4.6.5 Operating Costs

While no current separate estimates of mining operating costs were provided to SRK it is considered that mining costs in the order of ± US$10-15 per tonne of ore should be achievable given the mining method and infrastructure. This cost should only be considered as an approximate guide subject to further detailed technical-economic studies.

Figure 4.3


Novoshirokinskoye Long Section
HIGHLAND GOLD MINING LIMITED
Fig 4.3
NOVEMBER 2002
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SRK Consulting
Engineers and Scientists

4.7 Mineral Processing

4.7.1 Metallurgical Testwork

Over the period from 1967 to 2001 a large amount of laboratory test work has been conducted on samples of ore. This work has been performed by various State laboratories, namely VNIItsvetmet, VNIPIGortsvetmet and VNIPIPrometekhnologii on a number of samples, ranging from 5 t to 1,105 t (pilot plant simulation) in mass.

All of this work focussed on the lead and zinc as being the primary economic target, with gold and silver recovery being viewed as useful and valuable by-products. Various options were assessed such as producing a bulk flotation concentrate containing combined lead and zinc; differentially floating the lead and zinc to produce separate concentrates; and finally a variation of both coupled with gravity concentration methods aimed at recovering some of the gold separately to the lead and zinc. The aim however, was basically to recover lead and zinc that would be subsequently shipped to a smelter complex.

A final study in 1997, prior to the Company becoming involved in the project, examined the feasibility of smelting at site.

Having analysed the data generated over this period, SRK concludes that it should be possible to recover of the order of 65% lead, 75% zinc and approximately 90% each of the gold and silver into a three product mix of two flotation concentrates and a gravity gold fraction. It is not possible, however, to say whether the economics of treating these three fractions would result in an economic return, as the test work necessary to determine that aspect has not been undertaken. From experience it is SRK's view that such a complicated treatment route may prove uneconomic at the currently determined average ore grades of the deposit.

Following the recent involvement of the Company a new 5 t sample of ore was collected and forwarded to the Irgiredmet Institute in Irkutsk for further investigation. The primary thrust of this work is to focus on the recovery of gold and silver at site, with the generation of any lead and zinc metal being viewed as useful by product credit. Such an approach was successfully adopted at the Redwing Mine in Zimbabwe, an operation owned by the Lonmin plc mining group. The treatment route involved the recovery of lead and zinc into a concentrate, which was then subjected to cyanide leaching with gold and silver recovery being achieved via a Merrill Crowe system due to elevated levels of silver. Leached flotation concentrates were filtered and sent to a custom smelter.

The Irigiredmet test programme is currently ongoing, so at this stage it is not possible for SRK to draw any conclusions as to how successful the new approach will prove. SRK understand that the results will be available shortly.

4.7.2 Existing Processing Facilities

Construction work commenced on the property in 1970 and continued over a number of years until the project was terminated in 1994. During this period the milling facility was only partially completed, whilst still awaiting the final decisions on process flow sheet design. It is estimated by the Company personnel that the plant was completed to 80% of construction design, however it is difficult to confirm this from a short site visit.

The milling equipment is totally enclosed in a purpose built, weather proof concrete building, staged over three levels aimed at allowing maximum usage of gravity flow through the process stages. Equipment within the building is well laid out, with adequate spacing, good natural lighting and interconnecting steel floor work. Overhead cranes have been installed above the mill units and flotation cells.

Crushed ore from underground is tipped directly into large storage bunkers from which it can be drawn via an apron feeder to the milling circuit. There are two unused 5.0 m x 2.3 m SAG mills complete with 650 kw motors in place, fitted with liners and discharge trommels. Adjacent to each is a spiral classifier, the overflow from which would be routed to two off 3.2 m x 3.1 m ball mills each fitted with a 650 kw motor. All this equipment appears to be in excellent condition and will require minimal overhauling before being ready for use.

There are several banks of flotation cells designated for roughing and cleaning operations. Additionally, there are three thickeners and two rotary drum vacuum filters. Again all this equipment is in pristine condition.

The mill equipment has not been provided with any electrical distribution or supply/control gear. Nor is any pipe work, valving or pumping equipment in place. No tailings impoundment has been constructed, although an area has been designated for this purpose several kilometres from the plant site.

Although, no flow sheet can be designed until the ongoing test work is completed it is clear that the milling and flotation equipment installed will be capable of forming the basis for the currently planned 450 ktpy milling operation. It is SRK's opinion that the milling equipment in position should be capable of treating 450 kt to 500 kt per annum without any modification.

4.7.3 Projected Operating and Capital Costs

The Company has derived a total operating cost of US$40/t ore from an Irgiredmet 2002 report. This includes mining, processing and administration costs. Without the benefit of the final metallurgical report from Irgiredmet, SRK does not feel confident in commenting upon the validity of such estimates at this stage.

Similarly, Irgiredmet has estimated that a capital investment of some US$20-25 million will be required to refurbish the mill and construct a tailings impoundment. SRK considers that such estimates are only suitable for inclusion in a very early stage scoping study assessment and can be further refined upon finalisation of a treatment route.

4.8 Infrastructure

A tailings disposal site has been identified, but was not visited by SRK. Both a power and water supply are currently in place at the site. While SRK is unable to confirm the adequacy of this for future mining operations it appeared to be of a similar level to the other Company assets visited by SRK. Office and living accommodation is available in a nearby settlement while limited workshop facilities are already present on site.

4.9 Environmental and Water Management

4.9.1 Environment

At present, the mine and the mine structures do not have a significant environmental impact and, as the mine provides no employment, the main socio-economic impact of commissioning the mine will be the provision of employment.

SRK is not aware of the existence of an environmental baseline study or of an environmental management plan. These will be required. At present SRK consider that any environmental liabilities could be covered by the salvage and sale of the existing plant.

4.9.2 Water Management

Water supply is from a well field. It is understood that this supply has been established and that there is sufficient water available.

4.10 Human Resources

There is currently only a skeleton staff on the mine who maintain essential systems. However, given the mining industry in the Chita region SRK consider that it should not prove difficult to source a skilled workforce in the local to regional area.

4.11 SRK Comments

SRK consider that the resource and reserve estimates for Novoshirokinskoye have been appropriately derived and possibly subject to conservative adjustments by the State Commission on Mineral Resources. There is also the possibility that re-evaluation of the deposit from the perspective of maximising precious metal production may result in additional areas of gold rich but base metal poor ore being re-classified as reserves.

There is extensive underground infrastructure in place which is in reasonable to good condition including shafts, haulages and ore and waste handling systems. The underground equipment is, however, in very poor repair and will need to be replaced. The currently proposed mining method is considered to be suitable given the current ore body geometry and ground conditions were observed to be good.

Studies are still underway with regard to determining the suitability of the proposed treatment route for the Novoshirokinskoye ore. SRK consider that the proposed process route is complicated and the likely economics are uncertain. However, SRK consider that recoveries in the order of 65% for lead, 75% for zinc and 90% for both gold and silver should be achievable.

The existing mill is estimated to be 80% complete when compared with the original design. The existing equipment is both well laid out and in excellent condition with minimal need for refurbishment. SRK consider the existing equipment to be more than sufficient to sustain planned production rates of 450kt to 500kt of ore per annum. Both operating costs and capital expenditure estimates are still uncertain and in need of further confirmatory work.

The mine has existing power and water supplies which appear adequate. As the mine has never operated it has had a minimal impact on the surrounding environment. SRK consider that the main environmental impact of completing the mine will be socio-economic due to the creation of employment opportunities. There is currently only a skeleton staff on site, however, in SRK's opinion sourcing an adequate number of suitable skilled personnel should not prove difficult.

In summary SRK consider Novoshirokinskoye to be the least advanced towards production of the Company's assets. While its ore body is not as attractive as that at Mnogovershinnoe or Darasun there is significant underground and surface infrastructure which should greatly facilitate the development of a poly-metallic mine should future feasibility studies indicate its technical-economic viability

5 RISKS AND OPPORTUNITIES

5.1 Introduction

In undertaking this review, SRK has identified a number of general risks and opportunities relating to the operation of Mnogovershinnoe and the development of Darasun and Novoshirokinskoye. The most material of these are commented upon below.

5.2 Mnogovershinnoe

5.2.1 Technical Risks

- **Reduction in metallurgical recoveries.** There is a risk that as production levels increase metallurgical recoveries may decline due to leaching capacity constraints. However, SRK consider that this risk can be quickly and effectively mitigated through the provision of extra leach tanks should the need arise.
- **Increase in processing operating costs.** There is a risk that the process operating costs may increase by US$0.18 to US$0.30 per tonne of ore due to increases in cyanide consumption.

5.2.2 Opportunities

- **Reduce dilution with improved grade control.** SRK considers that it should be feasible to reduce dilution both from the underground and open-pit operations with revised grade control procedures.
- **Increase mining and processing rate.** SRK consider that there is sufficient capacity in the mine and milling circuit to increase production in the future beyond the 800 kt per annum currently planned. This would require some capital investment which in SRK's opinion would be out weighed by the benefits.
- **Reduction in process operating costs.** Notwithstanding the risk of increased cyanide consumption commented upon in Section 5.2.1 SRK consider that there are opportunities to reduce the process operating costs through the monitoring and adjustment of consumption rates on an ongoing basis.
- **Increased recovery of silver at Mnogovershinnoe.** SRK consider that the current low levels of silver recovery could be increased through the capital expenditure of some US$1 million resulting in a possible US$750,000 per annum increase in revenue.

5.3 Darasun

5.3.1 Technical Risks

- **Mining conditions at depth at Darasun.** In SRK's opinion it is possible that mining conditions may deteriorate at depth at Darasun resulting in operational difficulties and resulting cost increases. SRK was informed that problems with stress and support were beginning to manifest themselves in some of the deeper sections of the current workings. However, this is difficult to quantify at present.
- **Talatui open-pit design and economics not finalised.** In SRK's opinion the technical and economic studies into the feasibility of the Talatui open-pit need to be finalised. As such there is some risk that these reserves may prove un-economic.

5.3.2 Opportunities

- **Discovery of additional resources and reserves.** There is considerable geological potential to substantially increase the resources and reserves at Darasun. Historically the mine replaced the reserves depleted each year through exploration. Most of this potential is considered to lie down-dip of the existing workings.
- **Reduce dilution with improved mining control and stope side wall support.** SRK considers that there are opportunities to reduce dilution levels from those achieved in the past. This reduction could be achieved through greater control and minimum mining widths and also possible additional side wall support in the stopes.
- **Recovery of gold from old mill foundations at Darasun.** In SRK's experience it is often possible to recover reasonable amounts of gold (in the order of 10's to 100's of kg) from the foundations of mills at the end of an extensive operating life. This would require further investigation.

5.4 Novoshirokinskoye

5.4.1 Technical Risks

- **Resource re-estimate.** There is a possibility that the re-estimation of resources at Novoshirokinskoye may not result in an increased gold content. SRK are at present unable to quantify the potential increase in gold resources and as such it considered a potential risk to the viability of the project.
- **Uncertainty with regard to the proposed mineral processing route.** As the final processing route has not yet been established there remains some uncertainty over the economic viability of the reserves.
- **Uncertainty with regard to the required capital expenditure.** Following on from the above point there is also some uncertainty with regard to the capital required to put the mine into production. This risk is somewhat mitigated by the fact that many of the major capital items are already present on site.

5.4.2 Opportunities

- **Resource re-estimate.** Notwithstanding the risk highlighted in Section 5.4.1 above it is also possible that a re-evaluation of the Mineral Resources at Novoshirokinskoye will result in a significant increase in the gold content of the project resources.

6 CONCLUDING REMARKS

The views expressed in this report are based on SRK's understanding of the status of the Company's assets as at the date of this document and are based on SRK's observations on site, reviewed documentation and discussions with the Company personnel. Overall SRK considers that the Company have a good suite of assets which are currently at various stages of development.

Mnogovershinnoe is a modern, well equipped and well run mine with potential for increasing production rates, decreasing operating expenditure and increasing revenue. Additionally, SRK consider there to be potential to reduce mining dilution through revised grade control techniques, and potentially to increase the reserves through additional exploration programmes.

SRK consider Darasun to have good potential to become an operating mine subject to the completion of positive feasibility studies into the technical-economic viability of any mining and refurbishment plans. Much of the underground infrastructure is already in place and can be refurbished with limited capital expenditure while plans are well developed to construct a new processing plant.

Novoshirokinskoye is the least advanced of the Company's assets. While its ore body is not as attractive as that at Mnogovershinnoe or Darasun there is significant underground and surface infrastructure which should greatly facilitate the development of a poly-metallic mine should future feasibility studies indicate its technical-economic viability.

For and on behalf of SRK Consulting

Dr Mike Armitage
Managing Director

Part IV

Financial information on the Group

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ERNST & YOUNG

■ Ernst & Young LLP
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The Directors
Highland Gold Mining Limited
Le Gallais Chambers
54 Bath Street
St Helier
Jersey JE4 8YD

The Directors
W.H. Ireland Limited
11 St. James's Square
Manchester M2 6WH

• December 2002

Dear Sirs

Highland Gold Mining Limited (the "Company")

1 INTRODUCTION

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated • December 2002 of Highland Gold Mining Limited ("the Company").

Basis of preparation

The financial information set out on pages 88 to 103 is based on the audited financial statements of the Company for the 37 day period ended 30 June 2002 and has been prepared on the basis set out on page 91, to which no adjustments were considered necessary. The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in the United Kingdom ("UK GAAP").

Responsibility

Such financial statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the admission document dated • December 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned our work so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to the auditors was limited in respect of the classification of certain administrative costs in the profit and loss account. The amounts recorded in the profit and loss account in respect of these costs are US$170,000 in the 37 day period ended 30 June 2002, calculated on a *pro rata* apportionment basis.

Insufficient evidence has been provided to the auditors to enable them to confirm whether these administrative costs have been correctly classified. In addition, in respect of these costs, insufficient evidence has been provided to the auditors to enable them to determine whether these administrative costs, or part of them, should or should not be disclosed as related party transactions under FRS 8 "Related Party Transactions". There were no other satisfactory audit procedures that they could adopt to verify the classification and disclosure of these expenses.

We were unable to carry out any other additional procedures, in respect of the above, which would lead us to a different conclusion from that of the auditors.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the Group's title to certain assets and the recoverability of those assets and therefore its ability to continue trading as a going concern, which is dependent on the following factors:

- the Group's ability to continue operating the mine at Mnogovershinnoe. The majority of the more important mine assets are currently leased from the Khabarovsk Administration and could be subject to future privatisation; and
- successful registration of the Group's ownership of the tailings dump at the mine at Mnogovershinnoe, thereby securing full rights of ownership.

This uncertainty is detailed in note 6.1 to the financial statements. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Qualified opinion arising from limitation in scope

Except for any adjustments or further disclosure that might have been found to be necessary had we been able to obtain sufficient evidence concerning administrative costs for the period ended 30 June 2002, in our opinion the financial information gives, for the purposes of the admission document, a true and fair view of the state of the Company's affairs as at 30 June 2002 and of its profit for the 37 day period then ended.

Consent

We consent to the inclusion in the admission document dated • December 2002 of this report and accept responsibility for this report for the purposes of paragraphs 45(2)(a)(iv) and 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

2 CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	37 day period ended 30 June 2002 US$000
TURNOVER		
Continuing operations – acquisitions	6.2	4,711
Cost of sales – acquisitions	6.3	(1,836)
GROSS PROFIT		2,875
Administrative costs – acquisitions	6.4	(354)
Administrative costs – ongoing		(16)
		(370)
OPERATING PROFIT		
Continuing operations – acquisitions		2,521
Continuing operations – ongoing		(16)
GROUP OPERATING PROFIT	6.5	**2,505**
Bank interest receivable		2
Bank interest payable and similar charges	6.7	(24)
Foreign exchange gains		137
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**2,620**
Tax on profit on ordinary activities	6.8	(800)
PROFIT FOR THE FINANCIAL YEAR		**1,820**
RETAINED EARNINGS BROUGHT FORWARD		–
RETAINED EARNINGS CARRIED FORWARD		**1,820**
Basic earnings per share (US$)	6.26	0.18
Diluted earnings per share (US$)	6.26	0.18

There are no recognised gains and losses other than those in the profit and loss account. There is no material difference between the reported profit and the historical cost profit for the 37 day period ended 30 June 2002.

3 CONSOLIDATED GROUP BALANCE SHEET

	Notes	At 30 June 2002 US$000
FIXED ASSETS		
Tangible assets	6.9	48,314
Investments	6.10	1,052
		49,366
CURRENT ASSETS		
Stocks	6.11	8,919
Debtors	6.12	13,011
Cash at bank in hand		1,782
		23,712
CREDITORS: amounts falling due within one year	6.13	(14,591)
NET CURRENT ASSETS		**9,121**
TOTAL ASSETS LESS CURRENT LIABILITIES		**58,487**
CREDITORS: amounts falling due after more than one year	6.14	(12,602)
PROVISIONS FOR LIABILITIES AND CHARGES	6.15	(14,372)
		31,513
CAPITAL AND RESERVES		
Called up share capital	6.20	146
Share premium	6.21	29,919
Share issue costs reserve	6.21	(372)
Profit and loss account		1,820
		31,513

4 COMPANY BALANCE SHEET

	Notes	At 30 June 2002 US$000
FIXED ASSETS		
Investments	6.10	30,901
		30,901
CURRENT ASSETS		
Debtors	6.12	56
Cash at bank in hand		24
		80
CREDITORS: amounts falling due within one year	6.13	(1,109)
NET CURRENT LIABILITIES		(1,029)
TOTAL ASSETS LESS CURRENT LIABILITIES		**29,872**
CREDITORS: amounts falling due after more than one year		(178)
PROVISIONS FOR LIABILITIES AND CHARGES		–
		29,694
CAPITAL AND RESERVES		
Called up share capital	6.20	146
Share premium	6.21	29,919
Share issue costs reserve	6.21	(372)
Profit and loss account		1
		29,694

Profit for the year for the company was US$1,000.

5 CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	37 day period ended 30 June 2002 US$000
NET CASH INFLOW FROM OPERATING ACTIVITIES	6.23(a)	3,748
RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
Interest received		2
Interest paid on bank loans		(11)
Interest paid on finance leases		(8)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(17)
TAXATION		
Russian profits tax paid		(800)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets		(322)
Payments to acquire investments		(477)
Receipts from sale of investments		44
NET CASH OUTFLOW ON CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		**(755)**
ACQUISITIONS AND DISPOSALS		
Purchase of subsidiary undertakings	6.10	(30,000)
Net cash acquired with subsidiary undertakings	6.10	71
NET CASH OUTFLOW ON ACQUSITIONS AND DISPOSALS		**(29,929)**
NET CASH OUTFLOW BEFORE FINANCING		**(27,753)**
FINANCING		
Issue of ordinary share capital		31,529
Share issue costs		(1,510)
Repayment of capital element of finance leases		(498)
CASH INFLOW FROM FINANCING		29,521
INCREASE IN CASH		1,768
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		
Increase in cash		1,768
Repayment of capital element of finance leases		498
Finance leases acquired with subsidiary undertakings		(7,634)
Long term loans acquired with subsidiary undertakings		(10,972)
Change in net debt		(16,340)
Exchange differences		14
MOVEMENT IN NET DEBT		**(16,326)**
NET DEBT AT BEGINNING OF PERIOD		**–**
NET DEBT AT END OF PERIOD	6.23(b)	**(16,326)**

6 NOTES TO THE FINANCIAL INFORMATION

6.1 Accounting policies

Basis of preparation

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Russian political and economic risks

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. Furthermore, substantially all privatisations in Russia in the early 1990's contained flaws of some description, and even the most minor and administrative flaw in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the state, local authorities and administration, the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Russian economy, and ZAO MNV's business, will depend upon the Government's ability to institute supervisory, judicial and other regulatory reforms.

Risks specific to ZAO MNV

ZAO MNV's tangible fixed assets substantially consist of the gold mining operations at Mnogovershinnoe. The majority of the more important operational assets are currently leased from the Khabarovsk Administration. It is possible that these assets might be privatised in the future and that ZAO MNV might not be successful in winning any open tender, and hence another party might become the lessor of the assets. Such an outcome might affect ZAO MNV's ability to continue to operate these assets in the future and hence its ability to continue to operate as a going concern.

The majority of ZAO MNV's other tangible fixed assets were acquired through a sale and purchase agreement by and between ZAO MNV and AP Nizhneamurzoloto ("NAZ"). The substantial majority of these assets have not been formally registered with the Khabarovsk Administration. The Directors have been advised that ZAO MNV has a legally enforceable right of use and possession of these assets but will not have the full rights of ownership (ie the right to dispose of the asset, lease or otherwise encumber the assets and otherwise deal with them) under Russian legislation until they are registered in the name of ZAO MNV. An additional important operational asset purchased from NAZ in 1998 is the tailings dump which is used to store the sand to silt-sized waste product from the mineral processing operations. Before ZAO MNV may register the tailings dump it has to be first registered in the name of NAZ. NAZ has submitted the relevant papers to the registration authorities and expects registration to take place before 31 December 2002. Registration in the name of ZAO MNV is expected to take place soon after this date. In addition, NAZ and ZAO MNV are commencing the process of registering certain other immovable property used in ZAO MNV's operations that has not been registered to date. There is a risk that the vendors or other interested parties could challenge ZAO MNV's rights of use and possession or its ownership of any assets that are not registered in the name of ZAO MNV. There can be no assurance that such a challenge will not occur in the future. If such a challenge were made and was successful, the operations of ZAO MNV could be seriously impaired such that ZAO MNV would not be able to continue to operate as a going concern.

ZAO MNV has taken legal advice on these matters on the basis of which the Directors are of the opinion that (a) ZAO MNV has sufficient protection under the lease from the Khabarovsk Administration to ensure that it will be able to continue to operate the assets under the lease for the duration of the lease, (b) ZAO MNV has a legally enforceable right to use and take profits from the tailings dump prior to its registration in the name of NAZ and ZAO MNV; and (c) in respect of the tailings dump and the other fixed assets, the fixed asset agreements already concluded and approved by the relevant authorities, the procedures ZAO MNV has in place for registration, and the relations that it has built up with the federal and local authorities and administration, and former owners, are sufficient to ensure that, should any challenge occur, it would be expected to be unsuccessful and the effect on the operations would be negligible. The Directors therefore believe that it is appropriate to prepare the financial statements on a going concern basis, and that it is appropriate not to record any impairment in respect of ZAO MNV's tangible fixed assets.

Other

Financial statements have been prepared in respect of the period from incorporation of the Company on 23 May 2002, until 30 June 2002 in accordance with United Kingdom accounting standards.

These financial statements use the United States dollar ("US$") as the reporting currency by translating all transactions into dollars at the historic exchange rate, and by retranslating monetary assets and liabilities into dollars at the current rate at each balance sheet date. All differences are taken to the profit and loss account. The accounting records of the Company's trading subsidiary undertakings are maintained in Russian roubles ("RUR"), the Company's functional currency.

The following exchange rates have been applied:

Currency rates

	30 June 2002	Average 2002
RUR:US$1	31.45	31.02
GBP:US$1	0.6524	0.6752

Basis of consolidation

The financial information presents the accounts of the Company and its subsidiary undertakings, (the "Group") drawn up for the 37 day period to 30 June 2002. The subsidiaries are treated as such on the grounds of the Company exercising a dominant influence over the operating and financial policies of those companies.

ZAO MNV, OOO Darasun, LLC Kangan, LLC Onega, LLC Lofrek, LLC Korni, Culham, Labonte, Meriko, Kiltkomon, Simser and Stanmix have been included in the group financial statements using the acquisition method of accounting. Accordingly, the group profit and loss account and statement of cash flows include the results and cash flows of ZAO MNV, OOO Darasun, LLC Kangan, LLC Onega, LLC Lofrek, LLC Korni, Culham, Labonte, Meriko, Kiltkomon, Simser and Stanmix for the 37 day period from its effective date of acquisition on 31 May 2002. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Turnover

Revenue is recognised when the legal title of the asset sold is transferred. Sales revenue represents proceeds receivable from the customer, net of VAT.

Cost of sales

Cost of sales represents material cost, determined by means of either the weighted average or first in first out (FIFO) method, and by applying full absorption costing, plus any other costs directly attributable to the acquisition of materials as well as manufacturing overheads.

Investments

Investments, other than investments in subsidiaries and associates are measured at cost less any impairment losses.

Other financial assets

Other financial assets originated by the Group are stated at cost less a provision for doubtful debts.

Tangible fixed assets

Tangible fixed assets comprise mainly mining assets including mineral rights, development expenditure, shafts, buildings, equipment and vehicles. Tangible fixed assets are stated at cost less accumulated depreciation.

Mineral properties and mine development expenditure

Once a mining project has been established as commercially viable, expenditure other than that on buildings, plant and equipment is capitalised under mineral properties and mine development expenditure account.

Mineral properties and deferred costs are, upon commencement of production, amortised using the unit of production method based on the estimated life of the ore body to which they relate or are written off if the property is abandoned.

Other tangible assets

The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Costs associated with a start up period are capitalised where the asset is available for use but incapable of operating at normal levels without a commissioning period. Interest payable on borrowings related to construction or development projects is capitalised until the point when substantially all the activities that are necessary to make the asset ready for use are complete.

Depreciation, depletion and amortisation

Depreciation of tangible fixed assets, other than mineral properties and mine development expenditure, is calculated on a straight-line basis. Assets are fully depreciated over their economic lives, or over the remaining life of the mine if shorter. The estimated useful lives of the assets are as follows:

Mineral properties and mine development expenditures	17 years
Buildings	17 years
Plant and equipment	7-17 years

Changes in estimates are accounted for over the estimated remaining economic life.

Construction work in progress
Assets in the course of construction are capitalised in the capital work in progress account. On completion, the cost of construction is transferred to the appropriate category of tangible fixed assets.

No depreciation is charged on assets in the capital work in progress account. These assets are depreciated upon their transfer to the appropriate category of tangible fixed assets.

Impairment
If the carrying amount of a fixed asset exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. In assessing recoverable amount for property, plant and equipment and investments, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal have been discounted to their present value using a market-determined, risk-adjusted discount rate.

Stocks
Stocks are stated at the lower of cost and net realisable value, less any provision for slow moving and obsolete items. Cost includes all costs incurred in bringing each product to its present location and condition. Stock is categorised as follows:

- Raw materials and consumables : Materials, goods or supplies (including energy sources) to be either directly or indirectly consumed in the production process.
- Work in progress : Items stored in an intermediate state that have not yet passed through all stages of production.
- Finished goods : Products and materials that have passed all stages of the manufacturing process.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Provisions for liabilities and charges
Provisions are recognised when the Group has a present obligation, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle such obligation.

Environmental protection, rehabilitation and closure costs
Provision is made for close down and restoration and for environmental clean up costs, where there is a legal or constructive obligation to do so, (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on the estimated future costs. The provision is discounted where material and the unwinding of the discount is shown as a finance cost in the profit and loss account. At the time of establishing the provision, a corresponding asset, is capitalised and depreciated over the estimated remaining economic life of the mine to which it relates.

The provision is reviewed on an annual basis for changes in cost estimates or lives of operations.

Deferred taxation
The tax charge is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing and hire purchase commitments
Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions
Contributions to the pension funds are expensed as incurred. The Group does not contribute to any defined benefit pension schemes.

Capital instruments
Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefit and if not they are included in shareholders' funds.

6.2 Turnover and segmental analysis

Turnover represents the amounts derived from the provision of goods and services which fall within the Group's ordinary activities, stated net of value added tax.

The Group operates in one principal area of activity, that of exploration and production of gold. It also operates within a single geographical market, being the Russian Federation. All sales are made within the Russian Federation.

6.3 Cost of sales

	37 day period ended 30 June 2002 US$000
Operating costs	920
Depreciation, depletion and amortisation	406
Taxes other than income tax	510
	1,836

6.4 Administrative costs

Included within administrative expenses are certain amounts paid by the Company's main trading subsidiary, ZAO MNV, which have been reclassified within administrative costs. The legal form of these payments is very complex and the directors believe, having regard to the accounts of its subsidiary and considering their nature, that they are in substance administrative expenses. If these amounts were calculated on a *pro rata* apportionment basis for the period they would amount to US$170,000.

Included within these costs are amounts paid by ZAO MNV to the previous controlling shareholder of ZAO MNV (see note 6.25), the precise amount of which, due to their complex legal form, the directors have been unable to determine.

6.5 Operating profit

This is stated after charging:

	37 day period ended 30 June 2002 US$000
Depreciation of owned assets	252
Depreciation of assets held under finance leases and hire purchase contracts	154
Total depreciation charge	406

6.6 Staff costs

	37 day period ended 30 June 2002 US$000
Wages and salaries	290
Payroll and social taxes	110
	400

Payroll and social taxes include contributions to state pension funds.

The average monthly number of employees during the period was made up as follows:

	37 day period ended 30 June 2002 No.
Production	1,770
Administration	168
	1,938

6.7 Interest payable and similar charges

	37 day period ended 30 June 2002 US$000
Bank loans	11
Finance charges payable under finance leases	8
Unwinding of discount on provisions for liabilities and charges	5
	24

6.8 Tax on profit on ordinary activities

(a) Analysis of tax charge in the period

	37 day period ended 30 June 2002 US$000
Current tax:	
Russian profit tax of the period	518
Total current tax	518
Deferred tax: (note 6.16)	
Origination and reversal of timing differences	282
Total deferred tax	282
Tax on profit on ordinary activity	800

(b) Factors affecting tax charge for the period

The differences between the effective provision for Russian profit tax and the statutory tax provision at the statutory rate is reconciled as follows:

	37 day period ended 30 June 2002 US$000
Profit on ordinary activities before tax	2,620
Standard tax rate	24%
Profit on ordinary activities multiplied by standard rate	629
Effects of:	
Deferred tax provided in the accounts (note 6.8(a))	(282)
Unrecognised deferred tax	34
Non deductible expenses	50
Other permanent differences	87
Current tax charge for the period	518

(c) Factors that may affect tax charges

Russia has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover based taxes, and payroll (social) taxes, together with others. In addition, the subsidiaries of the Company are also subject to various industry taxes including excise and mineral extraction taxes. Laws related to some of these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or non-existent. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations (like the Ministry of Taxes and Levies and various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years. As of 30 June 2002, a substantial portion of the tax declarations of the Group have been reviewed through to 31 December 2001. Management believes that the Group is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

6.9 Tangible fixed assets

Tangible fixed assets comprise mining assets:

	Freehold buildings US$000	Plant and equipment US$000	Mineral properties and mine development expenditure US$000	Construction in progress US$000	Total US$000
Cost:					
Additions	–	–	583	292	875
Acquisitions	5,941	12,621	25,281	4,002	47,845
At 30 June 2002	5,941	12,621	25,864	4,294	48,720
Depreciation:					
Provided during the period	(72)	(188)	(146)	–	(406)
At 30 June 2002	(72)	(188)	(146)	–	(406)
Net book value:					
At 30 June 2002	5,869	12,433	25,718	4,294	48,314

Included in the property, plant and equipment above are the following amounts relating to leased assets:

	US$000
Cost:	
Acquisitions	9,645
At 30 June 2002	9,645
Depreciation:	
Depreciation provided during period	(154)
At 30 June 2002	(154)

Fundamental uncertainties relating to ownership and legal title of certain fixed assets of ZAO MNV are detailed in note 6.1 above.

6.10 Investments

Group:

	At 30 June 2002 US$000
Cost:	
Additions	477
Acquisitions	619
Disposals	(44)
At 30 June 2002	1,052
Amounts provided during the period	–
Net book value	1,052

Other loans have been provided against to the extent that they are not expected to be recovered.

Company:

	At 30 June 2002 US$000
Cost:	
Additions	30,901
At 30 June 2002	30,901
Net book value:	
At 30 June 2002	30,901

No investments are listed.

6.10 Investments (continued)

Details of the investments in which the group and the company (unless indicated) controls 20% or more of the nominal value of any class of share capital are as follows:

Name of Company	Country of incorporation	Proportion of voting rights	Nature of Business
ZAO Mnogovershinnoe (ZAO MNV)	Russia	100%	Gold exploration and production
Darasunsky Rudnik (OOO Darasun)	Russia	100%	Gold exploration and production
Stanmix Holding Limited (Stanmix)	Cyprus	100%	Holding company
Kiltkomon Enterprises Limited (Kiltkomon)	Cyprus	100%	Holding company
Labonte Consultants Limited (Labonte)	Cyprus	100%	Holding company
Meriko Trading Limited (Meriko)	Cyprus	100%	Holding company
Simser Ventures Limited (Simser)	Cyprus	100%	Holding company
Culham Enterprises Limited (Culham)	Cyprus	100%	Holding company
LLC Kangan	Russia	100%	Holding company
LLC Onega	Russia	100%	Holding company
LLC Lofrek	Russia	100%	Holding company
LLC Korni	Russia	100%	Holding company

Prior to acquisition by the Company, 75% of ZAO MNV was owned equally by LLC Kangan, LLC Onega, LLC Lofrek and LLC Korni (together "the LLCs") and 100% of OOO Darasun was owned by LLC Kangan. Each of the LLCs were acquired by six Cypriot companies identified in the table above. The six Cypriot companies were controlled by the Company by virtue of convertible loan agreements as described below and, as a result, the LLCs, 75% of ZAO MNV and 100% of OOO Darasun were indirectly controlled by the Company as at 30 June 2002.

On 24 May 2002, the Company entered into convertible loan agreements with each of six Cyprus registered companies (Culham Enterprises Limited, Labonte Consultants Limited, Meriko Trading Limited, Kiltkomon Enterprises Limited, Simser Ventures Limited and Stanmix Holding Limited) for the purpose of acquiring an interest in 75% of ZAO Mnogovershinnoe ("ZAO MNV"), owned equally by LLC Kangan, LLC Onega, LLC Lofrek and LLC Korni and an interest in 100% of OOO Darasunsky Rudnik ("OOO Darasun") owned by LLC Kangan. Details of these loan agreements are outlined below:

Company	Amount US$000
Culham Enterprises Limited	5,700
Stanmix Holding Limited	5,700
Labonte Consultants Limited	5,663
Meriko Trading Limited	1,575
Kiltkomon Consultants Limited	5,700
Simser Ventures Limited	5,663

The borrowings of US$30 million bear no interest and are convertible to equity at the discretion of the Company.

On 24 May 2002 the group acquired ZAO MNV for a consideration of US$30,900,542 satisfied by the advancement of loans to the value of US$30,178,000 and loan establishment costs of US$722,542.

On 24 May 2002 the group acquired OOO Darasun for a consideration of US$317 satisfied by advancement of loans to the value of US$317.

On 31 May 2002, the remaining 25% of ZAO MNV was acquired by ZAO MNV (9%) and ZAO Trade House MNV (16%) and these interests were subsequently transferred to Danestone Limited and Flexmont Limited respectively. Danestone Limited and Flexmont Limited are companies controlled by interests associated with the financial advisers to the Company, and the 25% interest in ZAO MNV was held by these companies, in trust, on behalf of the Company, prior to the transfer of the interest to the Group on 6 September 2002. The Company maintained control over this interest prior to its transfer to the Group. On 7 August 2002, the Company acquired 100% of the ordinary share capital of Stanmix. On 5 September 2002, Stanmix received approval from MAP of Russia to consolidate interests in 100% of the ordinary share capital of ZAO MNV. On 12 September 2002, interests in the ordinary share capital of ZAO MNV were transferred from Culham, Labonte, Meriko, Kiltkomon and Simser to Stanmix in exchange for the assignment of their loan agreements with the Company to Stanmix, resulting in ZAO MNV becoming a wholly owned subsidiary of Stanmix and therefore the Group. The Company has the option to convert the outstanding loan into ordinary share capital of Stanmix at its discretion at some time in the future.

6.10 Investments (continued)

Analysis of the acquisition of ZAO MNV and OOO Darasun:

Net assets at date of acquisition:

	ZAO MNV Book value US$000	OOO Darasun Book value US$000	ZAO MNV Fair value adjustments US$000	OOO Darasun Fair value adjustments US$000	Provisional Fair Value to Group US$000
Tangible fixed assets	32,190	175	9,274 (a)	6,206 (a)	47,845
Investments	2,701	–	–	–	2,701
Stocks	6,557	1,320	–	–	7,877
Debtors	9,608	420	–	–	10,028
Cash	48	23	–	–	71
Creditors due within one year	(8,968)	(270)	–	(97) (b)	(9,335)
Creditors due after one year	(12,443)	(1,777)	–	–	(14,220)
Provisions – deferred tax	(2,402)	–	–	–	(2,402)
Provisions – environmental	(5,664)	–	–	(6,000) (c)	(11,664)
Net Assets	21,627	(109)	9,274	109	30,901
Goodwill arising on acquisition					–
					30,901
Discharged by:					
Cash loans advanced					30,000
Loans payable					178
					30,178
Accrued costs associated with the acquisition					723
					30,901

(a) increase in the value of mineral licences and mining rights

(b) recognition of tax liabilities existing at acquisition

(c) reassessement of the necessary provision for restoration and rehabilitation on OOO Darasun's mine property

A full assessment of the assets and liabilities will be undertaken prior to the end of the next accounting period of the Company.

ZAO MNV contributed US$4,406,000 to the group's net operating cash flows, paid US$21,000 in respect of net returns on investments and servicing of finance, paid US$800,000 in respect of taxation and utilised US$1,344 for capital expenditure and financial investment.

OOO Darasun did not contribute any cash flows during the period.

ZAO MNV earned a profit after tax of US$10,313,000 in the six months ended 30 June 2002 (year ended 31 December 2001 US$7,176,000), of which US$8,519,000 arose in the period from 1 January 2002 to 31 May 2002.

OOO Darasun earned a profit after tax of US$10,000 in the six months ended 30 June 2002 (year ended 31 December 2001 nil) of which a loss of US$109,000 arose in the period from 1 January 2002 to 31 May 2002.

The summarised profit and loss accounts of ZAO MNV and OOO Darasun for the period from 1 January 2002 to the effective date of acquisition is as follows:

	ZAO MNV US$000	OOO Darasun US$000
Turnover	23,553	–
Operating profit	13,088	(109)
Interest payable and similar charges	(1,006)	–
Profit before tax	12,082	(109)
Taxation	(3,563)	–
Profit/(loss) for five months ended 31 May 2002	8,519	(109)

There were no recognised gains and losses in the five months ended 31 May 2002 for ZAO MNV or OOO Darasun other than the profit of US$8,519,000 and loss of US$109,000 above.

6.11 Stocks

	At 30 June 2002 US$000
Raw materials and consumables	6,255
Work in progress	1,220
Finished goods and goods for resale	1,444
	8,919

The difference between purchase price or production cost of stocks and their replacement cost is not material.

6.12 Debtors

	At 30 June 2002 US$000
Group:	
Trade debtors	275
VAT receivable	2,616
Advances given and prepayments	5,803
Tax refunds receivable	1,742
Other debtors	2,575
	13,011
Company:	
Trade debtors	56
	56

6.13 CREDITORS: amounts falling due within one year

	At 30 June 2002 US$000
Group:	
Trade creditors	3,293
Profits tax	2,611
Taxes other than profits tax	2,762
Other creditors	419
Short-term loans (note 6.17)	4,058
Obligations under finance leases and hire purchase contracts (short term) (note 6.18)	1,448
	14,591

Short-term loans are US dollar and rouble denominated, are secured by future sales of gold.

	At 30 June 2002 US$000
Company:	
Trade creditors	1,109
	1,109

6.14 CREDITORS: amounts falling due after more than one year

	At 30 June 2002 US$000
Group:	
Other creditors (Note 6.17)	6,914
Obligations under finance leases and hire purchase contracts (Note 6.18)	5,688
	12,602
Company:	
Loan from subsidiary undertaking	178

Certain of the long term creditors are secured by certain of the Company's buildings, plant and equipment.

6.15 Provisions for liabilities and charges

	At 30 June 2002 US$000
Deferred tax (Note 6.16)	2,684
Site restoration provision (Note 6.19)	11,688
	14,372

6.16 Deferred tax

Deferred tax included in the balance sheet is as follows:

	At 30 June 2002 US$000
Deferred tax balance at the beginning of period	–
Acquisition of ZAO MNV and OOO Darasun	2,402
Charged to the profit and loss account	282
Deferred tax balance at the end of period	2,684

Deferred tax comprises:

	At 30 June 2002 US$000
Fixed asset timing differences	1,951
Other timing differences	733
Total deferred tax liability	2,684

No deferred tax benefit is recognised in relation to the site restoration provision. Payments for restoration 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 deferred tax asset not recognised at 30 June 2002 is US$640,000.

No deferred tax benefit is recognised in relation to the long term investment loans written off. Tax relief for the loan write off is only obtained when the debtor is declared insolvent. Since it is uncertain when this should happen no tax relief has been assumed. The amount of deferred tax asset not recognised at 30 June 2002 is US$234,000.

6.17 Loans and other creditors

	At 30 June 2002 US$000
Amounts falling due:	
Within one year	4,058
In one to two years	782
In one to five years	1,460
In more than five years	4,672
	10,972
Less: included in creditors: amounts falling due within one year (note 6.13)	(4,058)
	6,914

The total amount of secured loans as at 30 June 2002 is US$4,044,000. The amounts payable after more than five years are interest free.

6.18 Obligations under leases and hire purchase contracts

Amounts due under finance leases and hire purchase contracts:

	At 30 June 2002 US$000
Amounts falling due:	
Within one year	1,448
In one to two years	1,004
In one to five years	1,874
In more than five years	2,810
Total obligations under lease	7,136
Less: included in obligations under lease: amounts falling due within one year	(1,448)
Total	5,688

The amounts payable after more than five years relate to finance leases with an imputed interest rate of 10%.

6.19 Site restoration provision

Provisions for environmental restoration comprise:

	At 30 June 2002 US$000
Acquisition of ZAO MNV and OOO Darasun	11,693
Unwinding of discount	(5)
At 30 June 2002	11,688

Environmental restoration provisions relate to obligations to repair and make safe mines after use and the estimated costs of cleaning up and chemical leakage. Most of these costs are expected to be incurred at the end of the mines' useful operations, approximately between 2015–2018. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination and the timing and extent of corrective actions. The provision has been estimated using existing technology, current prices, prudent interpretations of the relevant legislation and discounted at 5%.

6.20 Share capital – authorised, allotted, called up and fully paid

	At 30 June 2002 US$000
10,000,000 ordinary shares of GBP0.01 each	146

At incorporation on 23 May 2002 the authorised share capital was stated at 10,000,000 ordinary shares. During the period, 10,000,000 ordinary shares of GBP0.01 each, with an aggregate nominal value of US$145,700 were issued fully paid for cash of US$31,574,910, of which 5,833,333 ordinary shares were issued fully paid for cash at par value on 30 May 2002 and 4,166,667 were placed on 31 May 2002 at a subscription price for cash of GBP4.94 per share. Issue costs of US$1,510,809 were incurred.

6.21 Reserves

Group:

	Share Premium Account US$000	Share Issue Cost reserve US$000	Profit and Loss Account US$000
Balance at the beginning of the period	–	–	–
Arising on share issues	31,429	–	–
Share issue costs	(1,510)	–	–
Share issue costs relating to future share issues	–	(372)	–
Retained profit for the year	–	–	1,820
Balance at the end of the period	29,919	(372)	1,820

Company:

	Share Premium Account US$000	Share Issue Cost reserve US$000	Profit and Loss Account US$000
Balance at the beginning of the period	–	–	–
Arising on share issues	31,429	–	–
Share issue costs	(1,510)	–	–
Share issue costs relating to future share issues	–	(372)	–
Retained profit for the year	–	–	1
Balance at the end of the period	29,919	(372)	1

6.22 Reconciliation of shareholders' funds

Group:

	37 day period ended 30 June 2002 US$000
Shareholders' funds at the beginning of period	–
Share issues during the period	30,065
Share issue costs relating to future share issues	(372)
Profit and loss retained for the year	1,820
Shareholders' funds at end of period	31,513

6.23 Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	37 day period ended 30 June 2002 US$000
Operating profit	2,505
Depreciation	406
Increase in debtors	(2,983)
Increase in stock	(1,042)
Increase in creditors	4,867
Decrease in restoration provisions	(5)
Net cash inflow from operating activities	3,748

(b) Analysis of net debt

	Cash flow US$000	Exchange differences US$000	Other non-cash movements US$000	At 30 June 2002 US$000
Cash at bank and in hand and short-term deposits	1,768	14	–	1,782
Capital element of finance leases	498	–	(7,634)	(7,136)
Long term loans	–	–	(10,972)	(10,972)
	2,266	14	(18,606)	(16,326)

6.24 Post balance sheet events

On 11 September 2002, the Group acquired an 81.29% interest in OAO Novoshirokinskaya Rudnik at a total cost of US$2,400,000 including the costs associated with that acquisition. The company is located in the Chita region of Russia and holds certain assets which are required of the future development for a gold and polymetallic mine.

On 10 September OOO Darasun entered into two sale and purchase agreements with OOO Teremky pursuant to which OOO Darasun purchased fixed assets from OOO Teremky for a total consideration of US$150,000 which were previously leased from OOO Teremky.

On 10 September OOO Darasun entered into two sale and purchase agreements with OAO GOK Darasunzoloto ("GOKD") pursuant to which OOO Darasun purchased fixed assets from GOKD for a total consideration of US$450,000 which were previously leased from GOKD.

On 10 September OOO Darasun entered into an agreement with GOKD to acquire mining equipment at the Darasun project for a total consideration of US$1.1 million.

During October 2002 OOO Darasun entered into an agreement with LLC Teploenergotekhinika in respect of the construction of fixed plant at Darasun project at a total cost of US$1.2 million payable in instalments.

On 1 November 2002 a credit facility agreement was entered into between ZAO MNV and International Bank Moscow ("IMB") pursuant to which IMB provided a credit facility of up to US$7,000,000 to ZAO MNV. The interest rate payable is 8.5% per annum and the term of repayment is 12 months from the date of the drawdown. The facility is secured on gold ore and fixed assets owned by ZAO MNV to a value of US$8,750,000.

On 15 November 2002 a loan agreement was entered into between ZAO MNV and Menatep Bank Moscow ("Menatep") pursuant to which Menatep renegotiated the provision of a loan of US$15,000,000 to ZAO MNV. The interest rate payable is 10.5% per annum and the term of repayment is 12 months from the date of the drawdown. The facility is secured on a pledge agreement of 1,700kg of gold to be extracted during 2003 and the Darasun mine for the amount of credit and interest.

6.25 Related parties

ZAO Oil Finance, the previous controlling shareholder of the Company's main trading subsidiary, ZAO MNV, provided certain services to ZAO MNV as set out in note 6.4 above prior to its acquisition by the Company, following which such services were no longer required. There were no outstanding amounts in relation to these services at the period end.

6.26 Earnings per share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders related to the weighted average number of ordinary shares outstanding during the period. The profit attributable to ordinary shareholders is $1,820,000.

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders as for basic earnings per share. The number of ordinary shares outstanding for basic and diluted earnings per share is 10,000,000.

6.27 Parent undertaking and controlling party

Highland Gold Mining Limited is considered the ultimate parent undertaking of the group.

6.28 Financial instruments

The group's financial instruments comprise borrowings, investments, cash and liquid resources and various items, such as trade debtors, trade creditors and contractual provisions arising in the ordinary course of its operations. The group does not acquire, hold or issue derivative instruments for trading purposes. The Company has no undrawn credit lines.

The main risks arising from the group's financial instruments are interest rate risk.

Interest rate risk

The group finances its operations through a mixture of retained earnings and bank borrowings. Borrowings are denominated in Russian rubles. These borrowings bear interest at fixed rates as disclosed below.

The carrying values of the financial assets and liabilities are materially equal to their fair value. With the exception of the analysis of currency exposure, the analysis below excludes short-term debtors and creditors.

Financial liabilities – interest rate profile for the group as at 30 June 2002

	Currency	Bearing interest at fixed rate US$000	Weighted average rate %	Interest free US$000	Total US$000
Short-term loans	RUR, USD	4,058	18%	–	4,058
Other long term creditors	RUR	–	–	6,914	6,914
Capital element of finance leases	RUR, USD	7,136	10%	–	7,136
		11,194		6,914	18,108

The weighted average period for the capital element of finance bases is four years.

Financial assets – interest rate profile for the group as at 30 June 2002

	Currency	Fixed rate financial assets US$000	Interest free US$000	Total US$000
Cash at bank and in hand	RUR, USD, GBP	–	1,782	1,782
Loans to third parties	RUR	1,052	–	1,052
		1,052	1,782	2,834

The weighted average period during which interest rates are fixed on financial assets is less than one year. The weighted average period during which loans, on which no interest is earned, are outstanding is one year.

6.29 Currency exposures

The table below shows the group's net monetary liabilities currency exposures:

	At 30 June 2002 US$000
Net monetary liabilities	
RUR	5,770
USD	2,958
GBP	1,109
	9,837

Yours faithfully

Ernst & Young LLP

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• December 2002

Dear Sirs

ZAO Mnogovershinnoe ("ZAO MNV")

1 INTRODUCTION

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated • December 2002 of Highland Gold Mining Limited ("the Company").

Basis of preparation

The financial information set out on pages 107 to 120 is based on the audited financial statements of ZAO Mnogovershinnoe ("ZAO MNV") for the three years ended 31 December 2001 and the six month period ended 30 June 2002 and has been prepared on the basis set out on page 109, to which no adjustments were considered necessary. The financial statements of ZAO MNV have been prepared in accordance with Generally Accepted Accounting Practice in the United Kingdom ("UK GAAP").

Responsibility

Such financial statements are the responsibility of the directors of ZAO MNV who approved their issue. The directors of the Company are responsible for the contents of the admission document dated • December 2002 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board, except that the scope of our work was limited as explained below. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to ZAO MNV's circumstances, consistently applied and adequately disclosed.

We planned our work so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error.

However, the evidence available to the auditors was limited in respect of the classification of certain administrative costs in the profit and loss account. The amounts recorded in the profit and loss account in respect of these costs amounted to US$136,000, US$1,313,000, US$3,401,000 and US$830,000 in the years ended 31 December 1999, 31 December 2000 and 31 December 2001 and the six month period ended 30 June 2002 respectively.

Insufficient evidence has been provided to the auditors to enable them to confirm whether these administrative costs have been correctly classified. In addition, in respect of these costs, insufficient evidence has been provided to the auditors to enable them to determine whether these administrative costs, or part of them, should or should not be disclosed as related party transactions under FRS 8 'Related Party Transactions'. There were no other satisfactory audit procedures that they could adopt to verify the classification and disclosure of these expenses.

The evidence available to the auditors was further limited because they were not appointed auditors of the company until 31 May 2002 and in consequence it was not possible for them to perform the auditing procedures necessary to obtain sufficient appropriate audit evidence to confirm the stock included in the balance sheets at 31 December 1999 and 31 December 2000. The stock balances at these dates were US$4,210,000 at 31 December 1999 and US$6,755,000 at 31 December 2000. Any adjustment to these figures would have a consequential effect on the results for the years ended 31 December 1999, 31 December 2000 and 31 December 2001. There were no other satisfactory audit procedures that they could adopt to verify the stock balances.

We were unable to carry out any other additional procedures, in respect of the above, which would lead us to a different conclusion from that of the auditors.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning ZAO MNV's title to certain assets and the recoverability of those assets and therefore its ability to continue trading as a going concern, which is dependent on the following factors:

- ZAO MNV's ability to continue operating the mine at Mnogovershinnoe. The majority of the more important mine assets are currently leased from the Khabarovsk Administration and could be subject to a future privatisation; and
- successful registration of ZAO MNV's ownership of the tailings dump at the mine at Mnogovershinnoe, thereby securing full rights of ownership.

This uncertainty is detailed in note 5.1 to the financial statements. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Qualified opinion arising from limitation in scope

Except for any adjustments or further disclosure that might have been found to be necessary had we been able to obtain sufficient evidence concerning administrative costs for the periods ended, 31 December 1999, 31 December 2000, 31 December 2001 and 30 June 2002, and stock as of 31 December 1999 and 2000 and therefore cost of sales for the years ended 31 December 1999, 2000 and 2001, in our opinion the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of ZAO MNV's affairs as at 31 December 1999, 2000, 2001 and 30 June 2002, and of its profit for the 3 years and the 6 month period then ended.

Consent

We consent to the inclusion in the admission document dated • December 2002 of this report and accept responsibility for this report for the purposes of paragraphs 45(2)(a)(iv) and 45(5)(b) of Schedule 1 of the Public Offers of Securities Regulations 1995.

2 CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	Notes	Year ended 31 December 1999 US$000	2000 US$000	2001 US$000	Six months ended 30 June 2002 US$000
TURNOVER					
Continuing operations	5.2	9,986	25,498	40,108	28,264
Cost of Sales	5.3	(5,796)	(16,657)	(20,749)	(10,450)
GROSS PROFIT		4,190	8,841	19,359	17,814
Administrative costs	5.4	(345)	(2,912)	(5,771)	(2,108)
OPERATING PROFIT	5.5	**3,845**	**5,929**	**13,588**	**15,706**
Interest payable and similar charges	5.7	(680)	(1,067)	(1,901)	(1,030)
Foreign exchange gains		391	60	107	–
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**3,556**	**4,922**	**11,794**	**14,676**
Tax on profit on ordinary activities	5.8	(786)	(1,016)	(4,618)	(4,363)
PROFIT FOR THE FINANCIAL YEAR		**2,770**	**3,906**	**7,176**	**10,313**
RETAINED EARNINGS BROUGHT FORWARD		**(566)**	**2,204**	**6,110**	**13,286**
RETAINED EARNINGS CARRIED FORWARD		**2,204**	**6,110**	**13,286**	**23,599**

There are no recognised gains and losses other than those in the profit and loss account. There is no material difference between the reported profit and the historical cost profit for any of the periods 1999, 2000, 2001 and 2002.

3 CONSOLIDATED BALANCE SHEETS

	Notes	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
FIXED ASSETS					
Tangible assets	5.9	15,969	25,457	32,106	32,866
Investments	5.10	–	–	1,014	3,134
		15,969	25,457	33,120	36,000
CURRENT ASSETS					
Stocks	5.11	4,210	6,755	8,276	7,591
Debtors	5.12	4,723	5,498	8,843	12,404
Short term deposits		852	–	–	–
Cash at bank and in hand		37	11	267	1,735
		9,822	12,264	17,386	21,730
CREDITORS: amounts falling due within one year	5.13	(13,400)	(17,155)	(16,621)	(13,221)
NET CURRENT (LIABILITIES)/ASSETS		**(3,578)**	**(4,891)**	**765**	**8,509**
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,391**	**20,566**	**33,885**	**44,509**
CREDITORS: amounts falling due after more than one year	5.14	(5,153)	(9,168)	(13,796)	(12,602)
PROVISIONS FOR LIABILITIES AND CHARGES	5.15	(5,034)	(5,288)	(6,803)	(8,372)
		2,204	**6,110**	**13,286**	**23,535**
CAPITAL AND RESERVES					
Called up share capital	5.20	–	–	–	–
Treasury stock at cost	5.21	–	–	–	(64)
Profit and loss account		2,204	6,110	13,286	23,599
		2,204	**6,110**	**13,286**	**23,535**

4 CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 1999 US$000	2000 US$000	2001 US$000	Six months ended 30 June 2002 US$000
NET CASH INFLOW FROM OPERATING ACTIVITIES	5.22(a)	5,542	4,098	11,374	14,478
RETURN OF INVESTMENT AND SERVICING OF FINANCE					
Interest paid on loans		(35)	(332)	(748)	(429)
Interest paid on finance leases		–	(4)	(330)	(462)
NET CASH OUTFLOW FOR RETURNS ON INVESTMENT AND SERVICING OF FINANCE		(35)	(336)	(1,078)	(891)
TAXATION					
Russian profits tax paid		(19)	(1,186)	(2,780)	(1,503)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Payments to acquire tangible fixed assets		(7,879)	(3,441)	(3,432)	(3,010)
Payments to acquire investments		–	–	(1,880)	(2,782)
Receipts from investments		–	–	215	312
NET CASH OUTFLOW ON CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		**(7,879)**	**(3,441)**	**(5,097)**	**(5,480)**
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING		(2,391)	(865)	2,419	6,604
MANAGEMENT OF LIQUID RESOURCES					
(Increase)/decrease in short term deposits		(852)	852	–	–
FINANCING					
Increase in/(Repayment) of short term loans		3,280	275	2,157	(1,096)
Repayment of capital element of finance leases		–	(288)	(4,237)	(2,988)
Repayment of other long term creditors		–	–	(83)	(988)
Treasury stock acquisition		–	–	–	(64)
CASH INFLOW/(OUTFLOW) FROM FINANCING		3,280	(13)	(2,163)	(5,136)
INCREASE/(DECREASE) IN CASH		**37**	**(26)**	**256**	**1,468**
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT					
Increase/(Decrease) in cash		37	(26)	256	1,468
Increase/(Decrease) in short term deposits		852	(852)	–	–
Cash flow from (repayments)/increase in short term loans		(3,280)	(275)	(2,157)	1,096
Repayment of capital element of finance leases		–	288	4,237	2,988
Repayment of other long term creditors		–	–	83	988
MOVEMENTS IN NET DEBT DUE TO CASHFLOWS		**(2,391)**	**(865)**	**2,419**	**6,540**
Non cash flow movement in capital element of finance leases		(4,748)	(6,671)	(1,223)	(576)
Non cash movement in other long term creditors		–	(1,223)	(6,762)	–
Exchange gains		391	60	107	–
MOVEMENT IN NET DEBT		**(6,748)**	**(8,699)**	**(5,459)**	**5,964**
NET DEBT AT BEGINNING OF PERIOD		**–**	**(6,748)**	**(15,447)**	**(20,906)**
NET DEBT AT END OF PERIOD		**(6,748)**	**(15,447)**	**(20,906)**	**(14,942)**

5 NOTES TO THE FINANCIAL INFORMATION

5.1 Accounting Policies

Basis of preparation

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Russian political and economic risks

Over the past decade Russia has undergone substantial political, economic and social changes. As an emerging market, Russia does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy. The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, and as reflected in the Government's debt default and Ruble devaluation in 1998, operations in Russia involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. Furthermore, substantially all privatisations in Russia in the early 1990s contained flaws of some description, and even the most minor and administrative flaw in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the estate, local authorities and administration, the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Russian economy, and ZAO MNV's business, will depend upon the Government's ability to institute supervisory, judicial and other regulatory reforms.

Risks specific to ZAO MNV

ZAO MNV's tangible fixed assets substantially consist of the gold mining operations at Mnogovershinnoe. The majority of the more important operational assets are currently leased from the Khabarovsk Administration. It is possible that these assets might be privatised in the future and that ZAO MNV might not be successful in winning any open tender and hence another party might become the lessor of the assets. Such an outcome might affect ZAO MNV's ability to continue to operate these assets in the future and hence its ability to continue to operate as a going concern.

The majority of ZAO MNV's other tangible fixed assets were acquired through a sale and purchase agreement by and between ZAO MNV and AP Nizhneamurzoloto ("NAZ"). The substantial majority of these assets have not been formally registered with the Khabarovsk Administration. The Directors have been advised that ZAO MNV has a legally enforceable right of use and possession of these assets but will not have the full rights of ownership (ie the right to dispose of the asset, lease or otherwise encumber the assets and otherwise deal with them) under Russian legislation until they are registered in the name of ZAO MNV. An additional important operational asset purchased from NAZ in 1998 is the tailings dump which is used to store the sand to silt-sized waste product from the mineral processing operations. Before ZAO MNV may register the tailings dump it has to be first registered in the name of NAZ. NAZ has submitted the relevant papers to the registration authorities and expects registration to take place before 31 December 2002. Registration in the name of ZAO MNV is expected to take place soon after this date. In addition, NAZ and ZAO MNV are commencing the process of registering certain other immovable property used in ZAO MNV's operations that has not been registered to date. There is a risk that the vendors or other interested parties could challenge ZAO MNV's rights of use and possession or its ownership of any assets that are not registered in the name of ZAO MNV. There can be no assurances that such a challenge will not occur in the future. If such a challenge were made and was successful, the operations of ZAO MNV could be seriously impaired such that ZAO MNV would not be able to continue to operate as a going concern.

ZAO MNV has taken legal advice on these matters on the basis of which the Directors are of the opinion that (a) ZAO MNV has sufficient protection under the lease from the Khabarovsk Administration to ensure that it will be able to continue to operate the assets under the lease for the duration of the lease, (b) ZAO MNV has a legally enforceable right to use and take profits from the tailings dump prior to its registration in the name of NAZ and ZAO MNV, and (c) in respect of the tailings dump and the other fixed assets: the fixed asset agreements already concluded and approved by the relevant authorities, the procedures ZAO MNV has in place for registration, and the relations that it has built up with the federal and local authorities and administration, and former owners, are sufficient to ensure that, should any challenge occur, it would be expected to be unsuccessful and the effect on the operations would be negligible. The Directors therefore believe that it is appropriate to prepare the financial statements on a going concern basis, and that it is appropriate not to record any impairment in respect of ZAO MNV's tangible fixed assets.

Other

ZAO MNV and its subsidiary undertaking maintain their books and records in accordance with accounting principles and practices mandated by relevant local statutory regulations of the Russian Federation in which ZAO MNV and its subsidiary are incorporated, which differ from United Kingdom accounting standards. Those accounting records are maintained in Russian rubles ("RUR"), the ZAO MNV's functional currency.

Financial statements have been prepared in respect of the three years and six month period ended 30 June 2002 for international presentation from the local statutory financial statements of ZAO MNV and its subsidiary, ZAO Trade House Mnogovershinnoe, in accordance with United Kingdom accounting standards.

These financial statements use the United States dollar ("US$") as the reporting currency by translating all transactions into dollars at the historic exchange rate, and by retranslating monetary assets and liabilities into dollars at the current rate at each balance sheet date. This financial information is based on those financial statements.

The following exchange rates have been applied:

Currency rates (RUR:US$1)	31 December 1999	Average 1999	31 December 2000	Average 2000	31 December 2001	Average 2001	30 June 2002	Average 2002
	27.00	24.60	28.16	28.11	30.14	29.17	31.45	31.02

Basis of consolidation
The financial information presents the accounts of ZAO MNV and its subsidiary undertaking drawn up for the 3 years ended 31 December 2001 and the six month period to 30 June 2002.

Turnover
Revenue is recognised when the legal title of the asset sold is transferred. Sales revenue represents proceeds receivable from the customer, net of VAT.

Cost of sales
Cost of sales represents material cost, determined by means of either the weighted average or first in first out (FIFO) method, and by applying full absorption costing, plus any other costs directly attributable to the acquisition of materials as well as manufacturing overheads.

Investments
Investments, other than investments in subsidiaries and associates are measured at cost less any impairment losses.

Other financial assets
Other financial assets originated by ZAO MNV are stated at cost less a provision for doubtful debts.

Tangible fixed assets
Tangible fixed assets comprise mainly mining assets including mineral rights, development expenditure, shafts, buildings, equipment and vehicles. Tangible fixed assets are stated at cost less accumulated depreciation.

Mineral properties and mine development expenditure
Once a mining project has been established as commercially viable, expenditure other than that on buildings, plant and equipment is capitalised under mineral properties and mine development expenditure account.

Mineral properties and deferred costs are, upon commencement of production, amortised using the unit of production method based on the estimated life of the ore body to which they relate or are written off if the property is abandoned.

Other tangible assets
The cost of a tangible fixed asset comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Costs associated with a start up period are capitalised where the asset is available for use but incapable of operating at normal levels without a commissioning period.

Depreciation, depletion and amortisation
Depreciation of tangible fixed assets, other than mineral properties and mine development expenditure, is calculated on a straight-line basis. Assets are fully depreciated over their economic lives, or over the remaining life of the mine if shorter. The estimated useful lives of the assets are as follows:

Mineral properties and mine development expenditures	17 years
Buildings	17 years
Plant and equipment	7-17 years

Changes in estimates are accounted for over the estimated remaining economic life or the remaining commercial reserves.

Construction work in progress
Assets in the course of construction are capitalised in the capital work in progress account. On completion, the cost of construction is transferred to the appropriate category of tangible fixed assets.

No depreciation is charged on assets in the capital work in progress account. These assets are depreciated upon their transfer to the appropriate category of tangible fixed assets.

5.1 *Accounting Policies* (continued)

Impairment
If the carrying amount of a fixed asset exceeds the recoverable amount, a provision is recorded to reflect the asset at the lower amount. In assessing recoverable amount for property, plant and equipment and investments, the relevant future cash flows expected to arise from the continuing use of such assets and from their disposal have been discounted to their present value using a market-determined, risk-adjusted discount rate.

Stocks
Stocks are stated at the lower of cost and net realisable value, less any provision for slow moving and obsolete items. Cost includes all costs incurred in bringing each product to its present location and condition. Stock is categorised as follows:

- Raw materials and consumables: Materials, goods or supplies (including energy sources) to be either directly or indirectly consumed in the production process.
- Work in progress: Items stored in an intermediate state that have not yet passed through all stages of production.
- Finished goods: Products and materials that have passed all stages of the manufacturing process.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Provisions for liabilities and charges
Provisions are recognised when ZAO MNV has a present obligation, as a result of past events, and it is probable that an outflow of resources that can be reliably estimated will be required to settle such obligation.

Environmental protection, rehabilitation and closure costs
Provision is made for close down and restoration and for environmental clean up costs, where there is a legal or constructive obligation to do so, (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs, based on the estimated future costs. The provision is discounted where material and the unwinding of the discount is shown as a finance cost in the profit and loss account. At the time of establishing the provision, a corresponding asset, is capitalised and depreciated over future production from the mine to which it relates.

The provision is reviewed on an annual basis for changes in cost estimates or lives of operations.

Deferred taxation
The tax charge is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing and hire purchase commitments
Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to ZAO MNV, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions
ZAO MNV contributions to the state pension fund are expensed as incurred.

Capital instruments
Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefit and if not they are included in shareholders' funds.

5.2 *Turnover and Segmental Analysis*
Turnover represents the amounts derived from the provision of goods and services which fall within ZAO MNV's ordinary activities, stated net of value added tax.

ZAO MNV operates in one principal area of activity, that of exploration and production of gold. It also operates within a single geographical market, being the Russian Federation. All sales are made within the Russian Federation.

5.3 Cost of Sales

	Year ended 31 December			Six months ended 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Operating costs	3,401	10,186	11,230	5,431
Depreciation, depletion and amortisation	906	1,347	2,758	1,883
Taxes other than income tax	1,489	5,124	6,761	3,136
	5,796	16,657	20,749	10,450

5.4 Administrative Costs

Included in administrative expenses are certain amounts which have been reclassified within administrative costs. The legal form of these payments is very complex. However, the directors believe, having considered their nature, that they are in substance administrative expenses which amount to US$136,000, US$1,313,000 and US$3,401,000 for the periods ended 31 December 1999, 2000 and 2001 respectively, and US$830,000 for the six month period ending 30 June 2002.

Included within these costs are amounts paid to ZAO MNV's former controlling shareholder (see note 5.24) in the relevant period in respect of certain management, technological, technical, legal and administrative services provided to ZAO MNV and its operations, the precise amount of which, due to their complex legal form, the directors have not been able to determine.

5.5 Operating Profit

This is stated after charging:

	Year ended 31 December			Six months ended 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Depreciation of owned assets	460	758	991	958
Depreciation of assets held under finance leases and hire purchase contracts	446	589	1,767	925
Total depreciation charge	906	1,347	2,758	1,883

5.6 Staff Costs

	Year ended 31 December			Six months ended 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Wages and salaries	803	2,185	3,387	1,745
Payroll and social taxes	304	880	1,102	663
	1,107	3,065	4,489	2,408

Payroll and social taxes include contributions to the state pension fund.

The average monthly number of employees during the year was made up as follows:

	Year ended 31 December			Six months ended 30 June
	1999 No.	2000 No.	2001 No.	2002 No.
Production	717	1,030	1,222	1,228
Administration	32	71	60	40
	749	1,101	1,282	1,268

5.7 Interest Payable and Similar Charges

	Year ended 31 December			Six months ended 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Bank loans	35	332	748	429
Finance charge payable under finance leases	405	481	891	463
Unwinding of discount on provisions for liabilities and charges	240	254	262	138
	680	1,067	1,901	1,030

5.8 Tax on Profit on Ordinary Activities

(a) Analysis of tax charge in the period

	Year ended 31 December 1999 US$000	Year ended 31 December 2000 US$000	Year ended 31 December 2001 US$000	Six months ended 30 June 2002 US$000
Current tax:				
Russian profit tax of the period	930	889	3,215	2,932
Adjustments in respect of previous periods	–	–	133	–
Total current tax	930	889	3,348	2,932
Deferred tax: (note 5.16)				
Origination and reversal of timing differences	(144)	142	1,229	1,431
Effect of change in tax rate	–	(15)	41	–
Total deferred tax	**(144)**	**127**	**1,270**	**1,431**
Tax on profit on ordinary activity	**786**	**1,016**	**4,618**	**4,363**

(b) Factors affecting tax charge for the period

The differences between the effective provision for Russian profit tax and the statutory tax provision at the statutory rate is reconciled as follows:

	Year ended 31 December 1999 US$000	Year ended 31 December 2000 US$000	Year ended 31 December 2001 US$000	Six months ended 30 June 2002 US$000
Profit on ordinary activities before tax	3,556	4,922	11,794	14,676
Standard tax rate	31.25%	30.00%	35.00%	24.00%
Profit on ordinary activities multiplied by standard rate	1,111	1,477	4,128	3,522
Effects of:				
Non deductible expenses	331	175	1,194	158
Non taxable income	(112)	(606)	(755)	–
Tax exemption benefit	(738)	(864)	(834)	–
Other permanent differences	43	626	427	492
Adjustments in respect of previous periods	–	–	133	–
Deferred tax provided in the accounts (note 5.8(a))	144	(127)	(1,270)	(1,431)
Unrecognised deferred tax	151	208	325	191
Current tax charge for the period	930	889	3,348	2,932

(c) Factors that may affect tax charges

Russia has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profits tax), a number of turnover based taxes, and payroll (social) taxes, together with others. In addition, the subsidiaries of ZAO MNV are also subject to various industry taxes including excise and mineral extraction taxes. Laws related to some of these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or non-existent. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretation exist both among and within government ministries and organisations (like the Ministry of Taxes and Levies and various inspectorates); thus creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Generally, tax declarations remain open and subject to inspection for a period of three years. As of 30 June 2002, a substantial portion of the tax declarations of ZAO MNV have been reviewed through to 31 December 2001. Management believes that ZAO MNV is in substantial compliance with the tax laws affecting its operations; however, the risk remains that the relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

5.9 *Tangible Fixed Assets*

	Freehold Buildings US$000	Plant and equipment US$000	Mineral properties and mine development expenditure US$000	Construction in progress US$000	Total US$000
Cost:					
At 31 December 1998	–	–	4,794	36	4,830
Additions	–	–	508	11,537	12,045
Transfers from CIP	5,431	4,225	–	(9,656)	–
At 31 December 1999	5,431	4,225	5,302	1,917	16,875
Additions	–	–	1,069	9,766	10,835
Transfers from CIP	1,867	8,828	–	(10,695)	–
At 31 December 2000	7,298	13,053	6,371	988	27,710
Additions	–	–	3,674	5,733	9,407
Transfers from CIP	89	2,311	–	(2,400)	–
At 31 December 2001	7,387	15,364	10,045	4,321	37,117
Additions	–	–	1,683	960	2,643
Transfers from CIP	–	987	–	(987)	–
At 30 June 2002	7,387	16,351	11,728	4,294	39,760
Depreciation, depletion and amortisation:					
At 31 December 1998	–	–	–	–	–
Provided during the year	(282)	(312)	(312)	–	(906)
At 31 December 1999	(282)	(312)	(312)	–	(906)
Provided during the year	(374)	(630)	(343)	–	(1,347)
At 31 December 2000	(656)	(942)	(655)	–	(2,253)
Provided during the year	(427)	(1,848)	(483)	–	(2,758)
At 31 December 2001	(1,083)	(2,790)	(1,138)	–	(5,011)
Provided during the period	(435)	(1,128)	(320)	–	(1,883)
At 30 June 2002	(1,518)	(3,918)	(1,458)	–	(6,894)
Net book value:					
At 31 December 1998	–	–	4,794	36	4,830
At 31 December 1999	5,149	3,913	4,990	1,917	15,969
At 31 December 2000	6,642	12,111	5,716	988	25,457
At 31 December 2001	6,304	12,574	8,907	4,321	32,106
At 30 June 2002	5,869	12,433	10,270	4,294	32,866

Included in the property, plant and equipment above are the following amounts relating to leased assets:

	US$000
Cost:	
At 31 December 1999	4,748
Additions	6,671
At 31 December 2000	11,419
Additions	1,223
At 31 December 2001	12,642
Additions	576
At 30 June 2002	13,218
Depreciation:	
At 31 December 1999	(446)
Depreciation provided during the year	(589)
At 31 December 2000	(1,035)
Depreciation provided during the year	(1,767)
At 31 December 2001	(2,802)
Depreciation provided during 6 months	(925)
At 30 June 2002	(3,727)

Fundamental uncertainties relating to ownership and legal title of certain fixed assets of ZAO MNV are detailed in note 5.1 above.

5.10 Investments

Details of the investments in which the company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of Company	Country of incorporation	Proportion of voting rights controlled	Nature of Business
ZAO Trade House MNV	Russia	100%	Sales of consumer products to employees

	At 31 December			At 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Cost:				
At beginning of the period	–	–	–	1,665
Additions	–	–	1,880	2,782
Disposals	–	–	(215)	(312)
At end of the period	–	–	1,665	4,135
Amounts provided	–	–	(651)	(1,001)
Net book value	–	–	1,014	3,134

Investments consist of loans given to third parties and to a related party, Darasunsky Rudnik (see note 5.24). ZAO MNV holds a one year operating licence in the Darasunsky Rudnik mine which is currently not in operation, and provides loans to fund the maintenance of shafts during the period of the licence. The loan value is US$706,000 and US$2,082,000 as of 31 December 2001 and 30 June 2002 respectively and is considered to be fully recoverable.

5.11 Stocks

	At 31 December			At 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Raw materials and consumables	1,736	4,220	6,407	6,099
Work in progress	2,415	2,510	1,836	1,189
Finished goods and goods for resale	59	25	33	303
	4,210	6,755	8,276	7,591

The difference between purchase price or production cost of stocks and their replacement cost is not material.

5.12 Debtors

	At 31 December			At 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Trade debtors	827	550	122	211
VAT receivable	2,152	2,581	3,154	2,590
Advances given	1,163	2,162	3,569	5,453
Other debtors	437	188	1,998	4,150
Deferred tax assets (Note 5.16)	144	17	–	–
	4,723	5,498	8,843	12,404

5.13 Creditors: amounts falling due within one year

	At 31 December			At 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Trade creditors	7,583	5,732	1,640	2,084
Profits tax	911	614	1,182	2,611
Taxes other than profits tax	1,065	2,662	2,756	2,656
Other creditors	52	703	438	364
Advances received from customers	900	273	1,797	–
Short-term loans (note 5.17)	2,889	3,104	5,154	4,058
Obligations under finance leases and hire purchase contracts (note 5.18)	–	4,067	3,654	1,448
	13,400	17,155	16,621	13,221

Short-term loans are US dollar and ruble denominated and are secured by future sales of gold.

5.14 Creditors: amounts falling due after more than one year

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Other creditors				
– related to capital expenditure	–	1,223	6,595	5,715
– related to taxation	–	–	1,307	1,199
Total other creditors (Note 5.17)	–	1,223	7,902	6,914
Obligations under finance leases and hire purchase contracts (Note 5.18)	5,153	7,945	5,894	5,688
	5,153	9,168	13,796	12,602

Certain of the long term creditors are secured by certain of ZAO MNV's buildings, plant and equipment.

5.15 Provisions for Liabilities and Charges

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Deferred tax (Note 5.16)	–	–	1,253	2,684
Site restoration provision (Note 5.19)	5,034	5,288	5,550	5,688
	5,034	5,288	6,803	8,372

5.16 Deferred Tax

Deferred tax included in the balance sheet is as follows:

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Deferred tax balance at the beginning of the period	–	(144)	(17)	1,253
(Credited)/charged to profit and loss account	(144)	127	1,270	1,431
Deferred tax balance at the end of period	(144)	(17)	1,253	2,684

Deferred tax comprises:

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Fixed asset timing differences	(51)	310	1,646	2,591
Other timing differences	(93)	(327)	(393)	93
Total deferred tax (asset)/liability	(144)	(17)	1,253	2,684

No deferred tax benefit is recognised in relation to the site restoration provision. Payments for restoration is 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 deferred tax asset not recognised is US$151,000, US$359,000, US$532,000 and US$640,000 in the years ended 31 December 1999, 31 December 2000, 31 December 2001 and the six month period ended 30 June 2002, respectively.

No deferred tax benefit is recognised in relation to the long-term investment loans written off. Tax relief for the loan write-off is only obtained when the debtor is declared insolvent. Since it is uncertain when this should happen no tax relief has been assumed. The amount of deferred tax asset not recognised is nil, nil, US$151,000 and US$234,000 in the years ended 31 December 1999, 31 December 2000, 31 December 2001 and the six month period ended 30 June 2002, respectively.

5.17 Loans and Other Creditors

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Amounts falling due:				
Within one year	2,889	3,104	5,154	4,058
In one to two years	–	81	719	782
In two to five years	–	1,142	2,188	1,460
In more than five years	–	–	4,995	4,672
	2,889	4,327	13,056	10,972
Less: included in creditors: amounts falling due within one year (note 5.13)	(2,889)	(3,104)	(5,154)	(4,058)
	–	1,223	7,902	6,914

The total amount of secured loans as at 31 December 1999, 2000, 2001 and 30 June 2002 is US$1,495,000, US$2,000,000, US$5,154,000 and US$4,044,000 respectively.

The amounts payable after more than five years are interest free.

5.18 Obligations Under Finance Leases

Net obligations under finance leases:

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Amounts payable:				
Within one year	–	4,067	3,654	1,448
In one to two years	–	2,905	1,020	1,004
In two to five years	1,546	1,680	1,843	1,874
In more than five years	3,607	3,360	3,031	2,810
Total net obligations under lease	5,153	12,012	9,548	7,136

The amounts payable after more than five years relate to finance leases with an imputed interest rate of 10%.

5.19 Site Restoration Provision

Provisions for environmental restoration comprise:

	US$000
At 1 January 1999	4,794
Unwinding of discount	240
At 1 January 2000	5,034
Unwinding of discount	254
At 1 January 2001	5,288
Unwinding of discount	262
At 1 January 2002	5,550
Unwinding of discount	138
At 30 June 2002	5,688

Environmental restoration provisions relate to obligations to repair and make safe mines after use and the estimated costs of cleaning up and chemical leakage. Most of these costs are expected to be incurred at the end of the mines' useful operations, approximately between 2015–2018. The extent and cost of future remediation programmes are inherently difficult to estimate. They depend on the scale of any possible contamination and the timing and extent of corrective actions. The provision has been estimated using existing technology, current prices, prudent interpretations of the relevant legislation and discounted at 5%.

5.20 Share Capital – Authorised, Allotted, Called and Fully Paid

	At 31 December 1999 US$	At 31 December 2000 US$	At 31 December 2001 US$	At 30 June 2002 US$
100 ordinary shares of 90.84 rubles each	336	336	336	336

5.21 Reconciliation of Shareholders' Funds

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Shareholders' funds at the beginning of period	(566)	2,204	6,110	13,286
Profit and loss retained for the year	2,770	3,906	7,176	10,313
Acquisition of treasury stock	–	–	–	(178)
Sale of treasury stock	–	–	–	114
Shareholders' funds at end of period	2,204	6,110	13,286	23,535

5.22 Notes to the Statement of Cash Flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	At 31 December 1999 US$000	At 31 December 2000 US$000	At 31 December 2001 US$000	At 30 June 2002 US$000
Operating profit	3,845	5,929	13,588	15,706
Depreciation	906	1,347	2,758	1,883
Provision against investments	–	–	651	350
Increase in debtors	(3,202)	(402)	(2,659)	(2,619)
(Increase)/decrease in stock	(3,029)	(2,545)	(1,521)	685
Increase/(decrease) in creditors	7,022	(231)	(1,443)	(1,527)
Net cash inflow from operating activities	5,542	4,098	11,374	14,478

(b) Analysis of net debt

	At 1 January 1999 US$000	Cash flow US$000	Exchange differences US$000	Other non-cash movements US$000	At 31 December 1999 US$000
Cash at bank and in hand and short-term deposits	–	37	–	–	37
Short-term deposits	–	852	–	–	852
Short term loans	–	(3,280)	391	–	(2,889)
Capital element of finance leases	–	–	–	(4,748)	(4,748)
	–	(2,391)	391	(4,748)	(6,748)

	At 1 January 2000 US$000	Cash flow US$000	Exchange differences US$000	Other non-cash movements US$000	At 31 December 2000 US$000
Cash at bank and in hand and short-term deposits	37	(26)	–	–	11
Short-term deposits	852	(852)	–	–	–
Short term loans	(2,889)	(275)	60	–	(3,104)
Other long term creditors	–	–	–	(1,223)	(1,223)
Capital element of finance leases	(4,748)	288	–	(6,671)	(11,131)
	(6,748)	(865)	60	(7,894)	(15,447)

	At 1 January 2001 US$000	Cash flow US$000	Exchange differences US$000	Other non-cash movements US$000	At 31 December 2001 US$000
Cash at bank and in hand and short-term deposits	11	256	–	–	267
Short term loans	(3,104)	(2,157)	107	–	(5,154)
Other long term creditors	(1,223)	83	–	(6,762)	(7,902)
Capital element of finance leases	(11,131)	4,237	–	(1,223)	(8,117)
	(15,447)	2,419	107	(7,985)	(20,906)

	At 1 January 2002 US$000	Cash flow US$000	Exchange differences US$000	Other non-cash movements US$000	At 30 June 2002 US$000
Cash at bank and in hand and short-term deposits	267	1,468	–	–	1,735
Short term loans	(5,154)	1,096	–	–	(4,058)
Other long term creditors	(7,902)	988	–	–	(6,914)
Capital element of finance leases	(8,117)	2,988	–	(576)	(5,705)
	(20,906)	6,540	–	(576)	(14,942)

5.23 Post Balance Sheet Event

During September 2002, ZAO MNV acquired an 81% interest in OAO Novoshirokinskoye Rudnik at a total cost of US$2,400,000 including the costs of acquisition. This company is located in the Chita region of eastern Russia and holds certain assets which are required for the future development of this gold and polymetallic mine.

On 1 November 2002 a facility agreement was entered into between ZAO MNV and International Bank Moscow ("IMB") pursuant to which IMB provided a credit facility of up to US$7,000,000 to ZAO MNV. The interest rate payable under the agreement is 8.5% per annum and the term of repayment of this loan is 12 months from the date of draw down. The facility is secured on gold ore and fixed assets owned by ZAO MNV to a value of US$8,750,000.

On 15 November 2002 a loan agreement was entered into between ZAO MNV and Menatep Bank Moscow ("Menatep") pursuant to which Menatep renegotiated the provision of a loan of US$15,000,000 to ZAO MNV. The interest rate payable is 10.5% per annum and the term of repayment is 12 months from the date of drawdown. The facility is secured on a pledge agreement of 1,700kg of gold to be extracted during 2003 and the Darasun mine for the amount of credit and interest.

5.24 Related Party Transactions

(a) ZAO MNV has a loan to Darasunsky Rudnik, an entity under common control with ZAO MNV (see note 5.10).

(b) The controlling shareholder of ZAO MNV (referred to in note 5.26) from 1 January 1999 to 24 May 2002 provided certain services to ZAO MNV as set out in note 5.4 above. There were no outstanding amounts in relation to these services at each of the period ends. Following the acquisition of ZAO MNV by the Company the provision of these services is no longer required.

(c) ZAO MNV entered into various agreements with AP Nizhneamurzoloto, a previous shareholder of ZAO MNV, until 31 May 2002, relating to the purchase of buildings, plant and equipment.

5.25 Financial Instruments

ZAO MNV's financial instruments comprise borrowings, investments, cash and liquid resources and various items, such as trade debtors, trade creditors and contractual provisions arising in the ordinary course of its operations. ZAO MNV does not acquire, hold or issue derivative instruments for trading purposes. ZAO MNV has no undrawn credit lines.

The main risks arising from ZAO MNV's financial instruments are interest rate risk.

Interest rate risk

ZAO MNV finances its operations through a mixture of retained earnings and bank borrowings. Borrowings are made in Russian roubles. These borrowings bear interest at fixed rates as disclosed below.

The carrying values of the financial assets and liabilities are materially equal to their fair value. With the exception of the analysis of currency exposure, the analysis below excludes short-term debtors and creditors.

Financial liabilities – interest rate profile for ZAO MNV as at 31 December 1999

	Currency	Bearing interest at fixed rate US$000	Weighted average rate %	Interest free US$000	Total US$000
Short-term loans	RUR, USD	2,889	31%	–	2,889
Capital element of finance leases	RUR	4,748	10%	–	4,748
		7,637		–	7,637

Financial liabilities – interest rate profile for ZAO MNV as at 31 December 2000

	Currency	Bearing interest at fixed rate US$000	Weighted average rate %	Interest free US$000	Total US$000
Short-term loans	RUR, USD	3,104	27%	–	3,104
Other long-term creditors	RUR	–	–	1,223	1,223
Capital element of finance leases	RUR	11,131	10%	–	11,131
		14,235		1,233	15,458

Financial liabilities – interest rate profile for ZAO MNV as at 31 December 2001

	Currency	Bearing interest at fixed rate US$000	Weighted average rate %	Interest free US$000	Total US$000
Short-term loans	RUR, USD	5,154	15%	–	5,154
Other long-term creditors	RUR	–	–	7,902	7,902
Capital element of finance leases	RUR	8,117	10%	–	8,117
		13,271		7,902	21,173

5.25 Financial Instruments (continued)

Financial liabilities – interest rate profile for ZAO MNV as at 30 June 2002

	Currency	Bearing interest at fixed rate US$000	Weighted average rate %	Interest free US$000	Total US$000
Short-term loans	RUR, USD	4,058	18%	–	4,058
Other long term creditors	RUR	–	–	6,914	6,914
Capital element of finance leases	RUR	5,705	10%	–	5,705
		9,763		6,914	16,677

The weighted average period for the capital element of finance leases are six, three, three and four years as at 31 December 1999, 2000, 2001 and 30 June 2002 respectively.

Financial assets – interest rate profile for ZAO MNV as at 31 December 1999.

	Currency	Fixed rate financial assets US$000	Interest free US$000	Total US$000
Cash at bank and in hand	RUR, USD	–	36	36
Short term investments	RUR	852	–	852
		852	36	888

Financial assets – interest rate profile for ZAO MNV as at 31 December 2000

	Currency	Interest free US$000	Total US$000
Cash at bank and in hand	RUR, USD	11	11
		11	11

Financial assets – interest rate profile for ZAO MNV as at 31 December 2001

	Currency	Fixed rate financial assets US$000	Interest free US$000	Total US$000
Cash at bank and in hand	RUR, USD	–	267	267
Loan to Darasunsky Rudnik	RUR	–	706	706
Loans to third parties	RUR	308	–	308
		308	973	1,281

Financial assets – interest rate profile for ZAO MNV as at 30 June 2002

	Currency	Fixed rate financial assets US$000	Interest free US$000	Total US$000
Cash at bank and in hand	RUR, USD	–	1,735	1,735
Loan to Darasunsky Rudnik	RUR	–	2,082	2,082
Loans to third parties	RUR	1,052	–	1,052
		1,052	3,817	4,869

The weighted average period during which interest rates are fixed on financial assets are less than one year, two years and one year as at 31 December 1999, 2001 and 30 June 2002, respectively. As at 31 December 2000, there were no such financial assets.

The weighted average period during which loans, on which no interest is earned, are outstanding is two years and one year as at 31 December 2001 and 30 June 2002, respectively.

Currency exposures

	At 31 December			At 30 June
	1999 US$000	2000 US$000	2001 US$000	2002 US$000
Net monetary liabilities:				
RUR	11,936	14,513	13,287	5,592
US$	1,149	6,318	7,006	2,958
	13,085	20,831	20,293	8,550

5.26 Parent Companies and Ultimate Controlling Party

Prior to 24 May 2002 the parent company and ultimate controlling party of the Company was ZAO Oil Finance, a closed stock company registered in Russia. From 24 May 2002, the ultimate controlling party of the Company was Highland Gold Mining Limited.

Yours faithfully

Ernst & Young LLP

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Part V

Additional information

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Part V Additional information

1. THE COMPANY

(a) The Company was incorporated in Jersey on 23 May 2002 as a private limited company under the Companies (Jersey) Law 1991, as amended, with registered number 83208 under the name Highland Gold Limited. On 30 May 2002 the Company was re-registered as a public company. On 30 May 2002 the Company issued 5,833,333 ordinary shares of £0.01 each at par in a placing to the founding shareholders of the Company, who included Jersey-based investment interests (described in paragraph 3(d) below), certain Directors of the Company (described in paragraph 6(a) below), and Harmony. On 26 November 2002 the Company changed its name to Highland Gold Mining Limited.

(b) The liability of the members of the Company is limited.

(c) The principal place of business of the Company in Jersey, which is also its registered office, is at Le Gallais Chambers, 54 Bath Street, St Helier, Jersey JE4 8YD.

(d) The register of members of the Company is kept at Le Gallais Chambers, 54 Bath Street, St Helier, Jersey JE4 8YD.

(e) In accordance with the provisions of Jersey company law, the Company's Memorandum of Association does not contain an objects clause.

2. GROUP STRUCTURE

(a) The Company holds 100% of the equity share capital of the following companies:

Name	Registered Office	Country of incorporation	Principal activity and place of business
Stanmix Holding Limited	6 Iacovou Patatsou, Astromeritis, Nicosia, Cyprus	Cyprus	Holding Company, Cyprus
Stanmix Investments Limited	18 Charilaou, Michael, Nicosia 2408, Cyprus	Cyprus	Finance Company, Cyprus

(b) Stanmix Holding Limited holds 100% of the equity share capital of the following companies:

Name	Registered Office	Country of incorporation	Principal activity and place of business
ZAO MNV	Village of Mnogovershinnoe, Nikolaevsk district, Khabarovsk region	Russia	Mining and mineral exploration, Mnogovershinnoe
OOO Darasun	15 Footbal-naya Street, Village of Vershino-Darasunsky, Tungokochensky district, Chita Region 674125	Russia	Mining and mineral exploration, Darasun
OOO RDM	8/2 Building 2, Kursovoy per, 119034 Moscow	Russia	Management services, Moscow

(c) ZAO MNV holds the following interests in the equity share capital of the following companies:

Name	%	Registered Office	Country of incorporation	Principal activity and place of business
OAO NS*	81.29	Village of Novoshirokinskoye, Gazimurozavodskoy district, Chita Region	Russia	Mineral exploration, Novoshirokinskoye
THM	100	Village of Mnogovershinnoe, Nikolaevsk district, Khabarovsk region	Russia	Retail shops and catering for employees, Mnogovershinnoe

*The remaining 18.71% of the ordinary share capital of OAO NS is owned by a number of private individuals and the regional authorities.

(d) OOO Darasun holds a 100% interest in the equity share capital of ZAO Talatui, a company incorporated in Russia with registered office 9, Novokouznetskaya Street, Moscow. Its principal activity is mining and mineral exploration.

3. SHARE CAPITAL

(a) Other than as disclosed above, the only increase in the issued share capital of the Company since the Company's incorporation was the issue on 31 May 2002 of 4,166,667 ordinary shares of £0.01 each in a placing at a subscription price of £4.94 per ordinary share, raising net proceeds to the Company of some US$30million.

(b) At an Extraordinary General Meeting of the Company held on 25 November 2002 special resolutions were passed in terms of which:

(i) the name of the Company was changed to Highland Gold Mining Limited;

(ii) the Memorandum of Association of the Company was altered to sub-divide and increase the Company's authorised share capital to £300,000 divided into 300,000,000 Ordinary Shares of £0.001 each; and

(iii) new Articles of Association were adopted, the principal terms of which are set out in paragraph 4 below.

(c) The present authorised and issued share capital of the Company is, and the enlarged authorised and issued share capital of the Company following Admission will be, as follows:

(i) Present authorised and issued share capital

Class of Security	Authorised (£)	Authorised Number	Issued and fully paid (£)	Issued and fully paid Number
Ordinary Shares of £0.001 each	300,000	300,000,000	100,000	100,000,000

(ii) Enlarged authorised and issued share capital following Admission

Class of Security	Authorised (£)	Authorised Number	Issued and fully paid (£)	Issued and fully paid Number
Ordinary Shares of £0.001 each	300,000	300,000,000	£110,526	110,525,821

(d) Other than the holdings of the Directors and their connected persons which are set out in paragraph 6(a) below, the Directors are aware of the following direct and indirect interests in 3% or more of the Company's issued Ordinary Share capital as at 6 December 2002 (the latest practicable date prior to publication of this document):

Shareholder	Prior to Admission Ordinary Shares	Prior to Admission %	Following Admission* Ordinary Shares	Following Admission* %
Harmony Gold Mining Company Limited	32,500,000	32.50	35,011,947	31.68
The Regent Trust Company Limited	17,291,665	17.29	17,239,034	15.60
Hightops Gold Limited	8,000,000	8.00	10,476,780	9.48
Merrill Lynch World Mining Trust plc	2,777,780	2.78	5,457,191	4.94
Posaune Limited	2,777,780	2.78	5,289,727	4.79
London & Lochside Investments Limited	3,172,990	3.17	4,512,695	4.08

*assuming the Manager's Option is not exercised.

(i) Included in the shareholding of Harmony shown above are 7.5 million Ordinary Shares issued at par to Harmony as a founder of the Company. The remaining 25 million Ordinary Shares were allotted to Harmony in the placing effected on 31 May 2002.

(ii) The holding of The Regent Trust Company Limited shown above includes 12 million Ordinary Shares issued at par to Jersey-based investment interests as founders of the Company, held on behalf of discretionary trusts for the benefit of a wide range of beneficiaries including certain members of the Fleming family. Of those Ordinary Shares, 52,631 Ordinary Shares are being sold in the Placing. The holding prior to Admission also includes 5 million Ordinary Shares issued at par in satisfaction of the fee obligation to FF&P Advisory Limited referred to in paragraph 9(q) below. To the extent the Manager's Option is exercised, up to 1,054,719 of those Ordinary Shares may be sold in the Placing. The Regent Trust Company Limited holds additional Ordinary Shares as nominee for shareholder interests disclosed elsewhere in this document, and these Ordinary Shares are therefore not included in the holdings shown above.

(iii) Hightops Gold Limited's shareholding was issued at par to Jersey-based investment interests as the founders of the Company, and is wholly-owned by a discretionary trust for the benefit of a wide range of beneficiaries including certain members of the Fleming family.

(iv) London & Lochside Investments Limited holds Ordinary Shares allotted in the placing effected on 31 May 2002, and is an investment company holding mainly interests on behalf of trusts associated with the Fleming family.

(v) The number of shares set out in this paragraph 3(d) assume that the subdivision, referred to in paragraph 3(b)(ii) above, had taken place.

(e) Save as disclosed above, the Company is not aware of and has not received any notification from any person confirming that such person is interested, directly or indirectly, in 3% or more of the issued share capital of the Company nor is it aware of any person who directly or indirectly, jointly or separately, exercises or could exercise control over the Company.

(f) On Admission, the Company will issue to W.H. Ireland a warrant in respect of 0.25% of the fully diluted ordinary share capital of the Company immediately following Admission which is exercisable at the Placing Price, further details of which are set out below at paragraph 9(x).

4. ARTICLES OF ASSOCIATION

The new Articles of Association of the Company adopted at the Extraordinary General Meeting held on 25 November 2002 contain provisions, *inter alia*, to the following effect:

Voting Rights

Subject to any special rights restrictions or prohibitions as regards voting for the time being attached to any shares on a show of hands every member present in person or by proxy or (in the case of a corporation) by duly authorised representative shall have one vote and on a poll every member shall have one vote for each share of which he is the holder.

In the case of joint holders unless such joint holders shall have chosen one of their number to represent them and so notified the Company in writing the vote of the most senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register.

No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company of which he is holder or one of the joint holders have been paid.

On a poll votes may be given either personally or by proxy.

Dividends

The Company in general meeting may declare dividends but no dividend shall exceed the amount recommended by the Directors in accordance with the respective rights of the members and the declaration of the Directors as to the amount of the profits shall be conclusive.

The Directors may from time to time pay to the members such interim dividends as appear to the Directors to be justified by the profits of the Company.

If the share capital is divided into different classes the Directors may pay interim dividends on shares which confer deferred or non-preferential rights with regard to dividends as well as on shares which confer preferential rights with regard to dividends, but no interim dividend shall be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

Directors may also pay at intervals settled by them any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

Provided the Directors act in good faith, they shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

The Directors may before recommending any dividend set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall at their discretion be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may at the like discretion either be employed in the business of the Company or be invested in such investments as the Directors may from time to time think fit. The Directors may also without placing the same to reserve carry forward any profits which they may think prudent not to divide.

The Directors may deduct from any dividend payable to any member all such sums of money (if any) as may be due and payable by him to the Company on account of calls or otherwise.

No dividend shall bear interest against the Company.

All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. No unclaimed dividend shall bear interest against the Company. The payment by the Directors of any unclaimed dividend or other monies payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof and any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

Capitalisation of Reserves

Subject to any necessary sanction or authority being obtained the Company in general meeting may at any time and from time to time pass a resolution that any sum not required for the payment or provision of a fixed dividend with or without further participation in profits and (a) for the time being standing to the credit of any reserve fund of the Company including premiums received on the issue of any shares or debentures of the Company or (b) being undivided profits in the hands of the Company be capitalised and that such sum be appropriated as capital to and amongst the members in the shares and proportions in which they would have been entitled thereto if the same had been distributed by way of dividend and in such manner as the resolution may direct and the Directors shall in accordance with such resolution apply such sum in paying up in full or in part (where permitted by the Act) any unissued shares or debentures of the Company on behalf of such members and appropriate such shares or debentures to and distribute the same credited as fully paid up or partly paid up (where permitted by the Act) amongst them in the proportions aforesaid in satisfaction of their shares and interest in the said capitalised sum or shall apply such sum or any part thereof on behalf of such members in paying up the whole or part of any uncalled balance which shall for the time being be unpaid in respect of any issued shares or debentures held by them.

Share Capital

Without prejudice to any special rights for the time being conferred on the holders of any shares or class of shares (which special rights should not be varied or abrogated except with such consent or sanction as contained in the Articles) any share or class of shares in the share capital of the Company may be authorised for issue with such preferred, deferred or other special rights or such restrictions whether in regard to dividend return of capital voting or otherwise as the Company may from time to time by special resolution determine.

The Company may by special resolution alter its share capital as stated in its memorandum in any of the ways permitted or provided for under the Act.

Subject to confirmation by the court and the provisions of the Act the Company may by special resolution reduce its share capital in any way.

The Company may from time to time subject to the provisions of the Act issue or convert existing non-redeemable shares whether issued or not into shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder thereof.

The Company may from time to time subject to the provisions of the Act purchase its own shares (including any redeemable shares) in any manner authorised by the Act provided that in the event that the Company shall purchase any shares which are admitted to listing or trading on any investment exchange such purchases shall be made in accordance with any relevant restrictions imposed by any such listing authority or exchange.

Modification of Rights

Subject to the Act whenever the share capital of the Company is divided into different classes of shares the special rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or abrogated at any time with the consent in writing of the holders of two thirds of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles relating to general meetings of the Company or to the proceedings thereat shall *mutatis mutandis* apply except that the necessary quorum shall be persons holding or representing by proxy at least one third in nominal amount of the issued shares of that class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present one person present holding shares of that class or his proxy shall be a quorum) and that the holders of shares of that class or their duly appointed proxies shall on a poll have one vote in respect of every share of that class held by them respectively.

The special rights conferred upon the holders of any shares or class of shares issued with preferred, deferred or other special rights shall (unless otherwise expressly provided by the conditions of the issue of such shares) be deemed not to be varied by the creation or issue of further shares ranking *pari passu* therewith.

Shares

Shares shall be at the disposal of the Directors who may, subject to the provisions of the Act and the Articles allot, grant options over, or otherwise deal with or dispose of them to such persons at such times and generally on such terms and conditions as they think proper. Save as provided by the Act each share in the Company shall be distinguished by its appropriate number.

The Directors shall not, without approval of the Company in a general meeting allot or grant options over any shares representing 10% or more of the authorised (but unissued) share capital of the Company (from time to time) without firstly making an offer to each person who holds relevant shares or relevant employee shares to allot to him on the same or more favourable terms a proportion of those shares which are nearly as practicable equal to the proportion in nominal value held by him of the aggregate of relevant shares and the Directors shall not allot any of those shares to a person unless the period in which any such offer may be accepted has expired and the Company has received notice of the acceptance or refusal of every offer so made. Provided that the relevant Article shall not apply in respect of any issue or allotment of shares in the Company or the grant of any options or warrants over shares which takes place contemporaneously with the Admission of the Company's shares to trading on the Alternative Investment Market of London Stock Exchange.

Interests in Shares

The Directors shall have power by notice in writing to require any shareholder to disclose to the Company the identity of any person other than the shareholder (an "interested party") who has any interest in the shares held by the shareholder and the nature of such interest. The Company shall maintain a register of interested parties.

Transfer of Shares

The Company may permit the holding in uncertificated form of one or more classes of shares determined by the Directors for this purpose in order that the transfer of title to any such shares may be effected by means of a computer system in accordance with the Jersey Regulations provided that the register of members shall be held in Jersey pursuant to the Act.

Unless and until the Directors determine that one or more classes of share may be held in uncertificated form, the shares shall be issued in certificated form.

The Directors shall have power to implement such arrangements as they may in their absolute discretion think fit in order for any class of shares to be a participating security (subject always to the Regulations and the facilities and requirements of the relevant system concerned). Where they do so:

(a) the Articles shall be construed accordingly and shall be deemed to be modified, amended or extended to the extent necessary to ensure that the same are consistent with the provisions of the Regulations and to permit the holding of shares of the relevant classes in uncertificated form and the transfer of title to shares of the relevant classes by means of a computer system; and

(b) the provisions of the Articles shall commence to have effect immediately prior to the time at which the operator of the relevant system concerned permits the class of shares concerned to be a participating security.

In relation to any class of shares which is, for the time being, a participating security, and for so long as such class remains a participating security, no provision of the Articles shall apply or have effect to the extent that it is in any respect inconsistent with:

(i) the holding of shares of that class in uncertificated form;

(ii) the transfer of title of shares of that class by means of a relevant system; or

(iii) the Regulations.

Without prejudice to the generality of and notwithstanding anything contained in the Articles, where any class of shares is, for the time being, a participating security (such class being referred to hereinafter as the "Relevant Class"):

(i) shares of the Relevant Class may be issued in uncertificated form in accordance with the Regulations;

(ii) unless the Directors otherwise determine, shares of the Relevant Class held by the same holder or joint holder in certificated form and uncertificated form shall be treated as separate holdings;

(iii) shares of the Relevant Class may be changed from uncertificated to certificated form, and from certificated to uncertificated form, in accordance with the Regulations;

(iv) title of shares of the Relevant Class which are recorded on the register as being held in uncertificated form may be transferred by means of the relevant system concerned and accordingly (and in particular but without limitation) the Articles shall not apply in respect of such shares to the extent that any article requires or contemplates the effecting of a transfer by an instrument in writing and the production of a certificate for the share to be transferred;

(v) the Company shall comply with the provisions of the Regulations in relation to the Relevant Class;

(vi) the provisions of the Articles with respect to meetings of or including holders of the Relevant Class, including notices of such meetings, shall have effect subject to the Regulations;

(vii) where relevant any article that requires the Company to issue a certificate to any person holding shares of the Relevant Class in uncertificated form shall not apply.

Any instrument of transfer of shares shall be in writing in any form which the Directors may approve (which shall specify the full name and address of the transferee) and shall be signed by or on behalf of the transferor (and, in the case of any partly paid share, the transferee) and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The Directors may decline to register any transfer of shares prohibited by the Articles and may decline to register any transfer of shares unless the instrument of transfer is deposited at the office or such other place as the Directors may reasonably require, accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer. If the Directors decline to register a transfer of any share, they shall, within 2 months after the date on which the transfer was lodged with the Company, send to the transferee notice of the refusal.

The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods as the Directors may determine.

The Company shall be entitled to retain any instrument of transfer of any share which is registered, but any instrument of transfer of any share which the Directors refuse to register shall be returned to the person lodging it when notice of the refusal is given.

Lien

The Company shall have a lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of that share and the Company shall also have a lien on all shares (other than fully paid shares) standing registered in the name of a single person for all monies presently payable by him or his estate to the Company but the Directors may at any time declare any shares to be wholly or in part exempt from the provisions of the relevant article. The Company's lien (if any) on the shares shall extend to all dividends payable thereon.

General Meetings

The Company shall hold a general meeting as its Annual General Meeting once in every calendar year at such time and at such place as may be determined by the Directors.

The Directors may whenever they think fit convene an Extraordinary General Meeting and Extraordinary General Meetings shall also be convened on a requisition made in accordance with the Act in writing and signed by members holding in the aggregate not less than one tenth in nominal value of the shares carrying the right to vote at the meeting.

If at any time there are not within the Island of Jersey sufficient Directors capable of acting to form a quorum any Director or any member of the Company may convene an Extraordinary General Meeting in the same manner as nearly as possible as that in which meetings may be convened by the Directors.

Appointment of Directors

The number of Directors shall be not fewer than four.

A Director need not be a member in the Company.

The Directors shall have power at any time and from time to time to appoint subject to the provisions of the Act any person to be a Director either to fill a casual vacancy or as an additional Director.

The Company may by Ordinary Resolution appoint any person to office as a Director.

Election, Re-election and Retirement of Directors

Subject to the provisions of the Articles all Directors shall submit themselves for election by shareholders at the first opportunity after their appointment, and shall not remain in office for longer than three years since their last election or re-election without submitting themselves for re-election. At each Annual General Meeting, the Directors subject to retirement in accordance with the Articles shall retire from office. A Director retiring at such meeting shall retain office until the dissolution of such meeting and accordingly on retiring a Director who is re-elected or deemed to have been re-elected pursuant to the Articles will continue in office without a break.

The Directors to retire by rotation shall include any Director who wishes to retire and not to offer himself for re-election and any Director who has been, or who by the time of the next Annual General Meeting will have been, in office for three years .

Powers of Directors

The business of the Company shall be managed by the Directors who may pay all expenses incurred in setting up and registering the Company and who may exercise all such powers of the Company as are not provided for by the Act, the memorandum of association of the Company, the Articles, or any directions given by special resolution required to be exercised by the Company in general meeting. No alteration of the memorandum of association of the Company or the Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. The powers given by the relevant Article shall not be limited by any special power given to the Directors by the Articles. A meeting of the Directors at which a quorum is present may exercise all powers and discretions exercisable by the Directors.

Proceedings of Directors

The Directors may meet together for the despatch of business adjourn and otherwise regulate their meetings and proceedings as they think fit and may determine the quorum necessary for the transaction of business which in default of such determination shall be four.

No meeting of the Directors shall be held in the United Kingdom and any decision reached or resolution passed by the Directors at any meeting which is held in the United Kingdom shall be invalid and of no effect. Any Director may participate in a meeting of the Directors or in a committee thereof by means of a conference telephone or similar communications equipment whereby all of the Directors participating in the meeting can hear each other and the Directors participating in this manner shall be deemed to be present in person at such meeting for all the purposes of the Articles, PROVIDED THAT no Directors physically present in the United Kingdom at the time of any such meeting may participate in the meeting by means of a conference telephone or, similar communications equipment.

The Directors may elect a chairman of their meetings and determine the period for which he is to hold office but if no such chairman is elected or if at any meeting the chairman is not present at the time appointed for holding the same the Directors present shall choose one of their number to be chairman of such meeting.

Directors' Interests

A Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a member or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of or from his interests in such other company unless the Company otherwise directs.

A Director who has directly or indirectly an interest in a transaction entered into or proposed to be entered into by the Company or by a subsidiary of the Company which to a material extent conflicts or may conflict with the interests of the Company and of which he has actual knowledge shall disclose to the Company (by notice to the Directors) the nature and extent of his interest. Subject thereto any such Director shall not be liable to account to the Company for any profit or gain realised by him on such transaction.

A notice in writing given to the Company by a Director that he is to be regarded as interested in a transaction with a specified person is sufficient disclosure of his interest in any such transaction entered into after the notice is given. Subject to the Articles, a Director may vote in respect of any such transaction and if he does so vote his vote shall be counted and he shall be capable of being counted towards the quorum at any meeting of the Directors at which any such transaction shall come before the Directors for consideration.

Subject to the provisions of the Act a Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director.

Borrowing Powers

Subject to the provisions of the Articles, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or its parent undertaking (if any) or any subsidiary undertaking of the Company or of any third party.

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate amount at any one time owing by the group (being the Company and all its subsidiary undertakings from time to time) in respect of monies borrowed, exclusive of monies borrowed by the Company or any of its subsidiary undertakings from any other of such companies, shall not at any time, without the previous sanction of the Company in general meeting, exceed a sum equal to the greater of:

(i) £150,000,000; or

(ii) the aggregate of the nominal capital of the Company for the time being issued and paid up or credited as paid up and the amounts standing to the credit of the consolidated reserves of the Company and its subsidiary undertakings whether distributable or undistributable and including (without limitation) share premium account, capital redemption reserve and profit and loss account;

all as shown in a consolidation of the then latest audited balance sheets of the Company and each of its subsidiary undertakings but adjusted as may be necessary to take account of such deductions as are specified in the Articles.

Accounts and Auditors

The Directors shall cause accounting records to be kept which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company at that time and enable the Directors to ensure that any accounts prepared by the Company comply with the requirements of the Act.

The accounting records shall be kept at the office or at such other place or places as the Directors think fit and shall always be open to the inspection of the Directors the Secretary and any liquidator of the Company provided that if such records are kept outside the Island of Jersey returns with respect to the business dealt with in such records shall be sent to and kept in the Island of Jersey where they must at all times be open to the inspection of the Directors the Secretary and any liquidator of the Company and must be such as to disclose with reasonable accuracy the financial position of the business in question at intervals of not more than six months and enable the Directors to ensure that any accounts prepared by the Company comply with the requirements of the Act. Subject to the provisions of the Act such accounting records shall be preserved for a period of at least ten years from the date on which they are made.

The Directors shall determine and may vary the accounting reference date for the Company by resolution of the Directors and shall cause to be prepared accounts for the Company for periods of not more than eighteen months (a) beginning on the date of incorporation of the Company or (b) if the Company has previously prepared a profit and loss account beginning at the end of the period covered by the most recent account or (c) if the Company has not prepared such an account for a period ending within twelve months before the entry into force of Article 104 of the Act beginning on a date to be determined by the Directors not later than the date of the entry into force of Article 104. Such accounts shall be prepared in accordance with generally accepted accounting principles and show a true and fair view of the profit or loss of the Company for the period and of the state of the Company's affairs at the end of the period and comply with any other requirements of the Act. Notwithstanding the aforementioned provisions of the Articles, the Company's first accounts shall be prepared for the period ending 30 June 2002 and the next accounts shall be prepared for the period ending 31 December 2002 and in each year thereafter the accounting reference date of the Company shall be 31 December.

The Company's accounts shall be approved by the Directors and signed on their behalf by at least one Director.

Within seven months after the end of the financial period the accounts of the Company for that period shall be prepared examined and reported on by auditors and laid before a general meeting with a copy of the auditors' report.

Within seven months after the end of each financial period, the Directors shall deliver to the registrar a copy of the accounts for that period signed by one of the Directors on behalf of them all and a copy of the auditors' report thereon together with certified correct translations where such documents are not produced in the English language.

Auditors shall be appointed for the Company under the provisions of the Act to examine and report in accordance with the Act on the accounts of the Company.

Winding up

Subject to the claims of any secured creditors and to the provisions of any enactment as to preferential payments the Company's property shall on winding up be realised and applied in satisfaction of the Company's liabilities *pari passu* and subject thereto any surplus shall then be distributed amongst the members according to their rights and interests in the Company. Subject to the rights of the holders of shares issued upon special conditions if the assets available for distribution to members shall be insufficient to pay the whole of the paid up capital such assets shall be shared on a *pro rata* basis amongst members by reference to the number of fully paid up shares held by each member respectively at the commencement of the winding up.

If the Company shall be wound up the liquidator, or where there is no liquidator the Directors, may with the sanction of a special resolution divide amongst the members *in specie* any part of the assets of the Company or vest the same in trustees upon such trusts for the benefit of the members as the liquidator or the Directors (as the case may be) with the like sanction shall think fit.

5. PRINCIPAL OFFICES

(a) The Company's registered office is at Le Gallais Chambers, 54 Bath Street, St Helier, Jersey JE4 8YD.

(b) ZAO MNV's principal office is at 8/2 Building 2, Kursovoy Per, 119034 Moscow, Russia.

6. DIRECTORS' AND OTHER INTERESTS

(a) The interests of the Directors, and of persons connected with them, in the Ordinary Shares as at • December 2002 (the latest practicable date prior to the publication of this document), all of which are beneficial, are as follows:

Director	Prior to Admission Ordinary Shares	%	Following Admission* Ordinary Shares	%
Lord Daresbury	2,000,000	2.00	1,800,000	1.63
Ivan Koulakov	22,750,000	22.75	22,550,000	20.40
Duncan Baxter	Nil	Nil	10,000	0.01
Ted Grobicki	Nil	Nil	Nil	Nil
Christopher Palmer-Tomkinson	458,330	0.46	510,962	0.46
James Cross	250,000	0.25	250,000	0.23
Peter McKenna	Nil	Nil	Nil	Nil

*assuming the Manager's Option is not exercised.

(i) Lord Daresbury and Ivan Koulakov are disposing of Ordinary Shares in the Placing as shown above. To the extent the Manager's Option is exercised, Mr. Koulakov may also dispose of up to a further 182,500 Ordinary Shares.

(ii) Duncan Baxter has applied for 10,000 Ordinary Shares in the Placing. Christopher Palmer-Tomkinson has applied for 52,632 Ordinary Shares in the Placing.

(iii) Included in the shareholding of Christopher Palmer-Tomkinson shown above are 208,330 Ordinary Shares allotted in the placing effected on 31 May 2002.

(b) Save as set out in paragraph 6(a)(iii), the shareholdings prior to Admission shown above comprise Ordinary Shares issued at par to the Directors as founders of the Company, as described in paragraph 1(a) of this Part V.

(c) The Company intends, subject to receiving the necessary approvals, to implement a share option scheme in due course.

(d) Save as set out below, or as disclosed elsewhere in this document, no directorships of any company, other than the Company, have been held or occupied over the previous five years by any of the Directors, nor over that period has any of the Directors been a partner in a partnership:

Director	Current directorships	Former directorships
Lord Daresbury	Aintree Racecourse Company Limited	Cheshire Hunt Properties Limited
	Daresbury Dairy Farm Limited	First Leisure Corporation Limited
	Daresbury Properties Limited	Classic Ales Limited
	De Vere Group Plc	Downtons Wholesalers Limited
	Grand National Steeplechase Limited	JP O'Brien & Company Limited
	Roedale Limited	Special Choice Limited
	Delamere Forest Properties Limited	Stretton Leisure Clubs Limited
	Highland Star Investments Limited	WG Wood Limited
	Highland African Mining Company Limited	W Halliwell & Company Limited
	Overseas Mining Investments Limited	Greenalls Finance Limited
	Randalls Property Limited	Inn Partnership Estates Limited
	Jupiter Offshore Portfolio Fund Limited	De Vere Hotels & Leisure Limited
	The Countryside Foundation for Education	Greenalls Management Limited
	Daresbury Drinks Limited	The Boddington Group Limited
	The Greenalls Group Pension Trustees Limited	Greenalls (Pelican) Limited
		Greenalls Finance Limited
		JA Devenish Limited
		Tavern (1993) Limited
		Wetnose.com Limited
		De Vere (Blackpool) Limited
		De Vere Leisure Limited
		West Country Ales Limited
		Isah Limited
		British Beer and Pub Association
		Scottish and Newcastle Retail Limited

Director	Current directorships	Former directorships
Duncan Baxter	Alpha Bank Jersey Limited Alternative Investment Strategies Limited American Income Trust Limited B&Q (Retail) Guersney Limited B&Q (Retail) Jersey Limited Baxter P.A. Ltd BFS Equity Income & Bond Trust Limited Bristol and West International Limited Campastre Holdings Limited Crazier Limited Dower Properties Limited Exeter Smaller Companies Income Fund Limited Mount International Limited Murray Japan Growth & Income Limited Property Income & Growth Fund Limited Swiss Fiduciary Limited American ZDP Limited BFS Equity Income & Bond Trust (Guernsey) Limited BFS Overseas Investments Limited Accessories Holding Company Limited AH Vetta Europe Limited Veta USA Ltd Bauchet International Inc Bon-Art Incorporated Furniture Builders Limited HYBR Wireless Industries Limited ESCIF Securities Limited BC Property Securities Limited BC Property Holdings Limited	SBC Employee Benefits Trust Limited SBC Fund Managers (Jersey) Limited SBC Funding (Jersey) Limited SBC Warburg Finance Company Limited Swiss Bank Corporation (Jersey) Limited Shiva Limited Key Mandates Limited Golden Era Limited Exeter Enhanced Income Fund Limited Framlington Health & Income Fund Limited Cazenove Fund Management Jersey Limited Cazenove International Asset Management Ltd Cazenove Global Emerging Markets Portfolio Ltd Dartvest Jersey Limited The Royal Bank of Scotland Trust Co (Jersey) Ltd Swiss Bank Corporation Trust (Jersey) Limited TC (Jersey) Limited SBC Jersey Holdings Limited SBC Jersey Investments Limited SBC Jersey Nominees Limited RBSI Trust Company Limited Alpine Distribution Services Catalina Furniture Co. Inc Catalina Furniture Designs Inc FBL Limited Gruen Holding Corporation Gruen Marketing Corporation Nazareth Century Corporation Nazareth Century Mills Inc Nazareth International Inc Regal Industries Inc SFPNC Limited BFS Equity Income & Bond Trust (Jersey) Limited
James Cross	South African Mint Company (Pty) Ltd South African Bank Note Company (Pty) Ltd Airvan Africa (Pty) Ltd	Corporation for Public Deposits South Africa Reserve Bank
Ted Grobicki	Harmony Gold Mining Co. Ltd Bendigo Mining NL	West Rand Consolidated Mining Ltd Kalahari Goldridge Mining Co Ltd Randgold Exploration Limited Randgold Resources Limited
Ivan Koulakov	None	OAO Sibneft

Director	Current directorships	Former directorships
Peter McKenna	Harmony Gold Management Services Ltd Harmony Gold (Australia) Pty Ltd	Free State Development and Investment Corporation Barnato Exploration Limited Southbrand Gold Holdings Limited Eastvaal Gold Holdings Limited Lomati Exploration Limited B & O Mineral Exploration Cape Verde (Pty) Limited Deor Prospectors (Pty) Limited Gobabis Manganese (Pty) Limited Gorob Management & Mining Co. (Pty) Limited Harmony Gold Mining Company Limited JCI (Bophuthatswana) (Pty) Limited JCI East Africa Limited JCI (Ghana) Limited JCI (Tanzania) Limited JCI (Zambia) Limited Otjihase Mining Co. Limited Palmietfontein Mining Ventures (Pty) Limited Putsberg Exploration & Mining Company Limited Remaining Extent & Ptn 15 Wildebeestfontein (Pty) Ltd Southern Holdings Limited Barnex (Prestea) Limited Tan Range Exploration Limited West Rand Consolidated Mining Ltd New Hampton Goldfields Limited
Christopher Palmer-Tomkinson	Henderson Electric & General Investment Trust Plc Cazenove Service Company Goodenough College The British Tennis Foundation	Cazenove Securities Limited Cazenove South Africa (Proprietary) Limited

(e) None of the Directors has any unspent convictions in relation to indictable offences nor, save as disclosed below, has any of the Directors been a director of a company (wherever incorporated) or a partner in a partnership at any time which has gone into administration, company or partnership voluntary arrangements, or any composition or arrangement with creditors generally or any class of creditors, receiverships, compulsory liquidations or creditors' voluntary liquidations, where he was a partner or director at the time or in the preceding 12 months, nor has any of them ever been personally bankrupt, in an individual voluntary arrangement with creditors or been publicly criticised by any statutory or regulatory authority or professional body:

(i) Lord Daresbury was a director of Wetnose.com Limited, a retail company which was placed into voluntary liquidation by its directors on 2 November 2000; and

(ii) Duncan Baxter was a director of Exeter Enhanced Income Fund Limited, a closed end investment company, which was placed into insolvent liquidation by its directors on 13 August 2002. He was also a director of Framlington Health & Income Fund Limited, a closed end investment company, which was placed into insolvent liquidation by its directors on 10 October 2002.

(f) None of the Directors has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7. DIRECTORS' TERMS OF EMPLOYMENT

The Directors, whose names appear under the section headed, "Board of Directors" in Part I of this document, have been appointed to the offices set out next to their respective names. The terms of their respective service agreements and letters of engagement are set out below:

(a) The Company entered into a service agreement with Lord Daresbury commencing on 18 June 2002. Pursuant to the agreement, Lord Daresbury will devote such time, attention and skill as is reasonably necessary, to the duties of Executive Chairman. He is entitled to a base salary of US$75,000 per annum. Lord Daresbury's salary will be reviewed annually by the Company's remuneration committee. Lord Daresbury may terminate the service agreement by giving 12 months' notice in writing. The Company may terminate the service agreement either by giving 12 months' notice in writing or a payment of 12 months' salary in lieu of notice together with any bonus payable.

(b) The Company entered into a service agreement with Mr. Koulakov commencing on 18 June 2002. Pursuant to the agreement, Mr. Koulakov will devote such time, attention and skill as is reasonably necessary, to the duties of Managing Director. He is entitled to a remuneration of US$50,000 per annum. Mr. Koulakov's salary will be reviewed annually by the Company's remuneration committee. Mr. Koulakov may terminate the service agreement by giving 12 months' notice in writing. The Company may terminate the service agreement either by giving 12 months' notice in writing, or a payment of 12 months' salary in lieu of notice together with any bonus payable. On termination Mr. Koulakov has covenanted with the Company that he will not directly or indirectly seek to procure orders from or do business with any individual, firm or company who has done business with the Company during the period of one year preceding termination or endeavour to entice away any of the Company's employees employed by the Company during the period of one year immediately preceding such termination.

(c) Mr. Koulakov has also entered into a labour contract with OOO RDM for a term of two years at a salary of US$150,000 in respect of his services as a member of the management team of the Company's business in Russia.

(d) The Company entered into a service agreement with Mr. Duncan Baxter commencing on 8 December 2002. Pursuant to the agreement, Mr. Baxter will devote such time, attention and skill as is reasonably necessary, to the duties of Director responsible for finance. He is entitled to a base salary of US$100,000 per annum plus a discretionary bonus. Mr. Baxter's salary will be reviewed annually by the Company's remuneration committee. Mr. Baxter may terminate the service agreement by giving 6 months' notice in writing. The Company may terminate the service agreement either by giving 6 months' notice in writing, or a payment of 6 months' salary in lieu of notice together with any bonus payable.

(e) Save as stated in this paragraph 7, there are no service agreements existing or proposed between any Director and the Company or any member of the Group other than service agreements expiring or determinable by the employing company without payment of compensation, within one year.

(f) Mr. Thaddeus Grobicki is engaged by the Company as a Non-Executive Director on the terms of a letter of appointment. The appointment is for an initial fixed term commencing on 18 June 2002 and continuing until 31 December 2003. The term may be renewed by the Board. Mr. Grobicki will receive an annual fee of US$45,000. Mr. Grobicki has undertaken that, as a director of any other company or as agent for any other company, he will not (except with the Board's written permission) use or exploit for commercial advantage any opportunities or situations which may arise directly or indirectly as a result of this appointment.

(g) Mr. Peter McKenna is engaged by the Company as an alternate Non-Executive Director to Mr. Grobicki on the terms of a letter of appointment. The appointment is for a fixed term commencing 18 June 2002 and continuing until 31 December 2003. The term may be renewed by the Board. Mr. McKenna will not receive any annual fee. Mr. McKenna has undertaken that, as a director of any other company or as agent for any other company, he will not (except with the Board's written permission) use or exploit for commercial advantage any opportunities or situations which may arise directly or indirectly as a result of this appointment.

(h) Mr. Christopher Palmer-Tomkinson is engaged by the Company as a Non-Executive Director on the terms of a letter of appointment. The appointment is for a fixed term commencing on 17 September 2002 and continuing until 31 December 2003. The term may be renewed by the Board. Mr. Palmer-Tomkinson will receive an annual fee of US$45,000.

(i) Mr. James Cross is engaged by the Company as a Non-Executive Director on the terms of a letter of appointment. The appointment is for a fixed term commencing on 9 October 2002 and continuing until 31 December 2003. The term may be renewed by the Board. Mr. Cross will receive an annual fee of US$45,000.

The aggregate of the remuneration paid and benefits in kind (including superannuation contributions) granted to the Directors by the Company during the period from incorporation to 30 June 2002 was US$4,333 and the aggregate of the remuneration payable and benefits in kind (including superannuation contributions) to be granted by the Group to the Directors for the financial year ending 31 December 2002 under the arrangements in force at the date of this document is estimated to be approximately US$255,000.

8. GROUP RESTRUCTURING

(a) On 24 May 2002, the Company entered into loan agreements with each of six non-affiliated Cyprus registered companies for the purpose of acquiring an interest in 75% of ZAO MNV and 100% of OOO Darasun. Details of these loan agreements are outlined in paragraph 9(a) of this Part V.

(b) On 31 May 2002, the interest in the remaining 25% of ZAO MNV was acquired from NAZ by the Group.

(c) On 7 August 2002, the Company acquired 100% of the issued ordinary share capital of Stanmix.

(d) On 5 September 2002, Stanmix received approval from MAP of Russia to consolidate interests in 100% of the issued ordinary share capital of ZAO MNV. On 12 September 2002, interests in the ordinary share capital of ZAO MNV were transferred from Culham, Labonte, Meriko, Kiltkomon and Simser to Stanmix in exchange for the assignment of their loan agreements with the Company to Stanmix, resulting in ZAO MNV becoming a wholly owned subsidiary of Stanmix. Under the terms of the loan agreement, the Company has the option to convert the outstanding loan into ordinary share capital of Stanmix at its discretion at some point in the future.

9. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries in the two years preceding the date of publication of this document and are or may be material:

(a) Loan agreements dated 24 May 2002, between the Company and six non-affiliated companies registered in Cyprus pursuant to which the Company agreed to lend a total of US$30 million for the purposes of acquiring an interest equivalent to 75% of ZAO MNV and 100% of OOO Darasun, the details of which are summarised below:

Company	Amount (US$)
Culham Enterprises Limited ("Culham")	5,700,000
Stanmix Holding Limited ("Stanmix")	5,700,000
Labonte Consultants Limited ("Labonte")	5,662,500
Meriko Trading Limited ("Meriko")	1,575,000
Kiltkomon Consultants Limited ("Kiltkomon")	5,700,000
Simser Ventures Limited ("Simser")	5,662,500

The borrowings of US$30 million bear no interest and are convertible into equity at the discretion of the Company. On 12 September 2002, the loans made to Culham, Labonte, Kiltkomon, Simser referred to above were assigned to Stanmix in exchange for their respective interests in the issued ordinary share capital of ZAO MNV. On 12 September 2002, the loan made to Meriko was assigned to Stanmix.

(b) An agreement dated 24 May 2002 between the Company, Neftyanaya Finansoraya Kompania ("NFK") and Palmtex Limited, pursuant to which NFK gave warranties in relation to, *inter alia*, the capacity of the parties to enter into acquisition agreements relating to the acquisition of shares in ZAO MNV on 24 May 2002, the corporate affairs of ZAO MNV and OOO Darasun, taxation and licences. Palmtex Limited agreed to guarantee the full and due performance and observance by NFK of its obligations under or arising pursuant to any claim under the agreement for breach of warranty.

(c) Share purchase agreements dated 31 May 2002 pursuant to which ZAO MNV and THM together acquired an interest in 25% of the ordinary issued share capital of ZAO MNV.

(d) Share purchase agreements dated 6 September 2002 between (a) Stanmix and Danestone Limited and (b) Stanmix and Escanderia Holding Ltd pursuant to which interests in 25% of ZAO MNV were transferred to Stanmix.

(e) An equity participation agreement dated 15 November 2002 between Mr. Ivan Koulakov and the Company pursuant to which Mr. Koulakov has, *inter alia*, undertaken to use best efforts to procure that certain key members of the existing management team of ZAO MNV enter into contracts of employment with the Group and has provided certain warranties in relation to the business and assets of ZAO MNV as at the date of the acquisition by the Company of the entire issued share capital of ZAO MNV. In consideration for the giving of these undertakings and warranties the Company has agreed to issue and allot to Mr. Koulakov such number of Ordinary Shares as represent 22.75% of the issued ordinary share capital of the Company immediately prior to the Placing. The agreement contains various limitations on the liability of Mr. Koulakov in respect of any breach of the warranties and the maximum liability of Mr. Koulakov in respect of all breaches of the warranties is limited to the value, at the time of the claim, of such number of Ordinary Shares as represents 5% of the issued share capital of the Company immediately prior to the Placing. Mr. Koulakov has entered into a lock-in agreement in respect of his shareholding in the Company, further details of which are set out in paragraph 9(y) of this Part V.

(f) A facility letter dated 29 July 2002 from Hightops Gold Limited to the Company pursuant to which Hightops Gold Limited agreed to lend the Company the sum of US$700,000 on the following principal terms:

(i) Repayment to be on Admission or 31 December 2002, whichever is earlier.

(ii) Interest to be US$ overnight LIBOR plus 3% to be increased to US$ overnight LIBOR plus 8% on overdue repayments repayable in full on maturity.

(iii) On 1 October 2002 the amount of the loan was increased to US$900,000, and on 24 October 2002 it was further increased to US$1,150,000.

(g) Loan agreements between ZAO MNV and OOO Darasun and other then affiliates of ZAO MNV are described in the table below. None of these loans are interest bearing.

Name of borrower	Date	Amount	Term
OOO Darasun	22 October 2001	RUR14,300,00	2 years
OOO Darasun	4 January 2002	RUR50,000,000	2 years
OOO Darasun	12 October 2001	RUR5,600,000	2 years
OOO Darasun	22 October 2002	RUR10,000,000	2 years
ZAO ZAIIT	11 December 2001	RUR15,000,000	1 year
ZAO ZAIIT	14 May 2001	RUR15,000,000	2 years
Energy sport club	20 March 2002	RUR20,000,000	3 years

(h) An agreement dated 8 October 2001, between OOO Darasun and OAO GOK Darasunzoloto ("GOKD") pursuant to which OOO Darasun leased certain fixed assets from GOKD. The lease agreement is subject to three month's notice although certain of these assets have since between acquired by OOO Darasun. The remaining assets continue to be leased under the agreement.

(i) An agreement dated 8 October 2001, between OOO Darasun and OOO Teremky pursuant to which OOO Darasun leased certain fixed assets from OOO Teremky. The lease agreement is subject to three months notice although the majority of these assets have been acquired by OOO Darasun. The remaining assets continue to be leased under this agreement.

(j) Two sale and purchase agreements dated 10 September 2002 between OOO Darasun and GOKD pursuant to which OOO Darasun purchased fixed assets (including those fixed assets referred to in paragraph 9(h) of this Part V) from GOKD for a total consideration of US$450,000.

(k) Two sale and purchase agreements dated 10 September 2002 between OOO Darasun and OOO Teremky pursuant to which OOO Darasun purchased fixed assets (including those fixed assets referred to in paragraph 9(i) of this Part V) from OOO Teremky for a total consideration of US$150,000.

(l) An agreement between OOO Darasun and LLC Teploenergotekhinika in respect of the construction of fixed plant at the Darasun at a total cost of US$1.2 million payable in instalments to be completed by October 2003.

(m) An agreement dated 10 September 2002 between OOO Darasun and GOKD pursuant to which OOO Darasun purchased certain mining equipment at the Darasun project for a total consideration of US$1.1 million.

(n) An agreement dated 11 September 2002, between ZAO MNV and ZAO Business Centre pursuant to which ZAO MNV acquired an 81.29% interest in OAO NS for a consideration of US$400,000. The agreement was conditional upon the registration of the shares under ZAO MNV's name and on the delivery of the certificates for state registration for certain fixed assets owned by OAO NS. These conditions have subsequently been met.

(o) A loan agreement between ZAO MNV and Menatep dated 29 November 2002 pursuant to which Menatep provided a loan of US$15 million to ZAO MNV. The interest rate payable by ZAO MNV under this agreement is 10.5% per annum and the term of the repayment is 11 months from draw down. The credit facility is secured on gold bars and surety provided by OOO Darasun.

(p) A facility agreement between ZAO MNV and International Moscow Bank ("IMB") dated 1 November 2002 pursuant to which IMB provided a credit facility of up to US$7 million to ZAO MNV. The interest rate payable by ZAO MNV under this agreement is 8.5% per annum and the term of repayment of this loan is 12 months from the date of draw down. The credit facility is secured on gold ore and fixed assets owned by ZAO MNV to a value of US$8.75 million.

(q) An engagement letter dated 24 May 2002 between the Company and FF&P Advisory Limited ("FF&P Advisory") pursuant to which FF&P Advisory agreed to act as financial adviser to the Company in relation to the acquisition of MNV and other related matters, in consideration for which FF&P Advisory received from the proceeds of the placing of Ordinary Shares on 31 May 2002 a commission equal to 5% of the funds raised. FF&P Advisory also agreed to give general financial advice to the Company in relation to its overall strategy for Admission, and it was agreed in relation thereto that FF&P Advisory (or other FF&P group company) would received a fee calculated on the basis of the value of an interest of 5% of the issued share capital of the Company as at 31 May 2002. Under the terms of the engagement letter the Company agreed to procure that 5% of the issued share capital of the Company be set aside for satisfaction of the fee obligation in favour of FF&P Advisory set out therein.

(r) An agreement dated 12 August 2002, between the Company and W.H. Ireland pursuant to which the Company appointed W.H. Ireland to act as broker to the Company. The Company has agreed to pay W.H. Ireland a success fee of £35,000, plus out of pocket expenses and VAT, in relation to Admission and the Placing and an annual fee of £20,000 plus VAT for services as broker under this agreement and a commission calculated at a rate of 3% of the aggregate value of such New Ordinary Shares at the Placing Price which are subject to the Placing together with a further commission calculated at the rate of 2% of the aggregate value of such New Ordinary Shares at the Placing Price which are subject to the Placing and for which W.H. Ireland, itself or through an agent, had procured subscribers. This agreement contains certain undertakings and indemnities given by the Company in respect of, *inter alia*, compliance with all applicable laws and regulations. The agreement is for a fixed term of 12 months and is subject to termination on 90 days notice by either party thereafter.

(s) An agreement dated 12 August 2002 between the Company and W.H. Ireland pursuant to which the Company appointed W.H. Ireland to act as nominated adviser to the Company for the purposes of the AIM Rules. The Company has agreed to pay W.H. Ireland a success fee of £90,000, plus out of pocket expenses and VAT, plus an annual fee of £20,000 plus VAT. On Admission, the Company will issue to W.H. Ireland a warrant to subscribe at the Placing Price in respect of such number of Ordinary Shares as represents 0.25% of the fully diluted ordinary share capital of the Company immediately following Admission at the Placing Price, further details of which are set out below at paragraph 9(x). The agreement is for a fixed term of 12 months and is subject to termination on 90 days notice by either party thereafter.

(t) A Placing Agreement dated • December 2002 between the Company, the Directors, certain existing Shareholders and W.H. Ireland pursuant to which W.H. Ireland agreed subject to, *inter alia*, Admission taking place not later than • day of • or such later date as the Company and W.H. Ireland may agree, but in any event not later than • as agent for the Company, to use all reasonable endeavours to procure subscribers for New Ordinary Shares at the Placing Price, and as agent for such existing Shareholders to procure purchasers for certain Existing Ordinary Shares at the Placing Price. In addition, such existing Shareholders have granted the Manager's Option to W.H. Ireland. The Company also agreed to pay all other costs and expenses incurred in connection with the Placing and the application for Admission including all of W.H. Ireland's out of pocket expenses and legal fees. Further details of the Placing Agreement are set out in paragraph 17 of this Part V.

(u) On 31 July 2002, an agreement between ZAO MNV and Aurel Trade and Finance Inc. ("Aurel") pursuant to which ZAO MNV agreed to pay Aurel a fee of US$2 million for procurement services in respect of certain acquisitions of the Group including the acquisition in September 2002 of shares in OAO NS.

(v) A collective bargaining agreement ("the Collective Agreement") dated 30 September 1999 between ZAO MNV and its employees. Although the Collective Agreement was only valid until 31 March 2000, the provisions of Russian law relating to collective bargaining agreements state that, upon expiry, a collective bargaining agreement remains in force until it is changed or a new collective bargaining agreement is concluded. Additional benefits have been granted to the employees by the Collective Agreement as follows:

  (i) All dwellings erected or purchased by ZAO MNV should be provided to the employees for their accommodation;

  (ii) ZAO MNV will pay to the trade union monthly an amount equal to 1% of the aggregate monthly pay roll;

  (iii) ZAO MNV will provide the trade union with transport, prints and copies and information material at the expense of ZAO MNV;

  (iv) ZAO MNV will pay the average salary and travel amounts to employees that are representatives of the union when they attend seminars and studies organised by the trade union;

  (v) ZAO MNV will agree with the trade union prices for goods to be sold to employees;

  (vi) ZAO MNV is prohibited from spending the funds allocated in ZAO MNV's budget for occupational safety for any other purpose;

  (vii) Employees are entitled to long service awards;

  (viii) Employees are entitled to retirement benefits from ZAO MNV calculated as a monthly wage of an employee multiplied by the number of years employed;

  (ix) Employees are entitled to paid leave up to 3 days in case of marriage of an employee or marriage of an employee's child, the birth of a child or grandchild, death of a spouse or close relative; and

  (x) Employees who have school children are entitled to up to 1 day of paid leave on the first day of the school year.

(w) An agreement dated 30 October 2002 pursuant to which the Company appointed 3C as capital markets' adviser to the Company. The Company agreed to pay 3C a success fee of 1% of the value of the Placing Shares subject to a minimum fee of £100,000 and a maximum fee of £225,000. In addition, it was agreed that 3C would receive a monthly retainer of £20,000 to be netted off against the success fee.

(x) A warrant instrument made by the Company on • December 2002 pursuant to which the Company will, conditional upon Admission, grant to W.H. Ireland warrants to subscribe at the Placing Price for up to such number of Ordinary Shares as represents 0.25% of the aggregate of the issued Ordinary Share capital of the Company immediately following Admission and of any Ordinary Shares then under option or which the Company might require to allot pursuant to any offer or agreement then made. Those warrants may be exercised in whole or in part at any time and from time to time during the period of three years commencing on Admission. If, following Admission, the Company makes a bonus issue, sub-divides, consolidates or reduces its Ordinary Share capital, then the numbers of Ordinary Shares which are the subject of the warrants and the subscription price per Ordinary Share shall be adjusted in such manner as the auditors of the Company shall certify to be reasonable.

(y) The Directors (other than Mr. Koulakov) have each entered into separate lock-in agreements with the Company and W.H. Ireland dated • December 2002 in respect of their respective shareholdings in the Company, in terms of which they have each agreed (subject to the exceptions summarised below): (i) not to dispose of (and to use their respective reasonable endeavours to procure that no person connected to them will dispose of) any interest in Ordinary Shares for a period of six months from Admission; and (ii) not to dispose of (and to use their respective reasonable endeavours to procure that no person connected to them will dispose of) any interest in Ordinary Shares other than through W.H. Ireland (or the Company's broker from time to time) for a period of twelve months from Admission. The Directors (or persons connected to them) may, however, dispose of Ordinary Shares in the event of an intervening court order, a takeover offer relating to the Company's shares becoming or being declared unconditional, the death of the individual concerned or the exercise of the Manager's Option.

    Mr. Koulakov has entered into a lock-in agreement with the Company and W.H. Ireland dated • December 2002 in respect of his shareholding in the Company, in terms of which he has agreed (subject to the exceptions summarised below): (i) not to dispose of (and to use his reasonable endeavours to procure that no person connected to him will dispose of) any interest in Ordinary Shares during the period ending on the later of 31 December 2004 and the second anniversary of Admission; and (ii) not to dispose of (and to use his reasonable endeavours to procure that no person connected to him will dispose of) any interest in Ordinary Shares other than through W.H. Ireland (or the Company's broker from time to time) for a further period of six months thereafter. Mr. Koulakov (or persons connected to him) may, however, dispose of Ordinary Shares in the event of an intervening court order, a takeover offer relating to the Company's shares becoming or being declared unconditional, the death of the individual concerned or the exercise of the Manager's Option.

All the Shareholders in the Company holding 3% or more of the issued capital of the Company prior to Admission (as set out in paragraph 3(d) of Part V of this document) have each entered into separate lock-in agreements with the Company and W.H. Ireland dated • December 2002 in respect of their respective shareholdings in the Company, in terms of which they have each agreed (subject to the exceptions summarised below): (i) not to dispose of (and to use their respective reasonable endeavours to procure that no person connected to them will dispose of) any interest in Ordinary Shares for a period of six months from Admission; and (ii) not to dispose of (and to use their respective reasonable endeavours to procure that no person connected to them will dispose of) any interest in Ordinary Shares other than through W.H. Ireland (or the Company's broker from time to time) for a period of twelve months from Admission. Those shareholders (or persons connected to them) may, however, dispose of Ordinary Shares in the event of an intervening court order, a takeover offer relating to the Company's shares becoming or being declared unconditional, the death of the individual concerned or the exercise of the Manager's Option. In addition, The Regent Trust Company Limited, Hightops Gold Limited, London & Lochside Investments Limited (all being members of the concert party described in the paragraph entitled "The City Code on Takeovers and Mergers" contained in Part I of this document) may dispose of Ordinary Shares, subject to the requirements of the Takeover Panel, to other members of that concert party provided the transferee is already a party to or enters into a lock-in agreement on the same terms as that undertaken by the transferor.

The Wyfold Foundation, FF&P Asset Management Limited, Philip Fleming and Republic Nominees Limited have each entered into a lock-in agreement with the Company and W.H. Ireland dated • December 2002 in respect of their respective shareholdings in the Company (as set out in paragraph 18(l) of this Part V), in terms of which they have each agreed (subject to the exceptions summarised below): (i) not to dispose of (and to use their reasonable endeavours to procure that no person connected to them will dispose of) any interest in Ordinary Shares, without obtaining W.H. Ireland's prior consent (such consent not to be withheld in the case of an orderly disposal of Ordinary Shares), for a period of six months from Admission; and (ii) not to dispose of (and to use their reasonable endeavours to procure that no person connected to them will dispose of) any interest in Ordinary Shares other than through W.H. Ireland (or the Company's broker from time to time) for a period of twelve months from Admission. These Shareholders (or persons connected to them) may, however, dispose of Ordinary Shares as a result of the exercise of the Manager's Option, in the event of an intervening court order, in the event of a takeover offer relating to the Company's shares becoming or being declared unconditional or on the death of the individual concerned. Furthermore, The Wyfold Foundation, FF&P Asset Management Limited and Philip Fleming may dispose of Ordinary Shares, subject to the requirements of the Takeover Panel to other members of the concert party described above provided the transferee has entered into the same arrangements as those described above.

10. CONTRACTS FOR THE SALE OF GOLD AND ORE PROCESSING

The sales of gold and other transactions with processed metals are regulated by Russian Federal Law concerning "precious metals and gem stones" No. 41-FZ dated 26 March 1998 and certain other government regulations. This law requires that any gold offered for sale by gold producers must first be offered for sale to the authorised federal state body (Gokhran) and then to the authorised regional state body in charge of regional funds of precious metals and gemstones. ZAO MNV received confirmation from the authorised federal and regional state bodies waiving their rights described above and entered into agreements during 2001 with a number of domestic commercial banks, including Commercial Bank MDM, OAO Dalcobank KB and OAO Bank Menatep in respect of the sale and supply of gold bars to them during the course of 2002. ZAO MNV also sells gold to domestic commercial banks on a spot price basis in respect of gold produced in excess of that which ZAO MNV is contractually obliged to supply.

The Company intends to employ a similar approach to contracts for the supply of gold in 2003. To this end ZAO MNV has already agreed to supply gold bars in 2003 to Zenit Bank and OAO Bank Menatep as part of its obligations under the loan agreements outlined in paragraph 9 of this Part V, on the basis that it secures the appropriate federal and regional waivers.

11. OVERVIEW OF THE MINING REGULATORY FRAMEWORK IN RUSSIA

The Russian Federal Law No. 2395-1 "Concerning Subsoil" dated 21 February 1992 (as amended) states that the subsoil is owned exclusively by the State. Subsoil cannot be the subject of sale, purchase, gift, pledge or other alienation.

The state authorities may grant rights for individuals and legal entities to use the subsoil. The subsoil may be used for geological research, exploration and extraction of minerals, erection and exploitation of underground facilities, the creation of protected geological objects and the collection of geological materials.

The rights to use the subsoil are subject to licensing. A licence certifies the right of a licencee to use the subsoil. The licence for the use of the subsoil is issued by the Ministry of Natural Resources of the Federal Authority which liaises with the appropriate Local Authority.

Under a mineral extraction licence, the licensee is provided with a mining allotment. The possession of a mining allotment gives a licensee an exclusive right to use the subsoil within the boundaries of the mining allotment. The licence for extraction of minerals also includes the right to explore and develop minerals. The licensee has the right to carry out geological works within the mining allotment in connection with its extraction activities. Geological works require further approvals from the relevant authorities.

Under the Subsoil Law, the licence is granted for a limited period of time. A licence for extraction of minerals is usually granted for the life of the mine.

A licensee must pay rent for the use of the subsoil.

A licence cannot be assigned to third parties and may be terminated, withdrawn, suspended or restricted prior to the expiry date due to a breach of a material licence term and in other cases such as:

(a) an immediate danger to the health of people working or living in the areas impacted by the mining operations;

(b) repeated breaches of any of the licence conditions;

(c) an emergency occurring such as a natural disaster, war etc;

(d) a failure to commence operations in accordance with the scope provided for in the licence;

(e) the licensee going into liquidation;

(f) the licensee requesting that the licence be terminated;

(g) the licensee failing to file a report as stipulated by Russian law; or

(h) the licensee providing unreliable information.

The extracted minerals may be owned by the State, the municipality or privately. The ownership to the extracted minerals should be specified in the mineral licence.

The Russian Federation has the general right to expropriate private property. However, this right is not an absolute right and Article 35 of the Russian Constitution provides protection from expropriation by providing that no one may be deprived of property other than by a court decision. The expropriation of property by the State may be carried out only on the basis that full compensation is made.

There have been recent press announcements to the effect that the Russian Government is currently proposing a new draft Subsoil Law. The proposals indicate that mining licences may be substituted by concession agreements. It is the opinion of the Directors that if the new draft Subsoil Law is enacted in its current form, it would give the users of the subsoil more protection. At present, the state authorities may terminate a licence unilaterally. Under the proposed draft Subsoil Law, a licence may be terminated only by court order.

12. DETAILS OF THE GROUP'S MINING LICENCES

(a) ZAO MNV holds a licence for subsoil use for the extraction of gold ore and co-components from the gold bearing field of Mnogovershinnoe, registered on 20 October 2000 and valid until 31 December 2018 ("Gold Licence"). The Gold Licence grants the right to extract gold, silver and other metals from the MNV deposit. The licence agreement attached to the Gold Licence states that ZAO MNV is the owner of the extracted gold, silver and co-components. Further details of the conditions of the Gold Licence are set out below:

(i) Refine not less than 400,000 tonnes of ore in 1999;

(ii) Reach the annual production capacity in 2000, and refine not less than 600,000 tonnes of ore per year;

(iii) Recovery suitable for production must be not less than 90%;

(iv) Exploitation of minesite on the basis of duly approved projects, schemes and technical rules;

(v) Comply with subsoil, environmental, industrial safety rules and industrial standards with respect to technology;

(vi) Comply with statutory technical procedures and deadlines for the preparation of projects for liquidation or conservation of minesite, recultivation of lands;

(vii) Return to the state the land plot provided to ZAO MNV for exploitation of minesite and recultivation of lands will be finished;

(viii) Submit data related to exploitation of minesite to the state geological authorities, state mines inspectorate, environmental and other authorities as required by legislation;

(ix) Take steps for the creation of economically reasonable refinery facilities in Khabarovsk Region;

(x) Acquire equipment and real estate from NAZ and ZAO AIGM NAZ Progress which is necessary to the Company from the point of view of production technology;

(xi) Pay subsoil usage taxes and levies set forth by legislation of Russia, legislation of Khabarovsk Region and Licence Agreement;

(xii) Submit statistic reports with respect to exploitation of minefield as prescribed by Russian legislation;

(xiii) Submit prospective and annual plans of mining development to the state mines inspectorate;

(xiv) Comply with standards related to the safety of working places and local residents;

(xv) Undertake all activities in compliance with environmental legislation and rules for protection of buildings against damages;

(xvi) Employ citizens of Russia;

(xvii) Employ at least 1000 residents of Nikolaevsky District when the planned industrial capacity has been reached;

(xviii) Insure health and life employees and the property of the Company;

(xix) Keep in safety exploration mine workings and drill holes that may be used for exploration or ore minerals and other purposes;

(xx) Liquidation of mine workings and drill holes that cannot be used;

(xxi) Keep in safety geological and other documentation prepared during geological surveys; and

(xxii) Undertake exploration of the minesite within boundaries of mining allotment and land allotment acquired in accordance with legislation.

(b) OOO Darasun holds a licence for subsoil use for the extraction of gold, silver, copper and bismuth by the subsurface method from the gold bearing field of Teremkinskoye issued to OOO Darasun ("the Teremkinskoye Licence") registered with the Federal State Agency "Chita Territorial Fund of Geological Information" on 12 February 2002. The licence is a short term production licence valid until 12 February 2003. The Company is currently in the process of applying for the equivalent long term licence, further details of which can be found in Part I "Darasun – gold mining licences" of this document.

(c) OOO Darasun holds a licence for subsoil use for the extraction of gold and silver by the subsurface method from the gold bearing field of Darasunskoye issued to the Company ("the Darasunskoye Licence"). The licence is a short term production licence and is valid until 12 February 2003. The Company is currently in the process of applying for the equivalent long term licence, further details of which can be found in Part I "Darasun – gold mining licences" of this document.

(d) OOO Darasun holds a long term licence through its subsidiary company, ZAO Talatui, for subsoil use for the extraction of gold from the Talatui deposit. The licence is a long term production licence and is valid until 2012. Further action is required for the Company to be fully compliant with the terms of this licence.

(e) OAO NS holds a long term licence for subsoil use for the extraction of ore gold and co-components from the Novoshirokinskoye deposit. The licence is a long term production licence and is valid until December 2012. Further action is required in order for the Company to be fully compliant with the terms of this licence.

13. LITIGATION

No member of the Group is engaged in, or has pending or threatened either by it or against it, any legal or arbitration proceedings which are having or may have a significant effect on the financial position of the Group except as disclosed in this paragraph:

On 31 May 2002, NAZ represented by its receiver entered into two sale and purchase agreements ("the Agreements") with ZAO MNV for the sale of 25% the issued share capital of ZAO MNV. On 11 July 2002, OAO Khabarovsk Energo ("the Plaintiff") filed with the Khabarovsk Arbitration Court (the "Court") a claim against NAZ, ZAO MNV and THM. The Plaintiff requested the Court to reverse and invalidate the agreements and order the return of the shares in ZAO MNV to NAZ with repayment of the consideration to ZAO MNV and THM. On 26 August 2002, the Court, as the first instance court, fully dismissed the Plaintiff's claims referred to above. To the best of the knowledge of ZAO MNV, THM and the Directors, the Plaintiff has not filed an appeal although there remains some opportunity for the Plaintiff to appeal for a limited period. The Company has received legal advice from its Russian legal advisers that both THM and ZAO MNV have strong legal arguments and their respective positions under Russian Law are sound. In the opinion of the Company's legal counsel, in any appeal the likelihood that ZAO MNV and THM will not succeed and the transactions contemplated by the agreements will be reversed is negligible and the Plaintiff's claim would fail.

14. WORKING CAPITAL

The Directors are of the opinion that, having made due and careful enquiry and having regard to the net proceeds receivable by the Company from the Placing, the working capital available to the Company and to the Group following Admission will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

15. TAXATION

General

The statements set out below are intended only as a general guide to the tax position based on current Jersey and UK tax legislation and Inland Revenue practice and apply only to certain categories of UK persons. The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares. Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under any tax laws of the acquisition, ownership and disposition of Ordinary Shares in the Company. Shareholders who may be subject to tax in any jurisdiction other than the United Kingdom should consult their professional advisers without delay.

The statements do not cover all aspects of Jersey or UK taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares in the Company by particular investors. The statements apply only to Shareholders who are the beneficial owners of the Ordinary Shares but are not applicable to all categories of Shareholders, and in particular are not addressed to (i) Shareholders who do not hold their Ordinary Shares as capital assets; (ii) Shareholders who own (directly or indirectly) 10% or more of the Company; (iii) special classes of Shareholders such as dealers in securities or currencies, broker-dealers, or investment companies; (iv) Shareholders who hold Ordinary Shares as part of straddles, hedging or conversion transactions; or (v) Shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or otherwise).

Except where indicated, the statements below in respect of the taxation of dividends and distributions and the taxation of chargeable gains only cover the principal UK tax consequences of holding Ordinary Shares for holders who are resident in the UK for tax purposes although it should be noted that special rules, which are not covered, apply to such holders of shares who are not domiciled in the UK.

The Company is an exempt tax company for the purposes of the Income Tax (Jersey) Law 1961, as amended. The Company is, therefore, treated as not resident in Jersey and is exempt from Jersey income tax other than on Jersey source income (excluding, by concession, Jersey bank deposit interest). In connection with the Company's exempt tax status, the Company will pay an annual fee to the Comptroller of Income Tax in Jersey which is currently fixed at £600. It is the intention of the Directors to conduct the affairs of the Company so as to ensure that it retains such tax exempt status, which is granted on an annual basis.

Taxation of dividends and distributions
Under current Jersey tax legislation, no Jersey tax will be withheld from any dividends paid by the Company to Shareholders resident in the UK.

A UK holder, or a holder of Ordinary Shares who is carrying on a trade, profession or vocation in the UK through a branch or agency in connection with which the Ordinary Shares are held will, depending upon the holder's particular circumstances, be subject to UK income tax or corporation tax as the case may be on the amount of any dividends paid by the Company. An individual Shareholder who is resident in the UK for tax purposes and who receives a dividend from the Company will be taxable at the Schedule F ordinary rate (10% in 2002-03) and/or (depending on the amount of the holder's overall taxable income) at the Schedule F upper rate (32.5% in 2002-03).

A Shareholder resident outside the UK may also be subject to foreign taxation on dividend income under local law. Shareholders who are not resident in the UK for tax purposes should consult their own tax advisers concerning tax liabilities on dividends received from the Company.

Taxation of chargeable gains
A disposal, or deemed disposal, of Ordinary Shares in the Company by a Shareholder who is either resident or ordinarily resident for tax purposes in the UK will, depending on the shareholder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or allowable loss for the purposes of the taxation of chargeable gains in the UK.

Broadly, Shareholders who are not resident or ordinarily resident for tax purposes in the UK will not be liable for UK tax on capital gains realised on the disposal of their Ordinary Shares unless such Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or for the purpose of such branch or agency. Such Shareholders may be subject to foreign taxation on any gain under local law.

A Shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident or ordinarily resident for tax purposes in the UK for a period of less than five complete tax years and who disposes of the Ordinary Shares during that period may also be liable to UK taxation of chargeable gains (subject to any available exemption or relief) as if, broadly, the disposal was made in such Shareholder's year of return to the UK.

Stamp duty
No Jersey or UK stamp duty or stamp duty reserve tax will arise on the issue of the Ordinary Shares or on the transfer of uncertificated Ordinary Shares. UK stamp duty may arise on the transfer of Ordinary Shares if they are in certificated form and are transferred by written instrument. The duty would arise at the rate of 0.5% of the amount or value of the consideration.

Inheritance tax
The Ordinary Shares will not be assets situated in the UK for UK inheritance tax purposes. A gift of such assets by, or the death of, an individual holder who is domiciled, or is deemed to be domiciled under certain rules relating to long residence or previous domicile, may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax. For inheritance tax purposes a transfer of assets at less than market value may be treated as a gift and particular rules may apply where the donor reserves or retains some benefit.

Jersey does not levy taxes upon capital inheritances, capital gains, gifts, sales or turnover, nor are there any estate duties save for an *ad valorem* fee for the grant of probate or letters of administration.

16. CONSENTS
(a) The Competent Person's Report from Steffen, Robertson and Kirsten (UK) Ltd. set out in Part III of this document and the name Steffen, Robertson and Kirsten (UK) Ltd. are included in the form and context in which they appear with the written consent, which has not been withdrawn, of Steffen, Robertson and Kirsten (UK) Ltd. which accepts responsibility for it.

(b) W.H. Ireland has given and not withdrawn its written consent to the inclusion in this document of references to its name, in such form and context in which it appears.

(c) Ernst & Young LLP has given and has not withdrawn its written consent to inclusion in this document of its name, reports and references to it in the form and content in which they appear and accepts responsibility for its report in accordance with paragraph 45(2)(a)(iv) and 45(8)(b) of Part VII of Schedule 1 of the POS Regulations.

(d) City Capital Corporation Limited has given and has not withdrawn its consent to the inclusion in this document of references to its name, in such form and context in which it appears.

17. ARRANGEMENTS RELATING TO THE PLACING

Pursuant to the Placing Agreement W.H. Ireland has agreed as agent for the Company to use its reasonable endeavours to procure subscribers for the New Ordinary Shares at the Placing Price and as agents for the relevant existing Shareholders to procure purchasers for certain of the Existing Ordinary Shares at the Placing Price.

Under the Placing Agreement the Company has agreed to pay W.H. Ireland (in the context of its appointment as broker and nominated adviser to the Company):

(a) an aggregate success fee of £125,000 in connection with Admission and the Placing which is deductible by the Company from the proceeds of the issue of the New Ordinary Shares;

(b) a commission calculated at a rate of 3% of the aggregate value at the Placing Price of the New Ordinary Shares which are the subject of the Placing together with a further 2% commission on the aggregate value at the Placing Price of the New Ordinary Shares for which W.H. Ireland, itself or through an agent, has procured subscribers; and

(c) all other costs and expenses of the Placing and related arrangements together with VAT on all such costs and expenses.

Under the Placing Agreement the relevant existing Shareholders have agreed to pay W.H. Ireland a commission calculated at a rate of 3% of the aggregate value at the Placing Price of such Existing Ordinary Shares which are the subject of the Placing together with a further 2% commission on the aggregate value at the Placing Price of the Existing Ordinary Shares for which W.H. Ireland, itself or through an agent, has procured purchasers.

The Company and the Directors have given certain warranties and indemnities to W.H. Ireland as to the accuracy of information in this document and as to other matters in relation to the Company and its business. Certain of the existing Shareholders have given warranties as to title to Ordinary Shares sold pursuant to the terms of the Placing Agreement. W.H. Ireland may terminate the Placing Agreement before completion of the Placing in certain circumstances, including for an event constituting *force majeure* or for a material breach of the warranties referred to above.

18. GENERAL

(a) The accounting reference date of the Company is 31 December.

(b) The Company was incorporated on 23 May 2002.

(c) Of the Placing Price of 190p, 0.1p represents the nominal value and 189.9p represents a premium over the nominal value of each New Ordinary Share. The premium arising on the Placing, assuming full subscription, amounts to £19,988,534 in aggregate.

(d) Save as disclosed in this document, there has been no significant change in the trading or financial position of the Company since 30 June 2002, the latest date to which audited accounts have been prepared for the Group.

(e) No intellectual property rights are registered by the Group and the Group does not have any material intellectual property rights, nor is the Group dependent on patents or other intellectual property rights.

(f) Other than as disclosed in this document, there have been no significant recent trends concerning the development of the Company's business nor any significant acquisitions or disposals of assets since 30 June 2002, the latest date to which audited accounts have been prepared for the Group.

(g) Save as disclosed in this document, the Directors are not aware of any exceptional factors that have influenced the Group's activities.

(h) The Placing has not been underwritten or guaranteed by any person.

(i) Subscription monies must be received by W.H. Ireland in cleared funds by 13 December 2002. Monies received pursuant to the Placing will be held in W.H. Ireland's client account until such time as the Placing Agreement becomes unconditional in all respects. If the Placing Agreement does not become unconditional in all respects by 31 January 2003 the application monies will be returned to the applicants at their risk without interest.

(j) Share certificates in respect of the Ordinary Shares to be issued pursuant to the Placing are expected to be despatched to the applicants by post at their risk on 23 December 2002. In respect of uncertificated shares, it is expected that Shareholders' CREST accounts will be credited on 17 December 2002.

(k) Save as set out below and as otherwise disclosed in this document, no person, directly or indirectly (other than the Company's professional advisers and trade suppliers) has received, directly or indirectly, from the Company or any member of the Group within the 12 months preceding the date of this document, or entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Company or any member of the Group on or after Admission, fees totalling £10,000 or more, securities in the Company to such value at the Placing Price, or any other benefit with a value of £10,000 or more at the date of Admission.

(l) Save as otherwise disclosed in paragraphs 3(d) and 6(a) of this Part V, the following fees totalling £10,000 or more, securities in the Company to such value or more at the Placing Price, or any other benefit with a value of £10,000 or more at the date of this document, were paid to or received by the following persons within the 12 months immediately preceding the date of this document:

Person	Ordinary Shares
Sir John Craven	69,440
The Earl of Derby	10,120
Richard Fitzalan Howard	10,120
Philip Fleming	1,041,670
Robin Fleming	243,060
Valentine Fleming	55,550
Robert Howard Froom	5,060
Richard Hill	20,240
SDA Jamieson's Children's Settlement	40,470
Sandy Loder	20,240
The Lord Renwick of Clifton	40,470
Geoffrey Richards	20,930
The Rawlinson Family Trust	40,470
Gavin Rochussen	10,120
The Wyfold Foundation	502,780
FF&P Asset Management Limited	2,777,780

The amounts disclosed above comprise applications for Ordinary Shares made by individuals or institutions associated with Fleming Family & Partners Limited and/or their related trusts with a value at the Placing Price of £10,000 or more which were allotted in the placing of Ordinary Shares by the Company on 31 May 2002 as referred to in paragraph 3(a) of this Part V. The Ordinary Shares held by FF&P Asset Management Limited are shares held on behalf of discretionary asset management clients. Of the shareholdings disclosed above 104,541 Ordinary Shares are being sold in the Placing, including 65,426 Ordinary Shares being sold by FF&P Asset Management Limited. To the extent the Manager's Option is exercised, up to a further 141,728 Ordinary Shares may also be sold by FF&P Asset Management Limited.

Person	Ordinary Shares
Republic Nominees Limited	2,777,780
Posaune Limited	2,777,780
Merrill Lynch World Mining Trust plc	2,777,780

The amounts disclosed above comprise applications for Ordinary Shares with a value at the Placing Price of £10,000 or more which were allotted in the placing of Ordinary Shares by the Company on 31 May 2002. The shareholding of Republic Nominees Limited shown above is held on behalf of interests associated with Lord Rothschild. Republic Nominees Limited is disposing of 494,445 Ordinary Shares in the Placing and, to the extent the Manager's Option is exercised, it may dispose of up to a further 200,000 Ordinary Shares. The shareholding of Posaune Limited shown above is held on behalf of interests associated with the Simon family.

(m) The total proceeds of the Placing are expected to amount to £22.0 million, assuming the Manager's Option is not exercised. The expenses of, and incidental to, the Admission and the Placing, including commissions, registration and listing fees, printing, advertising and distribution costs, legal and accounting fees and expenses, are estimated to amount to approximately £3.8 million and are payable by the Company.

(n) The minimum amount which in the opinion of the Directors is required to be subscribed pursuant to the Placing for the purposes specified in paragraph 21 of Schedule 1 of the POS Regulations is £20.0 million.

(o) The New Ordinary Shares will be placed pursuant to the terms of the Placing Agreement. W.H. Ireland will hold funds received from placees on trust until Admission. The Board has resolved to allot New Ordinary Shares on a conditional basis subject to Admission. The proceeds of the Placing, net of commission and certain expenses, will be transferred to the Company as soon as practicable following the Placing Agreement becoming unconditional in all respects.

(p) Copies of this document are available free of charge for one month from the date of Admission from W.H. Ireland, Cannongate House, 62-64 Cannon Street, London EC4N 6AE and from the registered office of the Company.

Dated • December 2002

Part VI

Glossary of technical terms

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Part VI Glossary of technical terms

The following expressions in this document have the following meanings unless the context otherwise requires or unless it is otherwise provided. Attention is also drawn to the meaning of certain expressions contained in the Competent Person's Report set out in Part III of this document.

"adit"	a horizontal opening into a mine, started from a hillside
"alteration"	referring to physical or chemical change in a rock or mineral subsequent to its formation
"Anfo"	Ammonium Nitrate Fuel Oil – common low explosive utilised in mining
"arsenopyrite"	an arsenic mineral (FeAsS)
"assay"	valuable metals test
"Au"	chemical symbol for gold
"bacterial leaching"	leaching through the use of simple micro-organisms
"Ball mill"	the more common and chemically active non-precious metals, e.g. lead, copper, zinc, nickel
"base metals"	the more common and chemically active non-precious metals, e.g. lead, copper, zinc, nickel
"basement"	generally refers to the older rocks below the sedimentary base or solid rock underlying superficial weathered rock or soil
"benching"	a mining method, often pertaining to open-pit mining, where rock is extracted in a series of slices generally of equal thickness
"blast hole"	holes into which explosive is added in order to fragment the rock
"breccia"	a rock consisting of angular fragments created by tectonic, volcanic or weathering processes
"bullion"	gold or silver bars or ingots
"cage"	the man and materials riding part of a shaft hoisting system
"chalcedony"	a silicate mineral related to quartz (SiO_2)
"chalcopyrite"	a sulphide of copper and iron
"channel sampling"	a sampling method used to derive a continuous sample across the width of an ore body
"concentrate"	a metal-rich product resulting from a mineral enrichment process such as gravity concentration or flotation
"core"	sample of rock produced by diamond drilling
"cross-cuts"	a horizontal underground drive developed perpendicular to the strike direction of the orebody
"cross-section"	a diagram or drawing that shows features transected by a vertical plane drawn at right angles to the longer axis of a geologic feature
"crystal"	a mineral grain with faces developed which reflect the internal atomic structure
"cut-off grade"	the estimated lowest grade of ore that can be mined and treated profitably in a mining operation
"cuttings"	sample of rock produced by percussion and rotary drilling methods such as reverse circulation drilling
"cyanide leach"	the dissolution of minerals and metals into a weak solution of cyanide
"diamond drilling"	rotary drilling using diamond-set or diamond-impregnated bits, to produce a solid continuous core sample rock
"dilution"	reduction of ore grade by contamination with waste material
"dip"	the angle at which layered rocks, foliation, a fault, or other planar structures, are inclined from the horizontal
"disseminations"	descriptive, of mineral grains which are scattered throughout the host rock
"doré"	unrefined gold and silver bullion bars which will be further refined to almost pure metal
"draw points"	underground opening used to remove ore from stopes
"drill intercepts"	the intersections (usually of the target mineralisation) made within an exploration drill hole
"drilling"	in mineral exploration, boring a hole into prospective ground to recover cuttings indicative of rock types and grades of mineralisation
"drive"	a tunnel driven downwards from the surface to the orebody, compare adit

Part VI Glossary of technical terms

"dyke"	a tabular igneous intrusion which cuts across the bedding or other planar structures in the country rock
"electro-winning"	recovery of metal from solution by electrolysis
"elution"	the process of desorption (taking of gold from carbon)
"en-echelon"	parallel structural features (veins, faults, etc) that are offset from each other
"exploration"	the act of investigation for the location of undiscovered mineral deposits
"fault"	a break in rock strata continuity with strata remaining parallel but displaced relative to one another on either side; strata on opposite sides of a fault may be displaced vertically and/or laterally relative to their original position
"feasibility study"	a technical and financial study of a project at sufficient level of accuracy and detail to allow a decision as to whether the project should proceed
"feldspar (felspar)"	a very abundant group of rock-forming silicate minerals in which calcium, sodium and potassium are in combination with aluminium
"fire assay"	an assay procedure involving heating the sample in a furnace to ensure complete extraction of all the contained precious metal
"flotation"	A mineral concentration process where the surface chemistry of the desired mineral particles is chemically modified such that they preferentially attach themselves to bubbles and float to the surface while the gangue minerals are chemically suppressed and do not float
"fold"	a bend in strata or any planar structure
"footwall"	a geological or mining term meaning the rock below a fault, or underlying a natural feature
"g/t"	grammes per tonne
"gabbro"	a type of intrusive rock
"galena"	a lead sulphide mineral
"gold equivalent"	the conversion of non-gold ounces of economically valuable mineral commodities to a gold equivalent by taking account of the commodity price and the gold price
"grab sampling"	a method used to sample broken rock in blast piles, draw points and/or stockpiles where pieces of rock are collected by hand (grabbed)
"grade"	quantity of metal per unit weight of host rock
"grade control"	a general term which describes the many measures required to maximise mining recovery of the valuable mineral whilst minimising dilution
"granite/granitic"	a coarse grained igneous rock consisting largely of quartz and feldspar
"gravity concentration"	a metallurgical process that separates metals from gangue using the specific gravity differential between the metal and the gangue
"grind"	a term used to describe the average size of the particles of rock following grinding in a mill or mills
"grinding"	reducing mineralised rock to the consistency of fine sand by crushing and abrading in a rotating steel grinding mill
"grizzly"	a grating (usually constructed of steel rails) placed over the top of a chute or ore pass for the purpose of stopping large pieces of rock or ore that may hang up in the pass
"hanging wall"	a geological or mining term meaning the rock above a fault, or overlying a natural feature (as opposed to footwall)
"HDPE"	High Density Poly-Ethylene – a plastic commonly used to line tailings dams, ponds and other similar structures
"head grade"	a general term referring to the grade of ore delivered to the processing plant
"host rock"	the rock containing a mineral or an ore body
"hydro cyclones"	a process whereby material is graded according to size by exploiting certrifugal forces on particulate materials
"hydrothermal"	pertaining to heated water, particularly of magnetic origin associated with the formation of mineral deposits or the alteration of rocks

Part VI Glossary of technical terms

"igneous"	a rock formed by the solidification of a mineral rich molten liquid which is intruded into sedimentary rock or erupted from a volcano
"Indicated"	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
"Inferred"	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability
"*in-situ*"	in its natural position (Lat)
"intrusion/intrusive"	rock formed by emplacement of molten magma into a high level, below the surface, where it cooled and crystallised to form a solid rock
"jaw crusher"	a type of machine for crushing rock
"JORC"	Joint Ore Reserves Committee, common reference to the Australasian Code for Reporting of Mineral Resources and Ore Reserves, 1996
"Jurassic"	the period of geological time extending from 210 to 140 million years ago
"Kg"	Kilogramme
"LHD"	Load Haul Dump – underground mining equipment used to gather and transport ore from place to place
"lithology"	the physical characteristics of rock
"long hole open stoping"	an underground mining method in which once the ore has been drawn from the draw points the stope remains empty or open
"long hole sub-level caving"	an underground mining method in which material surrounding the stope is allowed to cave into the stope thereby keeping it full at all times. Sampling of draw points is required in order to assess when all the ore has been drawn and only caved waste remains
"losses"	a proportion of the valuable mineral/element not recovered during mining
"make-up water"	additional water required for mining and processing operation beyond that recycled from these operations
"Measured"	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity
"Merrill Crowe"	a process by which gold is precipitated from gold bearing solution by adding powdered zinc and lead nitrate
"Mesozoic"	the era of geological time (incorporating the Jurassic period) spanning from 250 to 65 million years ago
"metal accumulation"	a function of grade multiplied by thickness
"metamorphic"	term applied to pre-existing sedimentary and igneous rocks which have been altered in composition, texture, or internal structure by processes involving pressure, heat and/or the introduction of new chemical substances
"mineral"	a natural, inorganic, homogeneous material that can be expressed by a chemical formula
"mineralisation"	the process by which minerals are introduced into a rock. More generally, a term applied to accumulations of economic or related minerals in quantities ranging from anomalous to economically recoverable
"mineral deposit"	is a mineralised body which has been delineated by appropriate drilling and/or underground sampling to support a sufficient tonnage and average grade of metal(s)
"mineralised zone"	a volume of rock which contains anomalous to economically recoverable quantities of mineral

Part VI Glossary of technical terms

"mineralogy"	the science of minerals
"Mineral Resource/resource"	a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form that there are reasonable prospects for eventual economic extraction
"non-refractory ore"	ore which is relatively easy to treat for recovery of the valuable substances
"open pit, open cut"	surface mining in which the ore is extracted from a pit or quarry. The geometry of the pit may vary with the characteristics of the orebody
"ore"	mineral bearing rock that contains one or more minerals, at least one of which can be mined and treated profitably under current or immediately foreseeable economic conditions
"ore grade"	the average weight of the valuable metal or mineral contained in a specific weight of ore
"Ore Reserve"	the economically mineable part of a Measured or Indicated Mineral Resource. It includes diluting material and allowances for losses which may occur when the mineral is mined
"ounce (oz)"	troy ounce (31.103 gram, or 1.097 Avoirdupois ounce)
"overburden"	rock which has to be removed to access the orebody in open cut mining
"Palaeozoic"	the era of geological time spanning from 590 to 250 million years ago
"pay"	term used to define mineralised material of sufficient grade to justify the cost of processing
"pay shoot"	a zone within a vein or ore body containing economic grade mineralisation
"pillar"	a supporting column of ore or waste remaining after underground mining
"pinch and swell"	term used to describe the structure of a vein which contains numerous zones of thickening and thinning
"plunge"	the angle from the horizontal of a linear geological feature on a plane
"ppm"	parts per million (the same as grams per tonne, g/t)
"pre-feasibility"	a relatively comprehensive analysis which is qualified by the availability and accuracy of fundamental criteria and assumptions to the degree that it cannot be the basis for final decisions
"Probable Ore Reserve"	the economically mineable part of an Indicated, and in some circumstances Measured, Mineral Resource
"Proved Ore Reserve"	the economically mineable part of a Measured Mineral Resource
"pyrite"	a common iron sulphide mineral (FeS_2)
"pyrrhotite"	an iron sulphide mineral related to pyrite
"quartz"	a mineral composed of silicon dioxide, SiO_2
"raise"	a sub-vertical connection between mine levels
"rock"	mineral matter of various compositions
"roof bolts"	a method supporting openings in rock with steel bolts anchored in holes drilled especially for this purpose.
"room and pillar stoping"	a method of mining flat-lying ore deposits in which the mined-out area, or rooms, are separated by pillars which support the roof.
"run-of-mine (RoM)"	a loose term used to describe ore of average grade.
"SAG"	Semi-Autogenous Grinding
"sampling"	taking small pieces of rock at intervals along exposed mineralisation for assay (to determine the mineral content)
"sandstone"	sedimentary rock comprising sand size grains (>0.06mm, <2.0mm)
"scrapers"	a machine used to move blasted material to a draw point when the dip of the orebody is insufficient for gravity to transport the rock
"sediment"	formed of particles after transport by water, wind or ice
"sedimentary rock"	rock formed from solid particles, whether mineral or organic, which has been moved from its position of origin and redeposited
"sericite"	a fine grained white mica generally occurring in small flakes
"shaft"	access to an underground mine consisting of a vertical, generally cylindrical opening

Part VI Glossary of technical terms

"shale"	a fine grained laminated sedimentary rock formed from clay, mud and silt, splitting into district layers with grain size <0.0025mm
"shotcrete"	a generic term used to describe a method of ground support that involves spraying the walls and roof of newly excavated tunnels with cement or a cement and fibre mix to a thickness of around 1-5cm
"shrinkage stoping"	a mining method used in steep veins. The method involves drilling and blasting the vein above the workings and leaving the majority of the broken ore in the stope to form the platform to access the production face
"silicification"	form of alteration in which portions of the rock is replaced by silica
"spalling"	a process where thin, slab-like pieces of rock fall from the walls of an underground excavation
"specific gravity (SG)"	the density of a substance relative to water
"splay"	smaller veins or faults diverging from a main vein or fault at angles of less than 45°
"sphalerite"	a zinc sulphide mineral
"spiral classifier"	a method of classifying particulate matter by size using an inclined spiral
"steel arch"	a method to support the roof and walls of an underground excavation using steel arches
"stock"	an intrusive body of deep-seated igneous rock
"stope"	an underground opening in a mine from which ore has been or is being extracted
"strike"	the direction or bearing of a bed or layer of rock in the horizontal plane
"strike length"	Distance along strike (at right angles to dip)
"stripping ratio"	the ratio of waste rock to ore in an open-pit mine
"structure"	the general disposition, attitude, arrangement or relative positions of rock
"sub-vertical"	close to vertical
"sulphide ore"	ore characterised by the inclusion of metal in the crystal structure of a sulphide mineral. The type of ore is often refractory
"synclinorium"	a sequence of rocks flexed downwards into a valley shape
"tailings"	sand to silt sized waste product from mineral processing operations
"trackless equipment"	underground mobile mining equipment that does not operate on railway tracks. The equipment includes rubber-tyred vehicles and ones using caterpillar tracks
"toe"	base of a slope or dam wall
"unpay"	term used to define mineralised material of un-sufficient grade to justify the cost of processing
"vein"	a thin sheet-like infill of a fissure or crack, commonly bearing quartz
"veinlet"	a term used to describe small scale veins especially in the vicinity of much larger veins
"VLP"	Vertical Longitudinal Projection
"volcanic rocks"	formed from the solidification of lava extruded on or erupted at the earth's surface. Also includes pyroclastic rocks
"waste"	rock containing no, or an un-economic quantity of the target element(s)

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