

Internal Audit Charter

Limited Liability Company RUSSDRAGMET

Moscow

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1. GENERAL

Internal audit and risk management department (hereinafter, "Internal Audit" or "Department") of Limited Liability Company RUSSDRAGMET (hereinafter – "RDM") is established to provide Highland Gold Mining Limited (hereinafter – "HGML") Board of Directors and Management, in general, and the Audit Committee, in particular, with an independent and objective financial and operational internal controls including enterprise risk management assurance.

RDM management authorises Internal Audit to carry out its responsibilities in accordance with this Internal Audit Charter and an internal audit plan approved by the Audit Committee.

2. MISSION

The Internal Audit activity is to provide an independent, objective, innovative, responsive and effective value-added internal audit service through a systematic and disciplined approach by assisting management in controlling risks, monitoring compliance, improving the efficiency and effectiveness of internal control systems, risk management and governance processes.

3. ROLE

The Department performs an independent appraisal function established by the HGML Board of Directors to evaluate the adequacy and effectiveness of controls, systems and procedures within HGML and its subsidiaries in order to reduce business risks to an acceptable level in a cost effective manner.

The objective is to provide the Board, Audit Committee and all levels of management with sufficient, relevant and useful information that will help them to assure:

- The reliability and integrity of information;
- Compliance with policies, plans, procedures, laws and regulations;
- The economical and efficient use of resources;
- The accomplishment of established objectives.

4. INDEPENDENCE

Independence is achieved through organisational status of the Internal Audit and objectivity of internal auditors.

To ensure its independent organisational status, Internal Audit shall report to the Audit Committee.

All internal audit activities shall remain free of influence by any management party in HGML, including matters of audit selection, scope, procedures, frequency, timing and report content to permit maintenance by Internal Audit of its independence and objectivity in rendering its reports.

5. ORGANISATIONAL STATUS

The Department is a separate subdivision of RDM.

The Institute of Internal Auditors (IIA) Standards for Professional Practice requires an internal audit function to report to a level within the organisation that allows the internal audit activity to fulfill its professional responsibilities. For this reason, Head of internal audit administratively reports to CEO of RDM and functionally to the Audit Committee of the board of directors to ensure that independence requirement of internal audit is always met.

Functional reporting line to the Audit Committee involves:

- Approval of the overall charter of the internal audit function, including any changes;

- Approval of the Head of internal audit appointment or removal, his/her annual compensation and salary adjustment and Labour Contract terms;
- Approval of annual internal audit risk assessment and related audit plan, including all amendments and additions;
- Approval of the annual internal audit budget;
- Receipt of communications from the Head of internal audit on the results of internal audit activities or other matters that the Head of internal audit determines are necessary, as well as private meetings with Head of internal audit without management present and annual confirmation of internal audit activities;
- Review of internal audit reports;
- Making of appropriate inquiries of management and the Head of internal audit to determine whether there is scope or budgetary limitation that impede the ability of internal audit function to execute its responsibilities;
- Receiving from the Head of internal audit annual confirmation of organisational independence of Department.

Administrative reporting line of accountability is built within the organisational structure and facilitates day-to-day operations of the internal audit. Administrative reporting includes:

- Provision of execution of the internal audit activity budget;
- Provision of necessary working conditions for internal auditors;
- Organisation and provision of efficient internal communication and information flows between internal auditors and entities of HGML and other RDM's departments;
- Adherence to HGML and RDM policies (including HR policies and procedures).

Each internal auditor within the Department shall be in a sufficiently independent position to be able to have an objective to exercise judgment, express opinions and present recommendations with impartiality. Specifically:

- The Internal Audit staff, notwithstanding their employment by RDM, should be free from any conflict of interest arising from professional or personal relationships or other interests in HGML or RDM and related activity, which it may subject to audit;
- Internal Audit staff should be free from undue influence, which either restricts or modifies the scope or conduct of their work or overrules or significantly affects their judgment as to the content of any internal audit report. In the interest of independence, the internal audit staff shall have no direct responsibility for, or authority over, any the HGML group activities and shall have direct access to all members of the Audit Committee;
- The Head of internal audit shall have no executive or management powers and duties in the HGML group except those relating to the management of the Department;
- To maintain objectivity, internal audit staff shall not be involved in day-to-day control procedures. Instead, each business unit shall be responsible for its internal control processes and business efficiency. The Department shall not also be involved in the implementation of internal control systems but may be consulted on the adequacy of controls when they are first implemented.

6. AUTHORITY

Authority is granted for full and free access to HGML records, physical properties and personnel relevant to any function under review. Based on the approved audit plans and other directions of the Audit Committee, the Head of internal audit and internal audit staff shall be authorised to:

- Decide on the nature, scope and timing of audits;
- Enter any premises of the subsidiaries within HGML group and have an access to any documents and records;
- Request any officer of HGML and subsidiaries to provide such information and explanations as may be deemed necessary;
- Have discussions with line managers and employees of HGML and subsidiaries at any reasonable time.

Documents and information given to the Head of Internal audit and Internal Audit staff should be handled in the same prudent and confidential manner as by those employees normally accountable for them. Specific sensitive and highly confidential matters shall, however, be handled by the Head of internal audit himself.

The Head of internal audit has an unrestricted access to the Chairman of the Audit Committee of HGML and members of the Audit Committee and reports to Audit Committee of HGML.

HGML management is responsible for controls and risks and for action to correct deficiencies in systems of control and take appropriate actions as related to identified risk response accordingly the Head of internal audit and Internal Audit Staff shall have no authority to:

- Determine policy, make executive decisions, manage risks, change staff, systems or methods of work, while Internal audit may report on the adequacy of these actions and decisions when they are implemented;
- Execute managerial powers and any operational duties in HGML and subsidiaries direct the activities of any HGML and subsidiaries personnel

7. SCOPE

The audit scope of the Department will be based on management's assessment of corporate risk. Audit coverage should focus on high-risk areas and make reviews of risk management procedures, information systems, internal control systems and governance processes. The work also involves periodic testing of transactions, best practice reviews, acquisition due diligence and other special investigations, appraisals of regulatory requirements and measures to help prevent and detect fraud. The activities performed by Internal Audit Department shall include but shall not be restricted to:

- Reviewing and evaluation of significant financial, managerial, and operating information as to relevance, integrity accuracy, reliability, and timely for users;
- Assessing personnel's and organisational units' actions are in compliance with policies, plans, standards, procedures, and applicable laws and regulations (both internal and external);
- Assessing the means of safeguarding of assets and, as appropriate, verifying the existence of such assets;
- Assessing and appraising the economy and efficiency with which resources are employed;
- Reviewing operations or programs to ascertain whether established objectives and goals are achieved as planned;
- Assisting management in the management's identification and evaluation of business risks and the adequacy of the risk management processes
- Follow-up on recommendations of internal and external audits to make sure that effective remediation action within agreed timelines is taken;
- Reviewing specific operations or areas and carrying out other auditing activities (appraisals, examinations, investigations, etc.) per request of the Audit Committee or senior management.

8. RESPONSIBILITIES

The Head of internal audit shall be responsible for promoting the development of an effective internal function in HGML. The Internal Audit (including the Head of internal audit as the head of this Department) has the responsibility to:

- Develop an annual Audit Plan using appropriate risk-based methodology, including risks or control concerns identified by management and the Audit Committee, and submit that plan and the Department's annual budget to the Audit Committee for review and approval;
- Develop and prepare a medium term strategic plan for the function and responsibilities of the Department setting out the direction of and the approach to internal audit;
- Implement the annual Audit Plan, as approved, including, and as appropriate, any special mandates or projects requested by the Audit Committee and in addition if within the resource of the Department and approved by the Audit Committee special projects as proposed by management;

- Report to the Audit Committee any significant deviations from the formally approved Audit Plan through periodic activity reports;
- Issue an audit report to management and any other relevant parties at the completion of each audit communicating the audit findings, including the key recommendations and agreed management action plans. Detailed written reports shall be prepared and presented to the management following the completion of each audit. The contents shall be discussed with the management of the units/functions audited, and their responses and remediation action including action timelines taken into account before the report is finalised and distributed. Where there are any outstanding internal audit recommendations without agreed management action, such recommendations and the date of internal audit recommendation should be recorded in the required periodic status report;
- Regular reports highlighting significant audit findings and recommendations, and summarising Internal Audit activities shall be provided to the Chairman of the Audit Committee and reported on at Audit Committee meetings;
- Maintain a professional audit staff with sufficient knowledge, skills, experience and professional certification to meet the requirement of this Charter;
- Participate in assessment and recruitment of the necessary personnel in Internal Audit at remuneration rates adopted by the management for appropriate levels of staff;
- Assist to the Audit Committee in any other way in connection with its duties and responsibilities.

As the Internal Audit is solely responsible for the planning, implementation and reporting of the audits, the Head of internal audit and Internal Audit staffs shall:

- Be responsible for proper documentation of internal audits and collection of appropriate and sufficient audit evidences;
- Keep confidentiality of information obtained in the course of audits;
- Improve proficiency by means of continuous professional development;
- Operate based on the principles of independence, integrity, objectivity, competence and professionalism in accordance with the Code of Ethics of Internal Auditors adopted by the Institute of Internal Auditors;
- Develop the detailed interaction instructions between the Internal Audit and other HGML divisions and subsidiaries (if necessary);
- Observe labor discipline, safety policies, other policies and procedures adopted in HGML.

At least once per year the Head of internal audit should review and evaluate the relevance of the Charter and, when necessary, propose appropriate changes with further review by senior management and approval by Audit Committee.

9. MANAGEMENT RESPONSIBILITIES

Although the role of the Department is to review internal controls, systems, procedures and risks etc., the Management and the Board of Directors shall have full responsibility for ensuring that HGML maintains an appropriate framework of controls to reduce business risks to an acceptable level.

The Management shall also have responsibility and accountability for addressing weaknesses and inefficiencies which have been identified in both External and Internal Audit reports, and for taking the necessary corrective action.

Other management responsibilities shall include immediate notifications of the Head of internal audit and the Finance Director of any significant internal control problems, thefts, fraud, defalcations, unauthorised transactions, accounting breakdowns, large stock shortages, major bad debts etc. Significant matters shall be reported on at the Audit Committee meetings.

10. PERIODIC ASSESMENT

The performance of the Internal Audit shall be evaluated annually by the Audit Committee and by Management.

Internal Audit will be subject to an external quality assessment at least once every five years by recognised, qualified and independent third party reviewer.

11. RELATIONSHIP & COORDINATION WITH THE EXTERNAL AUDITOR

The Head of internal audit shall coordinate with the external auditors, where appropriate, to determine areas where assistance and direct audit comfort can be provided by the Internal Audit Department and within the Department's annual budget so that there is no un-necessary duplication.

Internal Audit shall carry out follow-ups on comments and recommendations contained in External Audit reports.

12. STANDARDS OF AUDIT PRACTICE

The Internal Audit staff shall govern themselves by adherence to the Institute of Internal Auditors "*Code of Ethics*". The Institute's "*International Standards for the Professional Practice of Internal Auditing*" (Standards) shall constitute the operating procedures for the Department.