

HIGHLAND GOLD MINING LIMITED  
 01 September 2020

## Interim Results Announcement for H1 2020

Highland Gold Mining Limited ("Highland Gold" or the "Company", AIM: HGM) today reports its unaudited financial results and production figures for the six months ended 30 June 2020 ("H1 2020").

### FINANCIAL SUMMARY

<b>IFRS, US\$000 (unless otherwise stated)</b>	<b>H1 2020</b>	<b>H1 2019</b>
Production (gold and gold eq. oz)	<b>124,294</b>	142,254
Total Cash Costs (US\$/oz)*	<b>717</b>	540
All-in Sustaining Costs (US\$/oz)*	<b>966</b>	778
Revenue	<b>194,517</b>	174,676
EBITDA*	<b>96,383</b>	86,541
EBITDA margin (%)*	<b>50%</b>	50%
Operating profit	<b>63,811</b>	57,379
Net profit	<b>36,434</b>	45,692
Earnings per share (US\$)	<b>0.101</b>	0.125
Net cash inflow from operations	<b>82,760</b>	72,566
Capital expenditure	<b>59,188</b>	31,327
Net debt*	<b>280,044</b>	216,917
Net debt/EBITDA ratio*	<b>1.30</b>	1.29

\* Definitions for non-IFRS terms are provided in the Glossary below.

Highland Gold's condensed unaudited interim consolidated financial statements for H1 2020 are set out later in this report.

### H1 2020 HIGHLIGHTS

#### Financial

- H1 2020 Revenue rose by 11% year-on-year to US\$194.5 million, despite lower sales volumes, due to higher realised prices for gold and gold equivalent.
- EBITDA was also 11% higher at US\$96.4 million as increased revenue more than offset higher costs and the EBITDA margin remained stable at 50%.
- All-in sustaining costs (AISC) per ounce rose to US\$966 per ounce due to lower production volumes, higher energy costs, and expenses for addressing the COVID-19 pandemic.
- Net debt rose to \$280 million as the Company drew down additional funds from open credit lines to build up reserves in light of the pandemic.

- COVID-related care and maintenance costs in H1 2020 amounted to US\$2.1 million, including wages, materials and supplies for additional health and safety procedures.
- On 02 June 2020, the Company agreed to sell its wholly-owned subsidiary SVGGK LLC, holder of the Kayenmivaam ("Kayen") license, to an unrelated party for US\$15 million plus a 2% royalty on gold produced and sold from the deposit in excess of 500,000 ounces for a period of 30 years.

## Operations

- Highland Gold's four operating mines produced a total of 124,294 oz of gold and gold equivalent in H1 2020, in-line with internal production targets (H1 2019: 142,254 oz).
- The Company affirms its guidance for total production of 290,000-300,000 oz of gold and gold equivalent in 2020.
- Production, sales and supply chain were not materially affected by the COVID-19 pandemic, as outlined in regular pandemic response statements issued by the Company during H1 2020.
- Mnogovershinnoye (MNV) and Valunisty increased waste stripping by 101% and 35%, respectively, in H1 2020 in preparation to access higher-grade open pit reserves in the second half of the year.
- Work on the capacity expansion at Novosirokinskoye (Novo) and the processing plant upgrade at Belaya Gora advanced in H1 2020, with both projects on track for completion this year.
- Kekura construction also continued as scheduled, with several second phase facilities in progress including the main processing plant and the camp expansion.
- Construction has begun on the Baley ZIF-1 Tailings heap leach project, which is expected to produce first gold in 2022 with average annual output of 15,000 oz over 11 years.

## Speaking on the Company's first half performance, Highland Gold CEO Denis Alexandrov said:

"Highland Gold had a positive first half of 2020 despite the ongoing global pandemic, buoyed by strong gold prices and continued progress at our operating mines and on each of our key development goals for the year. The Company achieved a solid financial performance in spite of upward pressure on costs resulting, in part, from lower H1 production volumes and costs associated with addressing COVID-19.

From an operational standpoint, our mining plans for this year are weighted towards the second half and we maintain our production guidance for the year. The Novo and Belaya Gora expansion projects are progressing and remain on track for completion this year. Construction at Kekura continues apace, and work has also begun on the smaller Baley ZIF-1 heap leach project, which together will help the Company achieve its target of exceeding 500k ounces of production in the year 2023."

## POST HALF YEAR EVENTS

- On 31 July 2020, Directors Eugene Shvidler and Valery Oyf and a group of affiliated shareholders (the "Selling Shareholders") agreed to sell their shareholdings in the Company, representing 40.06% of the Company's issued share capital, to Fortiana Holdings Limited ("Fortiana") at a price per share of £3.00, paid in cash.
- On that same date, Highland Gold and Fortiana announced that they had reached agreement on the terms of a recommended pre-conditional mandatory cash offer to be made by Fortiana for the shares in the Company not already held or agreed to be acquired by Fortiana (the "Offer"). Under the terms of the Offer, accepting shareholders of the Company would receive £3.00 per share in cash (being the same price and form of consideration as paid to the Selling Shareholders). Details of the potential transaction and related documents are available on the Highland Gold website at [www.highlandgold.com/home/offer](http://www.highlandgold.com/home/offer).
- In light of the Offer, the Board of Directors has deferred making a decision on the payment of an H1 2020 interim dividend pending the outcome of the transaction. The Directors noted the potential effect of such a

disbursement on the terms offered to shareholders as per the announcement of the Offer made under Rule 2.7 of the UK Takeover Code, released on 31 July 2020.

- On 13 August 2020, the Company experienced a fatality at MNV when a driver perished after his truck went through a barrier and down an incline. The Board and management team send their sincerest condolences to the family of the deceased and commit to ensuring that the incident is thoroughly investigated and any lessons learned are applied throughout the Company.
- On 17 August 2020, Highland Gold published its debut Sustainability Report, containing data on its performance across a range of environment, social and governance (ESG) indicators reported to the Global Reporting Initiative (GRI) standard. The report is available on the Highland Gold website at [www.highlandgold.com/home/sustainability](http://www.highlandgold.com/home/sustainability).

## CONFERENCE CALL DETAILS

The Company will hold a webcast via Microsoft Teams to discuss the results, hosted by CEO Denis Alexandrov, on 01 September 2020 at 10:00 UK time (12:00 Moscow). The link to join the event is: <https://www.highlandgold.com/home/webcast>.

## FOR FURTHER INFORMATION, PLEASE CONTACT:

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## OPERATIONAL REVIEW

### KHABAROVSK REGION, RUSSIA

#### Mnogovershinnoye (MNV)

- Waste stripping increased by 101% in H1 2020 as MNV prepared to access high-grade mineralisation zones in the Intermediate ore body in H2 2020 and to develop new areas of the Quiet ore body in 2021
- Gold production declined in H1 2020 as stockpile blending at the ROM pad resulted in a lower head grade at the mill

MNV	Units	H1 2019	H2 2019	H1 2020
Waste stripping	t	2,635,346	4,566,608	<b>5,298,765</b>
Underground development	m	5,570	6,124	<b>5,835</b>
Open-pit ore mined	t	176,189	60,166	<b>61,233</b>
Open-pit ore grade	g/t	2.38	2.07	<b>3.13</b>
Underground ore mined	t	380,334	434,057	<b>400,601</b>

Underground ore grade	g/t	4.01	3.89	<b>3.77</b>
Waste dumps ore mined	t	146,249	145,596	<b>163,063</b>
Waste dumps ore grade	g/t	1.10	1.09	<b>1.09</b>
Total ore mined	t	702,772	639,819	<b>624,897</b>
Average grade	g/t	2.99	3.08	<b>3.01</b>
Ore processed	t	704,252	687,607	<b>694,349</b>
Average grade	g/t	2.92	3.08	<b>2.58</b>
Recovery rate	%	91.7	92.3	<b>91.8</b>
Gold produced	oz	59,317	64,497	<b>52,721</b>

Following the success of the Company's ongoing near-mine exploration programme and last year's extension of MNV's life of mine to 2029, planning work commenced for increasing the mine's tailings capacity. Construction on the Tier-3 tailings dam began in H1 2020, with initial work by contractor Zoloto Plyus LLC focused on dam bedding compaction and bund wall construction. Spetspromstroy LLC will begin work on the second part of those areas in July, while Avik LLC is currently reinforcing the dike of the Tier-2 tailings dam.

Exploration work at MNV in H1 2020 focused on grade control drilling of the mine's historic waste dumps, which continue to supply material of over 1.1 g/t to top up volumes at the processing plant. Over 1,100 metres of drilling was completed by the end of the period.

Also during the period, the Company submitted updated Russian-standard reserve estimates for the Intermediate and Deer ore bodies to regulators for mining approval, which is expected to come in Q3 2020. The estimates are based on grade control drilling conducted last year and include reserves targeted for underground mining at the Deer ore body. Regulators have already signed off on reserve reports for the Pebble ore body during the period.

### **Belaya Gora**

- Belaya Gora reduced its stripping ratio by 36% year-on-year in the second quarter of this year thanks to cutbacks on the upper levels of the open pit that were completed in 2019
- Ore mining increased by 28% year-on-year in H1 2020 as the mine reduced reliance on ore from stockpiles

<b>Belaya Gora</b>	<b>Units</b>	<b>H1 2019</b>	<b>H2 2019</b>	<b>H1 2020</b>
Waste stripping	t	4,506,796	4,296,669	<b>4,305,215</b>
Ore mined	t	1,016,752	1,727,489	<b>1,304,656</b>
Average grade	g/t	0.88	0.84	<b>0.87</b>
including:				
- Ore Au >0.6 g/t*	t	633,064	1,043,012	<b>865,297</b>
- Average grade	g/t	1.11	1.09	<b>1.11</b>
- Ore Au 0.3-0.6 g/t*	t	383,687	684,477	<b>439,359</b>
- Average grade	g/t	0.50	0.45	<b>0.40</b>
Ore from stockpiles	t	211,469	13,643	-
Average grade	g/t	0.84	1.01	-
Ore processed	t	778,784	772,104	<b>730,565</b>
Average grade	g/t	1.03	1.08	<b>0.99</b>
Recovery rate	%	74.9	80.2	<b>76.0</b>
Gold produced	oz	18,322	21,745	<b>17,826</b>

\* The low-grade cut-off in 2019 was 0.7 g/t

Highland Gold is entering the final stages of renovations to the Belaya Gora processing plant, which are on track for completion as scheduled in the second half of this year. The addition of a CIP circuit to the plant is expected to improve gold recovery to around 90% from the current average of about 75%. It will also enable the plant to process ore from the nearby Blagodatnoye deposit.

Equipment for the new processing plant circuits arrived on site in H1 2020. The sorption/elution and pre-leach circuit equipment is undergoing testing and preparation for installation, while the electrowinning circuit has already been installed. Materials for auxiliary buildings to house the sorption/elution circuit and pre-leach circuits are also on-site and the pouring of foundations and assembly of steel structure are in progress.

Geological exploration at Belaya Gora is focused on the flanks of the mine, which include the Kolchanka, Zayachiy and Ogorodny zones. Prospecting on Kolchanka and Zayachiy concluded in 2019 and resulted in the addition of new reserves totalling 2.1 million tonnes of ore at 1.1 g/t, containing an estimated 76,000 oz of gold. These reserves were included in the Company's updated JORC reserve statement in the 2019 Annual Report published in May of this year.

A new exploration programme through 2023 is now in progress after being approved by regulators in February. Work is currently focused on the Ogorodny zone, where drilling began in March and continued throughout H1 2020.

## ZABAIKALSKY REGION, RUSSIA

### Novoshirokinskoye (Novo)

- Ore mining increased by 19% for H1 2020
- Ore processing likewise increased by 3.3% in H1 2020
- Mined grades continued to be lower year-on-year, as expected, due to the accessing of lower grade stopes

<b>Novo</b>	Units	H1 2019	H2 2019	<b>H1 2020</b>
Underground development	m	5,295	5,694	<b>4,958</b>
Ore mined	t	411,175	458,739	<b>490,509</b>
Average grade*	g/t	4.53	4.74	<b>3.38</b>
Ore processed	t	414,321	428,151	<b>428,110</b>
Average grade*	g/t	4.73	5.35	<b>3.58</b>
Recovery rate*	%	79.0	80.2	<b>77.7</b>
Gold produced*	oz	49,742	57,043	<b>38,298</b>

\* Gold equivalent calculated at actual prices

(Metal grade of mined ore = Au 2.23 g/t, Ag 41.55 g/t, Pb 0.88 %, Zn 0.41 %, Cu 0.22 %).

The expansion of Novo's ore mining and processing capacity from 800 ktpa to 1.3 Mtpa, which is scheduled for completion later this year, continues to be a key focus for the Company as it seeks to offset the effects of lower grades.

During the first half of the year, construction work continued on the skip hoist, ventilation system, and heating facilities, which are all designed to support increased output from the mine. Construction of a new building for the pre-concentration circuit at the processing plant is progressing steadily. Additionally, design work continued for the expansion of Novo's tailings dam, an underground water pumping facility, and a new water treatment facility.

The Company's geologists have initiated an exploration programme on the flanks and lower levels of the Novo deposit. The aim of the drilling is to improve knowledge of the deposit's remaining reserves and to verify grades for future production planning.

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

Construction commenced on the Baley ZIF-1 Tailings project in the second quarter of this year. The project entails building a heap leach to process 840k tonnes/year of slime from the tailings dam of the former Baley processing plant, producing an estimated 15,000 oz of gold per annum when launched in 2022. The project has been granted residency status in the Zabaikal Advanced Special Economic Zone (ASEZ), which will confer a range of tax benefits once production begins.

Contractors have been mobilised for the first phase of construction, including conducting earthwork at the site, removing topsoil, and installing poles for overhead wiring. Potential vendors for processing equipment are currently being evaluated.

Also during the reporting period, Highland Gold's project bureau, Zabaikalzolotoproekt, worked with in-house specialists on updated scoping studies for the Taseevskoye and Sredny Golgotay deposits, and initial drafts are now under review. A scope of work for geo-metallurgical mapping of Taseevskoye has been drafted and a request for proposals issued. That work will be followed by the drafting of a pre-feasibility study, including geological, technical, metallurgical, hydro-geological and other studies.

### Lyubavinskoye (Lyubov)

From October 2019 through March 2020, contractor Areal Resurs carried out drilling on the Evgraf prospect as part of a small exploration programme. The Evgraf prospect is characterised by stockwork-type mineralisation where gold is associated with disseminated quartz-sulphide veinlets localised within a granitic stock and surrounding shales. It has been the focus of most of the Company's exploration work on the Lyubov licence area.

The exploration programme was designed to confirm the deposit's known resources, based on prospecting carried out in 2008-2011, and to identify any additional mineralisation on the flanks and lower horizons of the ore body. A total of 6,334 metres over 43 holes were drilled at the site, thereby reducing the interval between exploration holes to 25 x 25 metres.

In H1 2020, SGS Vostok Ltd. completed laboratory work on the samples from the drilling programme. The results confirmed that the deposit has complex mineralisation and the tighter drilling interval substantially improved the understanding of the ore body. In-house estimates based on the results and an updated block model show a notable improvement in grade over previous resource estimates, resulting in the potential addition of over 62,000 oz of gold to Lyubov's measured, indicated and inferred resources.

2012 Assessment (JORC) Measured, Indicated and Inferred Resources			2020 Estimate (JORC) Measured, Indicated and Inferred Resources		
Ore (k tonnes)	Average grade Au (g/t)	Contained Au (oz)	Ore (k tonnes)	Average grade Au (g/t)	Contained Au (oz)
11,247	1.34	484,287	11,192	1.52	546,916

## CHUKOTKA, RUSSIA

### Valunisty

- Waste stripping increased by 35% in H1 2020, year-on-year, as mining moved to lower levels of ore body № 12 in the mine's Novaya zone, where higher-grade ore is now being accessed
- Ore mining volumes rose by 24% in H1 2020 year-on-year, while ore processing was also slightly higher.

Valunisty	Units	H1 2019	H2 2019	H1 2020
Waste stripping	t	2,467,662	3,201,870	<b>3,325,703</b>
Ore mined	t	134,415	177,508	<b>166,185</b>
Average grade	g/t	2.76	3.02	<b>2.85</b>
Ore processed	t	131,593	139,170	<b>136,427</b>
Average grade	g/t	3.37	3.44	<b>3.44</b>
Recovery rate	%	95.2	94.6	<b>95.9</b>
Gold produced*	oz	14,873	15,166	<b>15,449</b>

\* Gold equivalent, calculated at actual prices, including silver

\* H1 2020 gold equivalent production revised from 16,502 oz reported in the Company's Q2 Operating Report to correct the gold equivalent calculation of silver

Work continues on the planned expansion of Valunisty's processing plant capacity from 250k tonnes to 350k tonnes of ore per year, and for the commencement of underground mining. Design work and engineering studies

for both projects advanced during H1 2020. The Company also initiated tenders and began purchasing equipment for the processing plant expansion.

Both the processing plant and underground mining projects were subjected to public hearings in H1 2020 and received approval from the local community. Documentation for both projects is now being prepared for state environmental expert review.

Valunisty's grade control drilling programme continued throughout the first half, focused on the southern part of the Novaya zone. In total for H1 2020, the Company drilled 4,893 metres over 47 holes and extracted 1,602 core samples for analysis. To date, results are back from the laboratory on 703 assay tests.

## **Kekura**

Initial stripping and ore mining at Kekura, which began last October, continued throughout H1 2020. A series of trials is currently in progress to define optimal mining parameters in line with international best practice for ore block excavation, including various drill & blast and selective mining techniques. Blast Movement Technologies (BMT) were also trialled in August to measure ore displacement and minimise ore loss and dilution.

Work during the period also continued on ramping up the mine's pilot processing plant, which poured its first gold in March of this year. The pilot plant has the capacity to treat 120 thousand tonnes of ore per year with test work showing recoveries of around 35%. Middlings from the pilot plant will be stored for eventual treatment at Kekura's main processing plant, which is due for completion in late 2022.

On 29 June 2020, ore from Block P6\_1160 arrived at the pilot processing plant and, on observation, a significant amount of free gold was identified with various sized particles including a number of nuggets in the ore material. The largest nugget measured 1.5 x 2.8 mm with a weight of 4.28 g. The total weight of nuggets of different sizes and shapes in only one sample of mill feed per shift was 10.32 g. The gold is associated with iron hydroxides.

Some 8,500 tonnes of cargo were delivered from seaports to Kekura during the winter road season in H1 2020 in order to support construction and mining efforts. The total includes 1,900 tonnes of fuel as well as the mill for the main processing plant and 320 modules for construction of the expanded camp.

Other developments during the period included:

- Additional construction permits for the project were received;
- Tenders continued for construction materials to be delivered to port during the 2020 navigation window;
- Construction work on the main processing plant got underway, including groundwork and foundations;
- Modular buildings for the expanded camp were assembled, including two dormitories for 150 beds and a new canteen with the capacity to seat 152 people;
- The Kekura power substation was certified for operation by regulators and a new overhead power line network across the site was completed;
- Detailed designs were prepared for the repair shop and hazardous chemicals storage facility; and
- Public hearings were held to review stage 2 design solutions, with local residents signing off on the Company's construction plans.

The manufacturing of steel structures and additional equipment for the main processing plant and repair shop was accelerated in H1 2020 with the aim of having them delivered to port in Chukotka during the 2020 navigation window for further shipment to site by winter road in early 2021.

## **Kayenmivaam (Kayen)**

On 02 June 2020, Highland Gold announced that it had entered into an agreement for the sale of Kayen, an early-stage gold exploration property received as an add-on to the Valunisty acquisition in December 2018. The Company will sell its wholly-owned subsidiary SVGGK LLC, holder of the Kayen license, to an unrelated party for US\$15 million to be paid in two equal instalments, the first at closing and the second following the legal transfer of shares. In addition, the Company will receive a 2% royalty on gold produced and sold from the deposit in excess of 500,000 ounces for a period of 30 years. The transaction is subject to approval by Russia's Federal Anti-Monopoly Service and is expected to be completed later this year.

## **HEALTH, SAFETY AND ENVIRONMENT**

Highland Gold's key health and safety goals include ensuring safe labour conditions, managing operational risks, offering ongoing employee training programmes and encouraging personal accountability for safety at the workplace.

In H1 2020, the Company recorded a Lost Time Incident Frequency Rate (LTIFR), calculated as the number of incidents for every 1,000,000 man-hours, of 2.44, a substantial improvement versus the LTIFR of 2.77 in H1 2019. Eight workplace injuries were registered during the reporting period – five at MNV, two at Belaya Gora and one at Novo). This compares favourably to 10 incidents during the period last year, including three fatalities.

A key focus of the HSE team for much of this year has been the Company's response to the COVID-19 pandemic. In addition to the corporate task force operating from the Moscow office, coronavirus task forces are in action at each production site. The Company published a detailed report on its pandemic response on 29 June 2020.

As part of that response, the Company developed a distance learning programme on corporate standards, including compulsory training on HSE topics, for employees residing at each mine's pre-shift Observation Centres. Employees are expected to complete the training before they begin their shift rotation.

Despite the logistical challenges due to many people working remotely or in lockdown, the Company was able to go ahead with a new initiative entitled Safety Day. The event, which will be held annually, is designed to recognise people, teams and initiatives that contribute toward measurable improvements in the Company's HSE performance. During a ceremony broadcast live online across each office and production site on June 11, CEO Denis Alexandrov announced the winners in several HSE categories at each subsidiary, who received prizes including monetary rewards.

In May and June, Safety Management System audits were conducted at Novo, MNV, Belaya Gora, Valunisty and Kekura. Based on the audit results, each subsidiary is developing action plans for continued roll-out of the system. This is being coupled with a broad risk assessment programme to create a register of risks for each production site.

## **Environment**

Highland Gold continues to adhere to its stated policy of protecting the environment and operating in accordance with all relevant regulatory requirements. An environmental monitoring system is in place at each of the Company's operations, and reducing the impact of its operations on the environment remains one of the Company's key priorities. There were no environmental incidents to report in H1 2020.

There were 263 internal audits of environmental management systems at the Company's operations in H1 2020 to ensure compliance with environmental legislation. In cases where deficiencies were identified, action plans were prepared based on the audit results to address the root causes of any violations.

During the reporting period, 1,608 employees received general environmental training, 74 employees underwent training and testing in management of hazardous waste, and 102 managers and specialists had skills improvement training in outside environmental training centers.

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*Mr. Andrey Sevryugin, Senior Specialist in the Geology and Subsoil Use Department at Highland Gold, has reviewed and verified the information contained in this release with respect to mineral resources. Mr Sevryugin is an Expert of the Russian Society of Subsoil Use Experts (OERN) and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the JORC Code 2012 Edition.*

## **FINANCIAL REVIEW**

### **CHIEF FINANCIAL OFFICER'S REPORT**

Highland Gold's financial performance in H1 2020 was supported by soaring gold prices (up 26.0% y-o-y<sup>1</sup>) and a weaker local currency, with the average rouble-dollar exchange rate increasing by 6.5% y-o-y.

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<sup>1</sup> Average H1 2020 LBMA price was US\$1,647 per oz (H1 2019: US\$1,307 per oz).



Overall revenue increased to US\$194.5 million, reflecting high precious metal prices. Revenue from gold and silver sales amounted to US\$145.7 million (H1 2019: US\$124.5 million) during the first half. Lead and zinc concentrate revenue showed a decline from US\$49.7 million in H1 2019 to US\$48.5 million in H1 2020 due to lower concentrate sales volumes. The Company continued to pursue a “no hedge” policy.

Over the reporting period, the Company sold 121,016 ounces of gold and gold equivalent, compared to 142,609 ounces in H1 2019. MNV decreased its sales volume by 10.2% from 60,492 ounces in H1 2019 to 54,292 ounces in H1 2020 as a result of lower processing grades (down 11.6% y-o-y). Belaya Gora sales declined by 6.2% to 18,339 ounces (H1 2019: 19,554 oz), owing to a decrease in processing volumes. Valunisty sold 15,052 oz of gold equivalent in H1 2020, which is 2.5% higher y-o-y. The average price of gold realised by MNV, Belaya Gora and Valunisty (net of commission) was US\$1,655 per oz, in line with the average market price.

Novo's sales decreased to 33,333 eq. oz (down 30.4% y-o-y), mainly due to lower average grades and the influence of the conversion rate for other metals into gold equivalent, as higher gold prices and lower price for other metals resulted in a lower quantity of gold equivalent ounces sold. The average price of gold equivalent realised by Novo was US\$1,456 per eq. oz in H1 2020 versus US\$1,038 per eq. oz in H1 2019. The average price at Novo is based on the spot prices for metals contained in the concentrates (gold, lead, zinc, silver and copper), net of fixed processing and refining costs at third-party plants. Final adjustments are made within a maximum of 4 months after the date of shipment.

### **Gold and Gold Equivalent Sold by Mine, oz**

	<b>H1 2020</b>		<b>H1 2019</b>	
MNV	54,292	44.9%	60,492	42.4%
Novo	33,333	27.5%	47,883	33.6%
Belaya Gora	18,339	15.2%	19,554	13.7%
Valunisty	15,052	12.4%	14,680	10.3%
<b>Total</b>	<b>121,016</b>		<b>142,609</b>	

The Company's cost of sales net of depreciation increased by 13.0% to US\$87.8 million in H1 2020 (H1 2019: US\$77.7 million). The growth was mainly influenced by additional expenses for addressing the COVID-19 pandemic, higher electricity tariffs (+27% in Khabarovsk region), higher amount of mineral extraction tax, as well as increased share of outsourced mining services at Belaya Gora and Valunisty open pit, such as drilling, excavation and transportation. Cash operating costs were down by US\$8.4 million, compared to US\$12.4 million in H1 2019, as MNV and Valunisty processed ore from stockpiles.

### **Cash Operating Costs**

<b>Cash operating costs – breakdown</b>	<b>H1 2020 US\$000</b>	<b>H1 2019 US\$000</b>	<b>y-o-y change</b>
<b>Cost of sales</b>	<b>115,135</b>	<b>101,268</b>	<b>13.7%</b>
- depreciation, depletion and amortisation	(27,330)	(23,532)	16.1%
<b>Cost of sales, net of depreciation, depletion and amortisation</b>	<b>87,805</b>	<b>77,736</b>	<b>13.0%</b>
<b>Breakdown per item:</b>			
Labour	27,896	29,700	(6.1%)
Consumables and spares	23,867	22,916	4.1%
Power	7,617	6,297	21.0%
Movement in ore stockpiles, finished goods and stripping assets	(8,393)	(12,435)	(32.5%)
Maintenance, repairs and third parties services	26,002	21,674	20.0%
Taxes other than income tax	10,816	9,584	12.9%

Total cash costs\* per ounce (TCC) went up by 33% and amounted to US\$717 per oz (H1 2019: US\$540), in line with the industry median. Breaking TCC down by operating unit, total cash costs at Novo were US\$524 per eq. oz (H1 2019: US\$385 per eq. oz), reflecting the lower sales volume. MNV experienced higher total cash costs, up to US\$729 per oz (H1 2019: US\$541 per oz) as a result of lower production volumes and pressure of

energy and labour costs. TCC at Belaya Gora increased to US\$825 per oz (H1 2019: US\$775 per oz), reflecting higher energy costs and hiring contractors for mining activities. TCC at Valunisty amounted to US\$973 per oz (H1 2019: US\$730 per oz).

<b>TCC and AISC calculation</b>	<b>H1 2020 US\$000</b>	<b>H1 2019 US\$000</b>	<b>y-o-y change</b>
<b>Cost of sales, excluding depreciation, depletion and amortisation</b>	<b>87,805</b>	<b>77,736</b>	<b>13.0%</b>
- cost of by-products and other sales	(932)	(644)	44.7%
- taxes other than income tax at non-operating entities	(83)	(80)	3.8%
<b>Total cash costs (TCC)</b>	<b>86,790</b>	<b>77,012</b>	<b>12.7%</b>
+ administrative expenses	8,209	7,667	7.1%
+ accretion and amortisation on site restoration provision	1,633	776	110.4%
+ movement in ore stockpiles obsolescence allowance	5,763	5,678	1.5%
+ sustaining capital expenditure	14,475	19,864	(27.1%)
<b>Total all-in sustaining costs (AISC)</b>	<b>116,870</b>	<b>110,997</b>	<b>5.3%</b>
Gold sold (gold and gold eq.oz)	121,016	142,609	(15.1%)
<b>TCC (US\$/oz)</b>	<b>717</b>	<b>540</b>	<b>32.8%</b>
<b>AISC (US\$/oz)</b>	<b>966</b>	<b>778</b>	<b>24.2%</b>
<b>Average realised price of gold equivalent (US\$/oz)</b>	<b>1,600</b>	<b>1,217</b>	<b>31.5%</b>
<b>Headroom (US\$/oz)</b>	<b>634</b>	<b>439</b>	<b>44.4%</b>

All-in sustaining costs\* (AISC) increased by 24% to US\$966 per oz in H1 2020 from US\$778 per oz in H1 2019, driven by higher TCC, however, the rapidly increasing gold price helped deliver strong headroom of US\$634 per oz. During the period, US\$5.8 million of low-grade ore in stockpiles were written down at Belaya Gora and Valunisty, consistent with H1 2019. Sustaining capital expenditure decreased by 27.1% to US\$14.5 million, largely reflecting lower stripping volumes capitalised at Belaya Gora.

With higher revenue and increased cash costs, earnings before interest, taxes, depreciation, and amortization\* (EBITDA) rose by 11.4% y-o-y to US\$96.4 million. The EBITDA margin\* remained stable at 50%. Broken down by business unit, EBITDA margin was 63.4% at Novo (H1 2019: 62.3%), 54.7% at MNV (H1 2019: 56.5%), 49.7% at Belaya Gora (H1 2019: 40.7%), and 40.5% at Valunisty (H1 2019: 44.7%).

#### **EBITDA Reconciliation to Operating Profit**

	<b>H1 2020 US\$000</b>	<b>H1 2019 US\$000</b>
<b>Operating profit</b>	<b>63,811</b>	<b>57,379</b>
Depreciation and amortisation	27,330	23,532
Movement in ore stockpiles obsolescence provision	5,763	5,678
Movement in raw materials and consumables obsolescence provision	(423)	(48)
Reversal of individual impairment of property, plant and equipment	(98)	—
<b>EBITDA</b>	<b>96,383</b>	<b>86,541</b>

#### **HGML EBITDA Bridge, US\$ million**

<b>H1 2019</b>	<b>86.5</b>
+ Exchange Rate	6.8
+ Metal Prices	50.8
- Volume of Sales	(20.0)
- Costs	(24.7)
- COVID-19 related expenses	(2.1)
- Administrative expenses	(0.9)

The decline in other operating expenses from US\$8.4 million in H1 2019 to US\$7.4 million in H1 2020 was mainly related to a decrease in raw materials and consumables obsolescence allowance during the reporting period.

In H1 2020, the Company recognised a net finance cost of US\$1.1 million (H1 2019: US\$0.8 million). The principal component was accretion expense on site restoration liability amounting to US\$1.2 million (H1 2019: US\$0.9 million). Interest accrued on bank loans in the amount of US\$5.9 million was capitalised into the cost of qualifying assets at Kekura.

A foreign exchange gain of US\$0.3 million (H1 2019: loss of US\$0.5 million) resulted from the settlement of foreign currency transactions and the retranslation of monetary assets and liabilities denominated in Russian roubles into US dollars.

Income tax charges equalled US\$26.6 million in H1 2020 compared with US\$10.4 million in H1 2019. Current tax expense decreased to US\$10.3 million (MNV: US\$6.8 million, Novo: US\$2.1 million, Valunisty: US\$1.1 million and BG: US\$0.3 million), which is US\$6.6 million lower than in H1 2019 (US\$16.9 million) due to lower taxable profits at Russian subsidiaries as a result of retranslation of loans denominated in US dollars into Russian roubles. The lower current tax was offset by a US\$12.5 million deferred tax expense in H1 2020 (H1 2019: deferred tax credit of US\$9.1 million), largely because of future tax revaluation following the rouble's depreciation at the end of the period. Withholding tax expense was recorded at US\$3.7 million (H1 2019: US\$2.6 million).

Mainly affected by higher deferred tax, net profit for the first half of 2020 totalled US\$36.4 million compared to a profit of US\$45.7 million in H1 2019. Earnings per share decreased to US\$0.101 (H1 2019: US\$0.125).

The Company's cash inflow from operating activities was US\$82.8 million (H1 2019: US\$72.6 million).

Cash capital expenditures for the reporting period totalled US\$59.2 million versus US\$31.3 million in H1 2019. This largely reflected development capex at Kekura, Belaya Gora and Novo. Capital expenditures included US\$25.6 million at Kekura, US\$11.0 million at Novo, US\$9.0 million at MNV, US\$8.5 million at Belaya Gora, US\$1.9 million at Valunisty, US\$1.1 million at Taseevskoye, US\$0.9 million at Klen and US\$1.2 million related to other exploration and development assets. Capital expenditures were funded by operating cash flow.

The Company's debt is denominated in US dollars. Bank loans increased by 13% over the reporting period to US\$324.9 million as of 30 June 2020 (31 December 2019: US\$288.0 million). The average effective interest rate, free of modification effects, was 3.74%, compared to 3.76% at the end of 2019.

At the end of the reporting period, cash and cash equivalents amounted to US\$48.7 million, compared to US\$42.9 million as of 31 December 2019. The Company's net debt position\* including lease liabilities was US\$280.0 million.

### **Gross and Net Debt Comparison**

	<b>30 June 2020</b>	<b>31 Dec 2019</b>
	<b>US\$000</b>	<b>US\$000</b>
Gross debt	324,906	288,024
Net debt	280,044	250,168
Interest rate	3.74%	3.76%
Net debt/EBITDA	1.30x	1.22x

The ratio of net debt to EBITDA increased from 1.22x as of 31 December 2019 to 1.30x as of 30 June 2020, which is well within the Board of Directors' debt policy.

### **Cash Position Bridge, US\$ million**

<b>Cash and cash equivalents at 31 December 2019</b>	<b>43</b>
+ Net cash flow from operating activities	83
- Cash capital expenditure	(59)
- Increase in stripping activity assets	(4)
- Interest paid, including capitalised	(6)
- Payment of lease liabilities, including interest	(1)
+ Proceeds from borrowings	37
- Dividends paid to equity holders of the parent	(40)
- Withholding tax expense	(4)
<b>Cash and cash equivalents at 30 June 2020</b>	<b>49</b>

**Alla Baranovskaya**  
Chief Financial Officer

### **EVENTS AFTER THE REPORTING PERIOD**

On 31 July 2020, Directors Eugene Shvidler and Valery Oyf and a group of affiliated shareholders (the "Selling Shareholders") agreed to sell their shareholdings in the Company, representing 40.06% of the Company's issued share capital, to Fortiana Holding Limited at a price per share of £3.00, paid in cash.

On that same date, Highland Gold and Fortiana announced that they had reached agreement on the terms of a recommended pre-conditional mandatory cash offer to be made by Fortiana for the Highland Gold shares not already held or agreed to be acquired by Fortiana (the "Offer"). Under the terms of the Offer, accepting shareholders of the Company would receive £3.00 per share in cash (being the same price and form of consideration as paid to the Selling Shareholders).

Fortiana has received an irrevocable undertaking from Duncan Baxter (Senior Independent Director) to accept the Offer, when made, in respect of his holding of 20,000 Highland Gold shares (approximately 0.01 per cent. of the issued share capital).

Details of the potential transaction and related documents are available on the Company's website at [www.highlandgold.com/home/offer](http://www.highlandgold.com/home/offer).

In light of the Offer, the Board of Directors has deferred making a decision on the payment of an H1 2020 interim dividend pending the outcome of the transaction. The Directors noted the potential effect of such a disbursement on the terms offered to shareholders as per the announcement of the Offer made under Rule 2.7 of the UK Takeover Code, released on 31 July 2020.

\* Definitions for non-IFRS terms are provided in the glossary below.

Rounding of figures may result in computational discrepancies

## GLOSSARY

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

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

**EBITDA** - Operating profit/(loss) excluding depreciation and amortisation, impairment losses or reversal, movement in ore stockpiles obsolescence allowance, movement in raw materials and consumables obsolescence allowance, result of disposal of a non-core entity and gain on settlement of contingent consideration.

**EBITDA margin** - EBITDA divided by total revenue

**Net Debt** - cash and cash equivalents less interest-bearing loans and lease liabilities

**JORC** - Widely accepted standard for reporting mineral resources and ore reserves established by the Australasian Joint Ore Reserves Committee.

**Mineral Resource** - Concentration or occurrence of solid material of economic interest in or on the Earth's crust in such form, grade or quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade or quality, continuity and other geological characteristics of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge, including sampling.

**Measured Resource** - 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 grade continuity.

**Indicated Mineral Resource** - That part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

**Inferred Mineral Resource** - That part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the six months ended 30 June

		<i>2020</i> <i>unaudited</i> <i>US\$000</i>	<i>2019</i> <i>unaudited</i> <i>US\$000</i>
	<i>Notes</i>		
Revenue	4	194,517	174,676
Cost of sales	4	(115,135)	(101,268)
<b>Gross profit</b>		<b>79,382</b>	<b>73,408</b>
Administrative expenses		(8,209)	(7,667)
Other operating expenses, net		(7,362)	(8,362)
<b>Operating profit</b>		<b>63,811</b>	<b>57,379</b>
Foreign exchange gain/(loss), net		256	(469)
Finance costs, net	5	(1,051)	(806)
<b>Profit before income tax</b>		<b>63,016</b>	<b>56,104</b>
Current income tax expense	6	(10,314)	(16,935)
Withholding tax expense	6	(3,727)	(2,626)
Deferred income tax (expense)/credit	6	(12,541)	9,149
<b>Total income tax expense</b>	6	<b>(26,582)</b>	<b>(10,412)</b>
<b>Profit for the period</b>		<b>36,434</b>	<b>45,692</b>
<b>Total comprehensive income for the period</b>		<b>36,434</b>	<b>45,692</b>
<b>Profit for the period attributable to:</b>			
Equity holders of the parent		36,600	45,403
Non-controlling interests		(166)	289
<b>Earnings per share (US\$ per share)</b>			
Basic and diluted earnings per share attributable to ordinary equity holders of the parent	11	0.101	0.125

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

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at

	Notes	30 June 2020 unaudited US\$'000	31 December 2019 audited US\$'000	30 June 2019 unaudited US\$'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Exploration and evaluation assets	7	104,343	101,531	96,270
Mine properties	7	709,107	698,163	666,678
Property, plant and equipment	7	363,926	342,924	320,470
Goodwill	4	63,651	63,651	63,651
Inventories	9	15,024	5,742	2,963
Deferred income tax asset		2,554	3,584	3,243
Other non-current assets		28,799	21,887	14,742
<b>Total non-current assets</b>		<b>1,287,404</b>	<b>1,237,482</b>	<b>1,168,017</b>
<b>Current assets</b>				
Inventories	9	74,314	81,391	59,681
Trade and other receivables		38,290	44,957	30,239
Prepayments		6,328	2,872	6,789
Income tax prepaid		525	1,522	5,652
Cash and cash equivalents	10	48,654	42,919	8,284
Other current assets		2,592	2,853	2,083
<b>Total current assets</b>		<b>170,703</b>	<b>176,514</b>	<b>112,728</b>
<b>Assets classified as held for sale</b>	17	1,503	–	–
<b>TOTAL ASSETS</b>		<b>1,459,610</b>	<b>1,413,996</b>	<b>1,280,745</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Issued capital	11	634	634	634
Share premium		786,613	786,613	786,613
Assets revaluation reserve		832	832	832
Retained earnings		181,520	160,665	75,199
<b>Total equity attributable to equity holders of the parent</b>		<b>969,599</b>	<b>948,744</b>	<b>863,278</b>
Non-controlling interests		2,769	2,935	2,620
<b>TOTAL EQUITY</b>		<b>972,368</b>	<b>951,679</b>	<b>865,898</b>
<b>Non-current liabilities</b>				
Interest-bearing loans	12, 15	319,754	274,568	114,167
Lease liabilities	12, 15	2,386	3,377	2,821
Non-current payables		462	376	417
Income tax payable		310	1,422	1,916
Provisions		41,042	38,270	31,754
Deferred income tax liability		78,666	66,840	125,155
<b>Total non-current liabilities</b>		<b>442,620</b>	<b>384,853</b>	<b>276,230</b>
<b>Current liabilities</b>				
Interest-bearing loans	12, 15	5,152	13,456	106,858
Lease liabilities	12, 15	1,406	1,686	1,355
Trade and other payables		35,673	58,183	30,404
Income tax payable		2,372	4,139	–
<b>Total current liabilities</b>		<b>44,603</b>	<b>77,464</b>	<b>138,617</b>
<b>Liabilities associated with assets classified as held for sale</b>	17	19	–	–
<b>TOTAL LIABILITIES</b>		<b>487,242</b>	<b>462,317</b>	<b>414,847</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,459,610</b>	<b>1,413,996</b>	<b>1,280,745</b>

The financial statements were approved by the Board of Directors on 28 August 2020 and signed on its behalf by:  
John Mann and Olga Pokrovskaya.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the six months ended 30 June 2020

	Notes	<i>Attributable to equity holders of the parent</i>					<i>Non-controlling interests</i>	<i>Total equity</i>
		<i>Issued capital</i>	<i>Share premium</i>	<i>Assets revaluation reserve</i>	<i>Retained earnings</i>	<i>Total</i>		
		<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>		
<b>At 31 December 2019</b>		<b>634</b>	<b>786,613</b>	<b>832</b>	<b>160,665</b>	<b>948,744</b>	<b>2,935</b>	<b>951,679</b>
Total comprehensive income for the period		—	—	—	36,600	<b>36,600</b>	(166)	<b>36,434</b>
Dividends to equity holders of the parent	16	—	—	—	(15,745)	<b>(15,745)</b>	—	<b>(15,745)</b>
<b>At 30 June 2020 (unaudited)</b>		<b>634</b>	<b>786,613</b>	<b>832</b>	<b>181,520</b>	<b>969,599</b>	<b>2,769</b>	<b>972,368</b>

**for the six months ended 30 June 2019**

	Notes	<i>Attributable to equity holders of the parent</i>					<i>Non-controlling interests</i>	<i>Total equity</i>
		<i>Issued capital</i>	<i>Share premium</i>	<i>Assets revaluation reserve</i>	<i>Retained earnings</i>	<i>Total</i>		
		<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>		
<b>At 31 December 2018</b>		<b>634</b>	<b>786,496</b>	<b>832</b>	<b>40,905</b>	<b>828,867</b>	<b>2,331</b>	<b>831,198</b>
Total comprehensive income for the period		—	—	—	45,403	<b>45,403</b>	289	<b>45,692</b>
Ordinary shares issued	11	—	117	—	—	<b>117</b>	—	<b>117</b>
Dividends to equity holders of the parent	16	—	—	—	(11,109)	<b>(11,109)</b>	—	<b>(11,109)</b>
<b>At 30 June 2019 (unaudited)</b>		<b>634</b>	<b>786,613</b>	<b>832</b>	<b>75,199</b>	<b>863,278</b>	<b>2,620</b>	<b>865,898</b>



**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the six months ended 30 June

	<i>Notes</i>	<i>2020 unaudited US\$000</i>	<i>2019 unaudited US\$000</i>
<b>Operating activities</b>			
Profit before income tax		63,016	56,104
<b>Adjustments to reconcile profit before income tax to net cash flows from operating activities:</b>			
Depreciation of mine properties and property, plant and equipment	4	27,330	23,532
Write-off of mine properties and property, plant and equipment	7	206	595
Reversal of individual impairment of property, plant and equipment	4	(98)	–
Loss on disposal of property, plant and equipment		32	168
Movement in ore stockpiles obsolescence allowance	4, 9	5,763	5,678
Movement in raw materials and consumables obsolescence allowance	4, 9	(423)	(48)
Movement in allowance for expected credit losses		24	–
Bank interest receivable	5	(263)	(306)
Interest expense on lease liabilities	5	143	176
Accretion expense on site restoration provision	5	1,171	936
Foreign exchange (gain)/loss, net		(256)	469
Other non-cash (income)/expenses		(72)	7
		<b>96,573</b>	<b>87,311</b>
<b>Movements in working capital:</b>			
Decrease/(increase) in trade and other receivables and prepayments		271	(5,588)
(Increase)/decrease in inventories		(4,664)	4,626
Increase in trade and other payables		1,035	5,748
<b>Cash flows from operations</b>		<b>93,215</b>	<b>92,097</b>
Income tax paid		(10,455)	(19,531)
<b>Net cash flows from operating activities</b>		<b>82,760</b>	<b>72,566</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		140	155
Purchase of property, plant and equipment	4, 7	(59,188)	(31,327)
Capitalised interest paid	4, 15	(5,637)	(4,894)
Increase in stripping activity assets	7	(4,084)	(5,090)
Interest received from deposits		263	306
<b>Net cash flows used in investing activities</b>		<b>(68,506)</b>	<b>(40,850)</b>
<b>Financing activities</b>			
Proceeds from loans	12, 15	60,000	13,751
Repayments of loans	12, 15	(23,201)	(41,658)
Payments of lease liabilities	15	(829)	(633)
Interest paid on lease liabilities	15	(75)	(176)
Dividends paid to equity holders of the parent	15, 16	(39,583)	(31,873)
Withholding tax paid on dividends		(3,741)	(2,626)
<b>Net cash flows used in financing activities</b>		<b>(7,429)</b>	<b>(63,215)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,825</b>	<b>(31,499)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>10</b>	<b>42,919</b>	<b>38,736</b>
Less: cash and cash equivalents related to assets classified as held for sale at the end of the period	17	(363)	–
Effect of foreign exchange rate changes on cash and cash equivalents		(727)	1,047
<b>Cash and cash equivalents at 30 June</b>	<b>10</b>	<b>48,654</b>	<b>8,284</b>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Corporate information

These interim condensed consolidated financial statements of Highland Gold Mining Limited for the six months ended 30 June 2020 were authorised for issue in accordance with a resolution of the Directors on 28 August 2020.

Highland Gold Mining Limited (the Company) is a public company incorporated and domiciled in Jersey. The registered office is located at 26 New Street, St Helier, Jersey JE2 3RA. Its ordinary shares are traded on the Alternative Investment Market (AIM).

The principal activity is building a portfolio of gold mining operations within the Russian Federation and Kyrgyzstan.

## 2. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2020 are prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union. The annual financial statements of the Group for the year ended 31 December 2019 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and Companies (Jersey) Law 1991.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

The impact of seasonality or cyclicity on operations is not considered significant to the interim condensed consolidated financial statements.

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

### Going concern

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

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

The going concern assessment has considered the impact on liquidity and loan covenants of a sustained decrease in gold prices as compared to current market forecasts and a strengthening of the rouble, noting no breach of covenants in either scenario, or a combination of both downside scenarios. The Directors also note that, in the event of any lengthy interruption to production as a result of the COVID-19 pandemic, there are various mitigating actions readily available to the Group including the deferral of capital expenditure and draw down on available credit facilities which would adequately safeguard the Group's ongoing liquidity. Management has already taken actions to increase available (undrawn) credit limits under the existing facilities to US\$560.1 million, with the draw period extended up to 2026. The Directors' going concern assessment included consideration of potential impacts of a change of control in respect of the recommended pre-conditional mandatory cash offer to be made by Fortiana Holdings Limited (Note 17) on the Group's borrowings or other key contracts, noting no issues in this regard.

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

## 3. Changes in accounting policies

The accounting policies applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the Group's consolidated financial statements as at and for the year ended 31 December 2019.

Adoption of interpretations and amendments to the following standards for annual periods from 1 January 2020 did not have material impact on the accounting policies, financial position or results of the Group:

- Amendments to References to the Conceptual Framework in IFRS standards;
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- Amendments to IFRS 3 *Business Combinations*.

### Standards and interpretations in issue but not yet effective

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective or endorsed in the EU.

Management of the Group plans to adopt all of the above standards and interpretations in the Group's consolidated financial statements for the respective periods.

#### 4. Segment information

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

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

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

The Gold production of Chukotka region operating and reportable segment consists of three companies, namely Valunisty (VAL), Kanchalano-Amguemskaya Square (KAS) and Severo-Vostochnaya Gorno-Geologicheskaya Company (SVGGK, Kayen). All three companies operate in the same region and have similar economic characteristics. They produce gold and silver and perform exploration work with the aim of extending their reserves base.

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

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

Other non-operating companies have been aggregated to form the Other reportable segment. Head office and management company do not represent an operating segment, include primarily headquarters' general and administrative expenses and are presented as Unallocated.

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

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

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

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 3 of these interim condensed consolidated financial statements.

Revenue from several customers was greater than 10% of total revenue as described below:

		Gold production of Khabarovsk region segment		Gold production of Chukotka region segment		Polymetallic concentrate production segment	
		2020 US\$000	2019 US\$000	2020 US\$000	2019 US\$000	2020 US\$000	2019 US\$000
<b>For the six months ended 30 June (unaudited)</b>							
<i>Gold and silver sales</i>							
Gazprombank	Russian Federation	30 760	79 611	24 852	19 193	–	–
Sberbank	Russian Federation	88 176	25 669	–	–	–	–
MOEX	Russian Federation	1 900	–	–	–	–	–
<i>Concentrate sales</i>							
Kazzinc	Republic of Kazakhstan	–	–	–	–	23 622	32 498
Hyosung TNC	People's Republic of China	–	–	–	–	24 911	17 203

Other third-party revenues for the six months ended 30 June 2020 and 2019 were received in the territory of the Russian Federation. Inter-segment revenues mostly represent management services.

<b>Period ended 30 June 2020</b>	<b>Gold production of Khabarovsk region US\$000</b>	<b>Gold production of Chukotka region US\$000</b>	<b>Polymetallic concentrate production US\$000</b>	<b>Development and exploration US\$000</b>	<b>Other US\$000</b>	<b>Eliminations US\$000</b>	<b>Total US\$000</b>
<b>Revenue</b>							
Gold sales	120,223	22,939	–	–	–	–	143,162
Silver sales	613	1,913	–	–	–	–	2,526
Concentrate sales (4.1)	–	–	48,533	–	–	–	48,533
Other third-party sales	20	–	213	–	63	–	296
Inter-segment sales	5	–	–	–	924	(929)	–
<b>Total revenue</b>	<b>120,861</b>	<b>24,852</b>	<b>48,746</b>	<b>–</b>	<b>987</b>	<b>(929)</b>	<b>194,517</b>
Cost of sales	71,506	17,946	25,538	81	595	(531)	115,135
Segment EBITDA	64,439	9,818	30,858	(653)	(151)	–	104,311
Unallocated							(7,928)
<b>Consolidated EBITDA</b>							<b>96,383</b>
<b>Other segment information</b>							
Depreciation	(16,141)	(3,171)	(7,847)	–	(171)	–	(27,330)
Movement in ore stockpiles obsolescence allowance	(4,725)	(1,038)	–	–	–	–	(5,763)
Movement in raw materials and consumables obsolescence allowance	531	(23)	(85)	–	–	–	423
Reversal of individual impairment of property, plant and equipment	98	–	–	–	–	–	98
Finance costs, net							(1,051)
Foreign exchange gain, net							256
<b>Profit before income tax</b>							<b>63,016</b>
Income tax							(26,582)
<b>Profit for the period</b>							<b>36,434</b>
<b>Segment assets at 30 June 2020</b>							
Non-current assets							
Exploration and evaluation assets, mine properties and property, plant and equipment	187,088	74,130	156,341	754,273	5,544	–	1,177,376
Goodwill	9,691	5,848	5,134	42,978	–	–	63,651
Other non-current assets	13,491	6,269	3,905	22,139	573	–	46,377
Current assets (4.2)	72,688	31,121	78,117	6,781	7,796	(25,800)	170,703
<b>Total assets</b>							<b>1,458,107</b>
Capital expenditure – additions for the six months ended 30 June 2020 (4.3), including:	20,388	3,122	11,789	35,226	462	–	70,987
Stripping activity assets	2,345	1,135	–	604	–	–	4,084
Capitalised bank interest	–	–	–	5,886	–	–	5,886
Unpaid accounts payable	715	116	870	128	–	–	1,829
Cash capital expenditure	17,328	1,871	10,919	28,608	462	–	59,188

<b>Period ended 30 June 2019</b>	<b>Gold production of Khabarovsk region US\$000</b>	<b>Gold production of Chukotka region US\$000</b>	<b>Polymetallic concentrate production US\$000</b>	<b>Development and exploration US\$000</b>	<b>Other US\$000</b>	<b>Eliminations US\$000</b>	<b>Total US\$000</b>
<b>Revenue</b>							
Gold sales	104,706	17,314	–	–	–	–	122,020
Silver sales	574	1,879	–	–	–	–	2,453
Concentrate sales (4.1)	–	–	49,701	–	–	–	49,701
Other third-party sales	41	299	129	–	33	–	502
Inter-segment sales	19	–	–	–	40	(59)	–
<b>Total revenue</b>	<b>105,340</b>	<b>19,492</b>	<b>49,830</b>	<b>–</b>	<b>73</b>	<b>(59)</b>	<b>174,676</b>
Cost of sales	61,690	13,350	25,706	106	416	–	101,268
Segment EBITDA	55,447	8,672	31,059	(1,303)	(220)	–	93,655
Unallocated	–	–	–	–	–	–	(7,114)
<b>Consolidated EBITDA</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>86,541</b>
<b>Other segment information</b>							
Depreciation	(13,206)	(2,621)	(7,286)	(3)	(416)	–	(23,532)
Movement in ore stockpiles obsolescence allowance	(1,799)	(3,879)	–	–	–	–	(5,678)
Movement in raw materials and consumables obsolescence allowance	(1)	–	49	–	–	–	48
Finance costs, net	–	–	–	–	–	–	(806)
Foreign exchange gain, net	–	–	–	–	–	–	(469)
<b>Profit before income tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>56,104</b>
Income tax	–	–	–	–	–	–	(10,412)
<b>Profit for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>45,692</b>
<b>Segment assets at 30 June 2019</b>							
Non-current assets							
Exploration and evaluation assets, mine properties and property, plant and equipment	173,326	74,105	156,536	676,338	3,113	–	1,083,418
Goodwill	9,691	5,848	5,134	42,978	–	–	63,651
Other non-current assets	8,568	6,877	1,369	3,651	483	–	20,948
Current assets (4.2)	59,880	25,898	36,246	3,908	4,195	(17,399)	112,728
<b>Total assets</b>	<b>241,465</b>	<b>135,628</b>	<b>299,285</b>	<b>727,225</b>	<b>7,791</b>	<b>(17,399)</b>	<b>1,280,745</b>
Capital expenditure – additions for the six months ended 30 June 2019 (4.3), including:	15,425	2,580	4,396	18,951	167	–	41,519
Stripping activity assets	4,527	563	–	–	–	–	5,090
Capitalised bank interest	–	–	–	5,832	–	–	5,832
Settled accounts payable	279	–	(541)	(468)	–	–	(730)
Cash capital expenditure	10,619	2,017	4,937	13,587	167	–	31,327

4.1. Concentrate sales for the six months ended 30 June 2020 comprise US\$44.9 million of IFRS 15 revenue based on initial invoices, a positive provisional price adjustment of US\$3.6 million which represents changes in the fair value of the provisional pricing feature in the trade receivables of 2020 and a negative price adjustment of US\$0.04 million related to 2019 sales.

Concentrate sales for the six months ended 30 June 2019 comprise US\$47.7 million of IFRS 15 revenue based on initial invoices, a positive provisional price adjustment of US\$1.5 million which represents changes in the fair value of the provisional pricing feature in the trade receivables of 2019 and a positive price adjustment of US\$0.5 million related to 2018 sales.

4.2. Current assets at 30 June 2020 include corporate cash and cash equivalents of US\$48.7 million, inventories of US\$74.3 million, trade and other receivables of US\$38.8 million and other assets of US\$8.9 million.

Current assets at 30 June 2019 include corporate cash and cash equivalents of US\$8.3 million, inventories of US\$59.7 million, trade and other receivables of US\$35.9 million and other assets of US\$8.8 million.

Eliminations relate to intercompany accounts receivable.

4.3. Capital expenditure – additions for the six months ended 30 June 2020 – includes additions to mine properties, exploration and evaluation assets, and property, plant and equipment of US\$58.4 million (Note 7), plus capitalised interest of US\$5.9 million (Note 7), including cash interest expense of US\$5.6 million and US\$0.3 million of modification effect, and prepayments made for property, plant and equipment of US\$6.7 million.

Capital expenditure – additions for the six months ended 30 June 2019 – includes additions to mine properties, exploration and evaluation assets, and property, plant and equipment of US\$34.0 million (Note 7), capitalised interest of US\$5.8 million (Note 7), including cash interest expense of US\$4.8 million, US\$0.8 million of modification effect and US\$0.1 million of capitalised upfront commission and prepayments made for property, plant and equipment of US\$1.7 million.

Non-current assets at 30 June 2020 are located in the Russian Federation (US\$1,238.8 million) and in the Kyrgyz Republic (US\$48.6 million). Non-current assets at 30 June 2019 are located in the Russian Federation (US\$1,121.5 million) and in the Kyrgyz Republic (US\$46.5 million). Current assets at 30 June 2020 and 2019 are located in the Russian Federation.

## 5. Finance costs, net

	<i>For the six months ended 30 June</i>	
	<i>2020 unaudited US\$000</i>	<i>2019 unaudited US\$000</i>
Accretion expense on site restoration provision	1,171	936
Interest expense on lease liabilities	143	176
Bank interest receivable	(263)	(306)
<b>Total finance costs, net</b>	<b>1,051</b>	<b>806</b>

## 6. Income tax

The major components of income tax expense for the six months ended 30 June 2020 and 2019 are:

	<i>For the six months ended 30 June</i>	
	<i>2020 unaudited US\$000</i>	<i>2019 unaudited US\$000</i>
Current income tax:		
Current income tax charge	10,314	16,935
Withholding tax on dividends	3,727	2,626
	<b>14,041</b>	<b>19,561</b>
Deferred income tax:		
Related to origination/(reversal) of temporary differences	12,541	(9,149)
<b>Income tax expense reported in the interim condensed consolidated statement of comprehensive income</b>	<b>26,582</b>	<b>10,412</b>

The majority of the Group entities are Russian tax residents.

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

There are no tax amounts recognised directly in equity for the six months ended 30 June 2020 and 2019.

The effective tax rate of 36.3% (for the six months ended 30 June 2019: 13.9%) represents the best estimate of the average annual effective income tax rate expected for the full year and was calculated based on income tax expense adjusted for withholding tax on dividends.

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. The effect of translation of tax base denominated in foreign currency reflects future tax revaluation of RUB depreciation/(appreciation) against USD, which is reflected in the deferred income tax impact in the table above.

## 7. Mine properties, exploration and evaluation assets, and property, plant and equipment

During the six months ended 30 June 2020, additions of mine properties, exploration and evaluation assets, and property, plant and equipment amounted to US\$58.4 million (for the six months ended 30 June 2019: US\$34.0 million).

Mine properties in the interim condensed consolidated statement of financial position comprise mine assets and stripping activity assets. At 30 June 2020 mine properties included US\$16.9 million of stripping activity assets (at 31 December 2019: US\$14.8 million, at 30 June 2019: US\$12.4 million).

Property, plant and equipment in the interim condensed consolidated statement of financial position comprise buildings, plant and equipment and construction in progress. At 30 June 2020 property, plant and equipment included US\$2.7 million of right-of-use assets (at 31 December 2019: US\$3.2 million, at 30 June 2019: US\$2.0 million) and US\$142.1 million of construction in progress (at 31 December 2019: US\$116.7 million, at 30 June 2019: US\$97.5 million).

Capitalised borrowings costs for the six months ended 30 June 2020 amounted to US\$5.9 million (for the six months ended 30 June 2019: US\$5.8 million). Annual capitalisation rate used to determine the amount of borrowing costs was 3.86% (for the six months ended 30 June 2019: 4.60%).

The net present value of the changes in estimation of site restoration costs booked as an increase to mine assets and non-current provisions during the six months ended 30 June 2020 and 2019 is as follows:

<i>For the six months ended 30 June (unaudited)</i>	<b>Effect of changes in the discount and inflation rates</b>		<b>Effect of changes in estimated costs</b>		<b>Effect of exchange rate changes</b>		<b>Total increase/ (decrease)</b>	
	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>	<i>2020</i>	<i>2019</i>
	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>	<i>US\$000</i>
MNV	284	(349)	3,431	1,534	(1,648)	1,102	2,067	2,287
Novo	536	528	79	236	(1,329)	865	(714)	1,629
BG	(51)	7	2,149	93	(956)	716	1,142	816
Valunisty	451	(63)	70	189	(1,171)	871	(650)	997
Kekura	115	90	39	18	(331)	142	(177)	250
Klen	19	26	2	11	(52)	38	(31)	75
<b>Total</b>	<b>1,354</b>	<b>239</b>	<b>5,770</b>	<b>2,081</b>	<b>(5,487)</b>	<b>3,734</b>	<b>1,637</b>	<b>6,054</b>

Write-off for the six months ended 30 June 2020 in the amount of US\$0.2 million (for the six months ended 30 June 2019: US\$0.6 million) relates to retirement of old inefficient equipment and buildings.

No plant and equipment has been pledged as security for bank loans for the six months ended 30 June 2020 and 2019.

## 8. Other non-current assets

At 30 June 2020 other non-current assets included non-current prepayments of US\$27.1 million (at 31 December 2019: US\$19.0 million, at 30 June 2019: US\$11.3 million), representing advances issued to suppliers for equipment and construction works.

## 9. Inventories

	<i>30 June 2020</i> <i>unaudited</i> <i>US\$000</i>	<i>31 December 2019</i> <i>audited</i> <i>US\$000</i>	<i>30 June 2019</i> <i>unaudited</i> <i>US\$000</i>
Ore stockpiles	49,800	36,130	26,634
Gold in progress	1,223	–	–
Ore stockpile obsolescence allowance (9.1)	(35,999)	(30,388)	(23,671)
<b>Total non-current inventories</b>	<b>15,024</b>	<b>5,742</b>	<b>2,963</b>

The portion of the ore stockpiles that is to be processed in more than 12 months from the reporting date is classified as non-current inventory.

	<i>30 June 2020</i> <i>unaudited</i> <i>US\$000</i>	<i>31 December 2019</i> <i>audited</i> <i>US\$000</i>	<i>30 June 2019</i> <i>unaudited</i> <i>US\$000</i>
Raw materials and consumables	57,016	61,053	47,164
Ore stockpiles	18,209	20,532	16,709
Gold in progress	8,739	9,544	5,488
Finished goods	3,186	3,369	3,035
	<b>87,150</b>	<b>94,498</b>	<b>72,396</b>
Raw materials and consumables obsolescence allowance (9.2)	(12,569)	(12,992)	(12,202)
Ore stockpile obsolescence allowance (9.1)	(267)	(115)	(513)
<b>Total current inventories</b>	<b>74,314</b>	<b>81,391</b>	<b>59,681</b>

9.1. Stockpiled low-grade ore is tested for impairment semi-annually. Increase in ore stockpile obsolescence allowance for the six months ended 30 June 2020 amounted to US\$4.7 million at BG (for the six months ended 30 June 2019: US\$1.8 million) and US\$1.1 million at Valunisty (for the six months ended 30 June 2019: US\$3.9 million) and was recognised within other operating expenses in the interim condensed consolidated statement of comprehensive income.

9.2. Decrease in raw materials and consumables obsolescence allowance amounted to US\$0.4 million for the six months ended 30 June 2020 – decrease of US\$0.5 million at MNV and increase of US\$0.1 million at Novo (for the six months ended 30 June 2019: decrease of US\$0.04 million at Novo) and was recognised within other operating expenses in the interim condensed consolidated statement of comprehensive income.

No inventory has been pledged as security.



## 10. Cash and cash equivalents

Cash at bank earns interest at fixed rates based on daily bank deposit rates. The fair value of cash and cash equivalents is equal to the carrying value.

	<b>30 June 2020 unaudited US\$000</b>	<b>31 December 2019 audited US\$000</b>	<b>30 June 2019 unaudited US\$000</b>
Cash in hand and at bank	5,770	17,129	1,914
Short-term deposits	42,884	25,790	6,370
	<b>48,654</b>	<b>42,919</b>	<b>8,284</b>

## 11. Issued capital and earnings per share

In June 2019, the Group issued 53,549 ordinary shares of £0.001 each under the Scrip Dividend alternative. As a result, the number of issued shares increased to 363,896,990 as at 30 June 2019 and has remained unchanged as at 31 December 2019 and 30 June 2020.

Basic earnings per share are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued, for no consideration, on the exercise of share options into ordinary shares. There is no effect of dilution for the six months ended 30 June 2020 and 2019.

The weighted average number of shares used in the calculation of basic and diluted earnings per share for the six months ended 30 June 2020 was 363,896,990 shares (for the six months ended 30 June 2019: 363,850,541 shares).

The share capital comprises only one class of ordinary shares, which carry a voting right and the right to a dividend.

There are no restrictions on the distribution of dividends and the repayment of capital.

## 12. Interest-bearing loans, lease liabilities

	<b>Average nominal rate, %</b>	<b>Effective interest rate under IFRS 9, %</b>	<b>Maturity</b>	<b>30 June 2020 unaudited US\$000</b>	<b>31 December 2019 audited US\$000</b>	<b>30 June 2019 unaudited US\$000</b>
<b>Revolving facilities (USD)</b>						
Sberbank	3.70%	3.70%	2023	146,500	146,500	20,000
Alfa-Bank	3.87%	3.87%	2024	43,000	43,000	–
UniCredit	4.80%	4.80%	2023	25,000	25,000	25,000
Rosbank	12.1	3.41%	2025	35,000	25,000	33,000
Raiffeisen	12.2	3.30%	2024	40,000	–	24,630
				<b>289,500</b>	<b>239,500</b>	<b>102,630</b>
<b>Modified bank loans (USD)</b>						
UniCredit (modified)	12.3	3.62%	2020	–	12,979	81,620
Raiffeisen (modified)	12.4	3.77%	2024	34,561	34,352	35,370
				<b>34,561</b>	<b>47,331</b>	<b>116,990</b>
<b>Subsidised bank loans (RUB)</b>						
Sberbank	12.5	1.50%	2022	845	1,193	1,405
				<b>845</b>	<b>1,193</b>	<b>1,405</b>
<b>Total interest-bearing loans</b>				<b>324,906</b>	<b>288,024</b>	<b>221,025</b>
<b>Less: current portion of interest-bearing loans</b>				<b>(5,152)</b>	<b>(13,456)</b>	<b>(106,858)</b>
<b>Non-current interest-bearing loans</b>				<b>319,754</b>	<b>274,568</b>	<b>114,167</b>

12.1. In March 2020, the Group repaid US\$10.0 million and drew down US\$20.0 million under the revolving facility with Rosbank.

12.2. In March 2020, the Group raised financing with Raiffeisen bank in the amount of US\$40.0 million.

12.3. In February 2020, the Group fully repaid US\$13.0 million of credit facility with UniCredit.

12.4. The effect of Raiffeisen bank loan modification amounts to US\$0.8 million at 30 June 2020 (at 31 December 2019: US\$1.0 million).

12.5. The effective rate of 1.50% under subsidised bank loans with Sberbank is lower than the RUB-based interest rate of 8.75%, given the compensation received from the Belarusian government.

Lease liabilities amounted to US\$3.8 million at 30 June 2020, including current portion of US\$1.4 million (at 31 December 2019: US\$5.1 million, including current portion of US\$1.7 million; at 30 June 2019: US\$4.2 million, including current portion of US\$1.4 million).

Carrying values of interest-bearing loans and lease liabilities approximate their fair values.

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining certain financial ratios:

- the ratio of net debt to EBITDA should not exceed 3.5;
- the ratio of EBITDA to interest expense should be at or above 4.0;
- the ratio of net debt to equity should be lower than 0.6.

As at 30 June 2020, the Group was in compliance with all restrictive financial and other covenants contained in its loan agreements.

### 13. Commitments and contingencies

#### *Capital commitments*

At 30 June 2020 the Group had commitments of US\$20.8 million (at 31 December 2019: US\$11.0 million, at 30 June 2019: US\$20.0 million) principally relating to development assets and US\$30.3 million (at 31 December 2019: US\$5.4 million, at 30 June 2019: US\$3.6 million) for the acquisition of new machinery.

#### *Contingent liabilities*

Management has identified possible tax claims within the various jurisdictions in which the Group operates totalling US\$0.1 million as at 30 June 2020 (at 31 December 2019: US\$0.5 million, at 30 June 2019: none). In management's view, these possible tax claims will likely not result in a future outflow of resources; consequently no liability is required in respect of these matters.

### 14. Related party disclosures

There were no related party transactions during the six months ended 30 June 2020 and 2019. There are no outstanding related party balances at 30 June 2020, 31 December 2019 and 30 June 2019. There have been no guarantees provided or received for any related party receivables or payables.

### 15. Financial assets and liabilities

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- the carrying amounts of financial instruments, such as cash and short-term deposits, current accounts receivable and payable and other current liabilities approximate their fair value;
- fixed-rate interest-bearing loans are evaluated based on current market interest rates.

The fair value of trade receivables on provisionally priced contracts is based on quoted market prices.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The Group uses the following fair value hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following financial instruments measured at fair value, Level 2 of fair value hierarchy:

	<b>30 June 2020 unaudited US\$000</b>	<b>31 December 2019 audited US\$000</b>	<b>30 June 2019 unaudited US\$000</b>
Trade receivables (including provisionally priced)	13,130	21,677	16,441

*Changes in liabilities arising from financing activities*

	<b>Interest- bearing loans US\$000</b>	<b>Lease liabilities US\$000</b>	<b>Other liabilities US\$000</b>	<b>Total US\$000</b>
<b>At 31 December 2019</b>	<b>288,024</b>	<b>5,063</b>	<b>24,080</b>	<b>317,167</b>
Changes from financing cash flows:				
Proceeds from loans and borrowings	60,000	–	–	<b>60,000</b>
Repayment of loans and borrowings	(23,201)	–	–	<b>(23,201)</b>
Dividends paid to equity holders of the parent	–	–	(39,583)	<b>(39,583)</b>
Payment under lease	–	(829)	–	<b>(829)</b>
Interest paid	–	(75)	–	<b>(75)</b>
<b>Total changes from financing cash flows</b>	<b>36,799</b>	<b>(904)</b>	<b>(39,583)</b>	<b>(3,688)</b>
Other changes:				
Interest accrued	–	143	5,675	<b>5,818</b>
Capitalised interest paid	–	–	(5,637)	<b>(5,637)</b>
Dividends announced	–	–	15,745	<b>15,745</b>
Effect of changes in foreign exchange rates	(147)	(435)	(2)	<b>(584)</b>
Other changes	230	(75)	6	<b>161</b>
<b>Total other changes</b>	<b>83</b>	<b>(367)</b>	<b>15,787</b>	<b>15,503</b>
<b>At 30 June 2020</b>	<b>324,906</b>	<b>3,792</b>	<b>284</b>	<b>328,982</b>

Other liabilities include announced but unpaid dividends and interest accrued but unpaid.

## 16. Dividends

	<b>Declaration period</b>	<b>Payment period</b>	<b>Per share GBP</b>	<b>Total dividends paid US\$000</b>
First interim 2019	September 2019	September 2019	0.050	22,482
Second interim 2019	December 2019	January 2020	0.050	23,838
Third interim 2019	April 2020	May 2020	0.035	15,745
First interim 2018	September 2018	September 2018	0.060	25,467
Second interim 2018	December 2018	January 2019	0.050	20,880
Third interim 2018	April 2019	May 2019	0.024	10,993*

\* Scrip Dividend elections were received with respect to 3,628,719 shares and resulted in the issue of 53,549 new ordinary shares of £0.001 each, admitted to trading on 7 June 2019.

## 17. Events after the reporting period

On 1 June 2020 the Group entered into the agreement to sell its subsidiary SVGGK, holder of Kayenmivaam (Kayen) license, located in the Chukotka region, Russian Federation, to an unrelated party for US\$15.0 million plus a 2% royalty on gold produced and sold from the deposit in excess of 500,000 ounces for a period of 30 years. The completion of the transaction is subject to the Federal Anti-Monopoly Service approval. At 30 June 2020, the respective assets and liabilities in the amount of US\$1.5 million, including exploration and evaluation assets of US\$0.7 million, cash and cash equivalents of US\$0.4 million and other assets and liabilities of US\$0.4 million, were presented in the interim consolidated statement of financial position as assets classified as held for sale.

On 31 July 2020, Directors Eugene Shvidler and Valery Oyf and a group of affiliated shareholders (the "Selling Shareholders") agreed to sell their shareholdings in the Company, representing 40.06% of the Company's issued share capital, to Fortiana Holding Limited at a price per share of £3.00, paid in cash.

On that same date, Highland Gold and Fortiana announced that they had reached agreement on the terms of a recommended pre-conditional mandatory cash offer to be made by Fortiana for the Highland Gold shares not already held or agreed to be acquired by Fortiana (the "Offer"). Under the terms of the Offer, accepting shareholders of the Company would receive £3.00 per share in cash (being the same price and form of consideration as paid to the Selling Shareholders).

Fortiana has received an irrevocable undertaking from Duncan Baxter (Senior Independent Director) to accept the Offer, when made, in respect of his holding of 20,000 Highland Gold shares (approximately 0.01 per cent. of the issued share capital).

Details of the potential transaction and related documents are available on the Company's website at [www.highlandgold.com/home/offer](http://www.highlandgold.com/home/offer).

In July 2020, the Group increased available (undrawn) credit limits under the existing facility with Sberbank by US\$200.0 million to US\$400.0 million, with the draw period extended from December 2023 to December 2026.

*A copy of this announcement and of the presentation to be used during that webcast will be made available (subject to certain restrictions relating to persons resident in certain jurisdictions), free of charge, on Highland Gold's website at <https://www.highlandgold.com/home/offer>.*