



Responsible Resources & Roots Engagement Zurich - Helsinki - Toronto

ViewPick/October 2012

Highland Gold Mining HGM

ISIN GB0032360173

Mining/Raw Materials

Highland Gold Mining Limited was incorporated in Jersey/UK in 2002 for the purpose of acquiring, consolidating and developing mining projects in the Russian Federation focusing on extensive exploration. The major activities are located within the Khabarovsk and Zabaikalsky regions of Russia, as well as Kyrgyzstan in Central Asia.

Operations Mnogovershinnoye (MNV), Khabarovsk region, Russia
Novosirokinskoye (NOVO), Zabaikalsky region, Russia
Belaya Gora, Khabarovsk region, Russia

Development Projects

Taseevskoye, Zabaikalsky region, Russia (drilling programme)
Unkurtash, Kyrgyzstan, exploration, prospects
Lyubov, Zabaikalsky region, Russia
Mnogovershinnoye (MNV), Khabarovsk region, Russia (process of delineating add. Resources)
Blagodatnoye, Khabarovsk region, Russia
Belaya Gora Flanks, Khabarovsk region, Russia

Key numbers	2008	2009	2010	2011
Revenue (USD thsd)	149'147	164'747	243'629	300'181
Gross profit (USD thsd)	44'642	63'504	119'365	154'495
Operating profit/loss (USD thsd)	(- 54'724)	63'293	153'034	129'716
Net profit /loss (USD thsd)	(- 232'423)	78'843	122'328	103'823
Total assets (USD thsd)	637'651	637'868	688'773	768'340
Employees	3'030	2'435	2'791	2'848

Major shareholders: Millhouse LLC (through Primerod International Ltd) (32.57%), Barrick Gold Corporation (20.37%) and company's management, E. Shvidler (8.63%), JP Morgan Asset Management UK (5%).

This document is for research and marketing purpose only and does not constitute nor does it contain any offer or invitation to buy or subscribe for securities in any of the titles listed, nor is it an inducement to make an offer or an invitation with respect to any securities within. This very information is intended solely for groups and private investors being known by Responsible Resources & Roots Engagement. Please do consider this disclaimer.

Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto
Obere Kirchgasse 10 | CH-8400 Winterthur/Zurich
+41792860738 | www.resources-roots.com



Responsible Resources & Roots Engagement Zurich - Helsinki - Toronto

Ethical Stakeholders' Assessment HGM

Employees

There are many positive signs indicating that the company treats its employees well and thoroughly. HGM provides good benefits to staff and mining workers as well and a favourable pension plan is on. The health and safety of the employees are of high importance in the social commitment. The company remains fully committed to the accomplishment of appropriate training and the promotion of highly vigilance in this regard. Despite of the relatively poor reporting, we recommend a rating of “acceptable” for this stakeholder.

Environment

The mining industry is arguably one of the most resource-intensive and environmentally damaging industries. There are still many companies in this industry that are not aware of this fact. HGM is not the case. There is a weak environmental report available, but still not enough transparency and no statistics concerning these topics. The company is obviously committed and in many cases proactive to fulfilling gradually the responsibilities in relation to the environment and the communities within which it works and, for this purpose, it is currently developing its ISO 14001 environmental management system with compliance auditing expected by the end of the current year. A provision is recognised for expected close down, restoration and environmental cleanup costs based on estimated future costs of such activities. It remains to expect that all these commitments will be fully considered, and greed them with ethical rating “acceptable”.

Customers

This document is for research and marketing purpose only and does not constitute nor does it contain any offer or invitation to buy or subscribe for securities in any of the titles listed, nor is it an inducement to make an offer or an invitation with respect to any securities within. This very information is intended solely for groups and private investors being known by Responsible Resources & Roots Engagement. Please do consider this disclaimer.

Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto
Obere Kirchgasse 10 | CH-8400 Winterthur/Zurich
+41792860738 | www.resources-roots.com



Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto

The company declares that it makes efforts for increasing the quality of its production, and mentions that the consumers' satisfaction has been given. However, there are not enough data and information illustrating these statements. Therefore it is difficult to recommend concrete rating's degree to this stakeholder's relationship rating. "Data not available".

General Public

A very important aspect of the company's work lies in the relationship to regional and local administrations towards advancement of social development programmes with main focus on education, health, culture and sport. The company has been engaged to act responsibly in relation to due settlement of all local taxes, fees and charges and it helps to maintain and modernise the infrastructure in the communities that are home of many of its employees. The company mentions to have several positive contributions, a further new social programme was launched at Belaya Gora. This includes works at village schools, kindergarten, and office for a local obstetrician, library's equipment, etc. Whereas it cannot be evaluated by the ethical assessment how large the financial support is, but the citizen engagement of the company sends articulated positive signals towards the general public. Consequently, we recommend a rating of "acceptable" for this stakeholder treatment.

Suppliers

There is no specifically reporting with regard to the ethical quality of the relation to this stakeholder, and moreover, the suppliers are not mentioned as being part of a specific strategy or treatment. The recommendation rating is "Not available".

This document is for research and marketing purpose only and does not constitute nor does it contain any offer or invitation to buy or subscribe for securities in any of the titles listed, nor is it an inducement to make an offer or an invitation with respect to any securities within. This very information is intended solely for groups and private investors being known by Responsible Resources & Roots Engagement. Please do consider this disclaimer.

Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto
Obere Kirchgasse 10 | CH-8400 Winterthur/Zurich
+41 79 286 0738 | www.resources-roots.com



Responsible Resources & Roots Engagement Zurich - Helsinki - Toronto

Investors

The information spread via Annual Reports and the web page concerning relevant legal matters and financial information database for investors is rather clear and could even be called as a good example for a mining company. Thus there was not enough relevant information to rate this stakeholder profile here. The company have implemented many of the main principles of good governance under the UK Corporate Governance Code issued by the Financial Reporting Council (June 2010). The Board is assisted by a number of Committees with the duty of control of key business risks, etc. The company continues to pursue its M&A programme following the acquisition of the majority interest in Novo. Much more, several opportunities are being assessed and various stages of evaluation and in some cases financial information have been received allowing the company further successful development. Every potential transaction requires details due diligence before an agreement can be reached. That means a valuable shape of transparency for a good rating's degree of "ethically proactive".

General Ethical Evaluation

HGM provides comprehensive information on the company's business. Corporate and social responsibility wants to be an "essential aspect of Highland Gold Mining's corporate culture". The corporate is very concerned about the role that it has to play and its own image and social and environmental profile in the mining industry of today. Therefore HGM focuses on pro-active, positive concrete contributions to the welfare of local communities in those areas in which it operates, pay attention to its impact on the environment. Although the company speaks a lot about ethics and the observance of ethical and ecological basic rules, it seems that it does not make too many efforts to convert these aspects into practice.

This ethical assessment and analysis is based on the data provided from the company's websites, from press releases and from publicly disclosed documents. Until datum there are no critics' voices from customers, employees, communities and the public, especially with regard to the environment and the disappointing quality of working conditions. The reporting is improving by every year and we expect a nearer implementation of GRI's principles. The presence of transparency in sincere communication leads the ethical analyse to recommend a general ethical rating of "ethically investable".

Advisory Reflection

This document is for research and marketing purpose only and does not constitute nor does it contain any offer or invitation to buy or subscribe for securities in any of the titles listed, nor is it an inducement to make an offer or an invitation with respect to any securities within. This very information is intended solely for groups and private investors being known by Responsible Resources & Roots Engagement. Please do consider this disclaimer.

Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto
Obere Kirchgasse 10 | CH-8400 Winterthur/Zurich
+41792860738 | www.resources-roots.com



Responsible Resources & Roots Engagement Zurich - Helsinki - Toronto

The high price of gold was not able enough to prevent a fall in profits at HGM, the Russian miner partly owned by billionaire Roman Abramovich, which was hit by a **sharp increase in production costs**. The AIM quoted company, which owns gold mines and exploration prospects across Russia and the former Soviet republic of Kyrgyzstan, admitted production costs raised from USD 73 million to USD 103 million in six months to June 30. As a result, pre-tax profits fell from USD 85 million to USD 57 million. Although the average sale price of gold rose 13% during the period from USD 1'453 to USD 1'537 an ounce, these gains were offset by a jump in the group's total cash costs per gold ounce produced from USD 531 to USD 804.

Poorer grades of gold ore at two keys mines and higher waste stripping volumes – requiring the removal of more material to access gold ores – were blamed for the cost increase. Interim revenues edged up from USD 158 million to USD 161 million as production rose from 93'000 to 102'000 ounces. The company ended the six months with net cash of USD 151 million, up from USD 126 million.

Since then Highland Gold has agreed to acquire further gold fields for USD 69 million, which it calculates could add 50'000 to 60'000 ounces of gold production a year to output. **A special interim dividend of 4.8 p a share is payable from earnings per share of 13.9 p. Mr Abramovich Millhouse is Highland Gold's leading shareholder with a 32% stake in the company.** Eugene Shvidler, head of investment vehicle, also holds an 8% stake in Highland Gold.

The group's fall in profits mirrors that experienced by Nord Gold, the gold miner that earlier this year separated from Russian steelmaker Severstal. It suffered a 50% fall in the first-half earnings to USD 65 million as revenues slipped 3% to USD 529 million.

However, **both companies' larger Russia gold mining peers reported improved interim operating profits in spite of costs pressures one month ago**. Polyus Gold reported a near doubling of pre-tax profits to USD 538 million as revenue rose 36% in the first half to USD 1.2 billion. Polymetal achieved a 41% jump in revenues to USD 767 million. Its adjusted earnings before interest, tax, depreciation and amortisation rose 53% to USD 221 million because of foreign exchange losses and additional mining tax charges.

Shares in Highland Gold tracks the downward performance of **smaller Russian gold miners** Petropavlovsk and Nord Gold but lags behind the more robust performance of its larger peer Polymetal. Shares now trade on a lowly prospective p/e of slightly less than five times.

HGM could be an opportunity to buy on weakness. But this, under the circumstances, that the gold price remaining close to historic high level.

This document is for research and marketing purpose only and does not constitute nor does it contain any offer or invitation to buy or subscribe for securities in any of the titles listed, nor is it an inducement to make an offer or an invitation with respect to any securities within. This very information is intended solely for groups and private investors being known by Responsible Resources & Roots Engagement. Please do consider this disclaimer.

Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto
Obere Kirchgasse 10 | CH-8400 Winterthur/Zurich
+41792860738 | www.resources-roots.com



Responsible Resources & Roots Engagement Zurich - Helsinki - Toronto

Highland Gold Mining has revealed an increase in JORC compliant mineral resources at its Lyubov project in eastern Siberia. The Lyubov project is targeting a near surface bulk-mineable gold resource for a potential open-pit mining operation. The property license includes the Evgraf prospect which has been the focus of the Company's previous exploration activities including more than 20,000 metres of core drilling.

Conclusion

Heavily undervalued

Small/ Midcap

Market Capitalisation is under 1 billion USD

P/E Ratio 5.68

Earnings growth estimated

By few analysts under research

Dividend Yield 3.45%, relatively high

BETA 1.19 for one year

Important to know:

Stock with a relatively high risk by high chances as well.

Sources

<http://www.highlandgold.com/operations/deposits.aspx>

<http://www.nachhaltiges-investment.org/Unternehmen.aspx>

<http://www.bloomberg.com/news/2012-04-26/highland-gold-drops-to-20-month-low-as-barrick-sells-at-discount.html>

<http://www.ft.com/intl/cms/s/0/92699e24-0279-11e2-9e53-00144feabdc0.html#axzz283udLdmw>

<http://www.finanznachrichten.de/nachrichten-aktien/highland-gold-mining-ltd.htm>

<http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/summary/company-summary.html?fourWayKey=GB0032360173GBGBXAMSM>

<http://www.proactiveinvestors.co.uk/LON:HGM/Highland-Gold/>

<http://www.stockmarketwire.com/company-news/HGM/Highland-Gold-Mining>

<http://www.bloomberg.com/quote/HGM:LN/income-statement>

[http://tools.morningstar.co.uk/uk/stockreport/default.aspx?tab=6&SecurityToken=0P00007OEX%5D3%5D0%5DE0WWE\\$&Id=0P00007OEX&ClientFund=0&CurrencyId=GBP](http://tools.morningstar.co.uk/uk/stockreport/default.aspx?tab=6&SecurityToken=0P00007OEX%5D3%5D0%5DE0WWE$&Id=0P00007OEX&ClientFund=0&CurrencyId=GBP)

Contact Information

Highland Gold Mining Ltd

This document is for research and marketing purpose only and does not constitute nor does it contain any offer or invitation to buy or subscribe for securities in any of the titles listed, nor is it an inducement to make an offer or an invitation with respect to any securities within. This very information is intended solely for groups and private investors being known by Responsible Resources & Roots Engagement. Please do consider this disclaimer.

Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto

Obere Kirchgasse 10 | CH-8400 Winterthur/Zurich

+41792860738 | www.resources-roots.com



Responsible Resources & Roots Engagement
Zurich - Helsinki - Toronto

26 New Street
St Helier
Jersey, JE2 3RA
United Kingdom

Phone: 44-1534-814-894
Fax: 44-1534-814-815
www.highlandgold.com

This document is for research and marketing purpose only and does not constitute nor does it contain any offer or invitation to buy or subscribe for securities in any of the titles listed, nor is it an inducement to make an offer or an invitation with respect to any securities within. This very information is intended solely for groups and private investors being known by Responsible Resources & Roots Engagement. Please do consider this disclaimer.

Responsible Resources & Roots Engagement

Zurich - Helsinki - Toronto
Obere Kirchgasse 10 | CH-8400 Winterthur/Zurich
+41792860738 | www.resources-roots.com