OAO BURYATZOLOTO

Financial Statements
for the year ended 31 December 2002
(Prepared in accordance with accounting principles
generally accepted in Canada)

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AUDITORS' REPORT
to the Shareholders and Board of Directors of OAO Buryatzoloto

1. We have audited the accompanying balance sheet of OAO Buryatzoloto (the "Company") as of 31 December 2002 and the related statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These financial statements as set out on pages 4 to 23 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2002 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

Moscow, Russia
31 March 2003

(In thousands of US dollars)

	Notes	31 December 2002	31 December 2001
ASSETS			
Current assets			
Cash and cash equivalents	3	2,213	1,374
Accounts receivable and prepayments	4	3,123	2,786
Inventories	6	8,561	7,996
Deferred development expenditure	5	498	339
Total current assets		**14,395**	**12,495**
Non-current assets			
Investments and intangibles	7	3,107	1,324
Property, plant and equipment, net	8	57,113	53,297
Equipment under capital lease	9	650	-
Deferred income tax asset	12	-	589
Total non-current assets		**60,870**	**55,210**
Total assets		**75,265**	**67,705**
LIABILITIES			
Current liabilities			
Accounts payable		885	1,180
Other current liabilities	10	2,653	3,810
Obligation under capital lease	9	392	-
Short-term loans and current portion of long-term debt	11	7,645	10,853
Total current liabilities		**11,575**	**15,843**
Long-term liabilities			
Mine closure reserve		1,143	948
Obligation under capital lease	9	258	-
Deferred income tax liability	12	596	-
Long-term debt	13	12,656	6,052
Deferred hedging gain	21	588	1,872
Total long-term liabilities		**15,241**	**8,872**
Total liabilities		**26,816**	**24,715**
SHAREHOLDERS' EQUITY			
Share capital	14	9,790	9,790
Retained earnings		38,659	33,200
Total shareholders' equity		**48,449**	**42,990**
Total liabilities and shareholders' equity		**75,265**	**67,705**

General Director — Valery A. Dmitriev

Finance Director — Dulma N. Dugarova

31 March 2003

The accompanying notes form an integral part of these financial statements.

OAO Buryatzoloto
Statement of Income for the year ended 31 December 2002
(In thousands of US dollars except per share amounts)

	Notes	31 December 2002	31 December 2001
Revenues	15	47,277	40,069
Other income	16	488	748
Cost of sales	17	(31,054)	(28,912)
Income from mining operations		**16,711**	**11,905**
Exploration expenses	17	(3,257)	(3,370)
General, administrative and selling expenses		(3,551)	(4,090)
Loss on disposal of assets		(186)	(311)
Operating profit		**9,717**	**4,134**
Interest expense	18	(1,235)	(1,641)
Foreign exchange (loss)/gain		(38)	317
Income before income tax		**8,444**	2,810
Income tax expense	12	(2,985)	(1,467)
Net income		**5,459**	**1,343**
Earnings per share (US$):			
Basic	19	0.86	0.22
Diluted	19	0.74	0.20

The accompanying notes form an integral part of these financial statements.

(In thousands of US dollars)

	31 December 2002	31 December 2001
Cash provided by (used in):		
Operating activities		
Net income	5,459	1,343
Non-cash items:		
Gain on hedging operations	(465)	(649)
Depreciation and amortization	6,176	5,718
Increase in mine closure reserve	195	396
Loss on disposal of assets	186	311
Deferred income tax expense	1,185	280
Operating income before changes in working capital	**12,736**	**7,399**
Changes in working capital:		
Inventories	(985)	363
Accounts receivable and prepayments	(815)	(399)
Deferred development expenditure	(159)	(120)
Accounts payable	64	233
Interest payable	(38)	(168)
Other current liabilities	(1,157)	(887)
Net cash provided by operating activities	**9,646**	**6,421**
Investing activities		
Additions to property, plant and equipment	(10,172)	(7,458)
Additions to investments	(1,250)	(626)
Net cash used in investing activities	**(11,422)**	**(8,084)**
Financing activities		
Loan from shareholder	600	-
Proceeds from short-term debt, net	-	3,000
Proceeds from long-term debt	11,650	4,000
Repayment of long-term debt	(8,535)	(5,351)
Redemption of Type B and V preference shares	(1,100)	-
Net cash provided by financing activities	**2,615**	**1,649**
Net increase (decrease) in cash and cash equivalents	**839**	**(14)**
Cash and cash equivalents, beginning of the year	**1,374**	**1,388**
Cash and cash equivalents, end of the year	**2,213**	**1,374**
Supplementary information:		
Interest paid	1,709	1,809
Income tax paid	2,028	961

The accompanying notes form an integral part of these financial statements.

(In thousands of US dollars)

	Share capital	Retained earnings	Total shareholders' equity
Balances at 1 January 2001	9,790	31,857	41,647
Net income	-	1,343	1,343
Balances as at 1 January 2002	9,790	33,200	42,990
Net income	-	5,459	5,459
Balances at 31 December 2002	9,790	38,659	48,449

The accompanying notes form an integral part of these financial statements.

1 ORGANISATION

Open Joint Stock Company (OAO) Buryatzoloto ("Buryatzoloto" or "the Company") is engaged in the mining and processing of gold and silver ore from mineral properties located in the Republic of Buryatia, Russian Federation. The Company's primary products are gold and silver, produced in the form of doré alloy, which is shipped to refineries for final processing. Current regulations in the Russian Federation restrict the Company to selling its products either to specific licensed domestic banks or to the State Depositary for Precious Stones and Metals of the Russian Federation (referred to as "Gokhran").

The Company owns mineral licenses to operate the "Zun-Holba" and "Irokinda" mines located in Okinsky and Muisky regions of the Republic of Buryatia, in Southern Siberia, which expire in 2019 and 2012, respectively.

The Company was incorporated in the Russian Federation through the Federal Government's privatization program in June 1994, in accordance with the law "On Privatization Of State Owned Enterprises" under Presidential Decree No 2284 of 24 December 1993. The Company's registered office is located at 9, Ulitsa Tsivileva, 670034, Ulan Ude, Russian Federation. The average number of employees in 2002 was 4,361 (2001: 3,993).

2 ACCOUNTING POLICIES

Basis of presentation

These financial statements, prepared on a going concern basis, are based on the Company's Russian statutory records, with adjustments and reclassifications in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). These financial statements have been prepared using the historical cost convention.

Translation of financial statements into US Dollars

The Company maintains its accounting records and prepares its statutory financial statements in Russian rubles ("RR") in accordance with Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements are expressed in US dollars (US$), the reporting currency of the Company.

For the Company's integrated operations, monetary assets and liabilities are translated into US dollars using year-end exchange rates; all other assets and liabilities are translated into US dollars using the historical rates of exchange. Revenues, expenses and certain costs are translated at monthly average rates of exchange except for inventoried costs and depreciation, depletion and amortization, which are translated at historical rates of exchange. Realized and unrealized foreign exchange gains and losses arising on currency translation are charged to income.

On 1 January 2002, the official rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian ruble and the US dollar was RR30.14:1; at 31 December 2002, it was RR31.78:US$1, and as at the date of approval of these financial statements, 31 March 2003, it was RR31.38:US$ 1. Significant exchange restrictions and controls exist relating to converting Russian rubles into other currencies. At present, the Russian ruble is not a convertible currency outside of the Russian Federation and, further, the Company is required to convert 50% of its hard currency into Russian rubles. Future movements in the exchange rate between the Russian ruble and the US dollar will affect the carrying value of the Company's Russian - denominated monetary assets and liabilities. Such movements may also affect the Company's ability to realize non-monetary assets presented in US dollars in these financial statements. Accordingly, any translation of Russian ruble amounts to US dollars should not be construed as a representation that such Russian ruble amounts have been, could be or will in the future be converted into US dollars at the exchange rate shown or any other exchange rate.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amount of revenues and operating costs during the reporting period. The most significant estimates relate to realization of inventories, deferred taxation, reserve estimates used to calculate amortization, future cash flow estimates required for the assessment of possible impairment of the mining properties and the evaluation of the mine closure reserve. Actual results may differ from these estimates.

Significant accounting policies adopted by the Company are as follows:

(a) Intangible assets

Intangible assets are recorded at historical cost and amortized on a straight-line basis over their expected useful lives or license validity periods.

(b) Restoration, rehabilitation and mine closure costs

Provision for restoration, rehabilitation and mine closure costs expected to be incurred at the end of the productive lives of the respective areas of interest are based on mine closure plans including detailed cost estimates. This provision is accrued on a unit of production basis. Any subsequent revision of management's estimate of the expected future costs, which may result from any agreement that may be reached between the Company and the local and federal authorities, will result in a change in the estimate and will be recorded prospectively.

All current restoration, rehabilitation costs and mine closure costs are expensed in the period incurred.

(c) Property, plant and equipment

Property, plant and equipment acquired or constructed prior to 1 January 1997 is recorded at the amounts determined by an independent valuation as at 1 January 1997 less accumulated depreciation. Property, plant and equipment acquired or constructed subsequent to 1 January 1997 is recorded at cost less accumulated depreciation. Cost includes all costs directly attributable to bringing the asset to its working condition for its intended use.

The amounts determined by the independent valuation represent gross replacement cost less accumulated depreciation to arrive at an estimate of depreciated replacement cost. This independent valuation was performed in order to determine a basis for cost in the absence of the historical US dollar records for property, plant and equipment, which were required for the purposes of financial statement preparation in accordance with Canadian GAAP. Therefore, this independent valuation is not a recurring feature since it was intended to determine the costs which would have been recorded in US dollars had the original costs been translated from Russian rubles at an open market exchange rate at the time of each transaction. The change in carrying value arising from this valuation had been recorded directly to retained earnings.

When the net carrying value of property, plant and equipment, less its related provision for future restoration, rehabilitation and mine closure costs and deferred income taxes, exceeds the estimated undiscounted future net cash flows together with its residual value, the excess is charged to income.

Maintenance, repairs and minor renewals are charged to expense as incurred.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is charged to income.

The basis for calculating depreciation, which is recorded by a charge to income, for the major classes of assets is set out below:

Asset category	Production assets Basis of depreciation	Non-production assets Estimated useful life
Buildings and land improvements	Units of production	20 years
Transmission devices	Units of production	6 years
Underground workings	Units of production	-
Plant and machinery	Units of production	6 years
Transport and other	Units of production	6 years

Assets depreciated under the units of production method are calculated on the basis of actual production for the year compared with total estimated reserves (in thousands of tons of mineral bearing ore). Other assets are depreciated on a straight-line basis over the estimated useful lives as described above.

(d) Capital lease

Leased property is classified as a capital lease if the benefits and risks associated with this property are transferred to the Company, i.e. the Company would obtain ownership rights over the property at the end of the lease or the present value of minimum lease payments at the inception of lease is equal to or approximates the fair value of the leased property. Accordingly, a leased preperty classified as a capital lease is accounted for as an acquisition of an asset and as an assumption of an obligation.

(e) Exploration expenses

Exploration and evaluation costs are expensed in the year in which they are incurred, unless they relate to the exploration and evaluation activities that are a) financed by the Company's own funds; b) are performed on the license areas that are currently being developed; and c) lead to the addition of new mineable reserves in those areas, in which case they are capitalized as part of construction in progress.

(f) Deferred development expenditure

Deferred development expenditure (representing the costs of tunneling in preparation of a new mining area) are charged to cost of production in the proportion that the amount of ore extracted bears to the amount estimated to be accessed by the preparation work.

Unamortised balances of deferred development expenditure are expensed when the area that they cover is depleted, or deemed to be depleted by management.

(g) Inventories

Inventories comprise mined ore (in stockpiles, magazines and loose ore in the mines awaiting transportation to the surface), ore and metal at various stages in the refining process, finished goods and consumables, all of which are stated at the lower of average cost and net realizable value. Cost of work in progress and finished goods inventories includes materials, direct labor and an allocation of both production overhead expenditures and depreciation, based on normal operating capacity.

(h) Long-term investments

Investments held for the long-term are stated at cost, unless there has been a decline in value below cost that is other than temporary. In that case, the investment is written down to its realizable value and the decrease is charged to income.

(i) Cash and cash equivalents

Cash and equivalents comprise cash on hand and balances with banks, and highly liquid investments with insignificant risk of changes in value and original maturities of three months or less at the date of acquisition.

Non-cash investing and financing activities are excluded from the statement of cash flow and disclosed in the accompanying notes.

(j) Financial instruments and fair value

Gains and losses on financial instruments are recognized currently, unless they relate to hedges of anticipated cash flows, in which case they are deferred until the related transaction takes place.

Fair values are based on quoted prices for similar financial instruments, where available. For unquoted investments and investment securities, reported fair values are estimated on the basis of financial and other information. The fair value of long-term debt is estimated based on quoted market prices for similar issues by companies of similar credit status. The fair values of derivatives are the amounts for which the open contracts could have been settled at the balance sheet date.

(k) Revenue recognition

Revenue from the sale of gold and silver is recognized at the earlier of the date of delivery or the date when legal title passes.

(l) Income taxes

Deferred income tax is calculated at currently enacted rates, using the liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from the provisions and expenses that are charged to income before they become deductible for tax purposes.

Deferred income tax assets attributable to deductible temporary differences and unused tax losses and credits are recognized only to the extent that it is more likely than not that the asset will be realized.

Income tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets against current liabilities relating to the same taxation authority (i.e., federal or local).

(m) Loans and other finance costs

Borrowing costs attributable to working capital financing are recognized as an expense in the period in which they are incurred. Borrowing costs that are attributable to the purchase or construction of a fixed asset are capitalized during the period in which the asset is being prepared for use, at which point capitalization ceases and the borrowing costs are depreciated over the same useful life as the asset to which they relate.

Fees and other expenses such as commitment fees and success fees incurred to obtain debt financing (including loan finance and redeemable preference shares) are amortized over the term of the debt, and share issuance costs are netted against proceeds.

(n) Retirement benefit obligations

The Company does not have pension arrangements except for the State Pension Fund of the Russian Federation, which requires contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to income.

(o) Hedging transactions

The gain or loss resulting from hedge transactions is determined by reference to the price obtained per ounce of gold sold and the price per ounce of gold as established under the relevant hedge agreement. Unrealized hedging gains or losses are deferred on the balance sheet, with any gain or loss arising from hedge transactions realized in the period charged to income.

3 CASH, CASH EQUIVALENTS AND CASH NOT AVALIABLE FOR USE

In US dollars thousands	31 December 2002	31 December 2001
Russian ruble accounts	490	78
US dollar accounts	1,273	891
US dollar accounts (cash not avaliable for use)	450	405
Total cash and cash equivalents	**2,213**	**1,374**

All bank accounts of the Company and future deposits therein are pledged as security for the loan facility from the European Bank for Reconstruction and Development (EBRD).

Cash not available for use represents deposit accounts held with International Moscow Bank (IMB). The Company is required to maintain a balance equal to the amount of its next scheduled principal and interest payment in accordance with its loan agreement with EBRD (Note 13).

4 ACCOUNTS RECEIVABLE AND PREPAYMENTS

In US dollars thousands	31 December 2002	31 December 2001
Prepayments to suppliers	458	1,232
Taxes receivable (including VAT)	2,365	1,163
Other	300	391
Total accounts receivable and prepayments	**3,123**	**2,786**

All accounts receivable are pledged as security for the loan facility from the EBRD to the extent that they are received into the Company's bank accounts. All significant sales contracts, and the benefits deriving therefrom, are pledged as security for the loan from the EBRD.

Taxes receivable balance primarily includes input VAT reclaimed but not yet received from budget.

5 DEFERRED DEVELOPMENT EXPENDITURE

In US dollars thousands	31 December 2002	31 December 2001
Balance as at 1 January	339	219
Additions	855	452
Charged to cost of production	(696)	(332)
Balance as at 31 December	**498**	**339**

6 INVENTORIES

In US dollars thousands	31 December 2002	31 December 2001
Consumable stores	6,317	5,766
Work in progress	2,244	2,230
Total inventories	**8,561**	**7,996**

All inventories are pledged as security for the loan facility from the EBRD. Work in progress inventory includes mined ore and metal at various stages of production.

7 INVESTMENTS AND INTANGIBLES

In US dollars thousands	31 December 2002	31 December 2001
Long-term loan issued to OAO Buryatenergo	1,913	583
Investments in Berezitovy	514	-
ZAO Zun-Hada	476	476
Others	135	96
Total investments	3,038	1,155
Intangibles	69	169
Total investments and intangibles	**3,107**	**1,324**

In 2000, in order to complete a construction of a power transmission line to Zun-Holba mine, the Company entered into a financing agreement with OAO Buryatenergo, whereby the Company will provide funds for the development of OAO Buryatenergo's electric grids in the Tunkin and Okin districts of the Republic of Buryatia. In accordance with this agreement, the Company committed to provide to Buryatenergo a total of US$ 2,987 thousand, where US$ 2,562 thousand would be repaid in the form of electricity supplied to the mine Zun-Holba and the remaining US$ 425 thousand would represent a connection charge and is not repayable to the Company. The non-repayable portion of the loan has been capitalized as part of cost of the Company's electricity transmission line. As of December 31 2002, the Company loaned to OAO Buryatenergo on a repayable basis a total of US$ 2,272 thousand of which US$ 1,794 thousand have been provided in cash and US$ 478 thousand have been provided in the form of fixed assets. As of 31 December 2002, an equivalent of US$ 359 thousand of electricity have been supplied by OAO Buryatenergo.

In 2002, the Company, in co-operation with High River Gold Mines Ltd. (HRGM), a shareholder, agreed to be engaged in a development of a new gold field, Berezitovy, in the Tynda District of the Amur Region. The current owner of the license for the development of the field is OOO Khaikta, a wholly owned subsidiary of HRGM. The Company has capitalized all of the costs associated with exploration, development and construction works as an investment. The fair value of the investment is not significantly different from its carrying amount.

ZAO Zun-Hada holds the license for exploration of the Barun-Holba gold deposit, which is in close proximity to the Company's mine at Zun-Holba. The investment in ZAO Zun-Hada is pledged as security for the loan facility from the EBRD. The Company's ownership share in ZAO Zun Hada is 4.5% as at 31 December 2002. The investment in ZAO Zun-Hada is carried at cost and the fair value of this investment approximates its carrying amount.

The Company also has various licenses to explore and to develop the following deposits: Kvartsevoye, Tsypikansky Poligon, Andreevsky Kochey, Mongoshenskoey lime deposit, Khilokskaya Vpadina and additional licenses to explore areas adjacent to the Zun-Holba and Irokinda mines. These licenses are accounted for as intangible assets and are carried at amortized cost.

8 PROPERTY, PLANT AND EQUIPMENT

In US dollars thousands	Transmission Devices	Buildings	Underground Workings	Plant and Machinery	Transport and other	Capital WIP	Total
Cost or valuation							
At 31 December 2001	5,185	23,466	23,265	13,613	4,412	8,992	78,933
Additions	-	-	-	-	-	10,078	10,078
Transfers	3,457	1,358	4,036	1,050	421	(10,322)	-
Disposals	-	(4)	-	(97)	(127)	-	(228)
Cost or valuation at 31 December 2002	**8,642**	**24,820**	**27,301**	**14,566**	**4,706**	**8,748**	**88,783**
Accumulated depreciation							
At 31 December 2001	2,860	8,622	5,970	5,076	3,108	-	25,636
Charge	493	1,806	1,945	1,294	638	-	6,176
Disposals	-	(2)	-	(42)	(98)	-	(142)
Accumulated depreciation at 31 December 2002	**3,353**	**10,426**	**7,915**	**6,328**	**3,648**	**-**	**31,670**
Net book value as at 31 December 2002	**5,289**	**14,394**	**19,386**	**8,238**	**1,058**	**8,748**	**57,113**
Net book value as at 31 December 2001	**2,325**	**14,844**	**17,295**	**8,537**	**1,304**	**8,992**	**53,297**

All current and to be acquired in the future property, plant and equipment are pledged as security for the loan facility from the EBRD, as well as the amounts of insurance indemnity and proceeds from claims under insurance policies related to property, plant and equipment.

9 CAPITAL LEASE

In 2002, the Company entered into a leasing arrangement with North-West Leasing Company for mining equipment. The equipment was placed in operation on 30 December 2002 and will be leased until September 2004 when the Company, according to the agreement, will obtain ownership rights to the leased equipment. Minimum lease payments are calculated with an interest rate set at 10% per annum and in total equal to US$ 750 thousand. Capital lease is recorded at the fair value of US$ 650 thousand at the inception of the lease, which approximates present value of minimum lease payments. Short-term and long-term portions of the capital lease obligation are presented in these financial statements and are based on the actual repayment schedule.

10 OTHER CURRENT LIABILITIES

In US dollars thousands	31 December 2002	31 December 2001
Taxes other than income tax	830	1,162
Income tax payable	441	669
Payroll	1,282	1,886
Other payables and accrued expenses	100	93
Total other current liabilities	**2,653**	**3,810**

11 SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

In US dollars thousands	31 December 2002	31 December 2001
Current portion of long-term debt:		
International Moscow Bank (Note 13)	4,000	4,000
EBRD (Note 13)	1,706	1,376
Type V preference shares	725	1,450
Type B preference shares	375	750
	6,806	**7 576**
Short-term loans:		
International Moscow Bank	-	3,000
High River Gold Mines Ltd.	600	-
	600	**3,000**
Accrued interest:		
Accrued interest on loans	98	86
Accrued interest on Type V preference shares	93	126
Accrued interest on Type B preference shares	48	65
	239	**277**
Total short-term loans and current portion of long-term debt	**7,645**	**10,853**

12 INCOME TAXES

During 2002, the Company accrued income tax at the rate of 24% (2001: 35%).

Theoretical tax expense computed at statutory rates on net income before taxation for financial reporting purposes is reconciled to tax expense as follows:

In US dollars thousands	31 December 2002	31 December 2001
Income before income tax under Canadian GAAP	8,444	2,810
Theoretical tax expense at 24% (2001: 35%)	(2,027)	(984)
Tax effects of non-taxable (non-deductible) items:		
Statutory tax concessions	104	1,129
Non-deductible expenses and non-taxable income, net	(114)	(512)
Foreign exchange translation (loss)/gain	(9)	110
Deductible exchange losses	(162)	(243)
Effect of currency translation on tax base	(691)	(618)
Effect of change in tax rate on opening deferred income tax balance	-	(265)
Other non-temporary differences	(86)	(84)
Income tax expense	**(2,985)**	**(1,467)**

Income tax expense comprises the following:

In US dollars thousands	31 December 2002	31 December 2001
Current income tax expense	(1,800)	(1,187)
Deferred income tax expense attributable to:		
Effect of change in tax rate	-	(265)
Effects of origination and reversal of temporary differences	(1,185)	(15)
Total income tax expense	**(2,985)**	**(1,467)**

Differences between Canadian GAAP and Russian statutory taxation regulations give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for incomes tax purposes. Increase in taxable temporary differences in 2002 was a consequence of changes in Russian income tax legislation, in particular, introduction of accelerated tax depreciation and tax deduction of interest and exploration costs which are both capitalized for accounting purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24% (2001: 24%). Deferred income tax assets and liabilities and deferred income tax expense are attributable to the following items:

In US dollars thousands	31 December 2002	Origination of temporary differences	Reversal of temporary differences	31 December 2001
Tax effects of (taxable)/deductible temporary differences:				
Property, plant and equipment	(971)	-	(1,316)	345
Other non-monetary assets	-	-	(15)	15
Accounts receivable	-	-	(1)	1
Accounts payable and other current liabilities	101	101	-	-
Mine closure reserve	274	46	-	228
Net deferred income tax (liability)/asset	**(596)**	**147**	**(1,332)**	**589**

13 LONG-TERM DEBT

In US dollars thousands	31 December 2002	31 December 2001
Preference shares Type V (Note 14)	2,900	3,625
Preference shares Type B (Note 14)	1,500	1,875
Accrued interest on preference shares Type B and Type V	141	191
EBRD loan *(including accrued interest totaling US$ 21 thousand (2001: US$ 26 thousand))*	3,433	4,154
EBRD loan (for construction of power transmission line) *(including accrued interest totaling US$ 21 thousand)*	7,671	-
International Moscow Bank loan *(including accrued interest totaling US$ 56 thousand (2001: US$ 60 thousand))*	4,056	4,060
Total long-term debt	**19,701**	**13,905**
Less: Current portion of long-term debt (Note 11)	(6,806)	(7,576)
Accrued interest (Note 11)	(239)	(277)
Long-term debt, net	**12,656**	**6,052**

EBRD loan

Under the terms of the original EBRD loan agreement dated 19 December 1996, the Company is able to draw a total of US$ 10,000 thousand for the modernization of its mines.

Subject to the terms of the loan agreement, the principal portion of the loan has a gold equivalent volume fixed in ounces based on a forward sales gold price of US$ 400 per ounce. The US dollar amounts of principal and interest repayments are calculated based on the gold equivalent volume as specified in the loan agreement, multiplied by average gold price on the London Metals Exchange (referred to as "LME") for the 3 month period preceding each repayment date (referred to as "gold reference price"). The difference between the notional amount of each repayment and the amount determined based on the gold reference price is recorded as hedging income. The loan principal outstanding at 31 December 2002 was recalculated using the closing LME quoted gold price as at this date, with the difference between the notional amount of the loan and its fair value recorded as deferred hedging gain.

At 31 December 2002, the notional value of the principal amount outstanding (exclusive of accrued interest) was US$ 4,000 thousand (2001: US$ 6,000).

The principal amount of the loan is repayable in notional quarterly installments totaling US$ 400 thousand on each of 17 March and 17 June every year, and US$ 600 thousand on each of 17 September and 17 December during the period from 17 March 2001 to 17 December 2004. Each notional amount is considered repaid upon the transfer of the amount determined based on the corresponding gold equivalent and gold reference price.

The loan is secured by all the property, plant and equipment, insurance policies, investments, consumable stores and work in progress, bank accounts, sales contracts and accounts receivable of the Company.

On 14 December 2001, the Company signed an Amendment and Restatement Agreement with the EBRD, whereby the EBRD is providing an additional loan facility totaling US$ 8,150 thousand (including a loan totaling US$ 7,650 thousand, and a hedging tranche totaling US$ 500 thousand) to finance the construction of Mondy – Samarta power transmission line. This additional loan matures on 17 June 2007, with interest determined at LIBOR plus 5%. In 2002 the Company received US$ 7,650 thousand under this new loan. Interest on this loan has been capitalized as an additional cost of the power transmission line (see Note 18).

International Moscow Bank loan

On 25 January 2000, the Company entered into a working capital financing agreement with International Moscow Bank for a term of 36 months, split into three 12-month periods. The amount of this loan facility is limited to US$ 4,000 thousand for each period, bearing an interest rate of LIBOR plus 6%, which approximated 8% as at 31 December 2002. This loan facility is secured by the Company's inventory, buildings and equipment located at Holba and Irokinda mines totaling US$ 4,042 thousand. By 26 January 2001, the balance outstanding for the first stage of the financing was fully repaid, and on 1 February 2001 the second stage of the financing commenced. By 14 February 2002, the balance outstanding for the second stage of the financing was fully repaid, and on 1 February 2002 the third stage of the financing commenced. At 31 December 2002, the balance outstanding of US$ 4,000 thousand was recorded within short-term debt. By 28 January 2003 the balance outstanding for the third stage of the financing was fully repaid.

High River Gold Mines Ltd. loan

On 26 November 2002, the Company entered into an agreement with High River Gold Mines Ltd., a shareholder, to receive a US$ 600 thousand loan for a period of one year to prepare the Berezitovy gold deposit for subsequent commercial development. The loan was received on 4 December 2002, with a stated interest rate of 1%. At 31 December 2002, the balance outstanding was recorded within short-term debt. Fair value of the loan is not significantly different from its carrying amount.

14 SHARE CAPITAL

The share capital of the Company was established during the privatization in June 1994 as 360,472 ordinary shares and 120,160 preference shares Type A, each with a nominal value of RR 250.

In 1997, the Company amended its Charter and authorized the issuance of Type B convertible cumulative preference shares, Type V cumulative preference shares and additional ordinary shares.

In 1999, the Company further amended the number of each class of shares authorized, issued and available for issue as follows:

- On 4 June 1999, all types of shares were split into 10 shares, and after taking into account the redenomination of the Russian ruble on 1 January 1998, the par value of each Type V preference share became RR 0.005, and the par value of each share of all other classes became RR 0.025.
- The number of authorized ordinary shares was increased from 9 million to 15 million.

In July 2002, the New Charter of OAO Buryatzoloto was registered, and in accordance with that document the number of authorized ordinary shares in addition to shares already issued and authorized was approved at 8,961,320.

As of 31 December 2002 the share capital of the Company was US$ 9,790 thousand represented by the par value of ordinary and Type A preference shares in the amount of US$ 75 thousand and by the share premium on ordinary shares in the amount of US$ 9,715.

Ordinary shares

At 31 December 2002, the total number of authorized ordinary shares of the Company stands at 8,389,550. The par value of each share is RR 0.025. Changes in ordinary shares were as follows:

	Number of shares
Balance outstanding December 31, 2000	6,038,680
Issued/(redeemed)	-
Balance outstanding December 31, 2001	6,038,680
Issued/(redeemed)	571,770
Balance outstanding December 31, 2002	**6,610,450**

Preference shares

Preference shareholders of all types may only vote at meetings on the following issues:

- Liquidation or reorganization of the Company;
- Amendments and additions to the Charter entailing any changes in the amount of dividends; and/or
- The issuance of additional shares with rights greater than the rights of preference shareholders specified by the Charter.

Specific rights and obligations attaching to each class of preference share are as follows:

Convertible preference shares – Type A

The par value of each share is RR 0.025.

Type A shares, issued during the privatization, earn dividends based on the net income reported in the Russian statutory financial statements. The total amount to be paid as dividends on each Type A share has been established at 10% of the Company's net income for the last financial year divided by the number of Type A shares outstanding. If the dividend per ordinary share during a year is in excess of the dividend paid on each Type A share, the latter should be brought up to equal the dividend on the ordinary share. According to the resolution of the general shareholder's meeting dated 8 June 2000, these shares have to be converted into ordinary shares if dividends were not paid for longer than three years. In June 2002, 571,770 Type A shares were converted into ordinary shares. Since no dividends were paid on Type A preference shares as 31 December 2002 these shares are deemed to have voting rights. Changes in Preference shares – Type A were as follows:

	Number of shares
Balance outstanding December 31, 2000	1,201,600
Issued/(redeemed)	-
Balance outstanding December 31, 2001	1,201,600
Issued/(redeemed)	(571,770)
Balance outstanding December 31, 2002	**629,830**

Cumulative convertible preference shares – Type B

The par value of each share is RR 0.025.

Type B shares are entitled to dividends at LIBOR plus 5% calculated based on the US dollar demoninated placement price and paid semi-annually (on 17 June and 17 December), and are also convertible into an equal number of ordinary shares. On liquidation, the shareholders are entitled to receive a distribution of net assets equal to the aggregated placement price of the Type B shares (US$ 7.50 per share). Shareholders of Type B shares have priority rights over the shareholders of both the ordinary shares and Type A shares to receive dividends and liquidation distributions attributable to Type B shares.

According to Company's New Charter, Type B shares are redeemable in the event that the holder of these shares refuses to convert them into ordinary shares before redemption of Type V shares. In this case, redemption procedure is similar to the one applied to Type V shares (see below). Since Type B shareholders have not expressed their intention to convert, the Company's management believe that such shares, similar to preference shares Type V, should be recorded on the balance sheet within long-term debt, whereas dividends thereon should be charged against interest expense within statement of income.

According to the Subscription Agreement Relating to Shares in Joint Stock Company Buryatzoloto, dated 19 December 1996 ("the Subscription Agreement"), Type B preference shares are to be redeemed in ten equal installments over semi-annual periods starting from 17 June 2001. During 2001, Type B shareholders agreed to defer the redemption of these shares due in 2001 to 2002. In June 2002, the Company redeemed 50,000 cumulative convertible preference shares – Type B for the amount of US$ 375 thousand (as per the Subscription Agreement). Changes in Preference shares – Type B were as follows:

	Number of shares
Balance outstanding December 31, 2000	250,000
Issued/(redeemed)	-
Balance outstanding December 31, 2001	250,000
Issued/(redeemed)	(50,000)
Balance outstanding December 31, 2001	**200,000**

Cumulative preference shares – Type V

The nominal par value of each share is RR 0.005.

Type V shares are entitled to dividends in the same manner and at the same rate as Type B shares and have priority rights over Type B and A shares on liquidation, in which event shareholders are entitled to receive distribution of net assets equal to the amount of the placement price (US$ 7.50 per share). Type V shares have been disclosed in the financial statements as long-term debt.

According to the Subscription Agreement, Type V shares are to be redeemed on the same semi-annual dividend payment dates as Type B in ten equal semi-annual installments starting from 17 June 2001. Type V shareholders agreed to defer the redemption of these shares due in 2001 to 2002. In June 2002, the Company redeemed 96,666 cumulative convertible preference shares – Type V to an amount of US$ 725 thousand (as per the Subscription Agreement). Changes in preference shares – Type V were as follows:

	Number of shares
Balance outstanding December 31, 2000	483,330
Issued/(redeemed)	-
Balance outstanding December 31, 2001	483,330
Issued/(redeemed)	(96,666)
Balance outstanding December 31, 2002	**386,664**

All ordinary and preference shares issued are fully paid as of 31 December 2002. The Company's largest shareholders as at 31 December 2002 were:

Name of shareholder	**Number and type of shares**	**Percent of voting shares**
High River Gold Mines Ltd.	2,668,710 ordinary shares	40.37
ING Bank (nominee)	2,394,886 ordinary shares	36.23
EBRD	800,000 ordinary shares, 386,664 preference shares of Type V and 200,000 convertible preference shares of Type B	12.10
Others, including the State Property Committee of the Russian Federation and the Company's management	Remaining issued ordinary and Type A preference shares	11.30
		100.00

In October 1997, the Company registered an American Depository Receipt ("ADR") program with the Bank of New York acting as depository and ING Bank acting as its nominee. Each ordinary share in the program is equal to 1 ADR.

15 REVENUES

In US dollars thousands	31 December 2002	31 December 2001
Sales to Gokhran	-	23,763
Sales to domestic banks	47,277	16,306
Total revenues	**47,277**	**40,069**

Sales of gold in 2002 and 2001 totaled 154,195.3 ounces (4,796.01 kg) and 151,443.3 ounces (4,710.4 kg), respectively. A discount from the London Metals Exchange quotation on sales to domestic banks for the year ended 31 December 2002 totaling US$ 350 thousand (2001: US$ 1,086 thousand) was netted against the amount of sales to domestic banks.

Quarterly analyses of gold sales volumes are set out below:

	31 December 2002		31 December 2001	
	Ounces	**Kg**	**Ounces**	**Kg**
First quarter	40,615.3	1,263.3	33,376.0	1,038.1
Second quarter	37,072.7	1,153.1	41,412.6	1,288.1
Third quarter	36,425.3	1,132.9	36,622.8	1,139.1
Fourth quarter	40,082.0	1,246.7	40,031.9	1,245.1
Total gold sales	**154,195.3**	**4,796.0**	**151,443.3**	**4,710.4**

For the year ended 31 December 2002, the Company had one individual customer (NOMOSbank) that accounted for greater than 10% of its total gold sales (2001: Gokhran).

16 OTHER INCOME

In US dollars thousands	31 December 2002	31 December 2001
EBRD hedging agreement (Note 21)	465	649
Other	23	99
Total other income	**488**	**748**

17 COST OF SALES

In US dollars thousands	31 December 2002	31 December 2001
Cash operating costs (excluding staff costs)	14,881	14,553
Production payroll	10,714	7,736
Total cash operating costs	25,595	22,289
Depreciation	5,628	5,702
Royalty	-	748
Mineral production tax	2,837	-
Mineral restoration tax	-	3,148
Other taxes not based on profits	438	359
Increase in mine closure reserve	195	396
Revenues from by-product sales	(382)	(360)
	34,311	32,282
Less: exploration expense	(3,257)	(3,370)
Total cost of sales	**31,054**	**28,912**

Additional staff costs of US$ 1,025 thousand (2001: US$ 979 thousand) are included in general, administrative and selling expenses. Total depreciation charge for the period (Note 8) was adjusted for the following items: (1) reduction for depreciation of US$248 thousand (2001: US$99 thousand) included in general, administrative and selling expenses, (2) reduction for depreciation of US$263 thousand (2001: US$278 thousand) incurred by the Company's exploration and construction divisions and included in capital costs for the year and (3) reduction due to changes in the work-in-progress (WIP) balance of US$ 37 (2001: increase due to changes in WIP of US$ 402 thousand). According to the New Tax Code, effective 01 January 2002 Royalty and Mineral restoration tax were replaced by Mineral production tax.

18 INTEREST EXPENSE

In US dollars thousands	31 December 2002	31 December 2001
Interest on loans	1,342	1,208
Interest on preference shares Type B	112	148
Interest on preference shares Type V	217	285
Total interest expense	**1,671**	**1,641**
Less: Interest capitalized	(436)	-
Interest expense, net	**1,235**	**1,641**

19 EARNINGS PER SHARE

The computation of basic and diluted earnings per ordinary share was as follows:

	31 December 2002	31 December 2001
Basic earnings per ordinary share		
Numerator:		
Income from operations	5,459	1,343
Denominator:		
Weighted average ordinary shares outstanding	6,324,565	6,038,680
Basic earnings per ordinary share	0.86	0.22
Diluted earnings per ordinary share		
Numerator:		
Income from operations applicable to ordinary shares	5,459	1,343
Dilutive effect of:		
dividends on convertible preference shares	112	148
Income from operations applicable to ordinary shares, assuming dilution	5,571	1,491
Denominator:		
Weighted average ordinary shares outstanding	6,324,565	6,038,680
Dilutive effect of:		
convertible preference shares	1,157,382	1,451,600
Weighted average ordinary shares, assuming dilution	7,481,947	7,490,280
Diluted earnings per ordinary share	0.74	0.20

20 RELATED PARTY TRANSACTIONS

As discussed in Note 13, the Company arranged financing through the EBRD. At 31 December 2002 and 2001, debt repayable to the EBRD, including interest, amounted to US$ 11,104 thousand and US$ 4,154 thousand, respectively. Interest and commission fees paid to the EBRD in 2002 were US$ 1,067 thousand (2001: US$ 556).

As part of the preference share redemption program, in 2002 the Company repurchased preference shares of Types B and V from EBRD for US$ 1,100 thousand (Note 14).

A representative of the RPFB Project Finance Ltd. ("RPFB") is also the Chairman of the Board of Directors of OAO Buryatzoloto. In 2002, the Company paid US$ 266 thousand to RPFB for financial and consulting services (2001: US$ 117 thousand).

During 2002, remuneration paid by the Company to the executive directors was US$ 241 thousand (2001: US$ 148 thousand). No remuneration has been paid to the members of the Board of Directors.

21 FINANCIAL INSTRUMENTS

Foreign exchange contracts

The Company's overall strategy is to have no significant net exposure in currencies other than its functional currency, the Russian ruble, and its measurement currency, the US dollar. There were no foreign exchange contracts at 31 December 2002 or 2001.

Interest rate and commodity price hedging

The Company executed a gold price hedging program with the EBRD as follows:

- During the first stage of the hedging program, from 1997 to 1999, the Company sold put options equivalent to 15,000 ounces of gold per quarter with option exercise prices of US$ 370 per ounce in 1997 and 1998; and US$ 375 per ounce in 1999.

- The second stage of the hedging program, from 2000 to 2004, comprises forward sales of 7,220 ounces of gold per year reducing to 4,840 ounces of gold per year at prices approximating US$ 400 per ounce. The forward sales correspond to the EBRD loan repayment schedule, whereby the quarterly principal and interest due under the EBRD loan are converted at the above forward gold price fixed in equivalent gold ounces. Subject to the terms of the EBRD loan agreement, the actual US dollar amounts payable by the Company under the loan will be determined quarterly by multiplying the fixed equivalent gold ounces of principal and interest by the average spot price of gold on the London Metals Exchange for the respective period.

- Both the put options and the forward sales are financially settled with no requirement for physical delivery of gold.

The statement of income for the year ending 31 December 2002 includes a gain of US$ 465 thousand (2001: US$ 649 thousand) from the second stage of the hedging program.

The Company presented the EBRD loan in their financial statement at its fair value, with the difference between the book value of loan and its fair value in the amount of US$ 588 thousand in 2002 (2001: US$ 1,872 thousand) being recorded on the balance sheet as deferred hedging gain.

Credit risk

Cash and equivalents are deposited only with major institutions considered by the Company to have minimal risk of default.

The Company does not hold or issue financial instruments for trading purposes. The majority of gold sales are paid for in advance or on delivery; therefore, credit risk is reduced to a minimum.

The fair values of other financial assets and liabilities were not significantly different from their carrying values.

22 CONTINGENCIES

Operating environment

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, restrictive currency controls, and relatively high inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Taxation

Russian tax legislation is subject to varying interpretations, with changes occurring frequently. Furthermore, the interpretation of tax legislation by the tax authorities as applied to the transactions and activity of the Company may not coincide with that of the Company's management. As a result, transactions may be challenged by the tax authorities and the Company may be assessed additional taxes, penalties and interest, which may be significant. The tax periods remain open to review by the tax and customs authorities for three years.

23 SUBSEQUENT EVENTS

Preferred share conversion

In February 2003, certain shareholders converted 216,820 preference shares Type A into ordinary shares (see Note 14).

Loan

On 4 February 2003, the Company entered into a loan agreement with International Moscow Bank to borrow up to US$ 4,000 thousand. The loan is due for repayment within 36 months. Interest rate on this loan is set at LIBOR plus 5% per annum. As of 1 March 2003, the Company received US$ 2,598 thousand under this loan agreement.