OAO BURYATZOLOTO

Financial Statements
for the year ended 31 December 2003
(Prepared in accordance with accounting principles
generally accepted in Canada)

Page

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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 2003 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 an audit to obtain reasonable assurance 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, these financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers

Moscow, Russia
26 March 2004

(Thousands of US dollars)

As at 31 December	**Notes**	**2003**	**2002**
Assets			
Current assets			
Cash and cash equivalents	4	$ 1,551	$ 2,213
Accounts receivable and prepayments	5	4,976	3,123
Inventories	6	9,565	8,561
Deferred development expenditure	7	1,548	498
Total current assets		**17,640**	**14,395**
Non-current assets			
Investments and intangibles	8	1,504	3,107
Property, plant and equipment, net	9	62,990	57,763
Deferred hedging loss	21	78	-
Total non-current assets		**64,572**	**60,870**
Total Assets		**$ 82,212**	**$ 75,265**
Liabilities			
Current liabilities			
Accounts payable		$ 1,660	$ 885
Other current liabilities	10	2,751	2,653
Short-term loans and current portion of long-term debt	11	6,043	8,037
Total current liabilities		**10,454**	**11,575**
Long-term liabilities			
Mine closure reserve		1,326	1,143
Deferred income tax liability	12	1,960	596
Long-term debt	11	13,211	12,914
Deferred hedging gain	21	-	588
Total long-term liabilities		**16,497**	**15,241**
Total liabilities		**26,951**	**26,816**
Shareholders' Equity			
Share capital and premium	13	9,790	9,790
Retained earnings		45,471	38,659
Total shareholders' equity		**55,261**	**48,449**
Total liabilities and shareholders' equity		**$ 82,212**	**$ 75,265**

Approved on behalf of

Valery A. Dmitriev	Dulma N. Dugarova
General Director	Finance Director

26 March 2004

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

OAO Buryatzoloto
Statement of Income
(Thousands of US dollars except per share amounts)

For the year ended 31 December	Notes		2003		2002
Revenues	14	$	54,789	$	47,277
Other income	15		284		488
Cost of sales	16		(35,932)		(31,054)
Income from mining operations			**19,141**		**16,711**
Exploration expenses	16		(2,314)		(3,257)
Selling, general and administrative expenses	17		(3,933)		(3,551)
Loss on disposal of assets			(214)		(186)
Operating profit			**12,680**		**9,717**
Interest expense	18		(1,583)		(1,235)
Foreign exchange (loss)/gain			(44)		(38)
Income before income tax			**11,053**		**8,444**
Income tax expense	12		(4,241)		(2,985)
Net income		**$**	**6,812**	**$**	**5,459**
Earnings per share (US$): - basic	19	$	1.00	$	0.86
- diluted	19	$	0.93	$	0.74

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

OAO Buryatzoloto
Statement of Cash Flows
(Thousands of US dollars)

For the year ended 31 December	2003	2002
Cash provided by (used in):		
Operating activities		
Net income	$ 6,812	$ 5,459
Non-cash items:		
Gain on hedging operations	(198)	(465)
Depreciation and amortization	6,654	6,176
Increase in mine closure reserve	183	195
Interest on capital lease	131	-
Loss on disposal of assets	214	186
Deferred income tax expense	1,364	1,185
Operating income before changes in working capital	**15,160**	**12,736**
Changes in working capital:		
Inventories	(1,004)	(985)
Accounts receivable and prepayments	(1,853)	(815)
Deferred development expenditure	(1,050)	(159)
Accounts payable	2,121	64
Interest payable	(44)	(38)
Other current liabilities	98	(1,157)
Net cash provided by operating activities	**13,428**	**9,646**
Investing activities		
Additions to property, plant and equipment	(11,124)	(10,172)
Additions to/repayment of investments	250	(1,250)
Net cash used in investing activities	**(10,874)**	**(11,422)**
Financing activities		
Loan from shareholder	-	600
Proceeds from long-term debt	4,000	11,650
Repayment of long-term debt	(5,802)	(8,535)
Repayment of finance lease liability	(689)	-
Redemption of Type B and V preference shares	(725)	(1,100)
Net cash provided by financing activities	**(3,216)**	**2,615**
Net increase (decrease) in cash and cash equivalents	**(662)**	**839**
Cash and cash equivalents, beginning of the year	**2,213**	**1,374**
Cash and cash equivalents, end of the year	**$ 1,551**	**$ 2,213**

Supplementary information:		
Interest paid	$ 1,417	$ 1,709
Income tax paid	$ 3,056	$ 2,028

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

(Thousands of US dollars)

	Share capital	Retained earnings	Total shareholders' equity
Balances at 1 January 2002	9,790	33,200	42,990
Net income	-	5,459	5,459
Balances as at 31 December 2002	9,790	38,659	48,449
Net income	-	6,812	6,812
Balances at 31 December 2003	9,790	45,471	55,261

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

1 Organisation and Nature of Business

Open Joint Stock Company Buryatzoloto ("the Company") is engaged in the mining and processing of gold ore from mineral properties located in the Republic of Buryatia, Russian Federation. The Company's primary products is gold, 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 privatisation program in June 1994, in accordance with the law "On Privatisation 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 Company is majority owned by High River Gold Mines Ltd. ("HRG") registered in Canada.

2 Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which differ significantly from regulations on accounting and reporting in the Russian Federation.

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 the economic lives and recoverable amounts of mining assets, site restoration and related obligations, carrying value of inventories financial instruments and deferred taxation. Actual results may differ from these estimates.

Translation of financial statements into US Dollars

The Company maintains its accounting records in accordance with Regulations on Accounting and Reporting in the Russian Federation. The accompanying financial statements are prepared from those financial statements and adjusted as necessary to comply with Canadian GAAP.

The Company has selected the US dollar as its reporting currency.

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 unrealised foreign exchange gains and losses arising on currency translation are charged to income.

Effective 1 January 2003 for accounting purposes, the economy of the Russian Federation ceased to be hyperinflationary, however significant exchange restrictions and controls exist relating to converting Russian roubles into other currencies. At present, the Russian rouble is not a convertible currency outside of the Russian Federation and, further, the Company is required to convert 25% (prior to 1 August 2003: 50%) of its hard currency

2 Basis of Presentation (continued)

receipts into Russian roubles. Future movements in the exchange rate between the Russian rouble and the US dollar will affect the carrying value of the Company's Russian rouble-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 rouble amounts to US dollars should not be construed as a representation that such Russian rouble 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.

At 31 December 2003 the office rate of exchange, as determined by the Central Bank of the Russian Federation, between the Russian Rouble and the US dollar was RR 29.45 to US$ 1. (2002: RR 31.78)

3 Significant Accounting Policies

(a) 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.

(b) 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 labour and an allocation of both production overhead expenditures and depreciation, based on normal operating capacity.

(c) Deferred development expenditure

Deferred development expenditure (representing the costs of tunnelling 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.

(d) 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) are performed on the license areas that are currently being developed; and b) lead to the addition of new mineable reserves in those areas, in which case they are capitalized as part of construction in progress.

(e) Intangible assets

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

3 Significant Accounting Policies (continued)

(f) Property, plant and equipment

Mining properties, including costs of development of the mining properties, plant and equipment acquired or constructed prior to 1 January 1997 is recorded at an amount 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. 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 roubles 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.

The Company regularly reviews the carrying value of its mining properties. This review is based on estimate of the net undiscounted cash flows from each property compared to the carrying value. In cases where the carrying value exceeds the future net undiscounted cash flows, 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.

(g) 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 property classified as a capital lease is accounted for as an acquisition of an asset and as an assumption of an obligation.

3 Significant Accounting Policies (continued)

(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) 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.

(j) 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

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).

(k) 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.

(l) 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.

(m) 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.

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

3 Significant Accounting Policies (continued)

(n) 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. Unrealised 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.

(o) 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.

(p) Recent accounting pronouncements

In 2003, the Board of Directors of the Canadian Institute of Accountants issued accounting recommendation Section 3110 *Asset retirement obligations* (CICA 3110). This standard effective 1 January 2004 relates to the legal obligations associated with the retirement of long-lived-assets. The adoption of CICA 3110 primarily affects the Company's accounting for mining properties. Upon initial recognition of a liability for an asset retirement obligation, the Company will capitalize an asset retirement cost by increasing the carrying value of the long-lived asset by the same amount. Management is currently completing its assessment of the effect of adoption of CICA 3110.

In December 2001, the CICA Accounting Standards Board issued Accounting Guideline 13 *Hedging Relationship* (ACG-13). ACG 13 is effective for years starting on or after 1 July 2003. The Guideline establishes criteria that must be met to designate contracts for hedge accounting, i.e. defer on the balance sheet any gains or losses on a hedging instrument. If these criteria are not met, or a contract is not designated for hedge accounting, the Company is precluded from hedge accounting and should take such gains and income statement. Management is currently completing an assessment of its hedge contracts but does not anticipate the adoption of ACG 13 will have a material effect on the Company.

4 Cash, cash equivalents and cash not available for use

		2003		2002
Russian rouble accounts	$	282	$	490
US dollar accounts		794		1,273
US dollar accounts (restricted cash)		475		450
Total cash and cash equivalents	**$**	**1,551**	**$**	**2,213**

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).

Restricted cash 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 11).

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

5 Accounts Receivable and Prepayments

	2003	2002
VAT recoverable and taxes receivable	2,970	2,365
Receivable from OOO "Berezitovy Rudnik"	$ 976	$ -
Prepayments to suppliers	681	458
Other	349	300
Total accounts receivable and prepayments	**$ 4,976**	**$ 3,123**

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.

6 Inventories

	2003	2002
Materials and supplies	$ 7,118	$ 6,317
Work in progress	2,447	2,244
Total inventories	**$ 9,565**	**$ 8,561**

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 Deferred Development Expenditure

	2003	2002
Balance as at 1 January	$ 498	$ 339
Additions	2,106	855
Charged to cost of production	(1,056)	(696)
Balance as at 31 December	**$ 1,548**	**$ 498**

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

8 Investments and Intangibles

	2003	2002
Long-term loan issued to OAO Buryatenergo [(a)]	$ 597	$ 1,913
Advances to OOO Berezitovy Rudnik[(b)]	-	514
ZAO Zun-Hada [(c)]	476	476
Others[(d)]	172	135
Total investments	1,245	3,038
Intangibles	259	69
Total investments and intangibles	**$ 1,504**	**$ 3,107**

(a) In 2000, to complete the construction of a power transmission line to Zun-Holba mine, the Company entered into a financing agreement with OAO Buryatenergo ("BE"), a state controlled local power company. In accordance with this agreement, the Company committed to provide to BE a total of US$ 2,987 thousand, where US$ 2,562 thousand would be repaid in the form of electricity supplied to the Zun-Holba mine and the remaining US$ 425 thousand would represent a non-refundable connection charge. The non-refundable portion of the loan has been capitalized as part of the cost of the Company's electricity transmission line. As of 31 December 2003, the Company loaned to BE, on a repayable basis, a total of US$ 2,303 thousand, of which US$1,825 thousand were provided in cash and US$478 thousand, in the form of capital expenditure. As of 31 December 2003, an equivalent of US$ 1,706 thousand has been repaid in the form of electricity supplies.

(b) In 2002, the Company, entered an operator agreement with HRG to develop a new gold field - Berezitovy, in the Tynda District of the Amur Region. The license holder for the development of the field is OOO Berezitovy Rudnik, a wholly owned subsidiary of HRG. The Company has capitalized all of the costs associated with exploration, development and construction works as an investment. The fair value of the investment was not significantly different from its carrying amount. In 2003 this investment has been repaid by OOO Berezitovy Rudnik

(c) The Company owns a 4.5% equity interest in ZAO Zun-Hada. 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 investment in ZAO Zun-Hada is carried at cost. Management estimates the fair value of this investment approximates its carrying amount.

(d) In October 2003 the Company purchased 90% equity interest in OOO "Kharanur", an owner of licence for the exploration and evaluation on the territory close to the Company's mine at Zun-Holba. Management are currently in the process of evaluation of gold reserves on this deposit.

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. Amortisation is calculated on a straight-line basis over the shares of their expected useful life or the licence period.

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

9 Property, Plant and Equipment

	Transmission Devices	Buildings	Underground Workings	Plant and Machinery	Transport and other	Capital WIP	Capital Leased Equipment	Total
Cost or valuation								
At 1 January 2003	8,642	24,820	27,301	14,566	4,706	8,748	650	89,433
Additions	-	-	-	-	-	11,124	964	12,088
Transfers	70	214	4,003	2,633	315	(7,235)		-
Disposals	-	(47)	-	(279)	(253)	-		(579)
Cost or valuation at 31 December 2003	**8,712**	**24,987**	**31,304**	**16,920**	**4,768**	**12,637**	**1,614**	**100,942**
Accumulated depreciation								
At 1 January 2003	3,353	10,426	7,915	6,328	3,648	-	-	31,670
Charge	639	1,613	2,200	1,379	654	-	162	6,647
Disposals	-	(23)	-	(125)	(217)	-	-	(365)
Accumulated depreciation at 31 December 2003	**3,992**	**12,016**	**10,115**	**7,582**	**4,085**	**-**	**162**	**37,952**
Net book value as at 31 December 2003	**4,720**	**12,971**	**21,189**	**9,338**	**683**	**12,637**	**1,452**	**62,990**
Net book value as at 31 December 2002	**5,289**	**14,394**	**19,386**	**8,238**	**1,058**	**8,748**	**650**	**57,763**

Included within capital work-in-progress ("WIP") is the amount of US$2,251 thousand (2002: US$1,669 thousand) associated with exploration and evaluation costs.

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.

10 Other Current Liabilities

	2003	2002
Payroll	1,672	1,282
Taxes other than income tax	$ 750	$ 830
Income tax payable	262	441
Other payables and accrued expenses	67	100
Total other current liabilities	**$ 2,751**	**$ 2,653**

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

11 Debt and Interest Payable

	2003		2002	
	Current	**Long-term**	**Current**	**Long-term**
International Moscow Bank [(a)]	$ -	$ 4,000	$ 4,000	$ -
EBRD Mine loan [(b)]	2,078	-	1,706	1,706
EBRD Transmission loan [(c)]	1,250	6,400	-	7,650
High River Gold Mines Ltd. [(d)]	600	-	600	-
Capital lease obligations	820	236	392	258
Accrued interest on debt	76	-	98	-
Type V preference shares [(e)]	725	1,450	725	2,175
Type B preference shares [(e)]	375	1,125	375	1,125
Accrued dividend on preference shares	119	-	141	-
Total	**$ 6,043**	**$ 13,211**	**$ 8,037**	**$ 12,914**

(a) International Moscow Bank loan

In January 2000, the Company entered into a revolving 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 interest at LIBOR plus 6%, which approximates 8% as at 31 December 2003 (2002: 8%). This loan facility is secured by the Company's inventory, buildings and equipment located at Holba and Irokinda mines totalling US$ 4,042 thousand. At each annual anniversary of the loan agreement, the principal is repaid and the next tranche drawn. In February 2003, this arrangement was extended for a further 36 month period split equally over 3 years bearing interest at LIBOR plus 5%. This loan has been classified as long-term.

(b) EBRD Mine 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 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 2003 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/loss.

At 31 December 2003, the notional value of the principal amount outstanding (exclusive of accrued interest) was US$ 2,000 thousand (2002: US$ 4,000 thousand).

The principal amount of the loan is repayable in notional quarterly instalments totalling 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.

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

11 Debt and Interest Payable (continued)

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.

(c) EBRD Transmission loan

On 14 December 2001, the Company signed an Amendment and Restatement Agreement with the EBRD, whereby the EBRD provided an additional loan facility totalling US$ 8,150 thousand (including a loan totalling US$ 7,650 thousand, and a hedging tranche totalling US$ 500 thousand) to finance the construction of Mondy – Samarta power transmission line. This additional loan bears interest at LIBOR plus 5% and is repayable in June 2007. 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). In 2003, after commencement of full operation of the power line, the interest totalling US$ 461 thousand was expensed.

(d) High River Gold Mines Ltd. loan

On 26 November 2002, the Company entered into a US$ 600 thousand loan agreement with HRG for a period of one year to prepare the Berezitovy gold deposit for subsequent commercial development. The loan bears interest at 1% per annum. In December 2003, this loan was extended through 31 March 2004.

(e) Cumulative convertible preference shares – Type B and V

The type B and V preference shares have a par value of RR 0.025 and RR 0.005, respectively, and were placed at US$7.50 each. The shares are entitled to a dividend at LIBOR plus 5% calculated based on the placement price and paid semi-annually on 17 June and 17 December. Type B preference shares can be converted to ordinary shares on a one-for-one basis, if the shareholders choose not to convert, these shares are redeemed. Management have determined that the most appropriate accounting classification for type B and V preference shares is as debt. Both type B and V preference shares are redeemable in ten equal semi-annual instalments commencing 17 June 2001. During 2003, 96,666 type V shares were redeemed for US$725 thousand. All type B and V preference shares are held by the EBRD. Changes in the number of type B and V preference shares are as follows:

Number of shares	**Type B**	**Type V**
Balance outstanding 1 January 2002	250,000	483,330
Redeemed	(50,000)	(96,666)
Balance outstanding 31 December 2002	200,000	386,664
Redeemed	-	(96,666)
Balance outstanding 31 December 2003	**200,000**	**289,998**

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

12 Income Taxes

Theoretical tax expense computed at statutory rates of 24% (2002: 24%), on net income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2003	2002
Income before income tax under Canadian GAAP	$ 11,053	$ 8,444
Theoretical tax expense at 24%	(2,653)	(2,027)
Tax effects of non-taxable (non-deductible) items:		
Statutory tax concessions	117	104
Non-deductible expenses and non-taxable income, net	(486)	(114)
Foreign exchange translation (loss)/gain	(11)	(9)
Deductible exchange gain/(loss)	253	(162)
Effect of currency translation on tax base	(1,558)	(691)
Other non-temporary differences	97	(86)
Income tax expense	**$ (4,241)**	**$ (2,985)**

Income tax expense comprises the following:

	2003	2002
Current income tax expense	$ (2,877)	$ (1,800)
Deferred income tax expense	(1,364)	(1,185)
Total income tax expense	**$ (4,241)**	**$ (2,985)**

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. The major temporary differences relate to accelerated tax depreciation and tax deduction of interest and exploration costs which are both capitalized for Canadian GAAP purposes. Deferred income tax assets and liabilities and deferred income tax expense are attributable to the following items:

	2003	2002
Tax effects of (taxable)/deductible temporary differences:		
Property, plant and equipment	(2,632)	(971)
Accounts payable and other current liabilities	354	101
Mine closure reserve	318	274
Net deferred income tax (liability)/asset	**(1,960)**	**(596)**

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

13 Share Capital

At 31 December 2002, the total number of authorized shares of the Company comprised of 15.0 mln ordinary shares and 629 830 of preference convertible shares of type A, each with a nominal value of RR 0.025.

At 31 December 2003, the total number of authorized shares of the Company comprised of 15.0 mln ordinary shares and 413 010 of preference convertible shares of type A, each with a nominal value of RR 0.025.

Preference shares of type A (as well as preference shares of types B and V, that are recorded as debt, see Note 11) are entitled to vote on limited matters as follows:

- 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

Preference type A shares are entitled to a total dividend computed as 10% of the Company's profits in accordance with the Charter of the Company. If such dividends are not paid, these shares are granted the same voting rights as ordinary shares until such dividends are paid. Since June 2000, the Company has not paid dividend on preference type A shares. At each annual general shareholders meeting a resolution is passed to convert preference type A shares into ordinary shares.

Presented below are the movements in issued Ordinary and Preference type A shares.

Number of shares	**Preference Type A**	**Ordinary**
Balance outstanding 1 January 2002	1,201,600	6,038,680
Redeemed/issued	(571,770)	571,770
Balance outstanding 31 December 2002	629,830	6,610,450
Redeemed/issued	(216,820)	216,820
Balance outstanding 31 December 2003	**413,010**	**6,827,270**

As of 31 December 2003, share capital totalled US$ 9,790 thousand, which comprised par value of Ordinary and Preference type A shares in the amount of US$ 75 thousand and share premium on ordinary shares totalling US$ 9,715.

In October 1997, the Company registered 2,586,295 ordinary shares in 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.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. The basis of distribution is defined by legislation as the current year net profit calculated in accordance with RAR. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

14 Revenues

		2003		2002
Sales to NOMOS bank	$	54,789	$	47,277
Total revenues	**$**	**54,789**	**$**	**47,277**

Quarterly analyses of gold sales volumes and prices are set out below. The discount from the London Metals Exchange quotations on sales to Russian banks was US$484 thousand in 2003 (2002: US$350 thousand) and was deducted from sales to the bank.

	2003			2002		
	Ounces		**Revenue per ounce**	**Ounces**		**Revenue per ounce**
First quarter	35,841.0	$	347.9	40,615.3	$	289.8
Second quarter	41,473.4		344.5	37,072.7		309.3
Third quarter	39,577.2		363.7	36,425,3		307.7
Fourth quarter	36,469.4		374.0	40,082.0		320.2
Total gold sales	**153,361.0**	**$**	**357.3**	**154,195.3**	**$**	**306.6**

15 Other Income

		2003		2002
EBRD hedging agreement (Note 21)	$	198	$	465
Other		86		23
Total other income	**$**	**284**	**$**	**488**

16 Cost of Sales

		2003		2002
Cash operating costs (excluding staff costs)	$	16,800	$	14,881
Production payroll		12,238		10,714
Total cash operating costs		29,038		25,595
Depreciation and depletion		6,046		5,628
Mineral production tax		3,288		2,837
Other taxes not based on income		228		438
Increase in mine closure reserve		183		195
Revenues from by-product sales		(537)		(382)
		38,246		34,311
Less: exploration expense		(2,314)		(3,257)
Total cost of sales	**$**	**35,932**	**$**	**31,054**

Total depreciation charge for the period (Note 9) was adjusted for the following items: (1) reduction for depreciation of US$262 thousand (2002: US$248 thousand) included in general, administrative and selling expenses, (2) reduction for depreciation of US$381 thousand (2002: US$263 thousand) incurred by the Company's exploration and construction divisions and included in capital costs for the year and (3) increase due to changes in the work-in-progress (WIP) balance of US$ 42 thousand (2002: US$ 37 thousand) .

(US dollars, unless stated otherwise, all tabular amounts are expressed in thousands)

17 Selling, General and Administrative Expenses

	2003	2002
Payroll costs	$ 1,137	$ 1,025
Depreciation and amortization	262	248
Other	2,534	2,278
Total	**$ 3,933**	**$ 3,551**

18 Interest Expense

	2003	2002
Interest on loans	$ 1,124	$ 1,342
Success fee for International Moscow Bank loan	80	-
Interest on preference shares Type B	90	112
Interest on preference shares Type V	158	217
Interest on capital lease	131	-
Total interest expense	**1,583**	**1,671**
Less: Interest capitalized	-	(436)
Interest expense, net	**$ 1,583**	**$ 1,235**

19 Earnings per Share

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

	2003	2002
Basic earnings per ordinary share		
Numerator:		
Income from operations	6,812	5,459
Denominator:		
Weighted average ordinary shares outstanding	6,809,202	6,324,565
Basic earnings per ordinary share	1.00	0.86
Diluted earnings per ordinary share		
Numerator:		
Income from operations applicable to ordinary shares	6,812	5,459
Dilutive effect of:		
dividends on convertible preference shares	90	112
Income from operations applicable to ordinary shares, assuming dilution	6,902	5,571
Denominator:		
Weighted average ordinary shares outstanding	6,809,202	6,324,565
Dilutive effect of:		
convertible preference shares	631,078	1,157,382
Weighted average ordinary shares, assuming dilution	7,440,280	7,481,947
Diluted earnings per ordinary share	$ 0.93	$ 0.74

20 Related Party Transactions

As discussed in Note 11, the Company arranged financing through the EBRD, minority shareholder in the Company. At 31 December 2003 and 2002, loans repayable to the EBRD, including interest, amounted to US$ 9,759 thousand and US$ 11,104 thousand, respectively. Interest and commission fees paid to the EBRD in 2003 were US$ 831 thousand (2002: US$ 1,067).

As part of the preference share redemption program, in 2003 the Company repurchased preference shares of type V from EBRD for US$ 725 thousand (Note 11).

A representative of the RPFB Project Finance Ltd. (“RPFB”) is also the Chairman of the Board of Directors of OAO Buryatzoloto. In 2003, the Company paid US$ 152 thousand to RPFB for financial and consulting services (2002: US$ 266 thousand).

During 2003, remuneration paid by the Company to executive directors was US$ 176 thousand (2002: US$ 241 thousand). In 2003 the Company accrued US$44 thousand as a payment to two non-executive directors.

The Company acted as an operator in development of a new gold field located in Amur region and licenced to OOO ”Berezitovy Rudnik”, a fellow gold exploration subsidiary of High River Gold Mining Ltd. Total services provided to OOO ”Berezitovy Rudnik” totalled US$3 402 thousand and US$514 thousand in 2003 and 2002, respectively. At 31 December 2003 US$976 thousand remained unpaid (31 December 2002: US$514 thousand).

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 Rouble, and its measurement currency, the US dollar. There were no significant foreign exchange contracts at 31 December 2003.

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 2003 includes a gain of US$ 198 thousand

(2002: US$ 465 thousand) from the second stage of the hedging program.

21 Financial Instruments (continued)

The Company presented the EBRD loan in their financial statement at its fair value, with the excess of the fair value of loan over its book value totalling US$ 78 thousand as deferred hedging loss (2002: excess of book value over the fair value for US$ 588 thousand 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 Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position with regard to its interpretations and assessment of the legislation. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.