

HRG



HIGH RIVER GOLD

**High River Gold Mines Ltd.
First Quarter Report 2011**

March 31, 2011

High River Gold Mines Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at March 31, 2011. Expressed in Canadian Dollars unless otherwise noted.

The following discussion and analysis of the consolidated operating results and financial condition of High River Gold Mines Ltd. (the "Company", "High River" or, together with its consolidated subsidiaries, the "Group") for the fiscal periods ended March 31, 2011 and 2010 should be read in conjunction with the interim unaudited consolidated financial statements for the quarter ended March 31, 2011 and the notes thereto and the consolidated financial statements for the year ended December 31, 2010 and the notes thereto. Additional information, including the Company's Annual Information Form and press releases, has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available online at www.sedar.com. The date of this Management's Discussion and Analysis ("MD&A") is June 14, 2011. All figures are in Canadian dollars, unless otherwise noted.

Overview

High River is a Canadian-based gold mining company with producing mines and advanced exploration projects in Burkina Faso (West Africa) and Russia. Its common shares (symbol - HRG) are traded on the Toronto Stock Exchange. The Company operates the Zun-Holba and Irokinda mines in Russia, through its 84.94%-owned subsidiary, OJSC Buryatzoloto ("Buryatzoloto"), which produced approximately 115,000 ounces of gold attributable to High River in 2010. The Company's ownership of Buryatzoloto is based on the percentage of common shares issued and outstanding. The Company's voting interest in Buryatzoloto is 82.87%. The Company also operates the Taparko-Bouroum Mine in Burkina Faso, through its 90%-owned subsidiary, Société des Mines de Taparko S.A. ("Somita"), which produced approximately 115,000 ounces attributable to High River in 2010. The Berezitovy Gold Mine in Russia owned by Berezitovy Rudnik LLC ("Berezitovy") in which the Company has a 99% interest had attributable gold production in 2010 of 66,000 ounces. In total, High River produced approximately 83,079 attributable ounces in Q1 2011 and 69,504 attributable ounces in Q1 2010. In 2008, OAO Severstal ("Severstal") acquired indirect control of High River and held, through its subsidiary, Nord Gold N.V. ("Nordgold"), 72.64% (610,362,172 shares) of High River as at March 31, 2011. Nordgold and its subsidiaries, other than the Group (as defined above), are hereinafter referred to as "Nordgold group".

This MD&A contains forward-looking statements. For example, statements in the "Outlook" section of this MD&A with respect to planned or expected development, production and exploration are all forward-looking statements. As well, statements about the sufficiency of the Company's cash resources or the need for future financing are also forward-looking statements. All forward-looking statements, including forward-looking statements not specifically identified in this paragraph, are made subject to the cautionary language below and readers are directed to refer to that cautionary language when reading any forward-looking statements.

Forward Looking Statements

This MD&A contains "Forward-looking information" within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, information concerning High River's exploration program and planned gold production as well as High River's strategies and future prospects. Generally, Forward-looking information can be identified by the use of Forward-looking terminology such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur", or "be achieved". Forward-looking information is based on the current opinions and estimates of management, and is based on a number of assumptions and subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the Forward-looking information. Assumptions upon which such Forward-looking information is based include, without limitation, availability of skilled labour,

equipment, materials (including replacement parts for processing machinery), and capital required to remedy existing mechanical problems and to maintain High River's mines in good working order. Many of these assumptions are based on factors and events that are not within the control of High River and there is no assurance they will prove to be correct. Factors that could cause actual results to vary materially from results anticipated by such Forward-looking information include changes in market conditions, variations in ore reserves, resources, grade or recovery rates, risks relating to international operations (including legislative, political, social, or economic developments in the jurisdictions in which High River operates), economic factors, government regulation and approvals, environmental and reclamation risks, actual results of exploration activities, fluctuating metal prices and currency exchange rates, costs, timing and amount of future production, changes in project parameters, conclusions of economic evaluations, the possibility of project cost overruns or unanticipated costs and expenses, labour disputes and the availability of skilled labour, failure of plant, equipment or processes to operate as anticipated, capital expenditures and requirements for additional capital, risks associated with internal control over financial reporting, and other risks of the mining industry as well as those risk factors discussed in the Annual Information Form for the year ended December 31, 2010 of High River available at www.sedar.com. Although High River has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in Forward-looking information, there may be other factors that cause actions, events or results not to be anticipated, estimated or intended. There can be no assurance that Forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. High River undertakes no obligation to update Forward-looking information if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader is cautioned not to place undue reliance on Forward-looking information.

Highlights for Q1 2011

Financial

- Net gold revenue of \$ 122.4 million, a decrease of 0.8% from \$123.4 million in Q4 2010, an increase of 25.3% from \$ 97.7 million in Q1 2010.
- Net income of \$ 37.3 million (\$0.04 per share) compared to a net income of \$22.3 million (\$0.03 per share) in Q4 2010 and a net income of \$30.4 million (\$0.03 per share) in Q1 2010.
- Cash flow from operations of \$53.5 million, up from \$40.0 million in Q4 2010, and up from \$31.5 million in Q1 2010.
- Cash and cash equivalents increased to \$204.1 million from \$154.0 million at the end of 2010, and up from \$82.5 million at the end of Q1 2010
- Working capital increased to \$287.0 million from \$205.2 million at the end of 2010, up from \$117.9 million at the end of Q1 2010.
- Current and long term debt decreased to \$ 23.5 million from \$25.0 million at the end of 2010 and from \$62.6million at the end of Q1 2010.
- In January 2011, Royal Gold, Inc. ("RGI") agreed that the Completion Test, as such term is defined in the Amended and Restated Funding Agreement dated February 22, 2006 between RGI and Somita S.A. ("Somita") (the "Taparko Funding Agreement") had been satisfied and agreed to release its security interests in certain collateral (including certain equity investments in public companies) that it held pursuant to the "Taparko Funding Agreement".

Operations

- Total gold production increased 18% to 91,756 (Q1 2010 – 77,762) ounces (100%). Total cash cost per ounce decreased 10% to US\$ 560 (Q1 2010 – US\$624 per ounce) (see the *Non-GAAP Financial Measures* table).
- The Zun-Holba and Irokinda Gold Mines (including placer operations) produced 31,855 ounces (Q1 2010 – 33,732) (100%) at a total cash cost of US\$ 579 per ounce.
- The Taparko-Bouroum Gold Mine produced 36,456 ounces (Q1 2010 – 30,426) (100%) at a total cash cost

of US\$ 485 per ounce.

- Gold production at Berezitovy was 23,445 ounces (Q1 2010 – 13,604 ounces) (100%) at a total cash cost of US\$ 649 per ounce.
- At the Bissa Gold Project, the tender procedures to engage EPCM (Engineering, Procurement, Construction Management) contractor were continued in Q1 2011 and the tenders to engage the suppliers of mining equipment were commenced.

Corporate

- Andrei Maslov resigned as a Director and Chief Financial Officer of the Company effective December 20, 2010. Yury Lopukhin was appointed as the new Chief Financial Officer and Director on January 19, 2011.
- On January 24, 2011, the Company's shareholders approved the change of the Company's governing jurisdiction from the Canadian federal jurisdiction under the *Canada Business Corporations Act* to the Yukon Territory under the *Business Corporations Act (Yukon)*. The Company received its Letter of Satisfaction dated January 25, 2011. Industry Canada issued the Certificate of Discontinuance effective February 2, 2011. The effect of these filings was to transfer the governing jurisdiction of the Company from the Canadian federal jurisdiction to the Yukon Territory. In connection with the continuance, the shareholders also approved a new general by-law. The Articles of Continuance and the new by-law are available on www.sedar.com.

Subsequent events

- In June 2011, High River has agreed to settlement terms with its former contractor in respect of a previously disclosed action brought against Somita. As previously disclosed, a claim regarding services which were delivered to Somita was filed against Somita before the arbitrator in South Africa in 2009. The aggregate amount of the claim was US\$3.7 million and High River filed a statement of defense and counterclaim for damages. The settlement agreement provides for full and final settlement of the contractor's claim against Somita for a settlement amount of US\$1,350,000.

Review of Operations

Selected Financial Results

The Company reported a net income of \$37.3 million (\$0.04 per share) in Q1 2011 compared to a net income of \$ 30.4 million (\$0.03 per share) during Q1 2010.

<i>In thousands of Canadian dollars (except per share amounts) Three months ended on March 31</i>	2011	2010	2009
Gold revenue	\$ 122,363	\$ 97,656	\$ 88,779
Net income (loss)	37,299	30,421	931
Net income (loss) per share (basic)	0.04	0.03	0.00
Cash provided by (used in) operating activities	53,519	31,499	29,672
Total Assets	889,601	688,102	706,962
Loans and interest payable	23,528	62,626	84,031
Weighted average number of shares outstanding (basic)	840,218,962	799,327,755	590,193,673

Buryatzoloto Operations

The Company's attributable gold production from Buryatzoloto was 27,058 ounces in Q1 2011 compared to 28,652 ounces in Q1 2010. Buryatzoloto continues to be profitable and achieved its production objectives for 2011 with 31,855 ounces (100%) of gold produced at an estimated total cash cost of US\$ 579 per ounce as compared to 33,732 ounces of gold produced at a total cash cost of US\$643 per ounce in Q1 2010. (See the section

Non-GAAP Financial Measures regarding total cash costs.)

Buryatzoloto Combined Operational and Financial Data

	Three months ended March 31,		
	2011	2010	2009
Tonnes mined	154,695	144,000	159,000
Tonnes milled	152,689	155,000	138,000
Gold grade (g/t)	6.8	7.3	8.5
Recovery (%)	92.1	92.9	94.0
Gold production (oz) – 100% ⁽¹⁾	31,855	33,732	34,790
High River share of production – 84.94%	27,058	28,652	29,551
Direct mining cost (US\$/oz)	487	528	359
Cash operating cost (US\$/oz)	493	643	479

(1) Includes gold from tailings recovery and other sources and therefore does not equal tonnes milled times grade times recovery.

Zun-Holba Mine

The gold production at Zun-Holba in Q1 2011 was in accordance with the plan. The slight decline in the gold production as compared to Q1 2010 was due to lower ore grade at the same level of processing.

Zun-Holba Operational Data

	Three months ended March 31,		
	2011	2010	2009
Tonnes mined	83,813	70,000	76,000
Tonnes milled	87,979	88,000	72,000
Gold grade (g/t)	6.4	6.8	8.7
Recovery (%)	90.1	90.1	92.9
Gold production (oz) – 100%	17,269	17,414	18,236
High River share of production – 84.94%	14,668	14,791	15,490
Direct mining cost (US\$/oz)	552	521	400
Cash operating cost (US\$/oz)	540	583	467

Irokinda Mine

The gold production at Irokinda in Q1 2011 was below planned level due to the decline in the amount of processed ore which was caused by temporary lack of water in the tailing dam complex. The decline was partially balanced by the gold grade which was higher than planned.

Irokinda Operational Data

	Three months ended March 31,		
	2011	2010	2009
Tonnes mined	70,882	74,000	83,000
Tonnes milled	64,710	68,000	66,000
Gold grade (g/t)	7.4	7.9	8.2
Recovery (%)	94.8	95.1	95.3
Gold production (oz) – 100%	14,586	16,318	16,554
High River share of production – 84.94%	12,389	13,861	14,061
Direct mining cost (US\$/oz)	408	409	314

Cash operating cost (US\$/oz)	430	439	374
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Outlook

Buryatzoloto continues to operate close to its full capacity. The Company's goal is to maintain historic production levels. The amount of minable reserves is a concern of the management. An exploration program to extend the life of the mines is underway at Zun-Holba and Irokinda mines.

Somita Operations (Taparko-Bouroum Gold Mine)

Somita exceeded the planned level of production in Q1 2011. The gold production increased as compared to Q1 2010 due to the higher amount of processed ore. However, the recovery of gold was lower than in Q1 2010 due to the increase of the processing rate per hour.

Somita Operating and Financial Data

	Three months ended March 31,		
	2011	2010	2009
Tonnes mined	407,238	276,000	131,000
Tonnes milled	380,241	293,000	136,000
Gold grade (g/t)	3.4	3.5	4.7
Recovery (%)	86.7	93.1	91.7
Gold production (oz) – 100% ⁽¹⁾	36,456	30,426	22,408
High River share of production – 90%	32,810	27,384	20,167
Direct mining cost (US\$/oz)	424	405	363
Cash operating cost (US\$/oz)	442	457	413

(1) Gold production is comprised of refined gold and doré alloy.

Berezitovy Mine, Russia

The plant availability remained below planned level in Q1 2011 due to lower than planned processing rate of the ball mills resulting from coarser ore feeded from crushing as the second crushing unit aimed at providing finer ore and ordered in 2010 was installed subsequent to Q1 2011. However, the successful installation of the second ball mill in Q3 2010 helped to substantially increase the amount of processed ore. A large stockpile is maintained to support a constant feed to the processing plant.

Berezitovy Production Data

	Three months ended March 31,		
	2011	2010	2009
Tonnes mined	422,401	257,000	355,000
Tonnes milled	324,782	193,000	296,000
Gold grade (g/t)	2.5	2.4	3.4
Recovery (%)	90.4	89.5	88.0
Gold production (oz) – 100% ⁽¹⁾	23,445	13,604	19,596
High River share of production – 99%	23,211	13,468	19,400
Direct mining cost (US\$/oz)	513	871	389
Cash operating cost (US\$/oz)	560	949	482

(1) Gold production is comprised of refined gold and doré alloy.

Review of Exploration Projects

Burkina Faso

In 2010 the Company applied for the mining license in relation to the Bissa project and anticipates the license to be granted in 2011. At the same time, High River continues exploration at the Bissa group permits. The Company also conducted exploration at Taparko-Bouroum and Banfora group of properties in Q1 2011.

In Q1 2011, new technical reports compliant with National Instrument 43-101 were released with the following data:

Bissa:

1,653,000 oz of proven and probable reserves;
2,649,000 oz of measured + indicated resources;
218,000 oz of inferred resources;

Also, High River announced the first time resource estimates for some exploration properties in Burkina Faso:

Yeou: 82,000 oz of inferred resources;
Ankouma: 74,000 oz of inferred resources;
Bouly: 253,000 oz of inferred resources;
Gougre: 225,000 oz of inferred resources;
Zinigma: 139,000 oz of inferred resources.

Buryatzoloto mines, Russia

The exploration program aimed at increasing the life of Irokinda and Zun-Holba mines commenced in 2010 continued in Q1 2011. The results of the exploration work are expected to be available in 2011.

Health, Safety and Environment (HSE)

There were no fatalities in Q1 2011. The overall situation in terms of health and safety indicators at Buryatzoloto and Berezitovy has improved in Q1 2011 compared to Q1 2010. There were no significant environmental incidents in Q1 2011 to the best knowledge of the Company.

Environmental inspections conducted by external agencies did not identify any significant environmental non-compliance at the Company's mines.

Overall Financial Performance

Revenues

The Company's consolidated net gold revenues for Q1 2011 increased to \$122.4 million from \$97.7 million in Q1 2010. An increase in the volume of gold sold and the price were the main factors. Berezitovy was the major contributor to the volume growth. The average realized price was US\$1,385 per ounce compared to US\$1,108 per ounce in Q1 2010.

	Three months ended March 31,	
	2011	2010
Ounces sold	88,732	84,818
Realized price, US\$/oz	1,385	1,108
Average realized C\$ to US\$ exchange rate	0.9868	1.0409

Gold sales, C\$ 000's	121,336	97,656
Change in revenue compared to previous year due to:		
Volume (ounces) variance 000's	4,509	8,899
Price variance 000's	25,776	18,993
Exchange variance 000's	(6,653)	(18,966)

Expenses

Direct mining costs (see *Non-GAAP Financial Measures* table) have decreased compared to last period.

	Three months ended March 31,	
	2011	2010
Ounces produced – 100%	91,756	77,762
Direct mining costs, US\$/oz	469	540
Average realized C\$ to US\$ exchange rate	0.9868	1.0409
Direct mining cost, C\$ 000's	42,467	43,708
Change in cost compared to previous year due to:		
Volume (ounces) variance 000's	7,969	442
Cost variance 000's	(7,461)	17,350
Exchange variance 000's	(2,329)	(8,597)

The cost variance indicates that unit costs have decreased compared to Q1 2010 mostly due to the mines in Russia. Factors affected the unit cost of production are as follows: increased level of production and cost saving efforts.

Administrative Costs

Administrative costs increased to \$992,000 in 2011 compared to \$787,000 in 2010. The major components of the increase were tax expenses in amount of \$ 800,000 compared to \$330,000 in 2010.

Exploration Costs

Buryatzoloto continued exploration activities to replace reserves in Q1 2011. Exploration activities in Burkina Faso continue on Bissa property and Banfora group of properties.

Financing Costs and Investment Income, Net

Financing costs and investment income decreased to \$128,000 from \$334,000. Significant debt reduction took place in 2010 resulting in lower finance costs.

Other Expenses

Other expenses were \$3.8 million compared to \$235,000 in 2010. A significant component of other expenses is a foreign exchange loss, due to depreciation of US dollar to Canadian dollar and other currencies.

Income Tax Expense

Income tax expense increased as Berezitovy began making future tax provisions.

Balance Sheet

The Company's total assets were \$867.3 million as at March 31, 2011 compared to \$778.9 million as at December 31, 2010. Working capital increased to \$287.0 million from \$205.2 million as at December 31, 2010 and from \$117.9 million at the end of Q1 2010.

Off Balance Sheet Arrangements

As a policy, the Company does not enter into off-balance sheet arrangements with special purpose entities in the normal course of its business. Accordingly there are none as at March 31, 2011.

Liquidity and Capital Resources

Lending Arrangements

Somita was in breach of certain loan covenants in 2010. Pursuant to the Taparko Funding Agreement between RGI and Somita, Somita was in breach of the requirement to achieve "Project Completion" by October 1, 2008, in accordance with the parameters of the "Completion Test" as both of those terms are defined in the Taparko Funding Agreement. RGI has been granted security interests to secure the loan.

High River announced on June 06, 2011 that it has agreed to settlement terms with its former contractor, Senet CC ("Senet"), in respect of a previously disclosed action brought against Somita. As disclosed most recently in High River's annual information form dated March 31, 2011, a claim regarding services which were delivered to Somita by Senet, but for which payment was still outstanding, was filed against Somita before the arbitrator in South Africa in 2009. The aggregate amount of the claim was US\$3.7 million and High River filed a statement of defense and counterclaim against Senet for damages. The settlement agreement with Senet provides for full and final settlement of Senet's claim against Somita and any and all claims between Senet and Somita arising out of the written agreement between the parties dated February 3, 2006 for a settlement amount of US\$1,350,000 paid to Senet.

Capital Resources

As of March 31, 2011, the Company's consolidated cash amounts to \$204.1 million and there is working capital of \$287.0 million.

The following table summarizes the Company's consolidated cash flows and cash on hand:

<i>(in thousands)</i>	March 31, 2011	December 31, 2010
Cash and cash equivalents	\$ 204,084	\$ 153,964
Working capital	287,044	205,155
Loans and interest payable (long-term)	10,090	1,732
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Cash provided by operating activities	\$ 53,519	\$ 155,906
Cash used in investing activities	(16,378)	(64,833)
Cash provided by (used in) financing activities	6,535	(10,125)

The cash flow of the Company is generated from three operating entities. The oldest and most consistent producing operation is Buryatzoloto with approximately 130,000 to 140,000 ounces of gold production per year. High River owns 84.94% of Buryatzoloto. Somita has overcome early production difficulties and is operating at higher than planned levels. Berezitovy increased production in Q1 2011.

Operating Activities

Cash flow provided by operating activities for 2011 was \$53.5 million compared to \$31.5 million from operations in Q1-2010.

Investing Activities

Investing activities consumed \$16.4 million of cash compared to \$64.8 million in 2010.

Financing Activities

All subsidiaries made their scheduled repayments on the current portions of their long-term debt facilities during the year.

The debt owing to Nomos Bank was repaid early without penalty. Surplus funds were used to retire this high interest (14%) debt. Debt payable to Caterpillar Finance SA and Ecobank Burkina was also retired.

In December 2010, Buryatzoloto entered into a short term loan agreement with Nomos bank which was repaid in January 2011.

Uses of Liquidity

High River's cash requirements over the next 12 months are primarily to:

- service its debt obligations (approximately \$ 10 million);
- continue mine-site exploration at Irokinda and Zun-Holba to replace mined-out reserves and extend the life of the mines;
- fund corporate administration and working capital;
- finance the Berezitovy mine expansion;
- finance Bissa development and mine construction (subject to obtaining mining license);
- extensive exploration in Burkina Faso.

The Bissa development will require significant funds to be invested in 2011-2012.

Contractual Obligations and Commercial Commitments

The following illustrates certain of the Company's significant contractual obligations as at March 31, 2011:

<i>(in thousands)</i>	Total	2011	2012	2013	2014	2015 and thereafter
Debt	\$ 23,205	\$ 11,921	\$ -	\$ -	\$ -	\$ 11,284
Payables	53,692	53,692	-	-	-	-
Interest on debt	955	955	-	-	-	-
Asset retirement obligations ⁽¹⁾	27,870	-	2,666	-	-	25,505
Capital lease obligations	420	420	-	-	-	-
Operating leases ⁽²⁾	74	37	37	-	-	-
Purchase obligations ⁽³⁾	6,233	5,694	539	-	-	-
Other long-term obligations ⁽⁴⁾	58,556	58,556	-	-	-	-
Total	\$ 171,006	\$ 131,275	\$ 3,242	\$ -	\$ -	\$ 36,489

(1) Amounts shown represent the undiscounted future payments for asset retirement obligations.

(2) Rent for premises and certain equipment that is not a capital lease.

(3) Purchase obligations for supplies and consumables e.g. electricity, fuel oil.

(4) Purchase obligations for capital expenditures, property acquisition, issue shares.

All the above relate to situations where a signed contract exists. Items in accounts payable are excluded. The figures above are estimates of cash requirements and may not agree to similarly captioned items in the financial statements.

The majority of the consolidated obligations and commitments relate to the projects in Russia and Burkina Faso.

In connection with exploration and development activities, the Company is required to make certain payments regarding mining licenses, leases, occupation and surface rights, including annual spending targets. If the properties are no longer of interest to High River, there are no contingent liabilities (as explained above) related to terminated property rights.

There are no long-term contractual arrangements with any related parties that create or result in any obligations that are not on an arm's-length basis.

Quarterly Results of Operations (Unaudited)

(\$ thousands, except per share amounts)	2011		2010		2009			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	124,363	125,259	101,835	115,196	98,479	101,518	90,527	88,183
Expenses	(54,505)	(84,203)	(59,872)	(62,346)	(55,022)	(67,699)	(62,773)	(61,369)
All other expenses and taxes	(32,559)	(18,777)	(16,188)	(13,583)	(13,036)	(2,170)	(32,321)	(64,591)
Net (loss) income	37,299	22,279	25,775	39,267	30,421	31,649	(4,567)	(37,777)
Net (loss) income per share: Basic and diluted	0.04	0.03	0.03	0.05	0.03	0.05	(0.01)	(0.06)
Gold sales, oz	88,732	87,045	76,851	91,346	84,818	86,348	84,441	78,274
Gold sales, US\$/oz	1,385	1,396	1,248	1,211	1,106	1,107	964	924
Gold production, oz	91,766	88,070	77,427	86,803	77,761	91,585	84,990	79,997
Direct mining costs, US\$/oz	469	744	530	461	540	434	439	473
Total cash costs, US\$/oz	560	826	603	554	624	559	601	670

The financial results for operations for the last eight quarters reflect the following general trends: rising spot gold prices with a corresponding increase in revenue from higher gold sales.

First Quarter of 2011 Review

The Company attained profitability in Q4 2009 after a series of losses and remained profitable in 2010 and Q1 2011. Buryatzoloto and Somita continued their consistent performances, Berezitovy has increased its level of production but still did not reach the planned level in Q1 2011.

Outlook

The second ball mill and the second crushing unit at Berezitovy are expected to enable it to further increase production and decrease per unit costs in 2011 and following years. Somita and Buryatzoloto operate close to full capacity.

Related Party Transactions

It is the Company's policy to conduct all transactions and settle balances with related parties on market terms and conditions. All transactions are in the normal course of business. The most significant transaction was as follows:

During the period, Buryatzoloto paid Nordgold group US\$ 294,000 (2010 – US\$ 251,000) in management and consulting fees. Berezitovy paid to Nordgold group US\$ 1,935,000 (2010 – 652,000) in management fees and to Severstal group US\$ 0 (2010 – 1,760,000) for equipment, supplies and services.

In addition, during the period, officers and/or directors of the Company who are employees of Severstal or Nordgold have received \$ 3,075 (2010 - \$6,000) as consulting fees from the Company.

Risks and Uncertainties

Severstal Exercises Significant Control Over the Company (strategic)

Severstal, through its affiliates, owns approximately 72.64% of the outstanding shares of the Company and may acquire additional shares. In addition, four of the Company's current directors are nominees of Severstal and its Chief Executive Officer and Chief Financial Officer are employees of Severstal. As a result, Severstal exercises significant control over the Company, giving it the ability, among other things, to elect a majority of the

Board of Directors, approve significant corporate transactions and delay or prevent a change of control of the Company that could be otherwise beneficial to minority shareholders. Severstal generally will have the ability to control the outcome of any matter submitted for the vote or consent of High River's shareholders. In some cases, the interests of Severstal may not be the same as those of the Company's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to the Company or its minority shareholders.

Conflicts of Interest of Officers and Directors (strategic)

Certain of the officers and directors of the Company are associated with other companies involved in the mining industry, including the Company's Chief Executive Officer, Chief Financial Officer and four of the Company's current directors, all of whom are employed by Severstal, the Company's majority shareholder. These associations may give rise to conflicts of interest from time to time. The Company's policy on conflicts of interest complied with the procedures established in the *Canada Business Corporations Act* in 2010, which sets out the necessity of full disclosure of any conflict of interest prior to the Board dealing with the subject matter giving rise to the conflict of interest and the interested party refraining from voting on such matter. Since the Company's continuance to the Yukon Territory, the Company's policy on conflicts of interest complies with the procedures established in the *Business Corporations Act (Yukon)* which are similar to those established in the *Canada Business Corporations Act*. The directors are further required to act honestly and in good faith with a view to the best interests of the Company and its shareholders.

Gold Price (operational, financial)

The profitability of the Company is largely dependent on the price of gold as its revenues are derived primarily from gold mining and sales. Gold prices fluctuate on a daily basis and are affected by a number of factors beyond the control of the Company, including the US dollar exchange rate with other currencies, central bank lending and sales, producer hedging activities, global demand, production costs, confidence in the global monetary system, expectations of the future rate of inflation, the availability and attractiveness of alternative investment vehicles, the strength of the US dollar (the currency in which the price of gold is generally quoted), interest rates, terrorism and war, and other global or regional political or economic events or conditions. The Company has a no-hedge gold policy.

The future trend in the price of gold cannot be predicted with any degree of certainty. The market price of gold affects the economics of any potential development project and the viability of current operations, as well as having an impact on the perceptions of investors with respect to gold equities, and therefore, the ability of the Company to raise capital. A decrease in the market price of gold and other metals could affect the Company's ability to finance the development of its projects and the exploration and development of the Company's properties. A sustained, significant decline in gold prices could also have a significant impact on the Company's revenues due to operations being uneconomic and thereby cause a temporary or permanent closure of the Company's mining operations. A closure of any of the Company's mining operations could have a material and adverse effect on the Company's future cash flows, earnings, results of operations and financial condition, and could curtail further exploration or development due to lack of capacity to finance, possibly resulting in depleting mineral reserves that are not replaced. There can be no assurance that the market price of gold will remain at current levels, that such prices will increase or that market prices will not fall.

If the market price of gold falls and remains below variable production costs of any of the Company's planned or current mining operations for a sustained period, losses may be sustained. The Company would also have to assess the economic impact of any sustained lower gold prices on recoverability and, therefore, the cut off grade and level of gold reserves and resources. These factors could have an adverse impact on the Company's future cash flows, earnings, results of operations, mineral reserves and financial condition. The Company does not use derivatives to mitigate its exposure to commodity price risk. Sensitivity of annual pre-tax earnings to a 10% increase or decrease in the realized gold price (US\$1,385 per ounce) for the Company's Q1 2011 production is approximately \$12.1 million or \$0.01 per share based on weighted average number of shares outstanding as at December 31, 2010.

Operating Cost Risk (operational, financial)

The Company's financial performance is affected by its ability to achieve targets for production volumes and cash operating costs. High River prepares estimates of future production and cash operating costs of production for the operations. These estimates are based on mine plans that reflect the expected method by which the Company will mine reserves at each mine, and the expected costs associated with the plans. Actual gold production and cash operating costs may vary from these estimates for a number of reasons, including if the volume of ore mined and ore grade differs from estimates, which could occur because of changing mining rates; ore dilution; varying metallurgical and other ore characteristics; and short-term mining conditions that require different sequential development of ore bodies or mining in different areas of the mine. Mining rates are impacted by various risks and hazards inherent at each operation, including natural phenomena, such as inclement weather conditions, floods, and earthquakes, and unexpected labour shortages or strikes. Cash operating costs per ounce are also affected by ore metallurgy that impacts gold recovery rates, labour costs, the cost of mining supplies and services, foreign currency exchange rates and stripping costs incurred during the production phase of the mine. In the normal course of operations, High River attempts to manage each of these risks to mitigate, where possible, the effect they have on operating results. Sensitivity of annual pre-tax earnings to a 10% increase or decrease in the realized mining total cash costs for the Company's Q1 2011 production is approximately \$5.1 million or \$0.01 per share based on weighted average number of shares outstanding as at December 31, 2010.

Internal Controls and Procedures (compliance, non-financial)

Internal controls over financial reporting are procedures designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded and reported. They are not a guarantee of perfection. A control system, no matter how well designed and operated, can provide only reasonable, not absolute assurance with respect to the reliability of financial reporting and financial statements preparation.

High River operates in a number of foreign jurisdictions and as such is obligated to comply with local laws and financial reporting requirements. Internal controls and procedures employed over financial reporting are adapted to the business environments within which the Company operates. Every effort is undertaken to ensure that reasonable and cost effective procedures and controls are in place to allow for the preparation of reliable financial information.

Changes in Significant Accounting Policies

The interim consolidated financial statements for Q1 2011 have been prepared in accordance with IAS 34, interim financial reporting ("IAS 34"), and are covered by IFRS 1, first-time adoption of international financial reporting standards ("IFRS 1") because they are part of the period covered by the Group's first IFRS financial statements for the year ending December 31, 2011.

For all periods up to and including the year ended December 31, 2010, the Group presented its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). These financial statements for the quarter ended March 31, 2011, are the first the Group has prepared in accordance with International Financial Reporting Standards ("IFRS").

In preparing these financial statements, the Group's opening statement of financial position was prepared as at January 1, 2010, the Group's date of transition to IFRS. The exemptions and principal adjustments made by the Group in restating its Canadian GAAP statement of financial position as at January 1, 2010 and its previously published Canadian GAAP financial statements for the year ended December 31, 2010 are described under the section "Transition to IFRS".

Critical Accounting Policies and Estimates

The preparation of the Group's interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the interim consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Critical accounting estimates represent estimates that are uncertain and changes to these estimates could materially impact the Group's interim consolidated financial statements. High River's accounting policies are described in note 2.2 of the interim consolidated financial statements for the three months ended March 31, 2011.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is considered below.

Functional and presentation currency

High River reports its consolidated financial statements using the Canadian dollar as its presentation currency. The majority of its assets are located outside of Canada. The translation of the results of its investments or foreign operations into the presentation currency of its consolidated financial statements may result in significant changes to the reported results and other comprehensive income from period to period.

The determination of functional currency for each entity in the Group under IFRS requires a high degree of judgement. There is a variety across certain factors used by management in making this determination. The international price of gold is reported in US\$ and sales are recorded in that currency. The cost of production is significantly driven by the local currency.

At the beginning of 2011, the Group changed the functional currency for its material foreign operation Buryatzoloto from US Dollar to Russian Roubles. The reason for this change is while that all operating costs of the foreign operation continue to be denominated in Russian Roubles, the Group switched the currency in which the surplus receipts from its operating activities are retained from US\$ to Russian Roubles.

Mine reclamation and closure provision

The Group's operations, development and exploration activities are subject to various laws and regulations governing the protection of the environment. Potential changes in the laws and regulations could have an adverse risk on the actual environmental and reclamation costs that the Group could incur in the future.

Mining operations involve activities that have a significant effect on the area surrounding such operations. The Group estimated its ultimate legally required reclamation and closure costs (including those that the Group expects to incur during operations) would total \$ 27.9 million. These liabilities are accreted to their full value over time through charges to income.

The accounting estimates related to reclamation and closure costs are critical accounting estimates because (i) the Group will not incur most of these costs for a number of years, requiring it to make estimates over a relatively long period; (ii) reclamation and closure laws and regulations could change in the future or circumstances affecting the Group's operations could change, either of which could result in significant changes to its current plans and future costs; and (iii) calculating Group's asset retirement obligations require management to assign probabilities to projected cash flows, to make long-term assumptions about inflation rates, to determine its long-term credit-adjusted, risk-free interest rates and to determine market risk premiums that are appropriate for its operations over long periods of time; and

The Group assesses its mine reclamation and closure provision annually. Significant estimates and assumptions are made in determining the provision for mine reclamation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technology changes, regulatory changes, cost increases compared to inflation rates, and changes in the discount rates. These uncertainties may result in future expenditures differing from the amounts currently provided. The provision at the balance date represents management's best estimates of the present value of future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is immediately taken to profit or loss. If the change to the estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the asset, the Group will consider whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36.

Ore reserve and resource estimates

Reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for rehabilitation, deferred tax assets and depreciation charges.

Units-of-production depreciation

Estimated recoverable reserves are used in determining the depreciation of mine specific assets. This results in a depreciation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditures. Any changes to these calculation based on new information are accounted for prospectively.

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditures requires judgement in determining whether commercial reserves exist. The determination of reserves is also an estimation process and these estimates directly impact whether deferral of exploration and evaluation expenditures is still appropriate. Management is required to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available.

Impairment of non financial assets

The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Management has assessed its cash generating units as being an individual mining site, which is the lowest level for which cash inflows are largely independent of those of other assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use.

Future cash flows required for determination of value in use are estimated based on estimated quantities of recoverable minerals, expected commodity prices (considering current and historical prices, price trends and related factors), production levels, cash costs of production, capital and reclamation costs, all based on detailed life of mine plans. The term “recoverable minerals” refers to the estimated amount of gold or other commodities that will be obtained from mineral reserves and all related mineral interests, after taking into account losses during ore processing and treatment.

Cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset to arrive at value in use.

Significant management judgment is involved in estimating these factors, which include inherent risks and uncertainties. The assumptions the Group uses are consistent with its internal planning. Management periodically evaluates and updates the estimates based on the conditions that influence these factors. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus the Group’s accounting estimates may change from period to period. If other assumptions and estimates had been used in the current year, the balances of property plant and equipment and mineral properties could have been materially impacted. Furthermore, if management uses different assumptions or if different conditions occur in future periods, future operating results could be materially impacted.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Recovery of deferred tax assets

Judgement is required in determining whether deferred tax assets are recognised on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilize recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Inventories

Net realizable value tests are performed at least annually and represent the estimated future sales price of the product based on the prevailing spot metal prices at the reporting date, less estimated costs to complete production and bring the product to sale.

Transition to IFRS

The interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”), and are covered by IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) because they are part of the period covered by the Group’s first IFRS financial statements for the year ending December 31, 2011. These interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (June 2011). The transition project was managed by Ernst & Young transition group. The IFRS

standards and IFRIC interpretations that will be applicable at December 31, 2011, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. Accordingly, the accounting policies will be finalized when the first annual IFRS financial statements are prepared for the year ending December 31, 2011. The policies set out below have been consistently applied to all the periods presented.

The accounting policies set out in the notes to the interim consolidated financial statements for the three month period ended March 31, 2011 have been applied consistently to all periods presented in these interim consolidated financial statements and in preparing the opening IFRS consolidated statement of financial position as at January 1, 2010, the date of the Group's transition to IFRS.

The IFRS 1 exemptions applied and principal adjustments made to the Group's Canadian GAAP consolidated statements of financial position as at January 1, 2010 and its previously published Canadian GAAP consolidated financial statements for the three months ended March 31, 2010 and the year ended December 31, 2010.

Exemptions applied

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities recorded to retained earnings unless certain exemptions are applied. The Group has applied the following exemptions to the retrospective application of its opening statement of financial position dated January 1, 2010:

(i) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS. The Group has taken advantage of this election and has not applied IFRS 3 to business combinations that occurred on or after January 1, 2010.

(ii) Cumulative translation differences

IFRS 1 permits cumulative translation differences to be reset to zero at the transition date. This provides relief from determining cumulative currency translation differences in accordance with IAS 21, *The effects of changes in foreign exchange rates*, from the date a subsidiary or equity method investee was formed or acquired. The Group elected to reset all cumulative translation differences to zero to opening retained earnings at its transition date.

(iii) Rehabilitation provisions

The Group has elected to apply the exemption from full retrospective application of rehabilitation provisions as allowed under IFRS 1. As such, the Group has re-measured the provisions as at January 1, 2010 under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. The Group did this using its best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion and amortization under IFRS up to the transition date.

(iv) Share-based compensation transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based Payment*, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Group has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.

(v) Borrowing Costs

In accordance with IFRS 1, the Group has elected to prospectively apply IAS 23 effective January 1, 2010. The carrying value of all borrowing costs before January 1, 2010, capitalized under Canadian GAAP were expensed to retained earnings as of transition date.

Transition adjustments from Canadian GAAP to IFRS

(a) Impairment of available for sale investments

Under IFRS, an objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Whereas under Canadian GAAP the decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income is removed from accumulated other comprehensive income and recognized in net income even though the financial asset has not been derecognized only when there is objective evidence that the asset is impaired, and the decline in fair value is other than temporary. Therefore, the impairment could occur only under IFRS and not under Canadian GAAP when there has been a significant decline in the value of the investment but was considered temporary under Canadian GAAP.

(b) Borrowing Costs

In accordance with IFRS 1, the Group has elected to prospectively apply IAS 23 effective January 1, 2010. The carrying value of all borrowing costs before January 1, 2010, capitalized under Canadian GAAP were expensed to retained earnings as of transition date.

(c) Share-based compensation

Under Canadian GAAP, the fair value of stock-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. In addition, any forfeiture of awards was recognized as they occurred.

Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Forfeitures are recognized in the period in which they are expected to happen and are revised for actual forfeitures in subsequent periods.

(d) Rehabilitation provisions

Consistent with IFRS, rehabilitation provisions had been previously measured based on the estimated cost of rehabilitation, discounted to its net present value upon initial recognition. However, adjustments to the discount rate were not reflected in the provisions or the related assets under Canadian GAAP unless it caused an upward revision in the future costs estimates. The Group has elected to apply the exemption from full retrospective application as allowed under IFRS 1. Consistent with IAS 37, the Group has re-measured the rehabilitation liability as at January 1, 2010, estimated the amount to be included in the related asset by discounting the liability to the date in which the liability arose using best estimates of the historical risk-adjusted discount rates and recalculated the accumulated depreciation and amortization under IFRS.

(e) Deferred tax liability

Adjustments to deferred tax liability result from IFRS adjustments related to convertible debt, rehabilitation provisions and related assets.

(f) Foreign currency translation differences

In accordance with IFRS 1, the Group has elected to reset the cumulative translation adjustment account to zero as at January 1, 2010. Total equity was not changed as a result of this transfer to retained earnings.

(g) Property, plant and equipment

Under IFRS, an item of PP&E that qualifies for recognition as an asset shall be measured at its cost. The elements of the cost of an item of PP&E comprise:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Under Canadian GAAP certain costs mainly in the nature of administrative and general overhead including foreign exchange gain or loss from translation of local currency (functional currency under IFRS) into Canadian Dollars (functional currency under Canadian GAAP during mine development stage) were capitalized. Such costs were expensed on transition to IFRS.

IFRS Recent Pronouncements

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of High River's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's disclosures.

IFRS 10 Consolidated Financial Statements

IFRS 10, *Consolidated Financial Statements* ("IFRS 10") is effective for annual periods beginning on or after 1 January 2013 and will replace portions of IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") and interpretation SIC-12 *Consolidation — Special Purpose Entities*. Under IFRS 10, Consolidated Financial statements include all controlled entities under a single control model that applies to all entities, including special purpose entities and structured entities. A group will still continue to consist of a parent and its subsidiaries; however IFRS 10 uses different terminology from IAS 27 in describing its control model. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Early adoption

of this standard is permitted. The Group has not fully assessed the impact of adopting IFRS 10; however, it anticipates that its impact will be limited.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 uses some of the terms that were used by IAS 31, but with different meanings. Whereas IAS 31 identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognises its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, IAS 31 focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement.

IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Group has not fully assessed the impact of adopting IFRS 12; however, it anticipates that adoption of this standard will result in discontinuance of proportionate consolidation for its jointly controlled entities and will use the equity method accounting. The change in the method of accounting is expected to have any impact on the consolidated financial position and cash flows but no impact on the consolidated comprehensive income.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”) includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 1 and IAS 28 while others are new. This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The Group has not fully assessed the impact of adopting IFRS 12; however, it anticipates that its impact will be limited.

IFRS 13 Fair Value Measurement

IFRS 13, *Fair Value Measurement* (“IFRS 13”) provides guidance on how to measure fair value of financial and non-financial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective 1 January 2013 and will be adopted prospectively. The Group does not expect any impact on its financial position or performance.

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)

On 20 December 2010, the IASB issued *Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)* concerning the determination of deferred tax on investment property measured at fair value. The amendments incorporate *SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets* into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16 *Property, Plant and Equipment*. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40 *Investment Property*. IAS 12 has been updated to include:

- A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale; and

- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The amendments are mandatory for annual periods beginning on or after 1 January 2012, but earlier application is permitted. This amendment is not expected to have any impact on the Group.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Company's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions could be made regarding public disclosure. As at the end of the period covered by this MD&A, management of the Company, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of the end of the period covered by this MD&A, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) is complete. Other reports filed or submitted under Canadian securities laws are also recorded, processed, summarized and reported within the time periods specified by those laws and material information is accumulated and communicated to the management of the Company, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Report on Internal Control over Financial Reporting

Management is responsible for certifying the design and effectiveness of the Company's internal control over financial reporting ("ICFR") as required by Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. The Company's ICFR is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with COSO framework. Because of its inherent limitations, ICFR may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, carried out an assessment of the design and effectiveness of the Company's ICFR. The Company makes the necessary provision for income and mining taxes and other tax related estimates. Income and mining tax is a highly technical area that requires an in-depth understanding of the tax laws in Canada, Russia and Burkina Faso. The Company's accounting staff has only a fair and reasonable knowledge of the rules related to income and mining tax accounting and reporting. This lack of tax knowledge represents a material weakness in the Company's control environment as a material error relating to income and mining tax accounting or disclosure could go undetected. To mitigate this risk, the Company engaged an independent consultant to assist in the determination and preparation of certain tax matters and to prepare the annual tax filing for the Company.

Management believes that based upon the evaluations and actions taken to date, reasonable assurance can be provided that there is no material misstatement of the financial results reported as of March 31, 2011.

Financial Instruments and Other Instruments

The carrying values of cash and cash equivalents, restricted cash, accounts receivable and accounts

payable in the consolidated balance sheets, approximates fair values due to the short period of settlement. The carrying value of loans and interest payable approximates fair value as these loans are based on prevailing interest rates.

Supplement to the Financial Statements

As at March 31, 2011, the share capital consisted of:

- 840,218,962 common shares issued and outstanding.
- 3,379,434 common share purchase options outstanding at an average exercise price of \$2.25 maturing at various dates until September 29, 2013.
- 5,072,068 shares from conversion of debentures at \$2.35 until December 31, 2011.

Non-GAAP Financial Measures

The Company has included certain non-GAAP performance measures in this document. These non-GAAP performance measures do not have any standardized meaning prescribed by GAAP and, therefore, are unlikely to be comparable to similar measures presented by other companies. High River believes that, in addition to conventional measures prepared in accordance with GAAP, certain investors use this information to evaluate High River's performance. Accordingly they are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Set out below are definitions for these performance measures and reconciliations of the non-GAAP measures to reported GAAP measures.

The Company calculates operating costs per ounce in order to enhance comparability with other mining companies and to monitor its operations. Cash costs are derived from the consolidated statement of operations and include operating costs such as mining, milling, refining and transportation, by-product credits, royalties and production taxes, and administration but exclude depreciation, reclamation and mine closure, and foreign exchange. Costs are based on production activity.

March 31, 2011	Buryatzoloto		Berezitovy		Somita		Total	
	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz
Average exchange rate – C\$ to US\$	0.9868		0.9868		0.9868		0.9868	
Gold ounces sold	29,682		21,980		37,070		88,732	
Gold revenue per financial statements	39,564	1351	29,884	1377	52,912	1446	122,360	1385
Gold ounces produced	31,855		23,445		36,456		91,756	
Direct mining costs	15,312	487	11,880	514	15,274	424	42,466	469
Mining administrative costs	739	24	1,599	69	872	24	3,210	35
Stripping and mine development adjustments	-		-		-		-	
Third party smelting, refining & transportation	380	12	143	6	153	4	676	7
By-product credits	(949)	(30)	(662)	(29)	(389)	(10)	(2,000)	(22)
Cash operating costs	15,482	493	12,960	560	15,910	442	44,351	490
Royalty expense and production tax	2,725	86	2,045	89	1,557	43	6,327	70
Total cash costs	18,207	579	15,005	649	17,467	485	50,680	560
Inventory change	(446)		(154)		(1,075)		(1,675)	
By-product credits	949		662		389		2,000	
Mining amortization and depletion	3,375		4,036		1,898		9,309	
Asset retirement obligation accretion	212		14		38		264	
Total expenses per financial statements	22,297		19,562		18,717		60,577	

Supplemental Cash Cost Information – Q1-2011		C\$ 000s	US\$/oz
Total cash costs			560
By-product credit per above		2,000	
Administrative costs per financial statements		992	
Less: non-cash items			
Stock-based compensation		0	
Exploration per financial statements		4,036	
Other income/(expense) per financial statements		5,051	
Less: non cash items			
Unrealised foreign exchange gain (loss)		(4,886)	
Gain (Loss) on sale of assets/write downs		1,079	
Total non-operating cash costs		6,272	96
Total operating and non-operating cash costs			629

March 31, 2010	Buryatzoloto		Berezitovy		Somita		Total	
	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz
Average exchange rate – C\$ to US\$	1.0409		1.0409		1.0409		1.0409	
Gold ounces sold	39,427		16,566		28,835		84,818	
Gold revenue per consolidated financial statements	45,694	1,113	19,137	1,110	31,535	1,094	97,656	1,106
Gold ounces produced	33,732		13,604		30,426		77,762	
Direct mining costs	18,555	528	12,336	871	12,817	405	43,708	540
Mining administrative costs	1,457	42	336	24	579	18	2,372	29
Stripping and mine development adjustments	326	9	–	–	–	–	326	4
Third party smelting, refining and transportation	231	7	106	7	121	4	458	6
By-product credits	(375)	(11)	(330)	(23)	(118)	(4)	(823)	(10)
Other	-	-	-	-	-	-	-	-
Cash operating costs	20,194	575	12,448	879	13,399	423	46,041	569
Royalty expense and production tax	2,379	68	997	70	1,084	34	4,460	55
Total cash costs	22,573	643	13,445	949	14,483	457	50,501	624
Inventory change	(820)		(3,507)		(3,217)		(7,545)	
By-product credits	375		330		118		823	
Mining amortization and depletion	6,685		2,033		3,795		12,513	
Asset retirement obligation accretion	192		51		44		287	
Total expenses per consolidated financial statements	29,004		12,352		15,224		56,580	

Supplemental Cash Cost Information-Q1 2010	C\$ 000s	US\$/oz
Total cash costs per ounce produced		624
By-product credit per above	823	
Administrative costs per financial statements	1,793	
Less: non-cash items		
Stock option benefit expense	(66)	
Restructuring accruals	1,260	
Exploration per financial statements	783	
Other income/(expense) per financial statements		
Less- non cash items		
Unrealized foreign exchange gain	928	
Loss on sale of assets/write downs	(31)	
Total non-operating cash costs	4,666	58
Total operating and non-operating cash costs		682

**High River Gold Mines Ltd.
First Quarter 2011**

**Interim Consolidated Financial Statements
For the Three Months Ended March 31, 2011
(Unaudited)**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of High River Gold Mines Ltd. is responsible for the preparation of the accompanying unaudited interim consolidated financial statements. The unaudited interim consolidated financial statements have been prepared in accordance with international financial reporting standards (IFRS) and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. These unaudited financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

s/ Konstantin Sobolevskiy
Chief Executive Officer

s/ Yury Lopukhin
Chief Financial Officer

June 14, 2011

High River Gold Mines Ltd.**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

As at March 31, 2011

(Unaudited, expressed in thousands of Canadian Dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current Assets			
Cash & cash equivalents	204,084	153,964	82,061
Restricted cash	2,177	1,285	562
Inventories	121,735	97,663	81,090
Trade and other receivables	17,279	13,639	18,115
Other assets	15,417	15,589	12,382
	360,692	282,140	194,210
Non-Current Assets			
Exploration and evaluation assets	112,753	119,847	105,061
Mine properties	28,147	67,436	72,241
Property, plant & equipment	238,121	190,256	224,331
Available for sale financial assets	111,940	109,633	64,810
Other assets	8,251	7,986	697
Deferred tax asset	7,369	1,596	1,578
	506,581	496,753	468,718
TOTAL ASSETS	867,273	778,893	662,928
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	60,210	53,692	39,726
Loans and other borrowings	13,438	23,293	58,666
Income tax payable	-	-	-
Provisions	-	-	-
	73,648	76,985	98,392
Non-Current Liabilities			
Other liabilities	-	-	-
Derivative financial liabilities	-	-	13,684
Loans and other borrowings	10,090	1,732	25,365
Provisions	19,683	19,067	15,385
Deferred tax liabilities	37,008	24,291	20,567
	66,781	45,090	75,001
TOTAL LIABILITIES	140,429	122,075	173,393
EQUITY			
Share Capital	640,157	640,157	610,770
Warrants	-	-	13,265
Contributed surplus	24,538	24,538	15,991
Debenture conversion option	538	538	538
Accumulated other comprehensive income	28,148	3,023	(4,034)
Deficit	(8,468)	(45,768)	(168,917)
Equity attributable to equity holders of the Company	684,913	622,488	467,612
Non-controlling interest	41,932	34,330	21,922
TOTAL EQUITY	726,845	656,818	489,534
TOTAL LIABILITIES AND EQUITY	867,273	778,893	662,928

High River Gold Mines Ltd.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the three months ended March 31, 2011

(Expressed in thousands of Canadian Dollars)

	Three months ended	
	March 31, 2011	March 31, 2010
Revenue		
Gold	122,363	97,656
Silver	2,000	823
	124,363	98,479
Cost of sales	(54,505)	(55,022)
Gross Profit	69,858	43,457
Exploration expenses	(4,036)	(1,260)
General and administrative expenses	(4,456)	(3,320)
Other expenses	(3,808)	235
Interest income	1,771	230
Finance costs	(2,006)	(4,086)
Change in fair value of derivative	-	3,829
Profit before income taxes	57,324	39,085
Income tax expense	(12,423)	(6,037)
Profit for the period	44,901	33,048
	-	-
Attributable to:		
Non-controlling interest	7,602	2,627
Equity shareholders of the Company	37,299	30,421
Profit for the period	44,901	33,048
Other Comprehensive Income (loss)		
Net gains on available for sale financial assets	7,923	(147)
Exchange differences on translation of foreign operations	17,202	(12,862)
Other comprehensive income, net of tax	25,125	(13,009)
Attributable to:		
Non-controlling interest	7,602	2,627
Equity shareholders of the Company	62,425	17,412
Comprehensive Income, net of tax	70,026	20,039

High River Gold Mines Ltd.			
CONSOLIDATED STATEMENT OF CASH FLOWS			
(Expressed in thousands of Canadian Dollars)			
(Unaudited)			
		For the three months ended	
	Notes	31 March 2011	31 March 2010
OPERATING ACTIVITIES			
Profit before income taxes		57,324	39,085
Adjustments to profit for non-cash items			
Depreciation of property, plant and equipment		6,750	13,587
Accretion expense		534	328
Write-down of exploration		18,551	-
Loss/(gain) on disposal of investments		(16,614)	-
Non-cash mining costs		(1,676)	(7,545)
Fair value adjustment to financial instruments		-	(3,829)
Share based payment expense		-	68
Interest on capital lease		-	16
Gain/loss on disposal of property, plant and equipment		(404)	31
Deferred tax expense		4,694	1,661
Other non-cash items		(1,599)	(4,548)
Working Capital Adjustments			
Change in trade receivable and other assets		(5,483)	2,909
Change in inventories		(26,825)	1,450
Change in other assets		622	(3,488)
Change in accounts payable and accrued liabilities		20,545	(3,853)
Income Tax Paid		(2,901)	(4,375)
NET OPERATING CASH FLOWS		53,518	31,497
INVESTING ACTIVITIES			
Investment in exploration and evaluation assets		(5,577)	(2,224)
Expenditure on property, plant and equipment		(9,845)	(4,119)
Allocation of restricted cash		(1,539)	
Proceeds on sale of property, plant and equipment		583	4
NET INVESTING CASH FLOWS		(16,378)	(6,339)
FINANCING ACTIVITIES			
Payments of loans and borrowings		(10,283)	(22,324)
Joint venture repayment of Prognoz contribution		16,609	-
Other Financing activities		209	160
Proceeds from exercise of share options		-	217
NET FINANCING CASH FLOWS		6,535	(21,947)
Increase (decrease) in cash and cash equivalents		43,675	3,211
Net foreign exchange difference		6,444	(2,735)
Cash and cash equivalents, beginning of the period	3	153,964	82,061

High River Gold Mines Ltd.											
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY											
For the three months ended 31 March 2011											
(Expressed in thousands of Canadian Dollars, except number of share capital issued)											
(Unaudited)											
			Contributed	Debenture	Total	Retained	Available for	Foreign currency	Total equity	Non-	
	Issued	Warrants	Surplus	Conv.	Capital	Earnings	reserve	translation	equity holders	Interests	Total equity
	Capital			Option				reserve	of the parent		
Balance January 1, 2011	640,157	-	24,538	538	665,233	(45,768)	90,284	(87,261)	622,488	34,330	656,818
Profit for the period	-	-	-	-	-	37,299	-	-	37,299	7,602	44,901
Other comprehensive income	-	-	-	-	-	-	7,923	17,202	25,125	-	25,125
Total comprehensive income	-	-	-	-	-	37,299	7,923	17,202	62,424	7,602	70,026
Balance March 31, 2011	640,157	-	24,538	538	665,233	(8,469)	98,207	(70,059)	684,912	41,932	726,844
High River Gold Mines Ltd.											
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY											
For the three months ended 31 March 2010											
(Expressed in thousands of Canadian Dollars, except number of share capital issued)											
		Warrants	Contributed	Debenture	Total	Retained	Available for	Foreign currency	Total equity	Non-	
	Issued		Surplus	Conv.	Capital	Earnings	reserve	translation	equity holders	Interests	Total equity
	Capital			Option				reserve	of the parent		
Balance January 1, 2010	610,770	13,265	15,991	538	640,564	(168,917)	50,967	(55,002)	467,612	21,922	489,534
Shares issued	217	-	-	-	217	-	-	-	217	-	217
Warrants exercised	-	-	-	-	-	-	-	-	-	-	-
Warrants expired	-	-	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	69	-	69	-	-	-	69	-	-
Tax charges	-	-	-	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	30,421	-	-	30,421	2,627	33,048
Other comprehensive income	-	-	-	-	-	-	(147)	(12,862)	(13,009)	-	(13,009)
Total comprehensive income	-	-	-	-	-	30,421	(147)	(12,862)	17,412	2,627	20,039
Balance March 31, 2010	610,987	13,265	16,060	538	640,850	(138,496)	50,820	(67,864)	485,310	24,549	509,859

High River Gold Mines Ltd.

Notes to the consolidated financial statements for the three months ended March 31, 2011

(Expressed in thousands of Canadian dollars, except number of shares and per share amounts)

1. Corporate information

The consolidated financial statements of High River Gold Mines Ltd. (“High River” or the “Company”) for the three-month period ended March 31, 2011 were authorized for issuance in accordance with a resolution of the directors on 14 June, 2011. High River is a Canadian-based gold mining company with producing mines and advanced exploration projects in Burkina Faso (West Africa) and Russia. Its common shares (symbol - HRG) are traded on the Toronto Stock Exchange (“TSX”). In 2008, OAO Severstal (“Severstal”) acquired indirect control of High River and held, through its subsidiary, Nord Gold N.V. (“Nordgold”), 72.64% (610,362,172 shares) of High River’s shares as at March 31, 2011. The Company’s office is located at 67 Yonge Street, Suite 1502, Toronto, Ontario, Canada. The registered office of High River is at Suite 200-204 Lambert Street, Whitehorse, Yukon, Canada.

These financial statements include the financial statements of High River and the subsidiaries listed in the following table (together – the “Group”):

The consolidated financial statements comprise the Company and the Company’s subsidiaries and interest in joint venture (together referred to as the “Group”).

The following are the significant subsidiaries of the Group.

Name	Country of incorporation	Ownership interest		% Voting rights	
		Mar 31, 2011	Dec 31, 2010	Mar 31, 2011	Dec 31, 2010
OJSC Buryatzoloto (“Buryatzoloto”)*	Russia	84.94%	84.94%	82.87%	82.87%
Berezitovy Rudnik LLC (“Berezitovy”)	Russia	99%	99%	99%	99%
Société des Mines de Taparko S.A. (“Somita”)	Burina Faso	90%	90%	90%	90%

* Ownership interest in Buryatzoloto is based on the percentage of common shares issued and outstanding. 84.938% of the common shares and 47.643% of the preferred shares of Buryatzoloto are held by High River.

2.1 Basis of Preparation

These consolidated financial statements are presented in Canadian dollars (CAD), which is also the functional currency of the parent company of the Group – High River. All values are rounded to the nearest thousand except when otherwise indicated.

These financial statements were prepared on a going concern basis, under the historical cost convention, except for the following material items in the statement of financial position:

- Financial assets classified as available for sale financial assets are measured at fair value.
- Derivative financial instruments are measured at fair value.

For all periods up to and including the year ended December 31, 2010, the Group presented its financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). These financial statements for the quarter ended March 31, 2011, are the first the Group has prepared in accordance with International Financial Reporting Standards (“IFRS”).

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 as described in the accounting policies below. In preparing these financial statements, the Group’s opening statement of financial position was prepared as at January 1, 2010, the Group’s

date of transition to IFRS. Note 24 explains the principal adjustments made by the Group in restating its Canadian GAAP statement of financial position as at January 1, 2010 and its previously published Canadian GAAP financial statements for the year ended December 31, 2010.

Statement of compliance

These interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”), and are covered by IFRS 1, First-time Adoption of International Financial Reporting Standards (“IFRS 1”) because they are part of the period covered by the Company’s first IFRS financial statements for the year ending December 31, 2011. These interim financial statements have been prepared in accordance with those IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations issued and effective or issued and early adopted as at the time of preparing these interim financial statements (June 2011). The IFRS standards and IFRIC interpretations that will be applicable at December 31, 2011, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements. Accordingly, the accounting policies will be finalized when the first annual IFRS financial statements are prepared for the year ending December 31, 2011. The policies set out below have been consistently applied to all the periods presented.

2.2 Significant Accounting Policies

a) Basis of consolidation

These consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company as at March 31, 2011. Control is established by the Company’s ability to determine strategic, operating, investing and financing policies without the co-operation of others. The Company analyzes its level of ownership, voting rights and representation on the board of directors in determining if control exists by any one, or a combination, of these factors.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, income and expenses, and profit and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interest in the net assets of consolidated subsidiaries are identified separately from the Company’s equity. Non-controlling interest consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest’s share of changes in equity since the date of acquisition. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

b) Presentation currency

These consolidated financial statements are presented in Canadian dollars, the functional currency of the parent company is also the Canadian Dollar.

c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling as at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of each entity of the group is separately determined. The financial information of all entities whose functional currency is not CAD, are translated into CAD using the current rate method. Under this method, assets and liabilities are translated at the rate of exchange in effect at the year-end while revenue and

expense items, including depreciation and amortization are translated at the rates of exchange prevailing at the dates of transactions. Foreign exchange gains and losses from the translation of such financial statements are deferred and disclosed in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the income statement.

At the beginning of 2011, the Group changed the functional currency for its material foreign operation Buryatzoloto from US Dollar to Russian Roubles. The reason for this change is that all operating costs of the foreign operation are in the meantime in Russian Roubles and the receipts from its operating activities (as an additional factor to consider for the determination of the functional currency) are also retained in the local currency.

d) Business combinations

Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments and liabilities incurred or assumed at the date of exchange. Acquisition costs for business combinations incurred subsequent to January 1, 2010, are expensed and included in administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Any negative difference is recognized directly in the consolidated income statement. If the fair values of the assets, liabilities and contingent liabilities can only be calculated on a provisional basis, the business combination is recognized using provisional values. Any adjustments resulting from the completion of the measurement process are recognized within twelve months of the date of acquisition.

On first-time adoption of the IFRS, the Group elected not to apply IFRS 3 Business Combinations retrospectively to acquisitions carried out before January 1, 2010.

e) Interest in a joint venture

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers.

The Group recognizes its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, transactions and unrealized gains and losses on such transactions between the Group and its jointly controlled entity.

Upon loss of joint control the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

f) Mineral exploration, evaluation and development expenditure

Exploration and evaluation costs

Costs incurred for the acquisition of land and mineral rights are capitalized. Once the legal right to explore has been acquired, exploration and evaluation costs incurred for individual geological areas that have characteristics conducive to contain commercial reserves are deferred as assets pending determination of whether

commercial reserves are found. These costs include materials and fuel used, surveying costs, drilling costs and payments made to contractors.

If the area is found to contain commercial reserves, the accumulated costs are capitalised. If the area is found to contain no commercial reserves, the accumulated costs are expensed.

Commercial reserves are generally evidenced by a comprehensive study of the viability of a mineral project (feasibility study) that has advanced to a stage where the mining method has been established and an effective method of mineral processing has been determined. This includes a financial analysis based on reasonable assumptions of technical, engineering, legal, operating, economic, social, and environmental factors and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the mineral resource may be classified as a mineral reserve.

Upon the establishment of a successful feasibility study, the Group capitalises any further exploration and evaluation costs incurred for the particular licence to explore to exploration and evaluation assets up to the point where mining construction begins. Following this, 'Exploration and evaluation assets' are tested for impairment and transferred to 'Mines under construction'. No amortization is charged during the exploration and evaluation phase.

Mines under construction

Upon transfer of 'Exploration and evaluation assets' into 'Mines under construction', all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised under 'Mines under construction.' Development expenditure is net of proceeds from all but the incidental sale of ore extracted during the development phase. After the commencement of production, all assets included in the 'Mines under construction' category are transferred to the 'Producing mines' category.

g) Stripping costs

Stripping costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a units-of-production basis.

Stripping costs incurred subsequently during the production stage of its operation are capitalised in the cost of the inventory extracted during the period in which the stripping costs are incurred.

h) Property, plant and equipment and mine properties

Upon completion of mine construction, the assets are transferred into property, plant and equipment or mine properties. Items of property, plant and equipment and mine properties are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Where an item of property, plant and equipment or mine properties comprises significant components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Finance lease assets are also included within property, plant and equipment.

The present value of the expected cost for the decommissioning of the asset, especially the mine properties, after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

When a mine construction project moves into the production stage, the capitalisation of mine construction costs ceases and costs are either regarded as inventory costs or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, mine development or mineable reserve development.

Mining properties, including costs associated with the development of mineral property, plant and equipment are recorded at cost.

Equipment relating to exploration and the corporate office is recorded at cost.

Depreciation/amortisation

Accumulated mine development costs are depreciated/amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned. For all other property, plant and equipment where the anticipated useful lives of the buildings, machinery and equipment related to mines are less than the life of the deposit, amortisation is based on their remaining anticipated useful lives on a straight line basis.

Following are the amortisation rates used for each category of property, plant and mine equipment:

Asset Category	Useful Life
Property	Unit of production
Land and Buildings	20 years
Plant and equipment	5-9 years
Mobile equipment	5-9 years

Spare parts qualifying as stand-by equipment for the respective production equipment are capitalized as property, plant & equipment and depreciated over the same useful life as the respective production equipment.

An item of property, plant and equipment and any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period, and adjusted prospectively if appropriate.

Major maintenance and repairs

Expenditures on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the replacement item will flow to the Group through an extended life, the expenditure is capitalised.

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced assets which is immediately written off. When a major inspection is performed, its costs are recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other regular maintenance and repair costs are expensed as incurred.

j) Impairment of non-financial assets

Annual internal assessments of the carrying values of any indefinite life intangible assets are conducted. The carrying values of capitalised exploration and evaluation expenditure, mine properties and property, plant and equipment are assessed for impairment whenever such indicators of impairment exist. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use. This is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets are grouped together into cash generating units (CGUs) for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or asset groups.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to profit or loss so as to reduce the carrying amount to its recoverable amount. Impairment losses related to continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to

the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of High River's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally related to the life of the mine.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years.

k) Borrowing costs

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of group borrowings is utilized. Assets are classified as qualifying assets by the Group, when the acquisition, construction or production of an asset takes a period of more than six months to get ready for its intended use; in these cases the borrowing costs are capitalized as part of the cost of the respective assets. Capitalization of borrowing costs ceases when the asset is substantially complete. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalizes borrowing costs for all eligible assets where construction was commenced on or after January 1, 2010, whereas all borrowing costs before this transition date to IFRS were expensed.

l) Financial assets and liabilities

Financial assets - Initial recognition and measurement

Financial assets within the scope of IAS-39 are classified as financial assets at fair value through profit or loss, loans and receivables or as available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement - Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes any derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships under IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in profit or loss.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group has evaluated its financial assets at fair value through profit or loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets or management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair

value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would have otherwise be required.

Subsequent measurement - Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include trade receivables, loans and short-term investments such as bankers' acceptances and treasury bills with original maturities between three months and less than one year at the time the investment is made. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method (EIR) less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised as finance costs.

Subsequent measurement - Available-for-sale financial investments

Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income in the available for sale reserve. When the investment is derecognised, the cumulative gain or loss is recognised in other operating income, and removed from the accumulated other comprehensive income. When the available for sale financial asset is determined to be impaired, the cumulative loss is reclassified to the income statement in finance costs and removed from the available for sale reserve.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from an asset.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss has an impact on the estimated cash flows of the financial asset or the group of assets that can be reliably estimated.

For financial assets carried at amortised cost, the Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of further recovery and all collateral has been realised or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment

loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to profit or loss.

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from accumulated other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement.

Financial liabilities - Initial recognition and measurement

Financial liabilities within the scope of IAS-39 are classified as financial liabilities at fair value through profit or loss, or as other financial liabilities. The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, and derivative financial instruments.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

Subsequent measurement - Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes any derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships under IAS 39. Gains or losses on liabilities held for trading are recognised in finance income or finance cost in the statement of comprehensive income.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Subsequent measurement - Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest method (EIR). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in profit or loss. Any gains or losses are recognised in profit or loss when the liabilities are derecognised, as well as through the EIR amortisation process.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

m) Offsetting of financial instruments

Financial assets and financial liabilities are offset if, and only if, there is a currently enforceable legal right

to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

n) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flows analysis or other valuation models. Further details on measurement of the fair values of financial instruments are provided in Note 4.

o) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at banks and at hand, and deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above, net of outstanding bank overdrafts.

p) Own-use exemption

Contracts entered into and continued to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 39, known as the 'own-use exemption.' This is demonstrated to be the case when all the following conditions are fulfilled:

- a physical delivery takes place under all such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements;

and

- Group does not net settle in cash or another financial instrument, nor does the Group have a practice of settling such contracts net in cash or another financial instrument.

These are accounted for as executory contracts and the Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

q) Inventories

Inventory includes materials and supplies, stockpiled run-of-mine and crushed ore, gold-in-process, doré alloy and refined gold and silver. Refined gold and silver, doré alloy, gold-in-process and ore stockpiles are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling the final product.

Cost approximates average production cost. Average production costs comprise direct purchasing costs and related fixed and variable manufacturing overhead costs, including amortization, incurred in converting materials into finished goods. Production costs also include any royalties payable on the value of ore extracted from the mines. Materials and supplies inventories are stated at the lower of cost and net realizable value.

Ore in stockpiles represents mined ore, including ore that has been crushed and screened.

In-process inventory represents costs that are incurred in the process of converting ore into partially refined precious metals, or doré alloy, consisting primarily of gold by value. The process includes milling the ore, treatment with chemical solutions to dissolve precious metals and channel the resulting gold-bearing solutions to a plant for recovery of gold in the form of a doré bar.

Cost of gold-in-process inventory includes operating costs incurred to that stage of the process plus amortization of mineral property, plant and equipment allocable to that stage of the process. Operating costs at each stage of the process are recognized when incurred. When physical quantities are transferred from one stage

of the process to another, associated accumulated costs are also transferred based on average cost per recoverable ounce of gold contained in that inventory at the time of transfer. The amount of recoverable gold contained in gold-in-process inventory is estimated based on the tonnes and grade of ore milled and metallurgical recoveries, based on testing and ongoing monitoring of the rate of gold recoveries. Variations between actual and estimated quantities may result in a write down of inventory, if necessary, to maintain a lower of average cost or net realizable value basis or a prospective adjustment to the basis of transferring gold-in-process costs of production to doré alloy.

Doré alloy represents a bar containing predominantly gold by value, which must be refined off-site to return saleable metals.

Obsolete inventory are identified and written down to net realizable values.

r) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfilment of the arrangement is dependant on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. The Group has only lease contracts as a lessee.

Finance leases

Finance leases which transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and the reduction of the lease liability. Finance charges are recognised in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life or the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating leases

Leases that do not transfer substantially all of the risks and rewards incidental to ownership are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

s) Provisions

General

Provisions are recognised when (a) the Group has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where there is expected to be a reimbursement of some or all of a provision, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision as a result of the passage of time is recognised as a finance cost.

Reclamation and closure costs

The Group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailing dams, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent it was incurred prior to production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount

rates that reflect the risks specific to the liability.

The periodic unwinding of the discount is recognised in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs are recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

t) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the end of the reporting period.

Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, tax loss carry forward of unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The following temporary differences do not result in deferred tax assets or liabilities:

- Where the temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- In respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have those enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales

tax is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

u) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent and has concluded that it is acting as principal in all of its revenue arrangements.

Revenue is earned primarily from the sale of gold and is recognized when refined metal is delivered to a purchaser, which is also the date title to the gold passes. The sales price and quantity are fixed on the delivery date as per terms of the purchase agreement.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred, which is considered to occur when title passes to the customer. Revenue is measured at the fair value of the consideration received or receivable.

Interest revenue

Interest revenue is recognised as it accrues using the effective interest method (EIR).

v) Share-based payment transactions

Equity-settled transactions

Stock options are granted periodically to directors, officers, consultants and employees of the Company. Stock options are granted at an exercise price that is not less than 100% of the closing share price on the TSX on the day prior to the day the option is granted. Option vesting periods vary depending on the circumstances of the grant. Typically, options have a term of five years and vest as follows: 1/3 immediately, 1/3 after one year, 1/3 after two years.

The cost of such equity-settled transactions is measured by reference to the fair value determined using a Black-Scholes valuation model, further details of which are given in Note 22.

The cost of equity-settled transactions is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. Grants of stock options are based on the closing price of the day before the effective grant date. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 18).

w) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated using the treasury stock method, whereby any "in the money" option proceeds would be used to purchase common shares of the Company at the average market price during

the period.

2.3 Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is considered below.

Functional and presentation currency

High River reports its consolidated financial statements using the Canadian dollar as its presentation currency. The majority of its assets are located outside of Canada. The translation of the results of its investments or foreign operations into the presentation currency of its consolidated financial statements may result in significant changes to the reported results and other comprehensive income from period to period.

The determination of functional currency for each entity in the Group under IFRS requires a high degree of judgement. There is a variety across certain factors used by management in making this determination. The international price of gold is reported in US\$ and sales are recorded in that currency. The cost of production is significantly driven by the local currency. At the beginning of 2011, the Group changed the functional currency for its material foreign operation Buryatzoloto from US Dollar to Russian Roubles. The reason for this change is while all operating costs of the foreign operation continue to be denominated in Russian Roubles, the Group switched the currency in which the surplus receipts from its operating activities are retained from US\$ to Russian Roubles.

Mine reclamation and closure provision

The Group's operations, development and exploration activities are subject to various laws and regulations governing the protection of the environment. Potential changes in the laws and regulations could have an adverse risk on the actual environmental and reclamation costs that the Group could incur in the future.

Mining operations involve activities that have a significant effect on the area surrounding such operations. The Group estimated its ultimate legally required reclamation and closure costs (including those that the Group expects to incur during operations) would total \$27.9 million. These liabilities are accreted to their full value over time through charges to income. The accounting estimates related to reclamation and closure costs are critical accounting estimates because (i) the Group will not incur most of these costs for a number of years, requiring it to make estimates over a relatively long period; (ii) reclamation and closure laws and regulations could change in the future or circumstances affecting the Group's operations could change, either of which could result in significant changes to its current plans and future costs; and (iii) calculating Group's asset retirement obligations require management to assign probabilities to projected cash flows, to make long-term assumptions about inflation rates, to determine its long-term credit-adjusted, risk-free interest rates and to determine market risk premiums that are appropriate for its operations over long periods of time. The Group assesses its mine reclamation and closure provision annually. Significant estimates and assumptions are made in determining the provision for mine reclamation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technology changes, regulatory changes, cost increases compared to inflation rates, and changes in the discount rates. These uncertainties may result in future expenditures differing from the amounts currently provided. The provision at the balance date represents management's best estimates of the present value of future rehabilitation costs required. Changes to estimated future costs are recognized in the statement of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is immediately taken to profit or loss. If the change to the estimate results in an increase in the rehabilitation liability and therefore an addition to the carrying value of the asset, the Group will consider

whether this is an indication of impairment of the asset as a whole and test for impairment in accordance with IAS 36.

Ore reserve and resource estimates

Reserves are estimates of the amount of ore that can be economically and legally extracted from the Group's mining properties. The Group estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgements to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgements made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment, provision for rehabilitation, deferred tax assets and depreciation charges.

Units-of-production depreciation

Estimated recoverable reserves are used in determining the depreciation of mine specific assets. This results in a depreciation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditures. Any changes to these calculation based on new information are accounted for prospectively.

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditures requires judgement in determining whether commercial reserves exist. The determination of reserves is also an estimation process and these estimates directly impact whether deferral of exploration and evaluation expenditures is still appropriate. Management is required to make certain estimates and assumptions about future events or circumstances, in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available.

Impairment of non financial assets

The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Management has assessed its cash generating units as being an individual mining site, which is the lowest level for which cash inflows are largely independent of those of other assets. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use.

Future cash flows required for determination of value in use are estimated based on estimated quantities of recoverable minerals, expected commodity prices (considering current and historical prices, price trends and related factors), production levels, cash costs of production, capital and reclamation costs, all based on detailed life of mine plans. The term "recoverable minerals" refers to the estimated amount of gold or other commodities that will be obtained from mineral reserves and all related mineral interests, after taking into account losses during ore processing and treatment. Cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset to arrive at value in use. Significant management judgment is involved in estimating these factors, which include inherent risks and uncertainties. The assumptions the Group uses are consistent with its internal planning. Management periodically evaluates and updates the estimates based on the conditions that influence these factors. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus the Group's accounting estimates may change from period to period. If other assumptions and estimates had been used in the current year, the balances of property plant and equipment and mineral properties could have been materially impacted. Furthermore, if management uses different assumptions or if different conditions occur in future periods, future operating results could be materially impacted.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Recovery of deferred tax assets

Judgement is required in determining whether deferred tax assets are recognised on the statement of financial position. Deferred tax assets, including those arising from un-utilized tax losses require management to assess the likelihood that the Group will generate taxable earnings in future periods, in order to utilize recognised deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Inventories

Net realizable value tests are performed at least annually and represent the estimated future sales price of the product based on the prevailing spot metal prices at the reporting date, less estimated costs to complete production and bring the product to sale.

2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the International Accounting Standards Board ("IASB") work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of High River's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's disclosures.

IFRS 10 Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements ("IFRS 10") is effective for annual periods beginning on or after 1 January 2013 and will replace portions of IAS 27 Consolidated and Separate Financial Statements ("IAS 27") and interpretation SIC-12 Consolidation — Special Purpose Entities. Under IFRS 10, Consolidated Financial statements include all controlled entities under a single control model that applies to all entities, including special purpose entities and structured entities. A group will still continue to consist of a parent and its subsidiaries; however IFRS 10 uses different terminology from IAS 27 in describing its control model. The changes introduced by IFRS 10 will

require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Early adoption of this standard is permitted. The Group has not fully assessed the impact of adopting IFRS 10; however, it anticipates that its impact will be limited.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 uses some of the terms that were used by IAS 31, but with different meanings. Whereas IAS 31 identified three forms of joint ventures (i.e., jointly controlled operations, jointly controlled assets and jointly controlled entities), IFRS 11 addresses only two forms of joint arrangements (joint operations and joint ventures) where there is joint control. IFRS 11 defines joint control as the contractually agreed sharing of control of an arrangement which exists only when the decisions about the relevant activities require the unanimous consent of the parties sharing control.

Because IFRS 11 uses the principle of control in IFRS 10 to define joint control, the determination of whether joint control exists may change. In addition, IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. For joint operations (which includes former jointly controlled operations, jointly controlled assets, and potentially some former JCEs), an entity recognises its assets, liabilities, revenues and expenses, and/or its relative share of those items, if any. In addition, when specifying the appropriate accounting, IAS 31 focused on the legal form of the entity, whereas IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement.

IFRS 11 is effective for annual periods commencing on or after January 1, 2013. The Group has not fully assessed the impact of adopting IFRS 12; however, it anticipates that adoption of this standard will result in discontinuance of proportionate consolidation for its jointly controlled entities and will use the equity method accounting. The change in the method of accounting is expected to have an impact on the consolidated financial position and cash flows but no impact on the consolidated comprehensive income.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities (“IFRS 12”) includes disclosure requirements about subsidiaries, joint ventures, and associates, as well as unconsolidated structured entities. Many of the disclosure requirements were previously included in IAS 27, IAS 1 and IAS 28 while others are new. This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. The Group has not fully assessed the impact of adopting IFRS 12; however, it anticipates that its impact will be limited.

IFRS 13 Fair Value Measurement

IFRS 13, Fair Value Measurement (“IFRS 13”) provides guidance on how to measure fair value of financial and non-financial assets and liabilities when fair value is required or permitted per IFRS. While many of the concepts in IFRS 13 are consistent with current practice, certain principles could have a significant effect on some entities adopting the standard. IFRS 13 is effective 1 January 2013 and will be adopted prospectively. The Group does not expect any impact on its financial position or performance.

Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12)

On 20 December 2010, the IASB issued Deferred Tax: Recovery of Underlying Assets (amendments to IAS 12) concerning the determination of deferred tax on investment property measured at fair value. The amendments incorporate SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets into IAS 12 for non-depreciable assets measured using the revaluation model in IAS 16 Property, Plant and Equipment. The aim of the amendments is to provide a practical solution for jurisdictions where entities currently find it difficult and subjective to determine the expected manner of recovery for investment property that is measured using the fair value model in IAS 40 Investment Property. IAS 12 has been updated to include:

- A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through

sale; and

- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.

The amendments are mandatory for annual periods beginning on or after 1 January 2012, but earlier application is permitted. This amendment is not expected to have any impact on the Group.

3. Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Restricted cash

Restricted cash comprises of deposits held for asset retirement obligations (see Note 17(b) (ii)) of Somita to fund future reclamation and closure cost liabilities.

4. Accounts payable and accrued liabilities

	31 March, 2011	31 December, 2010	1 January, 2010
Trade payable	15,310	16,644	15,600
Accrued liabilities	18,274	17,261	18,431
Other payables	26,626	19,787	5,695
Total trade payable and accrued liabilities	60,210	53,692	39,726

5. Loans and borrowings

	Interest rate	Maturity	31 March, 2011	31 December, 2010	1 January, 2010
Current portion of debt:					
Buryatzoloto					
Nomos Bank	LIBOR + 4.00	2010	-	9,946	11,462
Finance lease obligations	8.35%	2010	-	-	282
Somita					
Royal Gold, Inc.			-	-	21,150
Accrued tail royalty and milling fee	Note a)	Note a)	1,042	993	8,157
Caterpillar Finance France SA	LIBOR + 3.45	2010	-	-	1,049
Ecobank	8.00%	2010	-	-	216
Berezitovy					
Nomos Bank	LIBOR + 5.00	2010	-	-	14,692
Accrued interest on loan	LIBOR + 5.00	2010	-	-	859
Finance lease obligations	8.35%	2011	608	608	798
High River					
8% Debentures, amortised cost	8.00%	2011	11,788	11,747	-
Long-term portion of debt:					
High River					
8% Debentures	8.00%	2010	-	-	11,588
Somita					
Government of Burkina Faso	0.00%	note b)	506	500	525
Ecobank	8.00%	2010	-	-	85
Berezitovy					
Nomos Bank	LIBOR + 5.00	2010	-	-	11,302
Finance lease obligations	8.35%	2010	-	-	555
Prognoz Invest Ltd.					
Arinvest LLC	0.00%	2012	9,583	1,232	1,311
Total loans and borrowings			23,527	25,026	84,031

- a) Somita entered into an agreement with RGI for project financing of US\$35,000,000 for the construction and development of Somita. In exchange for the financing, RGI was entitled to receive two concurrent production payments, a tail royalty and a milling fee. The first production payment continued until US\$35,000,000 (the loan principal) was repaid at the end of 2010. The first production payment was calculated as 15% of the total gold production processed at Somita during each quarter multiplied by the average gold price, as quoted on the London Metal Exchange, for the particular quarter. The second production payment was set at a 4.3% fixed percentage rate of the produced ounces when the average monthly gold price fell between US\$385 and US\$430 per ounce, or a sliding-scale at a calculated percentage rate, when the average monthly gold price fell outside of this range. The calculated rate, expressed as a percentage, is determined by dividing the average monthly gold price by 100 for gold

prices above US\$430 per ounce, not to exceed 10.0%, or by dividing the average monthly gold price by 90 for gold prices below US\$385 per ounce (i.e. a US\$450 per ounce gold price results in a rate of $450/100 = 4.5\%$). Both production payments continued until the earlier of the production of 804,420 ounces or payments totalling US\$35,000,000 under the first production payment. The full amount of the loan facility was repaid during 2010.

The tail royalty of 2% is applicable to gold production from defined portions of the Somita's property area. The milling fee is 0.75% on ore that is mined outside a defined area and is processed through the Somita's processing facilities to a maximum of 1.1 million tonnes. The tail royalty and milling fee commenced once the two concurrent production payments ceased.

- b) A loan due to the Government of Burkina Faso was established as part of the mining convention with Somita in respect of the original exploration work done on the property. The loan is non-interest bearing. The loan was reclassified in 2008 to long-term as the mining convention doesn't give any precise indications regarding the repayment date or the triggering event which would initiate the repayment.

6. Provisions

Rehabilitation provision

The Group makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis on the development of mines or installation of those facilities.

The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred between 2014 and 2021. These provisions have been created based on the Group's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are reasonable. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future metal prices, which are inherently uncertain.

Key assumptions used in determining the provisions are as follows:

	31 March, 2011			31 March, 2010		
	Buryatzoloto	Somita	Berezitovy	Buryatzoloto	Somita	Berezitovy
Discount period	3-10 years	7 years	7 years	4-11 years		
Discount rate	8.65%	3.40%	8.20%	8.65%	3.40%	8.20%
Inflation rate	8.20%	2%	8.65%	8.20%	2%	8.65%

	Rehabilitation
At 1 January, 2010	15,385
Arising during the year	2,282
Accretion	1,187
Foreign exchange effect	214
At 31 December, 2010	19,067
Accretion	337
Foreign exchange	279
At 31 December, 2011	19,683
Comprising:	
Current - 2010	-
Non-current - 2010	19,067
	19,067
Current - 2011	-
Non-current - 2011	19,683
	19,683

The Company has operated in the mining industry in Russia for many years. The enforcement of environmental regulation in Russia is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations.

Potential liabilities might arise as a result of changes in legislation and regulations or civil litigation. The impact of these potential changes cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

In the ordinary course of business, the Company may be subject to environmental and legal proceedings. The Company is not aware of any such proceedings.

In Burkina Faso, Somita continues to meet the requirements of the environmental management program which was required as part of its permitting process.

7. Commitments and other contingencies

a) Contractual obligations

The Company had the following minimum future contractual obligations at March 31, 2011:

	one year	more than five years	five years
Operating lease obligations	37	37	-
Purchase obligations	5,694	539	-
Contracted capital commitments	-	-	-
Other obligations	7,948	-	-
Total contractual obligations	13,679	576	-

b) Purchase obligations

High River increased its interest in the Bissa and Zandkom permits to 90% for a price of US\$600, plus certain costs in 2007. The Company has contracted to give the vendor:

- 1) an additional payment of US\$20 per ounce for 20% of any exploitable mineral reserves in excess of 150,000 ounces based on a bankable feasibility study. The payment was made in 2010 in amount of US\$ 2,529,000;
- 2) an annual payment of US\$100 per year as an advance on the vendor's 10% non-contributing interest for four years or until the date of commencement of production, if such date is earlier. Payments were made in 2007, 2008, 2009 and 2010;
- 3) a guarantee of a minimum payment of US\$100 per year for five years after production starts, should the vendor's proportional share of profits be less than US\$100 per year; and
- 4) a vendor option, valid for five years from the later of the date of the agreement or the start of production, to sell the rights the vendor holds to its non-contributing interest of 10% for a transfer price to be agreed on with High River, the transfer price to be a minimum of US\$1,000. If a price cannot be agreed on, the vendor can transfer its 10% interest to a third party.

c) Legal Proceedings

The Company and its entities are party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which, on final disposition, could have a material adverse effect on the financial position of the Company.

Somita withheld final payment due to the contractor for the processing plant of approximately US\$1,600,000 and has made a claim against the contractor for repairs and losses. The contractor has commenced arbitration proceedings in South Africa as provided for under the construction contract seeking payment of the withheld amounts and damages for an aggregate amount of US\$3,700,000. Somita has filed a counterclaim. The ultimate result of the arbitration could not be ascertained as at March 31, 2011, it was not possible to reasonably estimate a contingent loss, and no provision was made for the amount claimed.

Subsequent to March 31, 2011, High River has agreed to settlement terms with the contractor. The settlement agreement provides for full and final settlement of the contractor's claim against Somita mentioned above for a settlement amount of US\$1,350,000 paid to the contractor.

In October 2009, Buryatzoloto filed a claim to the Arbitration Court of the City of Moscow against Prognoz Silver LLC ("Prognoz Silver") to recover the indebtedness under the contract for exploration work on the Prognoz Silver Project. Prognoz Silver is 50% owned by High River and holds the mineral license for the Prognoz silver project. The amount of claim including interest and costs was approximately 600 million Russian Roubles. In December 2009, the court made a decision in favour of Buryatzoloto which decision was supported by appellate court in March 2010. The court awarded the amount which was claimed. Following this, Prognoz Silver started a legal action in Moscow to declare itself bankrupt. In order to protect its interests, Buryatzoloto also filed to put Prognoz Silver into bankruptcy. In February 2011, Prognoz Silver repaid part of an outstanding debt due under the contract for exploration work on the Prognoz silver project to Buryatzoloto. The repaid amount was approximately US\$18.3 million. Following the repayment, the Arbitration Court of the City of Moscow dismissed Buryatzoloto's application for official bankruptcy procedures for Prognoz Silver. However, the initial application to put Prognoz Silver into bankruptcy, which was filed by Prognoz Silver itself, is still under review by the court and has not yet been decided.

d) Credit Agreements and guarantees

In order to retain its skilled employees, Buryatzoloto has guaranteed employee mortgages given by Sberbank RF. As at March 31, 2011, this guarantee amount is US\$234 (December 31, 2010 –US\$729). The Company accounts for guarantees at fair value and it estimates the guarantees to have \$nil value, as historically there have been no defaults.

8. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the period by the weighted average of ordinary shares outstanding during the period as follows:

	Three months ended March 31,	
	2011	2010
Profit (loss) attributable to ordinary shareholders	37,299	30,421
Weighted average number of ordinary shares outstanding	840,218,962	799,327,755
Basic earnings (loss) per ordinary share	0.04	0.04

Diluted earnings per share reflect the potential dilution that could occur if additional common shares are assumed to be issued under securities that entitle their holders to obtain common shares in the future. The number of additional shares for inclusion in diluted earnings per share is determined using the treasury stock method, whereby stock options and warrants, whose exercise price is less than the average market price of the Company's common shares, are assumed to be exercised and the proceeds are used to purchase common shares at the average market price for the period. The incremental number of common shares issued under stock options and warrants is included in the calculation of diluted earnings per share.

	Three months ended March 31,	
	2011	2010
Profit (loss) attributable to shareholders	37,299	30,421
Weighted average number of ordinary shares outstanding	840,218,962	799,327,755
Dilutive effect of stock options	-	-
Weighted average number of diluted common shares	840,218,962	799,327,755
Diluted earnings (loss) per ordinary share	0.04	0.04

9. Equity

Issued capital and reserves

The Company's authorized capital consists of an unlimited number of common shares and preference shares. The preference shares may be issued from time to time in one or more series with such designation, rights, privileges, restrictions and conditions as the directors may determine.

	Number of shares	Net share capital
Balance January 1, 2010	799,219,422	610,770
Exercise of stock options	325,000	217
Exercise of warrants	40,674,540	29,170
Balance December 31, 2010	840,218,962	\$ 640,157
	840,218,962	\$ 640,157
Balance March 31, 2011		

The common shares of High River have no par value.

Warrants

	Number of warrants	Weighted average price	Estimated fair value
Balance January 1, 2010	59,247,040	\$1.69	13,265
Exercised	(40,674,540)	\$0.64	(3,139)
Expired	(18,572,500)	\$ 4.00	(10,126)
Balance December 31, 2010	-	-	-
Balance March 31, 2011	-	-	-

Accumulated other comprehensive income

Accumulated other comprehensive income is comprised of the following:

Available for sale reserve - The available for sale reserve records fair value changes on available for sale financial assets.

Foreign currency translation reserve - The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Non controlling interest

The non-controlling interest is comprised of the following:

	Buryatzoloto	Somita	Berezitovy	Total
	15.06%	10.00%	1.00%	
Balance, January 1, 2010	19,999	1,843	81	21,923
Non-controlling interest's share of income (loss)	-	-	-	-
Foreign exchange movement	-	-	-	-
Balance, March 31, 2010	19,999	1,843	81	21,923
Non-controlling interest's share of income (loss)	6,779	5,628	-	12,407
Foreign exchange movement	-	-	-	-
Balance, December 31, 2010	26,778	7,471	81	34,330
Non-controlling interest's share of income (loss)	4,730	2,688	183	7,601
Foreign exchange movement	-	-	-	-

10. Operating segment information

For management purposes, the Group has three operating segments as follows:

- Buryazoloto (producing mines Irokinda and Zun-Holba)
- Exploration projects - Russia
- Exploration projects – West Africa
- Berezitovy (producing mine)
- Burkina Faso (producing mine Taparko-Bouroum and exploration project Bissa)

All these operating segments generate revenues from the mining of gold. The Group management has organized the group structure by these different productive mining regions. The exploration activities of the Group are reviewed from a management perspective together with the producing mines in the respective location.

No operating segments have been aggregated to form the respective reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and production and is measured consistently with operating profit or loss in the consolidated financial statements.

The following tables summarize the relevant information for the dates disclosed.

High River Gold Mines Ltd.								
SEGMENT REPORTING								
for the three months ended March 31, 2010								
(Expressed in thousands of Canadian Dollars)								
				Buryazoloto	Berezitovy	Burkino Faso	Corporate	Consolidated
Revenue				(46,068)	(19,468)	(32,943)	-	(98,479)
Expenses								
Depreciation and amortisation				6,685	3,483	5,655	3	15,826
Exploration costs				1,260	-	-	-	1,260
Other Expenses				24,116	5,108	16,505	(4,306)	41,423
Segment profit before income tax				(14,007)	(10,876)	(10,783)	(4,303)	(39,970)
Income tax expense				4,255	4,255	4,255	-	12,766
Segment profit for the period				(9,752)	(6,620)	(6,528)	(4,303)	(27,204)

High River Gold Mines Ltd.								
SEGMENT REPORTING								
for the three months ended March 31, 2011								
(Expressed in thousands of Canadian Dollars)								
				Buryatzoloto	Berezitovy	Burkino Faso	Corporate	Consolidated
Revenue				(40,513)	(30,546)	(53,303)	-	(124,363)
Expenses								
Depreciation and amortisation				3,375	4,586	5,833	-	13,794
Exploration costs				4,036	-	-	-	4,036
Other Expenses				3,672	2,017	17,725	40,522	63,937
Segment profit before income tax				(29,430)	(23,943)	(29,745)	40,522	(42,596)
Income tax expense				2,788	5,209	4,940	(657)	12,280
Segment profit for the period				(26,642)	(18,734)	(24,805)	39,865	(30,315)
					Three months ended March 31, 2011	Three months ended March 31, 2010		
Reconciliation of profit								
					(30,315)	(27,204)		
					(2,221)	(2,182)		
					2,093	1,848		
					(39,737)	4,637		
					(70,181)	(22,901)		

Reconciliation of assets				As at March 31, 2011	As at December 31, 2010	As at January 1, 2010
Segment operating assets						
Deferred tax assets				7,368.51	1,595.56	1,578
Other assets				889,989	812,332	706,962
Available for sale financial assets				(83,489)	(11,011)	5,855
Group operating assets				813,868	802,917	708,540

Finance income and expenses and gains and losses from available for sale financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis. Also certain financial assets and liabilities are not allocated to those segments as they are managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment, intangible assets, exploration and evaluation assets and mine properties.

11. Share-based payment plans

The Company has not issued any stock options during the three months period ended March 31, 2011 or during the year ended December 31, 2010.

12. Related Party disclosures

Key management includes directors (executive and non-executive), the Chief Executive Officer (“CEO”) and the Vice President reporting directly to the CEO.

The ultimate parent

Severstal is the ultimate parent based and listed in Russia. The Group had the purchased goods and services amounting to nil (for the year ended December 31, 2010-\$1,760,000 for the three months ended March 31, 2010-nil). Balances due to or from Severstal – nil (December 31, 2010: nil).

Parent

The direct parent of the Group is Nordgold based in the Netherlands. The Group had the following transactions with the parent: \$3,075 (for the year ended December 31, 2010-\$39,000 for the three months ended March 31, 2010-\$6,000). During the period, Buryatzoloto paid Nordgold group US\$ 294,000 (2010 – US\$ 251,000) in management and consulting fees. Berezitovy paid to Nordgold group US\$ 1,935,000 (2010 – 652,000) in management fees and to Severstal group US\$ 0 (2010 – 1,760,000) for equipment, supplies and services. Balances due to parent company: Buryatzoloto US\$ 294,000, Berezitovy US\$ 1,935,000.

Joint venture in which the Group is a venturer

The Group has a 50% interest in Prognoz Silver LLC (December 31, 2010: 50%, January 1, 2010: 50%). The Group had the following transactions with the jointly controlled entity:

Outstanding balances at the period end are unsecured, interest free and settlement occurs in cash. There have

been no guarantees provided or received for any related party receivables or payables. For the period end as well as for December 31, 2010, the Group has not recorded any impairment of receivables relating to amounts owed by related parties.

13. Capital management

The Company manages its capital in order that the Company and its subsidiaries will be able to continue as a going concern while attempting to maximize the return to shareholders through a debt and equity balance commensurate with current operating requirements. The capital structure consists of debt, cash and cash equivalents, and shareholders' equity excluding accumulated other comprehensive income (loss). The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure.

	March 31, 2011	December 31, 2010	January 1, 2010
Total loans and interest payable	\$(23,528)	\$ (25,025)	\$ (84,031)
Less: Cash and cash equivalents	204,084	153,964	82,061
Excess of cash / (net debt)	180,556	128,939	(1,970)
Shareholders' equity excluding accumulated other comprehensive income	684,913	658,284	518,679

The Company is currently not subject to any externally imposed capital requirements.

14. Events after the reporting date

There are no material events after the reporting date to document.

15. IFRS first time adoption

Transition to IFRS

For all periods up to and including the year ended December 31, 2010, the Group prepared its financial statements in accordance with Canadian generally accepted accounting practice (GAAP). These financial statements, for the quarter ended March 31 2011, are the first the Group has prepared in accordance with International Financial Reporting Standards (IFRS).

Accordingly, the Group has prepared financial statements which comply with IFRS expected to be in effect as at December 31, 2011, as described in the accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2010, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its previous GAAP statement of financial position as at 1 January 2010 and its previously published GAAP financial statements for the quarter ended March 31, 2010, and the year ended December 31, 2010.

Exemptions applied

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities recorded to retained earnings unless certain exemptions are applied. The Group has applied the following exemptions to the retrospective application of its opening statement of financial position dated January 1, 2010:

(i) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations that occurred before the date of transition to IFRS. The Group has taken advantage of this election and has not applied IFRS 3 to business combinations that occurred on or after January 1, 2010.

(ii) Cumulative translation differences

IFRS 1 permits cumulative translation differences to be reset to zero at the transition date. This provides relief from determining cumulative currency translation differences in accordance with IAS 21, *The effects of changes in foreign exchange rates*, from the date a subsidiary or equity method investee was formed or acquired. The Group elected to reset all cumulative translation differences to zero to opening retained earnings at its transition date.

(iii) Rehabilitation provisions

The Group has elected to apply the exemption from full retrospective application of rehabilitation provisions as allowed under IFRS 1. As such, the Group has re-measured the provisions as at January 1, 2010 under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. The Group did this using its best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion and amortization under IFRS up to the transition date.

(iv) Share-based compensation transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2, *Share-based Payment*, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Group has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.

(v) Borrowing Costs

In accordance with IFRS 1, the Group has elected to prospectively apply IAS 23 effective January 1, 2010. The carrying value of all borrowing costs before January 1, 2010, capitalized under Canadian GAAP were expensed to retained earnings as of transition date.

The Canadian GAAP statement of financial position and the equity balance at January 1, 2010 has been reconciled to IFRS as follows:

High River Gold Mines Ltd.				
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
As at January 1, 2010				
(Expressed in thousands of Canadian Dollars)				
	Previous GAAP	Explanation	IFRS Adjustments	IFRS Reclassifications
ASSETS				
Current Assets				
Cash & cash equivalents	82,061		-	-
Restricted cash	562		-	-
Inventories	81,090		-	-
Trade and other receivables	18,115		-	-
Income tax receivable	-		-	-
Other assets	12,382		-	-
	194,210		-	-
Non-Current Assets				
Exploration and evaluation assets	105,061		-	-
Mine properties	-		-	72,241
Property, plant & equipment	340,606	note g	(44,034)	(72,241)
Available for sale financial assets	64,810		-	-
Other assets	697		-	-
Deferred tax asset	1,578		-	-
	512,752		(44,034)	-
TOTAL ASSETS	706,962		(44,034)	-
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	39,726		-	-
Loans and other borrowings	58,666		-	-
Income tax payable	-		-	-
Provisions	-		-	-
	98,392		-	-
Non-Current Liabilities				
Other liabilities	-		-	-
Derivative financial liabilities	13,684		-	-
Loans and other borrowings	25,365		-	-
Provisions	14,208	note d	1,177	-
Deferred tax liabilities	20,567		-	-
	73,824		1,177	-
TOTAL LIABILITIES	172,216		1,177	-
EQUITY				
Share Capital	610,770		-	-
Warrants	13,265		-	-
Contributed surplus	15,907	note c	84	-
Debenture conversion option	538		-	-
Accumulated other comprehensive income	(5,855)	note a, f	1,821	-
Deficit	(121,801)		(47,116)	-
Equity attributable to equity holders of the Company	512,824		(45,212)	-
Non-controlling interest	21,922		-	-
TOTAL EQUITY	534,746		(45,212)	-
TOTAL LIABILITIES AND EQUITY	706,962		(44,034)	-

The Canadian GAAP income statement and statement of comprehensive income for the three months ended March 31, 2010 have been reconciled to IFRS as follows:

(Expressed in thousands of Canadian Dollars)

Canadian GAAP structure	Canadian GAAP	Explanation	IFRS Adjustments	IFRS	IFRS structure
Revenue					Revenue
Gold	97,656		-	97,656	Gold
Silver	823		-	823	Silver
	98,479		-	98,479	
Mining costs	(41,886)	Reclassification	(13,136)	(55,022)	Cost of sales
Gross Profit	56,593		(13,136)	43,457	Gross Profit
Amortization and depletion	(15,823)	note d	15,823	-	
Exploration expenses	(1,260)		-	(1,260)	Exploration expenses
Mine administrative costs	(1,793)	Reclassification	1,793	-	
Administrative costs	(787)	Reclassification	(2,533)	(3,320)	General and administrative expenses
Other expenses	(783)	Reclassification	1,018	235	Other expenses
Interest income	230		-	230	Interest income
Finance costs	(3,725)	note b	(361)	(4,086)	Finance costs
Asset retirement obligation accretion	(287)	Reclassification	287	-	
Change in fair value of derivative	3,829		-	3,829	Change in fair value of derivative
Profit before income taxes	36,194		2,891	39,085	Profit before income taxes
Income tax expense	(6,037)		-	(6,037)	Income tax expense
Profit for the period	30,157		2,891	33,048	Net Profit (loss) for the period
Attributable to:					Attributable to:
Non-controlling interest	2,627		-	2,627	Non-controlling interest
Equity shareholders of the Company	27,530		2,891	30,421	Equity shareholders of the Company
Profit for the period	30,157		2,891	33,048	Profit for the period
Other Comprehensive Income (loss)					Other Comprehensive Income (loss)
Net unrealized gains (loss) on available for sale investment	(147)		-	(147)	Net gains on available for sale financial assets
Exchange differences on translation of foreign operations	(16,608)	note f	3,746	(12,862)	Exchange differences on translation of foreign operations
Other comprehensive income, net of tax	(16,755)		3,746	(13,009)	Comprehensive Income (Loss), net of tax
Attributable to:					Attributable to:
Non-controlling interest	2,627		-	2,627	Non-controlling interest
Equity shareholders of the Company	10,775		6,637	17,412	Equity shareholders of the Company
Comprehensive income, net of tax	13,402		6,637	20,039	Comprehensive Income (Loss), net of tax

The Canadian GAAP statement of financial position and the equity balance at March 31, 2010 has been reconciled to IFRS as follows:

High River Gold Mines Ltd.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2010

(Expressed in thousands of Canadian Dollars)

	Previous GAAP	Explanation	IFRS Adjustments	IFRS Reclassifications	IFRS
ASSETS					
Current Assets					
Cash & cash equivalents	82,540		-	-	82,540
Restricted cash	513		-	-	513
Inventories	82,247		-	-	82,247
Trade and other receivables	14,836		-	-	14,836
Income tax receivable	-		-	-	-
Other assets	16,179		-	-	16,179
	196,315		-	-	196,315
Non-Current Assets					
Exploration and evaluation assets	107,646		-	-	107,646
Mine properties	-		-	46,214	46,214
Property, plant & equipment	315,994	note g	(38,153)	(46,214)	231,628
Available for sale financial assets	64,915		-	-	64,915
Other assets	738		-	-	738
Deferred tax asset	2,494		-	-	2,494
	491,787		(38,153)	-	453,634
TOTAL ASSETS	688,102		(38,153)	-	649,949
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	29,744		-	-	29,744
Loans and other borrowings	48,712		-	-	48,712
Income tax payable	-		-	-	-
Provisions	-	note d	422	-	422
	78,456		422	-	78,878
Non-Current Liabilities					
Other liabilities	-		-	-	-
Derivative financial liabilities	9,855		-	-	9,855
Loans and other borrowings	13,914		-	-	13,914
Provisions	14,541		-	-	14,541
Deferred tax liabilities	22,901		-	-	22,901
	61,211		-	-	61,211
TOTAL LIABILITIES	139,667		422	-	140,089
EQUITY					
Share Capital	610,987		-	-	610,987
Warrants	13,265		-	-	13,265
Contributed surplus	15,976	note c	84	-	16,060
Debenture conversion option	538		-	-	538
Accumulated other comprehensive income	(22,610)	note a, f	5,567	-	(17,043)
Deficit	(94,271)		(44,225)	-	(138,496)
Equity attributable to equity holders of the Company	523,885		(38,574)	-	485,311
Non-controlling interest	24,550		-	-	24,550
TOTAL EQUITY	548,435		(38,574)	-	509,861
TOTAL LIABILITIES AND EQUITY	688,102		(38,153)	-	649,949

The Canadian GAAP income statement and statement of comprehensive income for the twelve months ended December 31, 2010 have been reconciled to IFRS as follows:

High River Gold Mines Ltd.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year end December 31, 2010

(Expressed in thousands of Canadian Dollars)

Canadian GAAP structure	Canadian GAAP	Explanation	IFRS Adjustments	IFRS	IFRS structure
Revenue					Revenue
Gold	435,615		-	435,615	Gold
Silver	5,154		-	5,154	Silver
	440,769		-	440,769	
Mining costs	(193,278)	Reclassification	(52,057)	(245,335)	Cost of sales
Gross Profit	247,491		(52,057)	195,434	Gross Profit
Amortization and depletion	(60,682)	Reclassification	60,682	-	
Exploration expenses	(15,518)		-	(15,518)	Exploration expenses
Mine administrative costs	(11,166)	Reclassification	11,166	-	
Administrative costs	(4,469)	Reclassification	(15,730)	(20,199)	General and administrative expenses
Other expenses	(12,000)		4,303	(7,697)	Other expenses
Interest income	2,005		-	2,005	Interest income
Finance costs	(9,657)	note b	(1,259)	(10,916)	Finance costs
Asset retirement obligation accretion	(1,191)	note d	1,191	-	
Change in fair value of derivative	13,684		-	13,684	Change in fair value of derivative
Profit before income taxes	148,497		8,296	156,793	Profit before income taxes
Income tax expense	(21,237)		-	(21,237)	Income tax expense
Profit for the period	127,260		8,296	135,556	Profit for the period
Attributable to:					Attributable to:
Non-controlling interest	12,408		-	12,408	Non-controlling interest
Equity shareholders of the Company	114,852		8,296	123,148	Equity shareholders of the Company
Profit for the period	127,260		8,296	135,556	Profit for the period
Other Comprehensive Income (loss)					Other Comprehensive Income (loss)
Net unrealized gains on available for sale investment	39,318		-	39,318	Net gains on available for sale financial assets
Exchange differences on translation of foreign operations	(34,592)		2,332	(32,260)	Exchange differences on translation of foreign operations
Comprehensive Income, net of tax	4,726		2,332	7,058	Comprehensive Income, net of tax
Attributable to:					Attributable to:
Non-controlling interest	12,408		-	12,408	Non-controlling interest
Equity shareholders of the Company	119,578		10,628	130,206	Equity shareholders of the Company
Comprehensive Income, net of tax	131,986		10,628	142,614	Comprehensive Income, net of tax

The Canadian GAAP statement of financial position and the equity balance at December 31, 2010 has been reconciled to IFRS as follows:

High River Gold Mines Ltd.				
CONSOLIDATED STATEMENT OF FINANCIAL POSITION				
As at December 31, 2010				
(Expressed in thousands of Canadian Dollars)				
	Previous GAAP	Explanation	IFRS Adjustments	IFRS Reclassifications
ASSETS				
Current Assets				
Cash & cash equivalents	153,964		-	-
Restricted cash	1,285		-	-
Inventories	97,663		-	-
Trade and other receivables	13,639		-	-
Income tax receivable	-		-	-
Other assets	15,589		-	-
	282,140		-	-
Non-Current Assets				
Exploration and evaluation assets	119,847		-	-
Mine properties	-		-	67,436
Property, plant & equipment	291,130	note g	(33,439)	(67,436)
Available for sale financial assets	109,633		-	-
Other assets	7,986		-	-
Deferred tax asset	1,596		-	-
	530,192		(33,439)	-
TOTAL ASSETS	812,332		(33,439)	-
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	53,692		-	-
Loans and other borrowings	23,293		-	-
Income tax payable	-		-	-
Provisions	-		-	-
	76,985		-	-
Non-Current Liabilities				
Other liabilities	-		-	-
Derivative financial liabilities	-		-	-
Loans and other borrowings	1,732		-	-
Provisions	17,839	note d	1,228	-
Deferred tax liabilities	24,291		-	-
	43,862		1,228	-
TOTAL LIABILITIES	120,847		1,228	-
EQUITY				
Share Capital	640,157		-	-
Warrants	-		-	-
Contributed surplus	24,538		-	-
Debenture conversion option	538		-	-
Accumulated other comprehensive income	(1,129)	note a, f	4,152	-
Deficit	(6,949)		(38,819)	-
Equity attributable to equity holders of the Company	657,155		(34,667)	-
Non-controlling interest	34,330		-	-
TOTAL EQUITY	691,485		(34,667)	-
TOTAL LIABILITIES AND EQUITY	812,332		(33,439)	-

16. Transition adjustments from Canadian GAAP to IFRS

(a) Impairment of available for sale investments

Under IFRS, an objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Whereas under Canadian GAAP the decline in the fair value of an available-for-sale financial asset has been recognized directly in other comprehensive income is removed from accumulated other comprehensive income and recognized in net income even though the financial asset has not been derecognized only when there is objective evidence that the asset is impaired, and the decline in fair value is other than temporary. Therefore, the impairment could occur only under IFRS and not under Canadian GAAP when there has been a significant decline in the value of the investment but was considered temporary under Canadian GAAP.

(b) Borrowing Costs

In accordance with IFRS 1, the Group has elected to prospectively apply IAS 23 effective January 1, 2010. The carrying value of all borrowing costs before January 1, 2010, capitalized under Canadian GAAP were expensed to retained earnings as of transition date.

(c) Share-based compensation

Under Canadian GAAP, the fair value of stock-based awards with graded vesting was calculated as one grant and the resulting fair value was recognized on a straight-line basis over the vesting period. In addition, any forfeiture of awards was recognized as they occurred.

Under IFRS, each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the vesting period of the respective tranches. Forfeitures are recognized in the period in which they are expected to happen and are revised for actual forfeitures in subsequent periods.

(d) Rehabilitation provisions

Consistent with IFRS, rehabilitation provisions had been previously measured based on the estimated cost of rehabilitation, discounted to its net present value upon initial recognition. However, adjustments to the discount rate were not reflected in the provisions or the related assets under Canadian GAAP unless it caused an upward revision in the future costs estimates. The Group has elected to apply the exemption from full retrospective application as allowed under IFRS 1. Consistent with IAS 37, the Group has re-measured the rehabilitation liability as at January 1, 2010, estimated the amount to be included in the related asset by discounting the liability to the date in which the liability arose using best estimates of the historical risk-adjusted discount rates and recalculated the accumulated depreciation and amortization under IFRS.

(e) Deferred tax liability

Adjustments to deferred tax liability result from IFRS adjustments related to convertible debt, rehabilitation provisions and related assets.

(f) Foreign currency translation differences

In accordance with IFRS 1, the Group has elected to reset the cumulative translation adjustment account to zero as at January 1, 2010. Total equity was not changed as a result of this transfer to retained earnings.

(g) Property, plant and equipment

Under IFRS, an item of PP&E that qualifies for recognition as an asset shall be measured at its cost. The elements of the cost of an item of PP&E comprise:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the

obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Under Canadian GAAP certain costs mainly in the nature of administrative and general overhead including foreign exchange gain or loss from translation of local currency (functional currency under IFRS) into Canadian Dollars (functional currency under Canadian GAAP during mine development stage) were capitalized. Such costs were expensed on transition to IFRS.

Corporate Information

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² Member of the Corporate Governance and Compensation Committee

³ Chairman

⁴ As of January 19, 2011

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Yury Lopukhin
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Shares Listed

The Toronto Stock Exchange
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For inquiries, or copies of the Company's Annual Information Form, Annual or Quarterly Reports, please contact Investor Relations at 011 7 495 981 0910 ext. 6678, info@hrg.ca, or visit the Company's website at www.hrg.ca. The Company's filings with the Canadian securities regulatory authorities can be accessed on SEDAR at www.sedar.com.