

HRG



HIGH RIVER GOLD

High River Gold Mines Ltd.

YEAR-END REPORT 2010

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High River Gold Mines Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at December 31, 2010. Expressed in Canadian Dollars unless otherwise noted.

The following Management's Discussion and Analysis of the consolidated operating results and financial condition of High River Gold Mines Ltd. (the "Company", "High River") for the fiscal years ended December 31, 2010 and 2009 should be read in conjunction with the audited Consolidated Financial Statements and related Notes as at December 31, 2010 and 2009. The Consolidated Financial Statements and related Notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 March 31, 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 296,000 attributable ounces in 2010, and 303,000 attributable ounces in 2009. In 2008, OAO Severstal ("Severstal") acquired indirect control of High River and held, through its subsidiary, Nord Gold N.V. ("Nord Gold"), 72.64% (610,362,172 shares) of its shares as at December 31, 2010.

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 2010

Financial

- Net gold revenue of \$435.6 million, an increase of 20% from 2009.
- Net income of \$ 114.9 million (\$ 0.14 per share) compared to a net loss of \$ 9.8 million (\$ - 0.02 per share) in 2009.
- Cash flow from operations of \$155.9 million, up from \$ 125.5 million in 2009.
- Cash and cash equivalents increased to \$154.0 million from \$82.1 million in 2009.
- Working capital increased to \$205.2 million from \$ 95.8 million in 2009.
- Current and long term debt decreased to \$25.0 million from \$84.0 million in 2009.
- Following discussions between High River and Royal Gold, which commenced in 2010 and concerned the results of the Completion Test at the Taparko mine (as such term was defined in the Amended and Restated Funding Agreement dated February 22, 2006 between Royal Gold and Somita (the "Taparko Funding Agreement"), Royal Gold agreed in January 2011 that the Completion Test 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 (doré) decreased 2% to 329,971 ounces (2009 – 336,366 ounces (100%)). Total cash cost per ounce increased 29% to US\$ 653 (2009 – US\$505 per ounce) (see the *Non-GAAP Financial Measures* table).
- The Zun-Holba and Irokinda Gold Mines produced 135,636 ounces (2009 – 149,382) (100%) at a total cash cost of US\$ 628 per ounce.
- The Taparko-Bouroum Gold Mine produced 127,684 ounces (2009 – 99,536) (100%) at a total cash cost of US\$ 500 per ounce.
- Gold production at Berezitovy was 66,651 ounces (2009 – 87,488 ounces) (100%), at a total cash cost of US\$ 995 per ounce.
- At the Bissa Gold Project, the technical report describing the results of the feasibility study was published in Q3 2010.

Corporate

- Igor Klimanov resigned as Chief Executive Officer on October 4, 2010.
- A subsidiary of Severstal acquired 19,000,000 common shares of the Company in October 2010. Following the transaction, Severstal has beneficial ownership and control over 610,362,172 Common Shares, representing approximately 72.64% of the issued and outstanding Common Shares of the Company.
- Konstantin Sobolevskiy was appointed as Chief Executive Officer effective October 28, 2010.
- The Company paid off the principal amount of the Royal Gold loan. The Company has started to pay the tail royalty to Royal Gold, which amounts to 2% of the revenue generated by Somita.

- 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 SEDAR.

Objective and Strategy

High River's strategy continues to be building shareholder wealth through gold production growth. High River's objective is to increase gold production in Russia and Burkina Faso through project development and exploration.

Objectives for 2010 as Presented in the 2009 Management Discussion & Analysis

- Increase production further at Taparko-Bouroum and Berezitovy mines.
- Sustain Buryatzoloto production at historical levels, and increase minable reserves for Irokinda and Zun-Holba mines.
- Complete the Bissa bankable feasibility study and start mine development if the project warrants it.

Results

- Gold production in 2010 at Taparko-Bouroum mine increased 28% from 99,536 oz in 2009 to 127,684 oz in 2010. Berezitovy mine underperformed and production in 2010 was 24% less than in 2009 (2010 – 66,651 oz, 2009 – 87,448 oz). The reasons for underperformance were a later than planned second ball mill installation (put into operation in October 2010) and lower crushing stage availability in the first quarter of 2010.
- Buryatzoloto produced 9% less in 2010 – 135,636 oz (2009 – 149,382). The Company continues exploration work to replace mined reserves and increase minable reserves. The results are anticipated to be available in 2011.
- Bissa bankable feasibility study was completed in 2010 and the Company applied for a mining license and employed key managers responsible for mine development. The tender procedures to engage EPCM (Engineering, Procurement, Construction Management) contractors were started.

Objectives for 2011

- Increase production at Taparko-Bouroum and Berezitovy mines.
- Sustain Buryatzoloto production at historical levels, and continue increasing minable reserves for Irokinda and Zun-Holba mines.
- Obtain Bissa mining license, sign construction contract and start mine development.
- Continue exploration activities in Burkina Faso to define new gold deposits.

Gold Market Review

The Company's revenues are generated from the sale of gold and silver from its producing mines and, therefore, its financial performance is very sensitive to movements in gold prices. World gold prices increased significantly in 2010, averaging approximately US\$1,227 per ounce compared to US\$972 per ounce in 2009 and US\$872 per ounce in 2008. High River realized an average gold price of US\$1,238 per ounce in 2010 compared to US\$976 per ounce in 2009 and US\$862 per ounce in 2008.

The Company's outlook for the gold market remains positive. The gold price has increased significantly over the past several years due to the weakening of the United States dollar, decreasing world-wide mine production, and producer de-hedging.

High River intends to maintain a no-hedge gold policy. As such, it will benefit from the rising gold prices of the current bull market in gold.

Production

High River uses three measures to track the efficiency of production at the operations.

The first evaluation measure is tonnes of ore mined. The ability to meet mining targets will be dependent on a number of factors such as equipment availability, efficiency of labour and development work undertaken to provide sufficient working areas. A shortfall in mine production would be assessed against all factors which impact the mining operation to determine where corrective action should be implemented.

The second measure is tonnes of ore milled. This measure, when compared to planned capacity, provides an indication of mechanical efficiency of a processing plant. Generally, tonnes of ore milled will match tonnes of ore mined unless specific plans are underway to build up or draw down ore stockpiles.

The third and most important measure of production efficiency is the number of ounces of gold produced. A shortfall of gold ounces relative to plan could be indicative of lower grades, grade control issues in the mine or metallurgical recovery problems in the mill. All potential factors would be assessed and the necessary corrective action would be implemented.

Gold Production by Mine (ounces) – 100%

	2010	2009
Buryatzoloto		
Irokinda Mine	69,779	75,257
Zun-Holba Mine	65,494	73,688
Placer Operation	363	437
Berezitovy Mine	66,651	87,448
Taparko-Bouroum Mine	127,684	99,536
Total	329,971	336,366

Cash Operating Costs

Profitability at each operation is driven largely by the amount of gold the mine produces and the cost per unit to produce it. Since most costs at the operations are fixed, the quantity of ore produced and the resulting gold production has a significant impact on unit costs. The objective at each operation is to have sufficient ore to keep the mills operating at full capacity thereby reducing the cost per unit of gold produced. Cash operating costs are defined as including all costs of extraction and processing of ore including mining, milling, haulage, mine administration, stripping and mine development adjustments, third party refining and transportation costs, net of by-product credits.

Cash Operating Cost of Gold Produced – US\$ per ounce (refer to *Non-GAAP Financial Measures*)

	2010	2009
	Actual	Actual
Buryatzoloto		
Irokinda Mine	\$ 434	\$ 373
Zun-Holba Mine	647	515
Placer Operation	1,162	810
Berezitovy Mine	918	505
Taparko-Bouroum Mine	462	441
Weighted average	\$ 592	\$ 454

Gold Prices/Foreign Exchange Rates

Realized gold prices and exchange rates are largely outside the control of the Company except in circumstances where a hedging strategy is implemented. The Company's outlook for the gold market remains positive. (See the section *Gold Market Review*.) The gold price has increased significantly over the past several years mainly due to investor concerns over the value of the US\$, decline in gold supply, producer de-hedging and increased investment demand. The US\$ to C\$ exchange rate decreased, as the Canadian dollar strengthened primarily due to commodity price decreases in Canada's major exports, to 0.9946 at year-end compared to 1.0494 as at December 31, 2009 and 1.2228 as at December 31, 2008.

Volume/Cost

The Company focuses on optimizing its operations to meet or exceed budgeted production and financial targets. The Company has re-invested significant amounts each year to maintain its production profile.

The Buryatzoloto operations in Russia are mature mines and continue to experience higher unit production costs due to high inflation, labour cost pressures and higher mining costs as mining occurs at greater depths or further away from the processing plant. The Company continues to take steps to mitigate these factors by implementing cost management initiatives and reviewing operational procedures. Efforts are continuing on the implementation of procedures and processes to optimize the Buryatzoloto operations with the goal of replacing reserves and containing operating cost increases, where possible.

In 2010, the Taparko-Bouroum Mine exceeded targeted production levels while the Berezitovy Mine continued to experience mechanical problems.

Review of Operations

Selected Financial Results

The Company reported a net income of \$ 114.9 million (\$ 0.14 per share) in 2010 compared to net loss of \$ 9.8 million (\$-0.02 per share) during 2009

<i>In thousands of Canadian dollars (except per share amounts)</i>	2010	2009	2008
Gold revenue	\$ 435,615	\$ 363,259	\$ 180,788
Net income (loss)	114,852	(9,764)	(57,447)
Net income (loss) per share (basic)	0.14	(0.02)	(0.16)
Cash provided by (used in) operating activities	155,906	125,496	25,605
Total Assets	812,332	706,962	753,109
Loans and interest payable	25,025	84,031	188,145
Weighted average number of shares outstanding (basic)	816,437,980	634,009,385	354,923,765

Buryatzoloto Operations

The Company's attributable gold production from Buryatzoloto was 115,209 ounces in 2010 compared to 126,855 ounces in 2009. Buryatzoloto continues to be profitable and achieved its production objectives for 2010 with 135,636 ounces (100%) of gold produced at an estimated total cash cost of US\$ 628 per ounce as compared to 149,382 ounces of gold produced at a total cash cost of US\$434 per ounce in 2009. (See the section *Non-GAAP Financial Measures* regarding total cash costs.)

Buryatzoloto Combined Operational and Financial Data

	2010	2009	2008
Tonnes mined	630,000	626,000	596,000
Tonnes milled	661,000	632,000	563,000
Gold grade (g/t)	6.88	8.0	8.3
Recovery (%)	90.6	93.4	95.4
Gold production (oz) – 100% ⁽¹⁾	135,636	149,382	145,763
High River share of production – 84.94%	115,209	126,885	123,811
Direct mining cost (US\$/oz)	506	393	462
Cash operating cost (US\$/oz)	553	433	525

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

Zun-Holba Mine

Zun-Holba operated according to the production plan. The decline in the processed ore grade affected production in 2010.

Zun-Holba Operational Data

	2010	2009	2008
Tonnes mined	325,000	293,000	286,000
Tonnes milled	348,000	316,000	272,000
Gold grade (g/t)	6.5	8.1	8.3
Recovery (%)	86.8	91.6	95.3
Gold production (oz) – 100%	65,494	73,688	69,551
High River share of production – 84.94%	55,631	62,591	59,076
Direct mining cost (US\$/oz)	571	461	541
Cash operating cost (US\$/oz)	647	515	649

Irokinda Mine

Irokinda operated according to the production plan.

Irokinda Operational Data

	2010	2009	2008
Tonnes mined	305,000	332,000	311,000
Tonnes milled	313,049	316,000	291,000
Gold grade (g/t)	7.3	7.8	8.3
Recovery (%)	94.8	95.2	95.5
Gold production (oz) – 100%	69,779	75,257	74,365
High River share of production – 84.94%	59,270	63,923	63,166
Direct mining cost (US\$/oz)	383	328	399
Cash operating cost (US\$/oz)	434	373	511

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 2010.

Somita Operating and Financial Data

	2010	2009	2008
Tonnes mined	1,349,000	813,000	266,000
Tonnes milled	1,274,000	814,000	369,000
Gold grade (g/t)	3.4	4.0	3.0
Recovery (%)	90.0	93.5	91.4
Gold production (oz) – 100% ⁽¹⁾	127,684	99,536	30,667
High River share of production – 90%	114,915	89,582	27,600
Direct mining cost (US\$/oz)	442	423	754
Cash operating cost (US\$/oz)	462	441	806

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

Berezitovy Mine, Russia

The second ball mill was successfully installed at the end of Q3. However, due to the problems with the first ball mill and the crushing unit, the plant availability remained below planned level in 2010. The second crushing unit was ordered in 2010. The increased cost of production is due to aggressive stripping activities and increased level of mining activities in 2010. A large stockpile was built to maintain a constant feed to the processing plant

Berezitovy Production Data

	2010	2009	2008
Tonnes mined	1,500,000	1,341,000	833,000
Tonnes milled	1,050,000	1,092,000	691,000
Gold grade (g/t)	2.2	2.8	2.5
Recovery (%)	89.1	87.3	89.4
Gold production (oz) – 100% ⁽¹⁾	66,651	87,448	15,692
High River share of production – 99%	65,984	86,574	15,535
Direct mining cost (US\$/oz)	913	487	710
Cash operating cost (US\$/oz)	918	505	734

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

Review of Exploration Projects

Burkina Faso

In 2010 the Company published technical report on the Feasibility Study of the Bissa project. The Company applied for the mining license, which may 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 2010.

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

An extensive exploration program was implemented in 2010 in order to increase the life of Irokinda and Zun-Holba mines. The exploration will continue in 2011. The results of the 2010 exploration work are expected to be available in 2011.

Health, Safety and Environment (HSE)

Safety performance at all HRG mines improved during the fourth quarter of 2010. There were no fatalities and no serious accidents at any of the High River operations, in Russia and Burkina Faso during the fourth quarter of 2010. For all of 2010, there were 3 fatalities in the Russian mines. In order to improve HSE performance at the mine site, the Berezitovy Production Control Commission carried out 10 inspections in the fourth quarter in accordance with the Special and Multi Purposes Inspections Plan. The deficiencies were recorded and immediate actions were taken to correct them. Several other inspections were carried out by external agencies; in all cases actions were taken to correct identified deficiencies. At Buryatzoloto, a detailed analysis of accident root causes was conducted. As a result, the mine implemented or improved several safety programs including safety audits, performing investigations of non serious accidents and near misses, improving relations with governmental HSE authorities, tracking governmental orders, increasing numbers of safety placards and posters. For its part, Somita finished the year without a lost time injury; in fact there has not been a lost time injury at Somita since July 2009. Several programs have been implemented at Somita to continue improving safety performance at the mine including enhanced training, group safety meetings, one-on-one coaching and formal internal safety audits.

There were no significant environmental incidents in 2010 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 2010 increased to \$435.6 million from \$ 363.3 million in 2009. An increase in the price of gold sold and volume of gold sold were the main factors as movements due to exchange rates were negative. The average realized price was US\$ 1,238 per ounce compared to US\$ 976 per ounce in 2009. Somita was the major contributor to the volume growth.

	2010	2009
Ounces sold	340,060	326,174
Refined ounces in inventory	282	9,548
Realized price, US\$/oz	1,238	976
Average realized C\$ to US\$ exchange rate	1.0348	1.1417
Gold sales, C\$ 000's	435,615	363,259
Change in revenue compared to previous year due to:		
Volume (ounces) variance 000's	15,494	120,883
Price variance 000's	101,725	18,705
Exchange variance 000's	(44,993)	43,027

Expenses

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

	2010	2009
Ounces produced – 100%	329,971	336,366
Direct mining costs, US\$/oz	563	426
Average realized C\$ to US\$ exchange rate	1.0348	1.1417
Direct mining cost, C\$ 000's	192,351	163,737
Change in cost compared to previous year due to:		
Volume (ounces) variance 000's	(3,113)	82,584
Cost variance 000's	51,591	(39,603)
Exchange variance 000's	(19,866)	10,759

The cost variance indicates that costs have increased from 2009. The mines in Russia are showing higher direct mining costs per ounce. The major drivers are the decreasing ore grades combined with the US\$ devaluation against RUR. Other factors affected the cost of production as follows: exploration activities to replace reserves at Buryatzoloto, stripping activities at Berezitovy Mine and Somita.. The increases in mine amortization and asset retirement accretion are due to higher levels of production and a decrease in the estimated ore reserve on which unit-of-product depreciation is based.

Administrative Costs

Administrative costs decreased to \$ 4.5 million in 2010 compared to \$13.2 million in 2009. The major component of the decrease was restructuring cost which was \$0 in 2010 (\$6.4 million in 2009), salaries and benefits, which decreased to \$0.6 million from \$1.6 million.

Exploration Costs

Exploration was curtailed in the first half of 2009 as a cash conservation measure. Exploration resumed in 2010 as Buryatzoloto began work to replace reserves. Exploration activities in Burkina Faso continued on Bissa property and Banfora group of properties. High River expended approximately \$17,000,000 on exploration in 2010. (2009 - \$8,000,000).

Financing Costs and Investment Income, Net

Financing costs and investment income decreased to \$6.0 million from \$21.7 million. Significant debt reduction took place in 2009 and 2010 resulting in lower finance costs. The fair value adjustment to derivatives increased as value of the Royal Gold, Inc. derivative liability declined. The loan was fully repaid and the full amount of fair value adjustment to derivatives was made in 2010, resulting in \$13.7 million gain on revaluation.

Other Expenses

Other expenses were \$12.0 million compared to \$80.0 million in 2009. In 2009 the value of the Novophirsovskoye project was written down to its estimated fair value resulting in a loss of \$11.6 million and Prognoz silver project was also written down to its estimated fair value with a recorded loss of \$58.6 million.

Income Tax Expense

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

Balance Sheet

The Company's total assets were \$812.3 million as at December 31, 2010 compared to \$707.0 million as at December 31, 2009. Foreign exchange movement was a major factor in the decline in the value of property, plant and equipment. Working capital increased to \$205.2 million from \$95.8 million as at December 31, 2009. A significant portion of the Company's debt was retired early using available cash.

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 December 31, 2010.

Liquidity and Capital Resources

Lending Arrangements

Somita was in breach of certain loan covenants in 2010. Pursuant to the Amended and Restated Funding Agreement ("Funding Agreement") between Royal Gold, Inc. ("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 Funding Agreement. RGI has been granted security interests to secure the loan.

In Q1 2010 Somita performed the 90-day completion test. The overall technical performance of the mill was acceptable to RGI. However, the loan agreement also contained a clause stating that project completion was not achieved if liability regarding the payment for the construction of the plant was outstanding. 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. The Company has filed a counterclaim. RGI used this dispute as their justification for not releasing the security they hold. However, following discussions between High River and RGI which commenced in 2010 and concerned the results of the "Completion Test", RGI agreed in January 2011 that the Completion Test had been satisfied and agreed to release its security interests that it held pursuant to the Funding Agreement.

High River early repaid the Nomos Bank, Caterpillar Finance SA and Ecobank Burkina debt in Q2 2010. The major debt obligations at the end of 2010 is the outstanding debentures.

Capital Resources

As of December 31, 2010, the Company's consolidated cash and cash equivalents amounted to \$154 million and there is working capital of \$ 205.2 million.

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

<i>(in thousands)</i>	December 31, 2010	December 31, 2009
Cash and cash equivalents	\$ 153,964	\$ 82,061
Working capital	205,155	95,818
Loans and interest payable (long-term)	1,732	25,365
<hr/>		
Cash provided by operating activities	\$ 155,906	\$ 125,496
Cash used in investing activities	(64,833)	(32,920)
Cash provided by (used in) financing activities	(10,125)	(26,939)

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 continued to underperform, but the second ball mill successfully installed at Berezitovy in Q3 2010 and second crushing unit which was ordered in 2010 are expected to increase production.

Operating Activities

Cash flow provided by operating activities for 2010 was \$155.9 million compared to \$125.5 million from operations in 2009

Investing Activities

Investing activities consumed \$64.8 million of cash compared to \$32.9 million in 2009. Investing activities were scaled back in 2009 in order to conserve cash and have resumed to levels necessary to sustain operations 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.

As of December 31, 2010, none of the Company's stock options were "in-the-money". There were 18,572,500 warrants priced at \$4.00 which are "not in-the-money". Warrants were not exercised and expired on November 8, 2010.

Uses of Liquidity

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

- service its debt obligations (approximately \$11 million)
- increased 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 December 31, 2010:

<i>(in thousands)</i>	Total	2011	2012	2013	2014	2015 and thereafter
Debt	\$ 23,151	\$ 21,867	\$ –	\$ –	\$ –	\$ 1,284
Payables	53,692	53,692	–	–	–	–
Interest on debt	1,943	1,943	–	–	–	–
Asset retirement obligations ⁽¹⁾	30,388	–	–	2,468	–	27,920
Capital lease obligations	631	631	–	–	–	–
Operating leases ⁽²⁾	222	74	74	74	–	–
Purchase obligations ⁽³⁾	7,153	6,601	552	–	–	–
Other long-term obligations ⁽⁴⁾	4,933	4,933	–	–	–	–
Total	\$ 122,113	\$ 89,741	\$ 626	\$ 2,542	\$ –	\$ 29,204

(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)

<i>(\$ thousands, except per share amounts)</i>	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	125,259	101,835	115,196	98,479	101,518	90,527	88,183	89,121
Expenses	(84,203)	(59,872)	(62,346)	(59,890)	(67,699)	(62,773)	(61,369)	(60,878)
All other expenses and taxes	(18,777)	(16,188)	(13,583)	(11,059)	(2,170)	(32,321)	(64,591)	(27,312)
Net (loss) income	22,279	25,775	39,267	27,530	31,649	(4,567)	(37,777)	931
Net (loss) income per share: Basic and diluted	0.03	0.03	0.05	0.03	0.05	(0.01)	(0.06)	0.00
Gold sales, oz	87,045	76,851	91,346	84,818	86,348	84,441	78,274	77,091
Gold sales, US\$/oz	1,396	1,248	1,211	1,106	1,107	964	924	926
Gold production, oz	88,070	77,427	86,803	77,761	91,585	84,990	79,997	76,794
Direct mining costs, US\$/oz	744	530	461	540	434	439	473	368
Total cash costs, US\$/oz	826	603	554	624	559	601	670	607

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.

Fourth Quarter of 2010 Review

The Company attained profitability in Q4 2009 after a series of losses and remained profitable in 2010. Buryatzoloto and Somita continued their consistent performances, while Berezitovy did not reach the planned level.

Outlook

The new ball mill and the second crushing unit at Berezitovy are expected to enable it to increase production and decrease per unit costs in 2011. 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 Nord Gold group US\$ 988,000 (2009 – US\$ 116,000) in management and consulting fees. Buryatzoloto provided a 5% interest bearing loan (with 70 days interest free period) to an affiliate of Nord Gold in amount of RUR 234 million (approximately US\$ 8 million). Berezitovy paid to Nord Gold group US\$ 3,497,000 (2009 – nil) in management fees and to Severstal group US\$ 1,760,000 (2009 – nil) for equipment, supplies and services.

In addition, during the period, officers and/or directors of the Company who are employees of Severstal or Nord Gold have received \$ 38,000 (2009 - \$36,000) 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\$1,238 per ounce) for the Company's 2010 production is approximately \$43.6 million or \$0.05 per share based on weighted average shares outstanding for 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 2010 production is approximately \$18.6 million or \$0.02 per share based on weighted average shares outstanding for 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

There were no changes in accounting policies in 2010.

Critical Accounting Policies and Estimates

The Company's accounting policies are described in note 2 to the annual consolidated financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported results. The estimates and assumptions are based on historical experience and guidelines and practices within the mining industry or other business and are reviewed by management on an ongoing basis. Actual results could differ from those based on such estimates and assumptions. Management considers the following policies to be the most critical to understanding the Company's consolidated financial statements and the uncertainties that could impact its financial condition, results of operations and cash flows.

Measurement Currency

High River reports its consolidated financial statements using the Canadian dollar as its measurement currency. The majority of its assets are located outside of Canada. The translation of the results of its investments or foreign operations may result in significant changes to the reported results from period to period. In 2007, Somita was reclassified as self-sustaining and GAAP required a change in translation method. In 2008, Berezitovy was reclassified as self-sustaining.

The determination of measurement currency under Canadian GAAP 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. It is a characteristic of the mining industry that the prices of many of its production and capital inputs are expressed in the US\$. The majority of gold producing companies have chosen to report in the US\$. With the increase in the Company's production profile, High River continues to review its choice of the appropriate presentation currency, presently being the Canadian dollar.

Property, Plant and Equipment

The Company capitalizes all exploration that results in the acquisition or retention of resource properties or an interest therein. Upon commencement of production, construction and development costs are capitalized and amortized over the estimated useful life of the asset. The significant estimate that affects the measure of amortization is the quantity of mineral reserves. The estimate of mineral reserves is prepared by qualified persons in accordance with industry standards. Mineral reserve estimates can change over time as a result of numerous factors, including adverse changes in gold prices, exchange rates, production costs and technical parameters. A significant reduction in mineral reserves would have a negative impact on the carrying value of the property, plant and equipment.

Expenditures for new facilities or equipment and expenditures that extend the useful lives of existing facilities or equipment are capitalized and depreciated using the declining balance or straight-line method at rates sufficient to depreciate such costs over the estimated future lives of such facilities or equipment. These lives do not exceed the estimated operating mine life based on estimated mineral reserves unless the Company believes the asset can be utilized in another facility after the mining operations have ended.

Depletion of the deferred costs of mine development is calculated on a units-of-production basis over the estimated mineral reserves. The calculation of the units-of-production rate of depletion and, accordingly, the annual depletion charge to operations, could be materially affected to the extent that actual production in the future is different from current forecasts of production based on estimated mineral reserves. This would generally be the case where there were significant changes in any of the factors or assumptions used in estimating mineral reserves. These factors could include (i) an expansion of estimated mineral reserves through exploration activities, (ii) differences between estimated and actual cash costs of mining, due to differences in grade, metal recovery rates and foreign currency exchange rates from those assumed, and (iii) differences between actual commodity prices and the commodity price assumptions used in the estimation of mineral reserves. Such changes in mineral reserves could similarly impact the useful lives of assets depreciated on a straight-line basis, where those lives are limited to the life of the mine. The accounting estimates related to amortization and depletion are critical accounting estimates and are influenced by the Company's estimates of mineral reserves. Historically, the Company has been successful in replacing a portion of the mineral reserves depleted through mining operations. Amortization and depletion charges are adjusted prospectively based on annual year-end assessments of the Company's mineral reserves.

Impairment of Long-lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate the related carrying amounts may not be recoverable. An asset impairment is considered to exist if the total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured and recorded based on determined fair values, often calculated from discounted estimated future cash flows. Future cash flows 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. Significant management judgment is involved in estimating these factors, which include inherent risks and uncertainties. The assumptions the Company 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 Company’s accounting estimates may change from period to period. If other assumptions and estimates had been used in the current year, the balances for long-lived assets 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.

The Company has determined that the total undiscounted net cash flows from its operations would not be less than the carrying amount of the related long-lived assets. If at some point it is determined that the future cash flows from the operations and development projects are less than the carrying value then the Company would take a write down on the assets.

Reclamation and Closure Costs

The Company’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 Company could incur in the future.

Mining operations involve activities that have a significant effect on the area surrounding such operations. The Company estimated its ultimate legally required reclamation and closure costs (including those that the Company expects to incur during operations) would total \$30.4 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 Company 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 Company’s operations could change, either of which could result in significant changes to its current plans and future costs; (iii) calculating the fair value of the Company’s asset retirement obligations requires 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 (iv) given the magnitude of its estimated reclamation and closure costs, changes in any or all of these estimates could have a material impact on the Company’s financial condition and results of operations.

To calculate the fair value of these obligations, the Company discounted the projected cash flows for the corresponding time periods over which these costs would be incurred. The inflation rates and discount rates the Company used to calculate the fair value of the Company’s asset retirement obligations are critical factors in the calculation of future value and discounted present value costs.

Income and Mining Taxes

Significant judgment, estimates and assumptions are required in determining the Company's consolidated tax provision. In addition, in evaluating the ability for the Company to realize the future tax assets, significant judgment, estimates and assumptions are required in establishing future income tax asset valuation allowances.

The provision or relief for income and mining taxes is calculated based on the expected tax treatment of transactions recorded in the Company’s 2010 consolidated financial statements. The objectives of accounting for income and mining taxes are to recognize the amount of taxes payable or refundable for the current year and future tax liabilities and assets for the future tax consequences of events that have been recognized in the Company’s 2010 consolidated financial statements or tax returns. In determining both the current and future components of income and mining taxes, the Company interprets tax legislation in a variety of jurisdictions, recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes would be payable as well as makes assumptions about

the expected timing of the reversal of future tax assets and liabilities. If the Company's interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision or relief for income and mining taxes could increase or decrease in future years.

Future Changes in Canadian Accounting Policies

- (a) Section 1582, Business combinations; Section 1601, Consolidated financial statements; Section 1602, Non-controlling interests; and Amendments to Section 3251, Equity

The CICA issued three new accounting standards in January 2009: Section 1582, Business combinations; Section 1601, Consolidated financial statements; Section 1602, Non-controlling interests; and amendments to Section 3251, Equity. These new standards will be effective for the Company in 2011 and earlier adoption is permitted as of the beginning of a fiscal year. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3R – Business Combinations.

Sections 1601 and 1602 together replace Section 1600, Consolidated financial statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and separate financial statements.

- Amendments to Section 3251 apply to entities that have adopted Section 1602 and require separate presentation on the statements of operations and comprehensive income of income attributable to owners of the Company and those attributable to non-controlling interests. The amendments also require that non-controlling interests be presented separately as a component of equity. This amendment will be effective for the Company in 2011.

- (b) Amendment to Section 3855, Financial instruments – Recognition and measurement

In June 2009, Section 3855, Financial Instruments – Recognition and Measurement was amended to:

- Clarify the application of the effective interest method following an impairment loss of an investment in a debt instrument. This clarification applies to investment in debt instruments classified as held-to-maturity and to those classified as available for sale. This amendment is effective for the Company in 2010.
- Clarify the situation where the embedded prepayment option is considered closely related and, therefore, is not separated from the host debt instrument for recognition purposes. This amendment will be effective for the Company in 2011.

The Company does not expect that the requirements of these new standards will have impact High River's reporting.

IFRS Transition Plans

In 2008, the Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board, will replace Canadian GAAP for publicly accountable enterprises and must be adopted for fiscal years beginning on or after January 1, 2011, with comparative information for 2010 restated under IFRS.

The Company's IFRS implementation project consists of three primary phases which will be completed by a combination of in-house resources and external consultants from Nord Gold.

- Initial diagnostic phase ("Phase I") – Involves preparing a preliminary impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact on financial reporting and the overall difficulty of the conversion effort.
- Impact analysis, evaluation and solution development phase ("Phase II") – Involves the selection of IFRS accounting policies by senior management and the review by the audit committee, the quantification of the impact of changes on existing accounting policies on the opening IFRS balance sheet and the development of draft IFRS financial statements.

- Implementation and review phase (“Phase III”) – Involves training key finance and other personnel and implementation of the required changes to information systems and business policies and procedures. It will enable the Company to collect the financial information necessary to prepare IFRS financial statements and obtain audit committee approval of IFRS financial statements.

The Company completed Phases I, II, III throughout the financial year ended 31 December, 2010. The Company will continue working on adoption of IFRS effective January 1, 2011.

The differences that have been identified in the diagnostic phase are summarized below.

a) Transitional Impact on Financial Statement Presentation and Classification

The Company’s financial statements will have a different format upon transition to IFRS. The components of a complete set of IFRS financial statements are: statement of financial position (balance sheet), statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes including accounting policies. An income statement will be presented as a component of the statement of comprehensive income. The balance sheet may be presented in descending order of liquidity. The income statement is classified by each major functional area – administration, marketing, distribution, etc.

Impact on the Company: The Company will reformat the financial statements in compliance with IAS 1.

b) IFRS-1 Transitional Policy Choices and Exceptions for Retrospective Application

IFRS 1 governs the first-time adoption of IFRS. In general, accounting policies adopted in accordance with IFRS are to be applied retrospectively. IFRS 1 allows certain exemptions from retrospective application. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of January 1, 2010, the date of the first comparative balance sheet presented under IFRS. However, the Company may provide retrospective application to January 1, 2009. The following are the most significant optional exemptions that the Company plans to utilize:

Property, plant & equipment: IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at the date of transition and using those amounts as deemed cost or using the historical cost basis under Canadian GAAP.

Impact on the Company: The Company will elect the historical cost basis.

Decommissioning Liabilities: IFRS 1 provides an exemption to avoid retrospectively calculating the associated asset and depreciation for all decommissioning liabilities. IFRS 1 allows the company to measure the liability at the date of transition to IFRS and estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period.

Impact on the Company: High River will elect the exemption and adopt IFRS 1 and will state comparative decommissioning expenses by discounting the current decommissioning expense using appropriate risk-adjusted discount rates.

Cumulative Translation Adjustment: IFRS 1 provides an exemption which allows the cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS.

Impact on the Company: High River will elect the exemption and recognize the cumulative translation differences from translating foreign operations previously recorded in accumulated other comprehensive income in retained earnings at January 1, 2010.

Business Combinations: IFRS 1 permits companies to apply IFRS 3 *Business Combinations* (“IFRS 3”) prospectively to business combinations occurring on or after the transition date. The alternative, retrospective application of IFRS 3 would require the restatement of all business combinations occurring prior to the date of transition to IFRS in addition to those occurring after the transition date.

Impact on the Company: High River will elect the exemption and is not required to restate business combinations prior to the date of transition.

Other elective exemptions: Other available exemptions continue to be evaluated. The remaining optional exemptions are not expected to be significant to the Company’s adoption of IFRS.

c) Ongoing Accounting Policies (Mandatorily applicable standards with retrospective application (i.e., not specifically exempt under IFRS 1)

Deferred Mineral Exploration and Evaluation Costs: Upon adoption of IFRS, the Company will have a choice between retaining its existing policy of capitalizing all pre feasibility evaluation and exploration expenditures and electing to change its policy retrospectively to expense some or all pre feasibility costs. IFRS 6 requires that the Company selects and consistently applies an accounting policy specifying which E&E expenditures are capitalized and which are expenses. IFRS requires that the accumulated costs are reclassified when the technical feasibility and economic viability of extracting the resource has been established. IFRS also requires that exploration and evaluation assets be classified either as tangible (IAS 16) or intangible assets (IAS 38) then immediately subjected to a full impairment test. E&E assets can be subsequently measured at cost or re-valued amount. Under Canadian GAAP, the Company is permitted to classify E&E assets as development properties (separate from PP&E) recorded at historic cost after a production decision is made and no impairment test would be required.

Impact on the Company: *It is unlikely that there will be a material impact as High River's current policy prepared under Canadian GAAP is in accordance with IFRS.*

Property, Plant and Equipment - Cost: IFRS contains more extensive guidance with respect to components within PP&E. When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately (component accounting). Canadian GAAP Section 3061 essentially contains similar guidance but is less extensive. IFRS requires the residual value and useful life of each asset to be reviewed at least each financial year-end. Canadian GAAP requires that reviews occur on a regular basis.

Impact on the Company: *The Company believes that the "components" approach is primarily intended to apply to major inspection or overhaul cost that is embedded in the cost of an item of property, plant and equipment. The Company has not identified any major inspection or overhaul cost with respect to its property, plant and equipment. Accordingly, the Company does not expect that this will have a material impact upon transition. Given the requirements of IAS 16 the Company will need to review the residual values and useful lives of assets on a more frequent basis than it does at present.*

Property, Plant and Equipment - Impairment: Under IFRS an asset is impaired if the recoverable amount is lower than the asset's carrying amount. The recoverable amount is defined as the higher of the asset's fair value less cost to sell and its value-in-use. The value-in-use calculation involves discounting the expected future cash flows to be generated by the asset to their net present value. Canadian companies should (i) determine the existence of any impairment loss, and (ii) measure and recognize such impairment, if any at January 1, 2010. Under Canadian GAAP a two-step approach is used to measure impairment. In step 1, a recoverability test is performed by comparing the expected undiscounted future cash flows to be derived from the asset with its carrying amount. If the asset fails the recoverability test, step 2 is triggered, and the entity must record an impairment loss calculated as the excess of the asset's carrying amount over its fair value.

Impact on the Company: *As Canadian GAAP requires impairment to be tested against the undiscounted future cash flows, and IFRS requires impairment to be tested against discounted cash flows, there is a possibility that assets that are not impaired under Canadian GAAP will be considered impaired under IFRS.*

Property, Plant and Equipment – Impairment Reversal: IAS 28 and 36 require reversal of impairment loss for assets other than goodwill if certain criteria are met. Canadian companies should determine amount of previously recognized impairment that is no longer appropriate and reverse that amount (up to the original cost less depreciation) at date of transition. Under Canadian GAAP reversals are prohibited.

Impact on the Company: *The Company does not expect that this will have a material impact upon transition.*

Deferred taxes: Under IFRS, deferred income taxes, called "future income taxes" under Canadian GAAP, are recognized for temporary differences arising from the difference between the historical exchange rate and the current exchange rate translations of the cost of nonmonetary assets or liabilities denominated in other currency than Canadian dollars, the Company's reporting currency. Under Canadian GAAP, these temporary differences are not accounted for. The Company owns significant mining interests with costs denominated in non-Canadian dollars. Accordingly, a weakening in foreign currencies, primarily the Russian Rouble and the West African CFA franc, would result in additional deferred income taxes recognized by the Company.

Under IFRS, deferred income taxes are not recognized for temporary differences that arise from differences between the fair values and tax bases of assets acquired in transactions other than a business combination. Under Canadian GAAP, future income taxes are recognized for such temporary differences. The resulting future tax liability/asset under Canadian GAAP is recognized as a bump up/grind down of the carrying value of the related asset. For purposes of the opening IFRS balance sheet at January 1, 2010, the Company has not acquired any assets which would be considered as acquired in a transaction other than a business combination under IFRS to which this accounting policy difference would apply. In addition, the Company does not expect to acquire assets subsequent to the opening IFRS balance sheet date which would be considered as acquired in a transaction other than a business combination under IFRS.

Under IFRS, the Company will present foreign exchange gains and losses from translation of deferred income taxes as part of deferred income tax expense, as compared to other income and expense under Canadian GAAP.

Impact on the Company: *During Phase II the Company reviewed (i) the general principles in IAS 12, and (ii) additional guidance from the CICA Accounting Standards Board, it is possible that adjustments will be required as at January 1, 2010 and for the interim and annual periods ended December 31, 2010.*

Provision for environmental rehabilitation: IAS 37 applies to a constructive obligation, where the event creates valid expectations that the entity will discharge the obligation, as well as a legal obligation. The amount recognized should be the best estimate of the expenditure required to settle the obligation at the balance sheet date. Present value using a pre-tax discount rate should be used where the effect of the time value of money is material. Under Canadian GAAP Section 3110, applies to legal obligations associated with the retirement of a tangible long-lived asset. Such an obligation is to be initially measured at fair value using a credit-adjusted risk-free rate in the period in which the obligation is incurred, unless it cannot be reliably measured at that date. IFRS requires the liability be re-measured at each reporting date. Canadian GAAP requires re-measurement in the event of changes in the amount or timing of cash flows.

Impact on the Company: *The asset retirement obligations with respect to the Company's mines represent a legal and constructive obligation under IAS 37, while only a legal obligation is required under CICA section 3110. Both standards require the obligation to be recognized initially at fair value. The Company believes that the amount recognized as a liability represents the best estimate of the expenditure required to settle the obligation at the balance sheet date. Under IFRS, the Company will present accretion of its reclamation and closure cost obligations as part of finance costs, as compared to operating cost under Canadian GAAP. Assumptions under IFRS and Canadian GAAP will likely be different, particularly in the determination of the discount rate. Furthermore under IFRS, High River will be required to reassess the rehabilitation provision assumptions at each reporting date.*

Share based compensation: Under IFRS 2, graded vesting awards must be accounted for as though each instalment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis. The straight line basis is permissible under Canadian GAAP.

Impact on the Company: *The Company has recognized option expense on a straight line basis and expects to record transitional entries for options unvested at January 1, 2010. The effect of this will be an increase to deficit and contributed surplus. For options granted on or after January 1, 2010 the Company will calculate the aggregate fair value as though each instalment is a separate award and will amortize the value on a graded basis. The Company does not believe the impact will be material.*

Convertible Debt – Valuation Methodology: Under IAS 32 the liability component of a compound instrument is measured on initial recognition by measuring any financial asset or financial liability components at fair value and applying the residual amount to equity. Under Canadian GAAP Section 3863 permits an additional "relative fair value" method.

Impact on the Company: *At initial recognition, the Company measured the liability component of the convertible debt at fair value and applied the residual amount to equity in accordance with the methodology prescribed by IFRS 7.*

Impact on information systems and processes and controls: Based on findings from the diagnostic phase of the project the Company does not expect that adoption of International Accounting Standards will have a pervasive impact on its present systems and processes. The Company expects to implement certain minor changes to the general ledger account descriptions as well as the calculation methodologies currently in use for certain specific financial statement areas such as asset impairment, and share based compensation.

Impact on internal controls over financial reporting and on disclosure controls and procedures: As the accounting policies are selected, appropriate changes to ensure the integrity of internal control over financial reporting and disclosure controls and procedures will be made. The certifying officers plan to complete the design, and initially evaluate the effectiveness of, any significant changes to controls during implementation period to prepare for certification under IFRS in 2011.

Financial Reporting Expertise: The planning for the IFRS transition is being done by the Company with assistance from Nord Gold in conjunction with the external auditors. Nord Gold personnel are familiar with the requirements of IFRS and have been reporting under IFRS for several years. The Company has identified resource requirements to establish appropriate IFRS reporting expertise at all levels of the business and started training in Q1 2010. The Company holds an IFRS information session with the Audit Committee each month in conjunction with the Audit Committee's review of the interim statements to explain the IFRS implications and review the timeline for implementation.

Impact on business activities: The Company does not expect the transition to IFRS to have an impact on its business activities.

d) IFRS Recent Pronouncements

Business Combinations: In January 2009, the CICA issued the new handbook Section 1582, "Business Combinations", effective for fiscal years beginning on or after January 1, 2011. This pronouncement further aligns Canadian GAAP with IFRS and changes the accounting for business combinations in a number of areas. It establishes principles and requirements governing how an acquiring company recognizes and measures in its financial statements identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquiree, and goodwill acquired. The section also establishes disclosure requirements that will enable users of the acquiring company's financial statements to evaluate the nature and financial effects of its business combinations. Although the Company is considering the impact of adopting this pronouncement on the financial statements, it will be required for future acquisitions beginning in fiscal 2011.

Consolidated Financial Statements and Non-Controlling Interests: Under the current IFRS standard, IAS 31 - Interests in Joint Ventures, the Company has the option to account for its interest in Prognoz using proportionate consolidation, similar to its accounting policy under Canadian GAAP. The IASB issued Exposure Draft 9 – Joint Arrangements ("ED-9") in September 2007 with comments due January 2008. ED-9 proposed to eliminate the choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method. The new IFRS standard for joint arrangements which was originally planned for issuance in the third quarter of 2009 has not yet been issued. In March 2010, the board tentatively decided that Jointly Controlled Entities (JCEs) will transition from proportionate consolidation to the equity method, by aggregating at their respective carrying values the proportionate consolidated assets and liabilities into a single line item. The investment will need to be tested for impairment in accordance with IAS 36 *Impairment of Assets* at the date at which the standard is applied, and at the corresponding comparative periods.

In January 2009, the CICA issued the new handbook Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", effective for fiscal years beginning on or after January 1, 2011. These pronouncements further align Canadian GAAP with IFRS. Sections 1601 and 1602 change the accounting and reporting for ownership interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position within equity but separate from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners.

No final decision has been made but, given the facts and circumstances relating to Prognoz silver project, it is likely that the Company will adopt equity accounting for its investment in Prognoz which will have a material effect on presentation of the balance sheet as deferred exploration will decrease and investments will increase.

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 year 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 December 31, 2010.

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 December 31, 2010, the share capital consisted of:

- 840,218,962 common shares issued and outstanding.
- 3,566,100 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.

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\$	1.03484		1.03484		1.03484		1.0484	
Gold ounces sold	141,703		71,657		126,700		340,060	
Gold revenue per financial statements	181,842	1240	92,003	1241	161,769	1234	435,614	1238
Gold ounces produced	135,636		66,651		127,684		329,971	
Direct mining costs	70,976	505.67	62,971	913.0	58,404	442	192,351	563
Mining administrative costs	6,833	49	1,483	22	2,848	22	11,164	33
Stripping and mine development adjustments	1,648	12	-		-		1,648	5
Third party smelting, refining & transportation	950	7	515	7	538	4	2,003	6
By-product credits	(2,822)	(20)	(1,651)	(24)	(681)	(5)	(5,154)	(15)
Cash operating costs	77,585	553	63,318	918	61,109	462	202,012	592
Royalty expense and production tax	10,600	76	5,290	77	4,923	37	20,814	61
Total cash costs	88,185	628	68,608	995	66,032	500	222,826	653
Inventory change	496		(15,167)		(8,871)		(23,542)	
By-product credits	2,822		1,651		681		5,154	
Mining amortization and depletion	22,999		16,176		21,507		60,682	
Asset retirement obligation accretion	790		70		331		1,191	
Total expenses per financial statements	115,292		71,338		79,681		266,311	

Supplemental Cash Cost Information –2010

	C\$ 000s	US\$/oz
Total cash costs		653
By-product credit per above	(5,154)	
Administrative costs per financial statements	4,469	
Less: non-cash items		
Stock-based compensation	(74)	
Exploration per financial statements	15,518	
Other income/(expense) per financial statements	12,428	
Less: non cash items		
Unrealized foreign exchange	5,725	
Gain on sale of assets/write downs	(2,062)	
Total non-operating cash costs	36,004	105
Total operating and non-operating cash costs		758

2009	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\$	1.1417		1.1417		1.1417		1.1417	
Gold ounces sold	143,118		85,581		97,455		326,154	
Gold revenue per consolidated financial statements	159,598	977	94,510	967	109,151	981	363,259	976
Gold ounces produced	149,382		87,448		99,536		336,366	
Direct mining costs	67,016	393	48,654	487	48,068	423	163,738	426
Mining administrative costs	6,211	36	1,680	17	1,826	16	9,717	25
Stripping and mine development adjustments	622	4	-	-	-	-	622	2
Third party smelting, refining and transportation	1,784	10	1,312	13	495	4	3,591	9
By-product credits	(2,248)	(13)	(1,245)	(12)	(292)	(3)	(3,785)	(10)
Other	402	2	-	-	-	-	402	1
Cash operating costs	73,787	433	50,400	505	50,097	441	174,285	454
Royalty expense and production tax	10,410	61	5,932	59	3,221	28	402	51
Total cash costs	84,197	494	56,332	564	53,318	469	193,847	505
Inventory change	910		(5,529)		137		(4,482)	
By-product credits	2,248		1,245		292		3,785	
Mining amortization and depletion	19,987		18,368		20,361		58,716	
Asset retirement obligation accretion	403		202		248		853	
Total expenses per consolidated financial statements	107,745		70,618		74,356		252,719	

Supplemental Cash Cost Information-2009		C\$ 000s	US\$/oz
Total cash costs per ounce produced			505
By-product credit per above		(3,785)	
Administrative costs per financial statements		13,245	
Less: non-cash items			
Stock option benefit expense		(223)	
Restructuring accruals		4,330	
Exploration per financial statements		80,026	
Other income/(expense) per financial statements			
Less- non cash items			
Unrealized foreign exchange gain		(3,367)	
Loss on sale of assets/write downs		(72,741)	
Total non-operating cash costs		21,270	55
Total operating and non-operating cash costs			560

High River Gold Mines Ltd.
Consolidated Financial Statements
Expressed in Thousands of Canadian Dollars

For the Years Ended December 31, 2010 and 2009

Management's Responsibility for Financial Information

Management has prepared the information and representations in this year-end report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgement. The financial information presented throughout this report is consistent with the data presented in the consolidated financial statements.

High River maintains adequate systems of internal accounting and administrative controls. Such systems are designed to provide reasonable assurance that the company assets are safeguarded, management's authorization and proper records are maintained, relevant and reliable financial information is produced. The Company's independent auditors have the responsibility of auditing the consolidated financial statements and expressing an opinion on them.

The Board of Directors and its Audit Committee, are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee is composed of three directors. This Committee meets periodically with management and the external auditors to review accounting, auditing, internal controls and financial reporting matters.

The consolidated financial statements have been audited by KPMG LLP, the independent chartered accountants, in accordance with Canadian generally accepted auditing standards.

s/ Konstantin Sobolevskiy
Chief Executive Officer

s/ Yury Lopukhin
Chief Financial Officer

March 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of High River Gold Mines Ltd.

We have audited the accompanying consolidated financial statements of High River Gold Mines Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, cash flows, changes in shareholders' equity and comprehensive loss for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of High River Gold Mines Ltd. as at December 31, 2010 and 2009 and its consolidated results of operations and its consolidated cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
March 31, 2011

High River Gold Mines Ltd.
Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

As at December 31	Note	2010	2009
Assets			
Current Assets			
Cash and cash equivalents	6	\$ 153,964	\$ 82,061
Restricted cash		1,285	562
Accounts receivable		13,639	18,115
Inventory	7	97,663	81,090
Other assets		15,589	12,382
		282,140	194,210
Investments	8	109,633	64,810
Property, plant and equipment	9	291,130	340,606
Exploration properties and deferred exploration	10	119,847	105,061
Other assets		7,986	697
Future income taxes	19	1,596	1,578
Total Assets		\$ 812,332	\$ 706,962
Liabilities			
Current Liabilities			
Accounts payable		\$ 53,692	\$ 39,726
Loans and interest payable	11	23,293	58,666
		76,985	98,392
Loans and interest payable	11	1,732	25,365
Reclamation and other non-current obligations	12	17,839	14,208
Non-hedge derivatives	13	-	13,684
Future income taxes	19	24,291	20,567
		120,847	172,216
Non-controlling interests	21	34,330	21,922
Total Liabilities		155,177	194,138
Shareholders' Equity			
Share capital	15 (b)	640,157	610,770
Warrants	15 (c)	-	13,265
Contributed surplus		24,538	15,907
Debenture conversion option	15 (d)	538	538
Deficit		(6,949)	(121,801)
Accumulated other comprehensive income		(1,129)	(5,855)
Total Shareholders' Equity		657,155	512,824
Total Liabilities and Shareholders' Equity		\$ 812,332	\$ 706,962
Nature of operations	1		
Commitments and contingencies	23		
Subsequent events	8, 11, 23		

On behalf of the Board

s/ Igor Klimanov
Director

s/ Alexey Khudyakov
Director

The accompanying notes are an integral part of these consolidated financial statements.

High River Gold Mines Ltd.
Consolidated Statements of Operations

(Expressed in thousands of Canadian dollars except per share figures)

For the years ended December 31,	Note	2010	2009
Revenue			
Gold		\$ 435,615	\$ 363,259
Silver		5,154	6,090
		440,769	369,349
Expenses			
Mining costs		193,272	183,433
Mine administrative costs		11,166	9,717
Mine amortization and depletion		60,682	58,716
Asset retirement obligation accretion		1,191	853
		266,311	252,719
Income before the undernoted			
Administrative costs	16	(4,469)	(13,245)
Amortization		(6)	(46)
Exploration expense		(15,518)	(4,330)
Financing costs and investment income, net	17	6,032	(21,699)
Other expenses	18	(12,000)	(80,026)
Income (loss) before tax and non-controlling interest			
Income tax expense	19	(21,237)	(2,716)
Income (loss) before non-controlling interest			
Non-controlling interests in earnings of subsidiary	21	(12,408)	(6,309)
		127,260	(3,455)
Net income (loss) for the year			
		114,852	\$ (9,764)
Net income (loss) per share – basic and diluted			
	20	\$ 0.14	\$ (0.02)

The accompanying notes are an integral part of these consolidated financial statements..

High River Gold Mines Ltd.
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

For the years ended December 31,	Note	2010	2009
Operating Activities			
Net income (loss) for the year		\$ 114,852	\$ (9,764)
Non-cash items:			
Non-controlling interest in earnings of subsidiary		12,408	3,455
Mining costs		(25,081)	(4,482)
Amortization and depletion		60,688	58,762
Asset retirement obligation accretion		1,191	853
Financial instrument accretion		392	835
Fair value adjustments to financial instruments		(13,684)	1,917
Stock based compensation		74	223
Write down of exploration		628	70,764
Loss on disposal of assets		1,121	1,977
Future income taxes		(1,929)	(7,794)
Foreign exchange loss		5,361	2,992
Other		1,223	2,278
Subtotal		157,244	122,016
Change in non-cash working capital	24	(1,338)	3,480
Net cash provided by operating activities		155,906	125,496
Investing Activities			
Property, plant and equipment		(40,740)	(25,798)
Proceeds on disposal		1,641	1,756
Exploration properties and deferred exploration		(17,110)	(8,484)
Allocation of restricted cash		(813)	(562)
Purchase/sale of other long-term assets		(7,810)	168
Net cash used in investing activities		(64,832)	(32,920)
Financing Activities			
Loans received		10,154	12,331
Loans repaid		(46,528)	(106,781)
Common shares issued		26,249	67,511
Net cash used in financing activities		(10,125)	(26,939)
Effect of exchange rate changes on cash held in foreign currencies		(9,046)	(2,699)
Increase in cash and cash equivalents during the year		71,903	62,938
Cash and cash equivalents - Beginning of year		82,061	19,123
Cash and cash equivalents - End of year		\$ 153,964	\$ 82,061

Supplementary cash flow information 24

The accompanying notes are an integral part of these consolidated financial statements.

High River Gold Mines Ltd.
Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31,	Note	2010	2009
Share capital			
Balance at beginning of year		\$ 610,770	\$ 543,244
Issue of common shares		29,387	67,526
Balance at end of year	15(b)	640,157	610,770
Warrants			
Balance at beginning of year		13,265	16,627
Exercised		(3,139)	-
Expired		(10,126)	(3,362)
Balance at end of year	15(c)	-	13,265
Contributed surplus			
Balance at beginning of year		15,907	12,876
Expired warrants		10,126	3,362
Tax charges		(1,569)	(554)
Stock based compensation, net		74	223
Balance at end of year		24,538	15,907
Debenture conversion option	15(d)	538	538
Deficit			
Balance at beginning of year		(121,801)	(112,037)
Net income (loss)		114,852	(9,764)
Balance at end of year		(6,949)	(121,801)
Accumulated other comprehensive income (loss)			
Balance at beginning of year		(5,855)	15,794
Comprehensive income (loss) for the year		4,726	(21,649)
Balance at end of year		(1,129)	(5,855)
Shareholders' equity at end of year		\$ 657,155	\$ 512,824

High River Gold Mines Ltd.
Consolidated Statements of Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)

For the years ended December 31,	2010	2009
Net income (loss)	\$ 114,852	\$ (9,764)
Other comprehensive income (loss)		
Unrealized loss on translation of net foreign operations	(34,592)	(58,176)
Net change in unrealized gain on available for sale securities (net of tax of \$ 6,307 – 2010, \$ 5,708 – 2009)	39,318	36,527
Comprehensive income (loss) for the year	4,726	(21,649)
Net comprehensive income (loss) for the year	119,578	\$ (31,413)

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the three months ended September 30, 2010 and 2009

Canadian dollars unless otherwise stated. All tabular amounts are expressed in thousands, except number of shares and per share amounts.

(Unaudited)

1. Nature of Operations

These consolidated financial statements include the financial statements of High River Gold Mines Ltd. (the “Company” or “High River”), OJSC Buryatzoloto (“Buryatzoloto”), Berezitovy Rudnik LLC (“Berezitovy”), and Société des Mines de Taparko S.A. (“Somita”). As of December 31, 2010, the Company’s interest in Buryatzoloto is 84.94% of the common shares (82.87% of the voting shares), in Berezitovy - 99% and in Somita - 90%. The Company’s 50% interest in the Prognoz joint venture is proportionately consolidated.

While these consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions and events that may cast doubt on the validity of this assumption.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported interim consolidated revenue and expenses and the balance sheet classifications used. The adjustments could be material.

On November 20, 2008, an affiliate of ZAO Severstal Resources, (the mining division of OAO Severstal (“Severstal”)) participated in a financing of the Company. On completion of the financing, Severstal indirectly held 312,771,130 common shares representing approximately 53.0% of the outstanding common shares of the Company at that time. On June 18, 2009, Severstal acquired an additional 59,019,367 common shares increasing its ownership interest to 57.3%. High River announced on June 9, 2009, a proposal by Severstal to make a cash offer of \$0.22 per share to minority shareholders in High River. Subsequently, the offer was extended and increased to \$ 0.30 per share. As a result of the offer, Severstal acquired 28,897,135 additional shares. In connection with the tender offer, High River issued Severstal 59,019,367 shares in a private placement for proceeds of approximately \$10,623,000.

In Q2 2010, Severstal acquired an additional 150,000,000 shares and in Q3 2010 another 40,674,540 shares were acquired through exercise of warrants. At December 31, 2010, Severstal owned approximately 72.64% of High River. In addition, four of the Company’s directors, its Chief Financial Officer and its Chief Executive Officer were employees of Nord Gold N.V. (formerly known as Severstal Gold N.V.) through 2010.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The financial results of entities controlled by the Company are consolidated. Entities that are jointly controlled are proportionately consolidated.

These consolidated financial statements include the financial results of the Company, its controlled subsidiaries Buryatzoloto, Berezitovy and Somita and the proportionate consolidation of the Company’s 50% interest in the Prognoz joint venture.

(b) Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates are related to going concern, the economic lives and recoverable amounts of mining assets, including exploration and development properties, estimates of recoverable reserves and resources, deferred exploration, reclamation and closure costs, carrying value of investments and financial instruments, and future income taxes. Actual results could materially differ from those estimates.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash, money market funds and short-term investments with original maturity dates less than three months at the date of purchase.

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(d) Inventory

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. Materials and supplies inventories are stated at the lower of cost and replacement cost. Cost approximates average production cost.

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.

(e) Investments

Investments in equity securities are classified as available-for-sale (“AFS”). Unrealized holding gains and losses relating to AFS investments are excluded from net income (loss) and included in other comprehensive income (loss) until such gains or losses are realized or an other than temporary impairment is determined to have occurred. AFS securities are measured at fair value and those which do not have a readily determinable fair value (i.e. a quoted market price in an active market) are carried at historical cost.

(f) Property, plant and equipment

Mining properties, including costs associated with the development of mineral property, plant and equipment are recorded at cost. Amortization is calculated on a straight-line or unit of production basis, as appropriate. Where a straight-line methodology is used, the assets are amortized to their estimated residual value over their useful lives which are between three and seven years depending on the asset type. Where a unit of production methodology is used, the assets are amortized to their estimated residual value over the useful lives defined by management’s best estimate of recoverable reserves and resources in the current mine plan.

The Company reviews the carrying value of its mining properties when events or changes in circumstances indicate that its carrying value may not be recoverable. An impairment loss is recognized when the carrying value is not recoverable. The impairment loss is measured by the amount by which the carrying value exceeds fair value.

Equipment relating to exploration and the corporate office is recorded at cost. Amortization is provided over the estimated useful lives of three and five years on a straight-line basis.

(g) Exploration properties and deferred exploration

The company follows EIC 174 for accounting of exploration properties. The carrying values of exploration properties include the cost of acquisition of the properties together with exploration expenditures less recoveries. The accumulated cost is reclassified as development properties when a positive decision has been made to develop the project or written down when events or changes in circumstances indicate that its carrying value may not be recoverable. The excess of carrying value over fair value is charged to income.

(h) Development properties

The Company capitalizes costs relating to its development properties when a positive decision has been made to develop the project. Interest on funds borrowed to develop a property is capitalized. The accumulated costs will be amortized against income if the properties are brought into commercial production or written down if it is

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determined that there has been impairment in value when the carrying value is not recoverable. The excess of carrying value over fair value is charged to income. The accumulated costs will be reclassified as property, plant and equipment when the property achieves production.

(i) Production

The Company uses a number of criteria to determine when a property achieves production, including attainment of running the processing plant at 60% of planned capacity for a continuous 30-day period. Revenue and costs incurred prior to achieving production are deferred as development properties.

(j) Revenue recognition

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.

(k) Reclamation and closure costs

The Company records a liability and corresponding asset for estimated costs for future site reclamation and closure. The estimated present value of the asset retirement obligations are reassessed on an bi-annual basis or when new material information becomes available. Increases or decreases to the obligation usually arise due to changes in legal or regulatory requirements, the extent of environmental remediation required or methods of reclamation or cost estimates. The present value of the estimated costs of these changes are recorded in the period in which the change is identified and quantified. Changes to asset retirement obligations related to operating mines are recorded with an offsetting change to the related asset. The present value is determined using the Company's credit adjusted risk free interest rate.

(l) Exploration

Exploration and evaluation costs are expensed in the year in which they are incurred, unless they relate to the exploration and evaluation activities that are (a) for property acquisition or performed on properties where the Company has a registered or contractual interest (whereby the costs are capitalized as exploration properties and deferred exploration) or (b) performed on development properties, in which case they are capitalized as part of construction-in-progress.

(m) Stock compensation plans

Cash received for the issuance of shares pursuant to stock option plans is credited to issued and outstanding common shares. The fair value of stock options are charged to the consolidated statements of operations with a credit to contributed surplus. On exercise of stock options, the contributed surplus is reclassified to share capital. The unvested portion of expense on termination or surrender of options is credited to the consolidated statements of operations.

(n) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future income taxes are calculated at substantively enacted rates using the liability method for all temporary differences between the income tax bases of assets and liabilities and their carrying values for financial reporting purposes. Future income tax assets attributable to deductible temporary differences and unused tax losses and credits are recognized only to the extent that it is more likely than not that the asset will be realized. Income tax assets and liabilities are offset when the Company has a legally enforceable right to offset current income tax assets against current income tax liabilities relating to the same taxation authority.

Future income tax assets and liabilities are measured using the enacted or substantively enacted tax rates that will be in effect when the differences are expected to reverse or when unclaimed losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered to be more likely than not.

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(o) Income/Loss per share

The Income/loss per share is calculated using the weighted average number of common shares outstanding during the respective fiscal years. Diluted Income/loss per share is calculated utilizing the treasury stock method.

(p) Foreign currency translation

Buryatzoloto, Berezitovy and Somita, which are self-sustaining foreign subsidiaries, are translated into Canadian dollars 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 average rates of exchange prevailing during the year. Foreign exchange gains and losses from the translation of such financial statements are deferred and disclosed as a separate component of shareholders' equity. The current rate method was adopted by Somita in 2007 and Berezitovy in 2008 when they each achieved commercial production.

(q) Financial Instruments – recognition and measurement

The Company classifies all financial instruments into one of the following categories: held-to-maturity, available-for-sale, held for trading, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading are measured at amortized cost using the effective interest rate method. Available for sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income, net of income tax, until sold or derecognized. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized in consolidated statement of income.

The Company uses a three level hierarchy to categorize the significance of the inputs used in measuring the fair value of financial instruments. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3 – Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. Level 3 instruments may include items based on pricing services or broker quotes where the Company is unable to verify the observability of inputs into their prices. Level 3 instruments include longer-term transactions, transactions in less active markets or transactions at locations for which pricing information is not available. In these instances, internally developed methodologies are used to determine fair value which primarily includes extrapolation of observable future prices to similar locations, similar instruments or later time periods.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

As of December 31, 2010, the only financial instruments the Company holds, are cash and cash equivalents and available for sale investments, both of which are categorized as level 1 financial assets.

3. Changes in Accounting Policies

Future Accounting Changes

- (c) Section 1582, Business combinations; Section 1601, Consolidated financial statements; Section 1602, Non-controlling interests; and Amendments to Section 3251, Equity

The CICA issued three new accounting standards in January 2009: Section 1582, Business combinations; Section 1601, Consolidated financial statements; Section 1602, Non-controlling interests; and amendments to Section 3251, Equity. These new standards will be effective for the Company in 2011 and earlier adoption is

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permitted as of the beginning of a fiscal year. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3R – Business Combinations.

Sections 1601 and 1602 together replace Section 1600, consolidated financial statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 – Consolidated and separate financial statements.

Amendments to Section 3251 apply to entities that have adopted Section 1602 and require separate presentation on the statements of operations and comprehensive income of income attributable to owners of the Company and those attributable to non-controlling interests. The amendments also require that non-controlling interests be presented separately as a component of equity.

(d) Amendment to Section 3855, Financial instruments – Recognition and measurement

In June 2009, Section 3855, financial instruments – Recognition and measurement was amended to:

- Clarify the application of the effective interest method following an impairment loss of an investment in a debt instrument. This clarification applies to investment in debt instruments classified as held-to-maturity and to those classified as available for sale. This amendment was effective in 2010.

- Clarify the situation where the embedded prepayment option is considered closely related and, therefore, is not separated from the host debt instrument for recognition purposes. This amendment will be effective for the Company in 2011.

The Company is in the process of evaluating the requirements of these new standards.

4. Financial Instruments and Risk Management

The Company's risk management objectives include minimizing risks relating to cash and cash equivalents to preserve capital for strategic investing. The Company does not enter into or trade financial instruments for speculative purposes. The Company does not hedge gold sales. The Company holds the following financial instruments:

	2010	2009
Cash and cash equivalents	\$ 153,964	\$ 82,061
Accounts receivable	13,639	18,115
Investments	109,633	64,810
	\$ 277,236	\$ 164,986
Accounts payable	\$ 53,692	\$ 39,726
Loans and interest payable	25,025	84,031
Non-hedge derivatives	-	13,684
	\$78,717	\$ 137,441

(a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It is the risk that an adverse change in market prices for commodities, currencies or interest rates will result in the Company's incurring an unrealized mark-to-market loss.

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Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The Company raises equity predominantly in Canadian dollars and reports in Canadian dollars. Certain of the Company's revenue and expenses are denominated in foreign currencies including the West African franc in Burkina Faso (which is tied to the Euro), the Rouble in Russia and the United States dollar.

The Company is, therefore, subject to gains or losses due to fluctuations in these currencies. The Company has not used derivatives to mitigate its exposure to foreign currency risk.

Sensitivity of pre-tax earnings to a 10% increase or decrease in the C\$/US\$ exchange rate (1.03484 average) for the Company's 2010 production is approximately \$495,000 or \$0.00 per share based on weighted average shares outstanding for 2010.

Price market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The values of the Company's investments in mining and mineral related companies are exposed to fluctuations in value, depending on a number of factors, including the quoted market price and the fair value of the commodities that a company may focus on.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk with respect to managing its cash position. This risk, from deposit taking institutions, is mitigated by using well-capitalized financial institutions. Any investments must be less than one year in duration.

Credit risk relating to accounts receivable arises from the possibility that any counterparty to an instrument may fail to perform. The Company currently transacts with highly-rated counterparties for the sale of gold.

The credit risk is also related to receivables from governments related to taxes, and exploration tax credits. Pending completion of certain government audits the full balance recorded may not be ultimately realized. Management does not expect the amount realized to be materially different from that currently recorded.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining adequate cash and working capital balances. The Company continuously monitors and reviews both actual and forecasted cash flows. The Company has in the past and may in the future seek to acquire additional funding by the sale of common shares. Movements in the price of the Company's common shares have been volatile in the past and may be volatile in the future. As a result, there is a risk that High River may not be able to sell new common shares at an acceptable price should the need arise for new equity funding.

The Company has consolidated cash and cash equivalents on hand of approximately \$154 million at December 31, 2010. Working capital was \$205.2 million as at December 31, 2010 (December 31, 2009 – \$95.8 million).

The values of the Company's investments in mining and mineral related companies are exposed to fluctuations in value depending on a number of factors, including the quoted market price and the fair value of the commodities that a company may focus on. The Company has monetary and non-monetary assets represented by mining and mineral exploration interests in Russia and Burkina Faso. The Company could accordingly be at risk for foreign currency fluctuations and changing legal and political environments. The Company does not enter into any derivative contracts to reduce the above exposures.

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The contractual cash flow requirements for financial liabilities at December 31, 2010, are as follows

	Total	2011	2012	2013
Payables and accruals	\$ 53,692	\$ 53,692	\$ –	\$ –
Debt	21,867	21,867	–	–
Interest on debt	1,943	1,943	–	–
Capital lease obligations	631	631	–	–
Purchase obligations	7,153	6,601	552	–
Other long-term obligations	4,933	4,933	–	–
Total	\$ 90,219	\$ 89,667	\$ 552	\$ –

The above table does not include exploration or development of the exploration projects as none of the projects have, as yet, received board of director's approval. The figures above are estimates of cash requirements and may not agree to similarly captioned items in the financial statements.

5. 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.

	2010	2009
Total loans and interest payable	\$ (25,025)	\$ (84,031)
Less: Cash and cash equivalents	153,964	82,061
Excess of cash / (net debt)	128,939	(1,970)
Shareholders' equity excluding accumulated other comprehensive income	658,284	518,679

As described in note 11(d), Somita was in breach of certain loan covenants in 2010. Pursuant to the Amended and Restated Funding Agreement ("Funding Agreement") between Royal Gold, Inc. ("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 Funding Agreement. RGI has been granted security interests to secure the loan. In Q1 2010 Somita performed the 90-day completion test. The overall technical performance of the mill was acceptable to RGI. However, the loan agreement also contained a clause stating that project completion was not achieved if the liability regarding the payment for the construction of the plant was outstanding. Somita withheld final payment due to the contractor for the processing plant. See note 23 (a). RGI used this dispute as their justification for not releasing the security they hold. However, following discussions between High River and RGI which commenced in 2010 and concerned the results of the "Completion Test", RGI agreed in January 2011 that the Completion Test had been satisfied and agreed to release its security interests that it held pursuant to the Funding Agreement.

6. Cash and Cash Equivalents

The majority of the Company's cash is held in bank deposits. The Company has no investments in short-term marketable securities.

Restricted cash represents deposits made by Somita to fund future reclamation and closure cost liabilities (note 12).

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7. Inventory

Inventory consists of the following:

	2010	2009
Materials and supplies	\$ 55,764	\$ 45,513
Stockpiled ore	31,745	20,374
Gold-in-process	5,030	4,225
Doré alloy	3,588	6,009
Refined gold and silver	1,536	4,969
	\$ 97,663	\$ 81,090

8. Investments

The Company's classifies its investments as AFS securities which comprise the following:

	2010		2009	
	Fair value	Original Cost	Fair value	Original cost
Detour Gold Corporation (a)	\$90,169	\$3,616	\$ 55,016	\$ 3,616
Goldrush Resources (b)	2,670	1,657	715	1,657
Other equities (c), (d), (e), (f), (g)	16,794	2,677	9,079	2,677
	\$ 109,633	\$7,950	\$ 64,810	\$ 7,950

The quoted market price used to estimate fair value is the period-end bid price in an active market. The Company classifies its AFS securities that were pledged to Royal Gold Inc. (RGI) and were not capable of reasonably prompt liquidation as long term.

- (a) As at December 31, 2010, and 2009 the Company held 3,089,057 common shares of Detour Gold Corporation ("Detour"). The Detour shares were pledged as security for a loan to Somita. The shares were received in the first quarter of 2009 when PDX Resources Inc. ("PDX") merged with Detour and the Company's PDX shares were exchanged for Detour shares. In January 2011 all pledged shares were released by RGI.
- (b) In March 2006, the Company entered into a strategic alliance with Goldrush Resources Ltd. ("Goldrush") exchanging early-stage exploration permits in Burkina Faso for common shares of Goldrush valued at \$1,308,000, a convertible debenture with a principal value of \$1,994,277, and back-in rights on mineral discoveries. In 2006, High River participated in a private placement and purchased shares valued at \$250,000. As at December 31, 2010, the Company held 9,534,277 (2009 – 7,540,000) common shares or approximately 8.3% of Goldrush (2009 – 12.0%). In 2009, management determined that the value of the debenture was impaired and that Goldrush is likely to satisfy the obligation by exercising the put option and issuing shares to High River. The investment was written down to the estimated fair value of the shares that would be received if the debenture were converted to Goldrush common shares. A loss of \$1,904,000 was recorded in 2009. In December 2010, Goldrush exercised the conversion rights and a share certificate for 1,994,277 shares was issued in the name of High River Gold Mines Ltd.
- (c) As at December 31, 2010, and 2009 the Company held 1,790,941 common shares of Intrepid Mines Limited ("Intrepid"). The shares were pledged as security for a loan to Somita. In January 2011, all pledged shares were released by RGI.
- (d) As at December 31, 2010, and 2009 the Company held 12,015,000 common shares of Pelangio Exploration Inc. ("Pelangio") or approximately 9.9% of Pelangio (2009 – 10.2%). The shares were pledged as security for a loan to Somita. In January 2011 all pledged shares were released by RGI.

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- (e) As at December 31, 2010, and 2009 the Company held 2,245,000 common shares of Merrex Gold Inc. ("Merrex").
- (f) Merrex issued shares of Frontline Gold Corporation as a return of capital to Merrex shareholders during Q2 2010. At December 31, 2010, High River owns 470,650 shares of Frontline Gold.
- (g) Other investments in amount of \$6,000 were made by subsidiaries.

9. Property, Plant and Equipment

2010	Buryatzoloto	Somita	Berezitovy	Explorations	Total
Property	\$ 44,612	\$ 45,354	\$ 36,683		\$ 126,649
Land and buildings	35,446	1,776	22,047	\$ 2,708	61,977
Plant and equipment	19,843	69,792	83,063		172,698
Mobile equipment	8,470	18,591	18,792		45,853
Capitalized interest	-	8,263	4,380		12,643
Assets under construction	4,872	8,132	1,422		14,426
Capital leases	-	-	2,435		2,435
Asset retirement obligation	5,646	4,405	3,347		13,398
	118,889	156,314	172,169	2,708	450,079
Accumulated amortization					
Property	(30,147)	(25,193)	(6,311)		(61,651)
Land and buildings	(30,075)	(1,287)	(6,691)	(1,723)	(39,776)
Plant and equipment	(9,823)	(14,156)	(14,907)		(38,886)
Mobile equipment	(3,289)	(887)	(3,364)		(7,540)
Capitalized interest	-	(5,794)	(786)		(6,580)
Capital leases	-	-	(1,069)		(1,069)
Asset retirement obligation	(1,863)	(1,187)	(397)		(3,447)
	(75,197)	(48,504)	(33,525)	(1,723)	(158,949)
Net carrying value	\$ 43,692	\$ 107,810	\$ 138,644	\$ 985	\$ 291,130

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2009	Explorations				Total
	Buryatzoloto	Somita	Berezitovy		
Property	\$ 46,181	\$ 50,586	\$ 38,467		\$ 135,234
Land and buildings	37,458	1,978	23,318	\$ 2,447	65,201
Plant and equipment	18,901	75,703	75,272	-	169,876
Mobile equipment	6,433	21,633	16,890	-	44,956
Capitalized interest	-	10,260	4,704	-	14,964
Assets under construction	1,584	6,374	3,104	-	11,062
Capital leases	2,821	-	2,569	-	5,390
Asset retirement obligation	5,957	2,303	3,169	-	11,429
	119,335	168,837	167,493	2,447	458,112
Accumulated amortization					
Property	(22,214)	(15,242)	(4,054)	-	(41,510)
Land and buildings	(28,068)	(897)	(3,589)	(2,029)	(34,583)
Plant and equipment	(7,399)	(12,107)	(8,909)	-	(28,415)
Mobile equipment	(1,781)	(828)	(1,812)	-	(4,421)
Capitalized interest	-	(3,282)	(584)	-	(3,866)
Capital leases	(1,919)	-	(509)	-	(2,428)
Asset retirement obligation	(1,187)	(804)	(292)	-	(2,283)
	(62,568)	(33,160)	(19,749)	(2,209)	(117,506)
Net carrying value	\$ 56,767	\$ 135,677	\$ 147,744	\$ 418	\$ 340,606

10. Exploration Properties and Deferred Exploration

	January 1, 2010	Additions/ revaluation	Write-down	December 31, 2010
West Africa – Bissa project	\$ 62,636	\$ 9,736	-	\$ 72,372
West Africa – other	15,959	5,463	(628)	20,794
Russia – Prognoz (a)	24,472	(1,914)	-	22,558
Russia – Sergachinsky/South Flank	1,994	2,129	-	4,123
	\$ 105,061	\$ 15,414	\$ (628)	\$ 119,847

	January 1, 2009	Additions/ revaluation	Write-down	December 31, 2009
West Africa – Bissa project	\$ 55,880	\$ 6,756	\$ -	\$ 62,636
West Africa – other	14,754	1,724	(519)	15,959
Russia – Novophirsovskoye (c)	12,765	(1,162)	(11,603)	-
Russia – Prognoz (b)	86,185	(3,071)	(58,642)	24,472
Russia – Sergachinsky/South Flank	938	1,056	-	1,994
	\$ 170,522	\$ 5,303	\$ (70,764)	\$ 105,061

(a) See note 23 (a).

(b) In 2009, the Company recognized an impairment charge of \$58,642,000 to write down the carrying value of the Prognoz silver project to its estimated fair value. In connection with an independently prepared valuation of the Company, management prepared a valuation of the Prognoz silver project in estimating fair value for the purpose of determining the write-down required. The Company had included approximately \$18.0 million due from its joint venture partner to the Prognoz silver project as deferred exploration expense. Any subsequent recovery of this amount will be credited to deferred exploration. Changes of balances during the year include actual additions, write-downs and revaluations due to foreign exchange differences on translation. In 2009, the Company determined that the Novophirsovskoye project was no

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longer a key exploration property. A buyer was found for the property and the project was written down to the selling price. Cash proceeds of US\$1.0 million were received for the property.

11. Loans and Interest Payable

The current portion of loans and interest payable comprise the following:

	2010	2009
Buryatzoloto		
Nomos Bank – US\$25m (a)	\$ -	\$ 1,312
Nomos Bank – US\$8m (b)	-	2,519
Nomos Bank (c)	9,946	7,631
Finance lease obligations		283
	9,946	11,745
Somita		
Royal Gold, Inc. (d)	-	21,150
Accrued tail royalty and milling fee (d)	993	8,157
Caterpillar Finance France SA (e)	-	1,049
Ecobank (f)	-	216
	993	30,572
Berezitovy		
Nomos Bank (g), (h)	-	14,692
Accrued interest on loan	-	859
Finance lease obligations (l)	607	798
	607	16,349
High River		
8% Debentures (i), amortized cost	11,747	-
	11,747	-
	\$ 23,293	\$ 58,666

The long-term portions of loans and interest payable are comprised of the following:

	2010		2009	
	Amortized cost	Carrying Value	Amortized cost	Carrying value
High River				
8% Debentures (i)	-	-	\$ 11,588	\$ 11,921
Somita				
Government of Burkina Faso (j)	500	500	525	530
Ecobank	-	-	86	86
	500	500	611	616
Berezitovy				
Nomos Bank	-	-	11,302	11,549
Finance lease obligations	-	-	555	555
	-	-	11,857	12,104
Prognoz Invest Ltd.				
Arinvest LLC (k)	1,232	1,232	1,309	1,309
	\$ 1,732	\$ 1,732	\$ 25,365	\$ 25,950

Details of the loans are as follows:

- (a) In 2006, Buryatzoloto entered into an agreement with Nomos Bank for a loan of US\$25,000,000. The loan was repaid as scheduled in Q1 2010.

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- (b) In 2007, Buryatzoloto entered into an agreement with Nomos Bank for a loan of US\$8,000,000 to finance working capital. The loan had a series of fixed repayment dates and was outstanding until July 2010. The loan was repaid without penalty in Q2 2010.
- (c) In December 2010, Buryatzoloto received a loan from Nomos Bank for the delivery of gold for US\$10,000,000. The loan was repaid in Q1 2011.
- (d) 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. As of December 31 2010, accrued tail royalty and milling fee was \$993,000 (2009 – nil).

The loan has been unconditionally guaranteed by High River until project completion and was secured by a pledge over the shares of Somita, High River Gold Mines (West Africa) Ltd., Pelangio, Detour, and Intrepid. In January 2011, all pledged shares were released by RGI.

- (e) In 2006, Somita financed the acquisition of electrical generator sets for the processing plant through a US\$5,000,000 loan from Caterpillar Finance France SA. The loan was repaid in Q2 2010.
- (f) In 2006, Ecobank Burkina granted a loan to Somita for the amount of CFA250,000,000 (approximately US\$585,000). The loan was repaid in Q2 2010.
- (g) In 2006, Berezitovy entered into a loan agreement with Nomos Bank for the amount of US\$19,000,000. The loan was repaid without penalty in Q2 2010.
- (h) In 2006, Berezitovy entered into a loan agreement with Nomos Bank for the amount of US\$32,000,000. The loan was repaid without penalty in Q2 2010.
- (i) In 2006, the Company issued \$12,000,000 of convertible debentures (the "Debentures") maturing on December 31, 2011. The Debentures are unsecured, have an interest rate of 8%, payable quarterly, and are convertible into common shares of the Company at a conversion price of \$2.35 per common share. The Debentures allow forced conversion by the Company after 18 months if High River shares trade above a price of \$3.25 for a 30-day period.

Canadian accounting standards for compound financial instruments require the Company to allocate the proceeds received from the Debentures among their component parts, measured at their respective fair values at the time of issue (note 15 (d)). In the event of forced conversion, the Company has the right to settle the Debentures through the issuance of common shares, notwithstanding the Company's right to settle the Debentures for cash at maturity. Since the redemption can be made either by cash or common shares at the option of the Company, the Debentures are classified as compound financial instruments for accounting purposes.

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- (j) 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.
- (k) Joint venture partner, who holds a 50% interest in the Prognoz silver project, lent funds to the project. The loan is unsecured and is non-interest bearing. Joint venture partner owed the Prognoz silver project approximately \$18.0 million. A payment in the amount of 560 million Russian roubles (approximately \$18.3 million) was made by the venture partner in February 2011 See note 23(a).
- (l) Berezitovy has a lease at 8.35% expiring November 2011.

Non-hedge embedded derivatives relating to loans are separated and reported at their estimated fair value (see note 13). Transaction costs are included in long-term debt and amortized using the effective interest method.

As at December 31, 2010, the long-term loans and estimated interest payable debt maturities for fixed term loans for each of the five years to 2015 are: 2011 - \$23,810,000; 2012 - \$nil; 2013 - \$nil; 2014 - \$nil; 2015 - \$nil.

12. Reclamation and Closure Costs

Total undiscounted future cash flows required to settle the decommissioning and restoration asset retirement obligations in Russia of Buryatzoloto were re-estimated in 2009 to be US\$13,600,000 for the Zun-Holba mine in 2019 and US\$2,500,000 for the Irokinda mine in 2012. Both mines are located in the Republic of Buryatia of the Russian Federation. A credit adjusted risk-free rate of 9.7% was utilized to determine the obligation recorded in the consolidated balance sheets. Management anticipates that such obligations will substantially be settled at or near the closure of the mining facilities.

Total undiscounted future cash flows required to settle the decommissioning and restoration asset retirement obligations of Somita for the Taparko-Bouroum mine in Burkina Faso in 2014 were re-estimated in 2010 to be US\$9,100,000. A credit adjusted risk-free rate of 9.0% was utilized to determine the obligation recorded in the consolidated balance sheets. Management anticipates that such obligations will substantially be settled at or near the closure of the mining facility.

Total undiscounted future cash flows required to settle the decommissioning and restoration asset retirement obligations in Russia of Berezitovy for the Berezitovy mine in 2016 were re-estimated in 2009 to be US\$6,358,000. A credit adjusted, risk-free rate of 8.8% was utilized to determine the obligation recorded in the consolidated balance sheets. Management anticipates that such obligations will substantially be settled at or near the closure of the mining facility.

No obligation has been recorded with respect to asset retirement obligations (e.g. environmental remediation) for High River's exploration properties. This is based on the fact that the mining and processing activities that give rise to the legal obligation have not yet occurred and/or the environmental disturbance that has occurred is not yet significant.

	Buryatzoloto	Somita	Berezitovy	Total
Carrying value, January 1, 2009	\$ 4,290	3,209	\$ 2,579	\$ 10,078
Accretion expense	402	249	202	853
Revaluation	3,271	(623)	629	3,277
Carrying value, December 31, 2009	7,963	\$ 2,835	3,410	14,208
Accretion expense	790	331	70	1,191
Revaluation	(446)	2,029	161	1,744
Carrying value, December 31, 2010	\$ 8,307	\$ 5,195	\$ 3,641	\$ 17,143

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13. Non-Hedge Derivatives

	December 31, 2010	December 31, 2009
RGI loan	\$ -	\$ 13,684

The second production payment due to RGI contains an embedded derivative that varies with the price of gold. The fair value was estimated using discounted cash flow analysis based on the market price for gold at the end of the period. The derivative amount was revalued with each repayment. As of December 31, 2010, the fair value of the embedded derivative was nil as full amount of the loan was repaid

14. Stock-based Compensation

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. As at December 31, 2010, there were 10,409,420 options available for grant (December 31, 2009 – 6,362,504). No options were granted in 2010.

Total outstanding stock options are summarized as follows:

	Number of stock options	Weighted average price
Balance – December 31, 2008	10,472,184	\$1.99
Terminated/expired	(4,994,835)	\$1.87
Balance – December 31, 2009	5,477,349	\$2.11
Terminated/expired	(1,586,249)	\$2.23
Exercised	(325,000)	\$0.67
Balance- December 31, 2010	3,566,100	\$ 2.25

Stock options outstanding:

Exercise price	December 31, 2010			December 31, 2009		
	Number of stock options outstanding	Weighted average remaining contractual life (years)	Number of stock options exercisable	Number of stock options outstanding	Weighted average remaining contractual life (years)	Number of stock options exercisable
0.67	–	–	–	476,250	0.2	476,250
2.13	692,500	0.2	692,500	1,042,500	1.2	1,042,500
2.35	–	–	–	75,000	1.5	75,000
2.15	1,466,934	0.9	1,466,934	2,185,267	1.9	2,185,267
2.85	100,000	1.7	100,000	100,000	2.7	100,000
2.80	616,666	2.1	569,995	861,666	3.1	539,999
2.19	340,000	2.3	340,000	340,000	3.3	226,667
1.80	350,000	2.6	350,000	363,333	3.6	246,666
0.64	–	–	–	33,333	3.7	33,333
	3,566,100	1.3	3,519,429	5,477,349	2.0	4,925,682

The weighted average exercise price of outstanding stock options was \$2.25 per common share (2009 – \$2.11) and for vested and exercisable stock options \$2.28 (2009 – \$2.07).

The unvested, unamortized fair value of all stock options outstanding at year end was \$0 (2009 – \$128,000). The net stock-based compensation expense included in administrative costs in the consolidated statement of operations for the year was \$74,000 (2009 – \$130,000).

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15. Share Capital

(a) Authorized

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 items, rights, privileges, restrictions and conditions as the directors may determine.

(b) Issued and outstanding common shares

	Number of shares	Net share capital
Balance – December 31, 2008	590,193,673	\$ 543,244
Financing-Severstal (i)	59,019,367	10,623
Conversion of debenture	6,382	15
Financing-Polenica (ii)	150,000,000	57,000
Share issue expense	–	(112)
Balance – December 31, 2009	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

- i. High River announced on June 9, 2009, a proposal by Severstal to make a cash offer of \$0.22 per share to minority shareholders in High River. Subsequently, the offer was extended and increased to \$ 0.30 per share. As a result of the offer, Severstal acquired 28,897,135 additional shares. In connection with the tender offer, High River issued Severstal 59,019,367 shares in a private placement for proceeds of approximately \$10,623,000.
- ii. In December 2009, 150,000,000 shares were issued to Polenica Investments Limited for cash proceeds of \$57,000,000 in a private placement. In 2010 Polenica sold shares of High River to Nord Gold N.V. (formerly known as Severstal Gold N.V.).

(c) Warrants

	Number of warrants	Weighted average price	Estimated fair value
Balance – December 31, 2008	64,597,040	\$1.82	\$ 16,627
Expired	(5,350,000)	\$3.17	(3,362)
Balance – December 31, 2009	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	-	-	\$ -

Warrants outstanding as at:

Exercise price	December 31, 2010		December 31, 2009	
	Number of warrants outstanding	Expiry date	Number of warrants outstanding	Expiry date
-	-	-	18,572,500	Nov. 8, 2010
			40,674,540	Sep. 29, 2013
	-		59,247,040	

In connection with a bought-deal private placement financing in November 2007, High River issued 18,572,500 warrants. Each warrant entitles the holder to acquire one common share for a price of \$4.00 until November 8, 2010. There were no exercise of warrants, all warrants expired.

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In connection with the November 2008 private placement, High River issued 40,674,540 warrants to Severstal. Each warrant entitles the holder to acquire one common share for a price of \$0.64 until September 29, 2013. The Warrants were exercised in August 2010. High River received cash proceeds of approximately C\$26,032,000. The fair value of the exercised warrants was estimated as \$3,138,500 at the date of grant using a Black-Scholes option pricing model.

(d) *Debenture conversion option*

In November 2006, the Company issued \$12,000,000 of convertible debentures (note 11 (i)). The fair value of the option component of the debentures was estimated as approximately \$538,000 using the residual value method. The value of the option is charged to income as accretion expense using the effective interest method and the fair value of the debenture is increased. The value of the option will be reallocated to share capital if exercised, or to contributed surplus if it expires unexercised.

16. Administrative Costs

	2010	2009
Other	\$ (2,148)	\$ (1,282)
Professional services	(1,691)	(3,786)
Stock-based compensation	(74)	(223)
Restructuring costs	-	(6,367)
Salaries and benefits	(556)	(1,587)
	<u>\$ (4,469)</u>	<u>\$ (13,245)</u>

Restructuring costs are mainly legal and financial advisory fees.

17. Financing Costs and Investment Income, Net

	2010	2009
Investment income	\$ 2,005	\$ 174
Financing costs	(9,162)	(18,808)
Interest on capital lease	(103)	(312)
Financial instrument accretion expense	(392)	(836)
Fair value adjustments to derivatives	13,684	(1,917)
	<u>\$ 6,032</u>	<u>\$ (21,699)</u>

Financing costs include interest to RGI of \$ 7,034,000 (2009 – \$7,268,000) and \$ nil on the Standard Bank/Severstal loan (2009 – \$1,659,000).

18. Other Expenses

	2010	2009
Foreign exchange	\$ (5,297)	\$ (3,367)
Loss on sale or write-off of assets	(1,121)	(1,977)
Write-down of exploration	(628)	(70,764)
Management fees	(4,641)	-
Other	(313)	(3,918)
	<u>\$ (12,000)</u>	<u>\$ (80,026)</u>

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19. Income Tax Expense

Income (loss) before income taxes and income tax expense

The income (loss) before taxes and non-controlling interest by tax jurisdiction comprises the following:

	2010	2009
Canada/other	\$ (15,458)	\$ (42,580)
Burkina Faso	80,416	18,989
Russia	71,131	17,420
	\$ 136,089	\$ (6,171)

(a) Reconciliation to Canadian federal and provincial statutory rate

The Company's effective tax rate may be reconciled to pre-tax income/(loss) as follows:

	2010		2009	
	\$	%	\$	%
Income/loss before taxes and after non-controlling interest	\$136,089		\$(6,171)	
Income tax provision at Canadian federal and provincial statutory rate of 31.0%	42,188	(31.0)	(2,036)	(33.0)
Increase (decrease) resulting from:				
Effect of differences in foreign tax rates	(18,057)	13.3	(9,642)	(156.2)
Non-deductible and non-taxable items	4,990	(3.7)	5,947	96.4
Change in valuation allowance	(6,944)	5.1	1,006	16.3
Foreign exchange differences	-	-	7,226	117.1
Effect of changes in tax rates	(550)	0.4	85	1.4
Tax losses not recognized	-	-	118	1.9
Other	(390)	0.3	889	14.4
Provision for recovery of income taxes	\$21,237	(15.6)	\$3,593	58.2

The components of the provision for income taxes comprise:

	2010	2009
Current tax expense/(recovery):		
Canada	\$ (657)	\$ (180)
Foreign	26,394	11,567
Future tax expense/(recovery):		
Canada	(7,786)	(1,078)
Foreign	3,286	(6,716)
	\$ 21,237	\$ 3,593

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(b) Sources of future income tax assets and liabilities

Differences between Canadian GAAP and statutory taxation regulations give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for income tax purposes. Future income tax assets and liabilities are attributable to the following items:

	2010	2009
Future tax assets		
Asset retirement obligations	\$ 728	\$ 1,280
Property, plant and equipment	1,071	913
Tax loss carry forwards	6,539	14,326
Unrealized foreign exchange	11,684	
Other income	6,468	10,372
Gross future income tax assets	26,490	26,891
Valuation allowances	(7,001)	(15,219)
Net future tax assets	19,489	11,672
Future tax liabilities		
Property, plant and equipment	(14,244)	(21,537)
Financial instruments	(14,276)	(7,714)
Other	(13,664)	(1,410)
Future tax liabilities	(42,184)	(30,661)
Net future tax liability	\$ (22,695)	\$ (18,989)

20. Net Income per Share

Net income per share ("EPS") has been calculated using the weighted average number of shares outstanding during the period. Diluted EPS data is calculated using the treasury stock method. The calculation of diluted EPS assumes that options and warrants with an exercise price lower than the average quoted market price were exercised at the later of the beginning of the year, or time of issue. In applying the treasury stock method, options and warrants with an exercise price greater than the average quoted market price of the common shares are not included in the calculation of diluted EPS as the effect is anti-dilutive.

	2010	2009
Net income (loss) for the year	\$ 114,852	(\$ 9,764)
Weighted average number of shares	816,437,980	634,009,385
Basic income/(loss) per share	\$ 0.14	(\$ 0.02)
Incremental shares on assumed exercise of options and warrants	-	-
Weighted average number of shares	816,437,980	634,009,385
Diluted income/(loss) per share	\$ 0.14	(\$ 0.02)

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21. Non-Controlling Interests

	Buryatzoloto	Somita	Berezitovy	Total
Balance at January 1, 2009	\$ 18,387	-	\$ 81	\$ 18,468
Share of net earnings	1,612	\$ 1,843	-	3,455
Balance at December 31, 2009	19,999	1,843	81	21,922
Share of net earnings	6,779	5,628	-	12,408
Balance at December 31, 2010	\$ 26,778	\$ 7,471	\$ 81	\$ 34,330

22. 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.

As at December 31, 2010 and 2009, the Company owned shares in Goldrush. A former officer of the Company serves as a director of Goldrush. Pursuant to an agreement, High River provided Goldrush with technical expertise and operations management on a cost recovery basis in 2009 (\$11,000). The agreement was terminated in 2009.

As at December 31, 2010 and 2009, the Company owned shares in Pelangio. A former director of the Company is a director of Pelangio.

During the period, no financial advisory services were provided by Alvarez & Marsal Canada ULC. Until February 2009, a principal of Alvarez & Marsal was an officer of the Company. The total cost of the services during 2009 was \$283,000.

Transactions with Severstal Gold group

During the period, directors of the Company who are employees of Severstal have received \$ 38,000 (2009 - \$36,000) as consulting fees from the Company. The value of the services received is equal to fair value of similar services.

During the period, Buryatzoloto paid Nord Gold group US\$ 988,000 (2009 - US\$ 116,000) in management and consulting fees. Buryatzoloto provided a 5% interest bearing loan (with 70 days interest free period) to an affiliate of Nord Gold in amount of RUR 234 million (approximately US\$ 8 million).

Berezitovy paid Nord Gold group US\$ 3,497,000 (2009 - nil) in management fees and to Severstal group US\$ 1,760,000 (2009 - nil) for equipment, supplies and services.

23. Commitments and Contingencies

(a) 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 cannot be ascertained at this time, it is not possible to reasonably estimate a contingent loss, and no provision is being made for the amount claimed.

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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.

(b) Environmental matters

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.

(c) Guarantees

In order to retain its skilled employees, Buryatzoloto has guaranteed employee mortgages given by Sberbank RF. As at December 31, 2010, this guarantee amount is US\$234,000 (2009 –US\$729,000). The Company accounts for guarantees at fair value and it estimates the guarantees to have \$nil value, as historically there have been no defaults.

(d) Contingencies

When High River's subsidiary High River Acquisition Corporation merged with Jilbey Gold Limited in 2005, the Company assumed an obligation of Jilbey Gold Limited to pay a bonus of \$300,000 to Minéraux Incanor Inc. The bonus is payable once a defined mineable reserve of 500,000 ounces of gold is documented as part of a feasibility study that demonstrates that economic extraction can be justified. High River prepaid \$100,000 of the bonus in 2007. The bonus was fully repaid in Q4 2010.

High River increased its interest in the Bissa and Zandkom permits to 90% for a price of US\$600,000, plus certain costs in 2007. The Company has contracted to give the vendor:

- (i) 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;
- (ii) an annual payment of US\$100,000 per year for four years as an advance on the vendor's 10% non-contributing interest, such payment to cease on commencement of production. Payments were made in 2007, 2008, 2009 and 2010;
- (iii) a guarantee of a minimum payment of US\$100,000 per year for five years after production starts, should the vendor's proportional share of profits be less than US\$100,000 per year; and
- (iv) 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

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to be agreed on with High River, the transfer price to be a minimum of US\$1,000,000. If a price cannot be agreed on, the vendor can transfer its 10% interest to a third party.

The Company pledged some investments to support certain borrowings (note 8) which were released in January 2011.

- (e) There is a contingent liability to pay up to \$696,000 in connection with termination provisions of employee contracts.
- (f) Operating contractual obligations

<i>(in thousands)</i>	Total	2011	2012	2013	2014 and thereafter
Operating leases ⁽¹⁾	\$ 222	\$ 74	\$ 74	\$ 74	\$ –
Purchase obligations ⁽²⁾	7,153	6,601	552	–	–
Other long-term obligations ⁽³⁾	4,933	4,933	–	–	–
Total	\$ 12,308	\$ 11,608	\$ 626	\$ 74	\$ –

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

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

(3) Purchase obligations for capital expenditures, property acquisition.

24. Supplementary Cash Flow Information

	2010	2009
(a) Net changes in non-cash working capital		
Accounts receivable	\$ 4,476	\$ (3,569)
Inventory	(16,573)	(1,721)
Other assets	(3,207)	(981)
Accounts payable	13,966	9,883
Interest payable	-	(132)
	\$ (1,338)	\$ 3,480
(b) Cash paid for interest and financing fees	\$ 10,009	\$ 18,061
Cash paid for income taxes	4,375	7,206
(c) Non-cash financing activities	-	\$ 15

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in Canadian dollars unless otherwise stated. All tabular amounts are expressed in thousands, except number of shares and per share amounts.

25. Comparative Figures

Certain comparative figures have been reclassified to comply with the current period presentation.

26. Segmented Information

The Company's operations consist of the exploration, development and mining of precious metals in Russia and Burkina Faso. Gold is the primary commodity produced.

The Company's operations are managed independently of each other principally due to their wide geographical diversity. Each operation compiles its own financial information on which the Company relies for assessment of performance. Details of the Company's operational segments are presented based on the Company's ownership interests. Corporate relates to the corporate administration functions performed in Canada and/or in non-operating foreign subsidiaries.

	2010	2009
Property, plant and equipment expenditures, net		
Russia – Buryatzoloto	\$ 12,319	\$ 9,574
Russia – Berezitovy	20,704	8,820
Burkina – Somita	6,969	7,357
Burkina – exploration	744	47
Corporate/other	4	-
	40,740	25,798
Deferred exploration expenditures		
Russia – Berezitovy	2,223	1,189
Russia – Prognoz	-	272
Burkina – exploration	14,887	7,023
	17,110	8,484
Total assets as at:		
Russia – Buryatzoloto	175,680	137,059
Russia – Berezitovy	247,094	200,415
Russia – Prognoz	25,203	27,460
Burkina – Somita	149,610	183,861
Burkina – exploration	97,745	80,459
Corporate/other	117,000	77,708
	\$ 812,332	\$ 706,962

High River Gold Mines Ltd.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2010 and 2009

Expressed in Canadian dollars unless otherwise stated. All tabular amounts are expressed in thousands, except number of shares and per share amounts.

	2010	2009
Revenue (b)		
Russia – Buryatzoloto	\$ 184,664	\$ 164,150
Russia – Berezitovy	93,655	95,756
Burkina – Somita	162,450	109,443
	440,769	369,349
Expenses		
Mining costs		
Russia – Buryatzoloto	84,671	81,144
Russia – Berezitovy	53,608	50,382
Burkina – Somita	54,993	51,907
Mine administrative costs		
Russia – Buryatzoloto	6,833	6,211
Russia – Berezitovy	1,484	1,680
Burkina – Somita	2,849	1,826
Mine amortization and depletion		
Russia – Buryatzoloto	22,999	19,987
Russia – Berezitovy	16,176	18,368
Burkina – Somita	21,507	20,361
Asset retirement obligation accretion		
Russia – Buryatzoloto	790	403
Russia – Berezitovy	70	202
Burkina – Somita	331	248
	266,311	252,719
Administrative costs		
Russia – Buryatzoloto	428	1,435
Russia – Berezitovy	356	2,106
Burkina – Somita	82	144
Corporate/other	3,603	9,560
	4,469	13,245
Financing costs and investment income, net		
Russia – Buryatzoloto	(1,491)	1,978
Russia – Berezitovy	5,268	8,612
Burkina – Somita	(2,965)	16,628
Corporate/other	(6,843)	(5,519)
	(6,032)	21,699
Other income/expenses		
Russia – Buryatzoloto	457	20,323
Russia – Berezitovy	7,817	6,416
Burkina – Somita	13,893	(1,766)
Corporate/other	(10,167)	55,053
	12,000	80,026
Income tax expense /recovery		
Russia – Buryatzoloto	10,611	(1,273)
Russia – Berezitovy	2,612	8,402
Burkina – Somita	13,281	-
Corporate/other	(5,272)	(3,536)
	21,237	3,593
Net (loss) /income for the year		
Russia – Buryatzoloto	37,068	28,090
Russia – Berezitovy	6,264	(413)
Burkina – Somita	52,845	18,251
Corporate/other	18,675	(55,692)
	\$ 114,852	\$ (9,764)

(b) Sales of gold by Buryatzoloto and Berezitovy are to customers in Russia. Sales by Somita are to customers in Switzerland. Sales agreements do not contain sales volume obligations.

Corporate Information

Directors

Karl Glackmeyer^{1,2}
Retired Professional Engineer
Montreal, Quebec

Alexey Khudyakov^{1,2,3}
Vice President, Altim
Moscow, Russia

Igor Klimanov
Managing Director, Severstal Gold
Africa,
Moscow, Russia

Yury Lopukhin⁴
Senior Financial Manager
Severstal Gold LLC
Moscow, Russia

Andrew Matthews¹
Vice President, 2002905 Ontario Ltd.
Toronto, Ontario

Oleg Pelevin
Head of Strategy
Severstal Gold LLC
Moscow, Russia

Evgeny Tulubensky
Chief Legal Officer
Severstal Gold LLC
Moscow, Russia

¹ Member of the Audit Committee

² Member of the Corporate Governance and Compensation Committee

³ Chairman

⁴ As of January 19, 2011

Officers

Konstantin Sobolevskiy
Chief Executive Officer

Yury Lopukhin
Chief Financial Officer

Edward O. Villeneuve
Vice President, Health, Safety and
Environment

Other

Konstantin Khasanov
Controller

Uzma Hussain
Corporate Accountant

Corporate Office

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Auditors

KPMG LLP
Toronto, Ontario

Solicitors

Cassels Brock and Blackwell LLP
Toronto, Ontario

Shares Listed

The Toronto Stock Exchange
Symbol: HRG
CUSIP 42979J

Investor Relations

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.