

HRG



HIGH RIVER GOLD

**High River Gold Mines Ltd.
Second Quarter 2010 Report**

High River Gold Mines Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As at June 30, 2010. Expressed in Canadian Dollars unless otherwise noted.

The following discussion and analysis of the consolidated operating results and financial condition of High River Gold Mines Ltd. (the "Company", "High River") for the fiscal periods ended June 30, 2010 and 2009 should be read in conjunction with the audited Consolidated Financial Statements and related Notes as at December 31, 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 is August 13, 2010. 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 127,000 ounces of gold attributable to High River in 2009. 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 89,000 ounces attributable to High River in 2009. 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 2009 of 87,000 ounces. In total, High River produced approximately 78,106 attributable ounces in Q2, 69,504 attributable ounces in Q1 and 72,346 attributable ounces of gold in Q2 2009. In 2008, OAO Severstal ("Severstal") acquired indirect ownership and held 68.88% (550,687,632 shares) of High River at June 30, 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 presentation 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 opinions and estimates of management at the date the information is made, 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, 2009 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 Q2 2010

Financial

- Net gold revenue of \$113.8 million, an increase of 16% from \$97.7 million in Q1 2010, an increase of 34% from \$84.6 million in Q2 2009.
- Net income of \$39.3 million (\$0.05 per share) compared to a net income \$27.5 million (\$0.03 per share) in Q1 2010 and a net loss of \$37.8 million (\$0.06 per share) in Q2 2009.
- Cash flow from operations of \$48.8 million, compared to \$31.5 million in Q1 2010, and \$22.8 million in Q2 2009.
- Cash and cash equivalents increased to \$92.7 million from \$82.5 million at the end of Q1 2010, and up from \$23.1 million at the end of Q2 2009.
- Working capital increased to \$150.9 million from \$117.9 million at the end of Q1 2010, up from \$2.8 million at the end of Q2 2009.
- Current and long term debt decreased to \$31.5 million from \$62.6 million at the end of Q1 2010 and from \$135.6 million at the end of Q2 2009. In April 2010, the debt owed to Nomos Bank by Buryatzoloto and Berezitovy was fully repaid without penalty. The amount of the debt and accrued interest was \$25.2 million at March 31, 2010.

Operations

- Total gold production (doré) increased 12% to 86,803 (Q1 2010 – 77,762 ounces (100%) and 79,997 ounces Q2 2009). Total cash cost per ounce decreased 11% to US\$554 (Q1 2010 – US\$624 per ounce and US\$650 per ounce Q2 2009) (see the *Non-GAAP Financial Measures* table).
- The Zun-Holba and Irokinda Gold Mines produced 36,467 ounces (Q2 2009 – 35,835) (100%) at a total cash cost of US\$592 per ounce.
- The Taparko-Bouroum Gold Mine produced 30,004 ounces (Q2 2009 – 20,139) (100%) at a total cash cost of US\$370 per ounce.
- Gold production at Berezitovy was 20,332 ounces (Q2 2009 – 24,023 ounces) (100%), at a total cash cost of US\$756.
- At the Bissa Gold Project, the feasibility study continued.

Corporate

- Severstal Gold N.V. purchased from Polenica Investments Limited (an affiliate of Troika Dialogue Group), 150,000,000 common shares of High River increasing its ownership to approximately 68.88%. On May 28, 2010, Richard Ogden who was Troika's nominee resigned as a director.
- Prognoz Silver LLC, in which the Company owns an indirect 50% interest, was put in bankruptcy in Russia.
- High River was included in the FTSE Gold Mines Index effective June 21, 2010.

Review of Operations

Selected Financial Results

The Company reported a net income of \$39.3 million (\$0.05 per share) in Q2 2010 compared to net income of \$27.5 million (\$0.03 per share) in Q1 2010 and a net loss of \$37.8 million (\$0.06 per share) in Q2 2009.

<i>(except per share amounts)</i>	Three months ended			Six months ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Gold revenue	\$ 113,808	\$ 97,656	\$ 84,561	\$ 211,464	\$ 173,340
Net income (loss)	39,267	27,530	(37,777)	66,797	(10,219)
Net income (loss) per share (basic)	0.05	0.03	(0.06)	0.08	(0.02)
Cash provided by (used in) operating activities	48,800	31,499	22,821	80,299	52,493
Weighted average number of shares outstanding (basic)	799,327,755	799,327,755	597,407,151	799,327,755	593,800,412

Buryatzoloto Operations

The Company's attributable gold production from Buryatzoloto was 30,974 ounces compared to 28,652 ounces in Q1 2010 and 30,439 ounces in Q2 2009. Buryatzoloto continues to be profitable and achieved its production objectives for 2010 with 36,466 ounces (100%) of gold produced at an estimated total cash cost of US\$592 per ounce as compared to 35,835 ounces of gold produced at a total cash cost of US\$459 per ounce in Q2 2009. (See the section *Non-GAAP Financial Measures* regarding total cash costs.)

Buryatzoloto Combined Operational and Financial Data

	Three months ended			Six months ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Tonnes mined	164,000	144,000	154,000	229,000	312,000
Tonnes milled	170,000	155,000	152,000	244,000	290,000
Gold grade (g/t)	7.0	7.3	7.8	7.2	8.1
Recovery (%)	92.2	92.9	94.0	92.5	94.1
Gold production (oz) – 100% ⁽¹⁾	36,467	33,732	35,835	70,199	70,625
High River share of production – 84.94%	30,974	28,652	30,439	59,626	59,989
Direct mining cost (US\$/oz)	471	528	396	497	376
Cash operating cost (US\$/oz)	520	643	405	545	412

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

Buryatzoloto's gold production is subject to seasonal fluctuations. One of the circuits at the Irokinda mill operates only during the summer months. Assuming normal operations on a yearly basis, gold production is highest in the third quarter and lowest in the first quarter of the calendar year. Average grade is lowest when the seasonal circuit operates.

Zun-Holba Mine

Zun-Holba operated according to the plan. The higher throughput offset the decline in processed ore grades which allowed the mine to maintain the production at the historical level.

Zun-Holba Operational Data

	Three months ended			Six months ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Tonnes mined	85,000	70,000	70,000	155,000	145,000
Tonnes milled	89,000	88,000	71,000	177,000	143,000
Gold grade (g/t)	6.8	6.8	8.0	6.8	8.3
Recovery (%)	89.3	90.1	92.9	89.7	92.9
Gold production (oz) – 100%	18,390	17,414	17,123	35,804	35,359
High River share of production – 84.94%	15,620	14,791	14,544	30,411	30,034
Direct mining cost (US\$/oz)	479	521	432	499	415
Cash operating cost (US\$/oz)	562	583	443	572	450

Irokinda Mine

Irokinda operated according to the plan. The mine produced 18,390 ounces in Q2 2010 which is consistent with historical levels of production. The gold recovery remains high at 95%.

Irokinda Operational Data

	Three months ended			Six months ended	
	June 30, 2010	March 31 2010	June 30 2009	June 30, 2010	June 30, 2009
Tonnes mined	79,000	74,000	84,000	74,000	167,000
Tonnes milled	81,000	68,000	80,000	68,000	146,000
Gold grade (g/t)	7.3	7.9	7.6	7.6	7.9
Recovery (%)	95.1	95.1	92.9	95.1	95.2
Gold production (oz) – 100%	18,077	16,318	18,712	34,395	35,266
High River share of production – 84.94%	15,355	13,861	15,894	29,215	29,955
Direct mining cost (US\$/oz)	376	409	363	392	338
Cash operating cost (US\$/oz)	435	439	370	437	375

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. The results of the 2010 exploration work are expected in the first half of 2011.

Somita Operations (Taparko-Bouroum Gold Mine)

Somita managed to increase the mill throughput by installation of an additional cyclone and other minor operational improvements. The increase in throughput offset the reduction in the processed grade.

Somita Operating and Financial Data

	Three months ended			Six months ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Tonnes mined	353,000	276,000	193,000	629,000	324,000
Tonnes milled	315,000	293,000	182,000	608,000	318,000
Gold grade (g/t)	3.2	3.5	4.2	3.3	4.4
Recovery (%)	92.6	93.1	91.0	92.8	91.0
Gold production (oz) – 100% ⁽¹⁾	30,004	30,426	20,139	60,430	39,940
High River share of production – 90%	27,003	27,384	18,125	54,387	35,946
Direct mining cost (US\$/oz)	299	405	462	351	409
Cash operating cost (US\$/oz)	325	457	491	374	435

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

Outlook

The mine runs well and meets management's expectations. The installation of four new cyclones in the process plant, which will be implemented in the second half of 2010, may allow further increases in plant productivity.

Berezitovy Mine, Russia

The main crusher and mill availability significantly increased in the Q2 2010 compared to the previous quarter. As a result the production increased by 49% while the cash operating costs decreased by 28%. However, the mill availability remained below planned level, while disruptions in the electricity supply in June also negatively affected the production.

Berezitovy Production Data

	Three months ended			Six months ended	
	June 30, 2009	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Tonnes mined	383,000	257,000	347,000	639,000	682,000
Tonnes milled	309,000	193,000	282,000	502,000	509,000
Gold grade (g/t)	2.3	2.4	2.5	2.3	2.9
Recovery (%)	90.4	89.5	86.0	90.0	87.0
Gold production (oz) – 100% ⁽¹⁾	20,332	13,604	24,023	33,936	43,619
High River share of production – 99%	20,129	13,468	23,783	33,597	43,183
Direct mining cost (US\$/oz)	682	871	600	755	500
Cash operating cost (US\$/oz)	684	949	640	760	541

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

Outlook

The second ball mill has arrived at the mine site. The installation and commissioning of the new mill is planned for Q3 2010. With two ball mills operating the plant capacity is expected to increase.

Review of Exploration Projects

Bissa Gold Project, Burkina Faso

In Q2 2010 the Company continued working on the Feasibility Study of the Bissa project, which is expected to be completed in 2010. At the same time High River continues exploration at the Bissa group permits. 1,600 meters of the reverse circulation ("RC") drilling and 390 meters of diamond drilling were completed in Q2 2010 as a part of \$2 million budget for additional exploration of the Bissa area. Also at the Bissa area, 130 m of trenching, 429 km of geophysics and 106 km² of mapping were conducted in Q2 2010.

Other Exploration Works, Burkina Faso

In Q2 2010 the Company conducted exploration at some of the other high potential permits in Burkina Faso according to the budget. The Company has re-structured its land holdings into five groups by location to permit a more focused approach to exploration by group. Besides the Bissa group, which includes all permits adjacent to the Bissa-Zandkom area, the company divided its permits into four other groups:

- Taparko-Bouroum group, which includes permits close to the producing mine;
- Ouaga group, which consist of Gandi, Mango and Wayin permits
- Kaya group, which consist of Zibtenga, Tyegana, Balbo, Mane, Nounou, Yimiugou permits; and
- Banfora group, which includes Labola and Danfora permits

At the Taparko-Bouroum group, 4,130 meters of RC drilling were completed in Q2 2010. At Ouaga group 2,800 m of RC drilling and 9,270 m of reverse air blast drilling we completed. At the Kaya group 250 km of geophysics and 255 sq km of mapping were completed in Q2 2010. At the Banfora group the Company reactivated the exploration camp. Exploration at Banfora will resume in Q4 2010 after the end of the rainy season.

At the end of 2009 an \$8.0 million exploration budget for Burkina Faso was approved for 2010. However, this may be increased in Q3 2010 to allow more exploration work to be performed in Q4 2010.

Buryatzoloto mines, Russia

An exploration program is being implemented in 2010 in order to increase the life of Irokinda and Zun-Holba mines. In the first half of 2010 the Company completed 47,000 m of drilling, 1,000 m of drifting and 230 m of trenching. The exploration will continue in the second half of 2010 and in 2011. The results of the 2010 exploration work are expected in the first half of 2011.

Prognoz Gold Project, Russia

Prognoz Silver LLC is 50% owned by High River and holds the mineral license for the Prognoz silver project. In March 2010, Prognoz Silver LLC, which is controlled by High River's joint venture partner, started a legal action in Moscow to declare Prognoz Silver LLC bankrupt. The primary creditor is OJSC Buryatzoloto who is owed approximately \$18 million. In order to protect its interests, Buryatzoloto also filed to put Prognoz Silver into bankruptcy. Based on Buryatzoloto's application the court appointed an administrator to oversee the affairs of Prognoz Silver.

Under Russian law, in case of bankruptcy procedure there is material risk that the exploration rights for Prognoz will be returned to the state. High River and Buryatzoloto will attempt to preserve the license and get maximum value out of bankruptcy procedures.

In 2009 Polar Silver Resources Ltd., representing the other 50% shareholder of Prognoz, retained Micon International Limited ("Micon") to provide an update of the mineral resource estimate for the Prognoz silver project contained in Micon's June, 2008 technical report. High River neither commissioned nor participated in the preparation of the new report. As of the date of this MD&A, the report is not complete. High River does not currently anticipate that the report will be completed.

Health, Safety and Environment

On There were no fatalities or serious accidents at any of the High River mining operations during the second quarter of 2010. A total of three lost time injuries were recorded for the Buryatzoloto mines while there were none at Somita and Berezitovy. The three lost time injuries were classified as non serious by Russian authorities. Implementation of a comprehensive safety and health action plan for Buryatzoloto operations continued with emphasis on two priority areas:

- Safety training for employees at all levels; and
- Compliance with technical requirements for mining operations.

A fire in the elution system at Taparko caused minor equipment damage but did not disrupt production at the mine. The fire was extinguished by the Somita fire brigade. There were no injuries related to the accident.

There were no significant environmental incidents in Q2 2010 to the best knowledge of the company.

Overall Financial Performance

Revenues

The Company's consolidated net gold revenues for Q2 2010 increased to \$113.8 million from \$84.6 million in 2009. An increase in the price of gold sold was the main factor as movements due to volume and exchange rates offset. The average realized price was US\$1,211 per ounce compared to US\$924 per oz in Q2 2009. Somita was the major contributor to the volume growth.

	Three months ended			Six months ended	
	June 30, 2010	March 31, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Ounces sold	91,346	84,818	78,274	176,164	155,366
Realized price, US\$/oz	1,211	1,108	924	1,157	925
Average realized C\$ to US\$ exchange rate	1.0287	1.0409	1.1686	1.0375	1.2056
Gold sales, C\$ 000's	113,808	97,656	84,561	211,464	173,340
Change in revenue compared to previous year due to:					
Volume (ounces) variance 000's	14,122			23,204	
Price variance 000's	30,605			49,191	
Exchange variance 000's	(15,480)			(34,271)	

Expenses

Direct mining costs (see *Non-GAAP Financial Measures* table) have decreased compared to the same quarter last year.

	Three months ended			Six months ended	
	June 30, 2010	March 31, 2009	June 30, 2009	June 30, 2010	June 30, 2009
Ounces produced – 100%	86,803	77,762	79,997	164,565	156,791
Direct mining costs, US\$/oz	461	540	473	497	420
Average realized C\$ to US\$ exchange rate	1.0287	1.0409	1.1686	1.0375	1.2056
Direct mining cost, C\$ 000's	41,161	43,708	44,254	84,869	79,348
Change in revenue compared to previous year due to:					
Volume (ounces) variance 000's	3,765			3,934	
Cost variance 000's	(1,259)			15,341	
Exchange variance 000's	(5,599)			(13,754)	

The cost variance indicates that costs have increased from last year. 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. Mining costs per ounce have decreased at Somita due to increased productivity but total costs are up due to high volume. 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 \$552,000 in 2010 compared to \$2.1 million last year. The major component of the decrease was restructuring costs, which decreased to nil from \$509,000 and salaries that declined \$1.1 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.

Financing Costs and Investment Income, Net

Financing costs and investment income increased to \$504,000 from a loss of \$3.5 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 repaid and the estimated remaining life of the loan decreased resulting in a loss of \$58.6 million in Q2 2009.

Other Expenses

Other expenses were \$3.2 million compared to \$48.1 million in 2009. In 2009 the value of the Prognoz silver project was written down to its estimated fair value resulting in a 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 \$713.7 million as at June 30, 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 \$150.1 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 at June 30, 2010.

Liquidity and Capital Resources

Lending Arrangements

Somita was breach of certain loan covenants with respect to loans since the beginning of Q4 2008. Pursuant to the Amended and Restated Funding Agreement between Royal Gold, Inc. (“RGI”) and Somita, Somita is 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 that, at current market prices, is worth approximately three times the value of their initial loan and ten times the value of the remaining debt owing.

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. 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. The Company believes that the current collateral held by RGI is redundant considering the amount of the claim and is negotiating the terms of its release with RGI. High River expects the RGI loan to be retired in 2010.

High River prepaid the Nomos Bank, Caterpillar Finance SA and Ecobank Burkina debt in Q2 2010. The major debt obligations at the end of Q2 are to RGI and for the outstanding debentures.

Capital Resources

As of June 30, 2010, the Company’s consolidated cash amounts to \$92.7 million and there is working capital of \$150.9 million.

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

<i>(in thousands)</i>	June 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 92,730	\$ 82,061
Working capital	150,901	95,818
Loans and interest payable (long-term)	13,738	25,365
Three months ended June 30,	2010	2009
Cash provided by operating activities	\$ 48,800	\$ 29,672
Cash used in investing activities	(11,214)	(4,372)
Cash provided by (used in) financing activities	(30,511)	(19,725)

The cash flow of the Company is generated from three operating entities. The oldest and most consistent producing operation is Buryatzoloto with approximately 140,000 to 145,000 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 continues to under perform but the installation of a second mill in Q3 is expected to permit production at planned levels.

Operating Activities

Cash flow provided by operating activities for 2010 was \$48.8 million compared to \$22.8 million from operations in Q2 2009. The cash was provided mainly by Somita and Buryatzoloto. The Company provided additional financing to Berezitovy in Q2 2010, mainly to pay off the Nomos debt.

Investing Activities

Investing activities consumed \$11.2 million of cash compared to \$4.3 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 at no penalty. Surplus funds were used to retire this high interest (14%) debt. Debt payable to Caterpillar Finance SA and Ecobank Burkina was also retired.

As of June 30, 2010, none of the Company's stock options were "in-the-money". There were 40,674,540 warrants priced at \$0.64 that were granted to Severstal which are "in-the-money".

Uses of Liquidity

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

- service its debt obligations (approximately \$18.2 million)
- mine-site exploration (approximately \$23 million) 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
- drilling to expand resources at Bissa
- extensive exploration in Burkina Faso

Should the Bissa feasibility confirm the economics, a development decision on the property would result in an additional cash requirement.

Contractual Obligations and Commercial Commitments

The following illustrates certain of the Company's significant contractual obligations as at June 30, 2010:

<i>(in thousands)</i>	Total	2010 (six months)	2011	2012	2013	2014 and thereafter
Debt	\$ 22,581	\$ 10,660	\$ 11,921	\$ –	\$ –	\$ –
Interest on debt	8,019	7,064	955	–	–	–
Asset retirement obligations ⁽¹⁾	26,839	–	–	2,631	–	24,208
Capital lease obligations	1,269	476	793	–	–	–
Operating leases ⁽²⁾	150	150	–	–	–	–
Purchase obligations ⁽³⁾	6,606	4,000	2,017	589	–	–
Other long-term obligations ⁽⁴⁾	8,969	8,969	–	–	–	–
Total	\$ 74,433	\$ 31,319	\$ 15,686	\$ 3,220	\$ –	\$ 24,208

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.

(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.

The majority of the consolidated obligations and commitments relate to financing of the projects in Russia and Burkina Faso. The loan to Somita is non-recourse to High River although High River has pledged some assets as security.

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, it can stop making payments although its property rights will terminate.

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

Quarterly Results of Operations (Unaudited)

(\$ thousands, except per share amounts)	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	115,196	98,479	101,518	90,527	88,183	89,121	57,726	34,940
Expenses	(63,346)	(59,890)	(67,699)	(62,773)	(61,369)	(60,878)	(61,679)	(34,997)
All other expenses and taxes	(12,584)	(11,059)	(2,170)	(32,321)	(64,591)	(27,312)	(31,112)	(15,292)
Net (loss) income	39,266	27,530	31,649	(4,567)	(37,777)	931	(35,065)	(15,349)
Net (loss) income per share: Basic and diluted	0.05	0.03	0.05	(0.01)	(0.06)	0.00	(0.09)	(0.05)
Gold sales, oz	91,346	84,818	86,348	84,441	78,274	77,091	58,412	38,891
Gold sales, US\$/oz	1,211	1,106	1,107	964	924	926	812	864
Gold production, oz	86,803	77,761	91,585	84,990	79,997	76,794	58,992	39,358
Direct mining costs, US\$/oz	461	540	434	439	473	368	561	453
Total cash costs, US\$/oz	554	624	559	601	670	607	666	625

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.

Second Quarter of 2010 Review

The Company attained profitability in Q4 2009 after a series of losses and remained profitable in Q2 2010. Buryatzoloto continued its consistent performance. Berezitovy was able to increase production in Q2 but did not reach the planned level. Somita production in Q2 matched Q1.

Outlook

The new mill at Berezitovy should enable increased production and decrease per unit costs in the second half of 2010. Further operational improvements planned for Taparko may result in higher production in the second half of 2010.

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 Severstal \$257,000 (2009 – nil) in management fees. Berezitovy paid Severstal \$770,000 (2009 – nil) in management fees and \$1,694,000 to Tyajmash, a subsidiary of Severstal, for the ball mill.

Risks and Uncertainties

Severstal Exercises Significant Control Over the Company (strategic)

Severstal, through its affiliates, owns approximately 69% of the outstanding shares of the Company and may acquire additional shares, including upon the exercise of warrants. 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 complies with the procedures established in the *Canada Business Companies Act*, 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. 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.

The Company is Dependent on Key Officers and Employees (strategic, operational)

The Company is dependent on the efforts of key officers, including its Chief Executive Officer and its Chief Financial Officer. The position of Chief Operating Officer was eliminated and the mines now report directly to the Chief Executive Officer. The Chief Executive Officer and Chief Financial Officer are employees of Severstal, the Company's majority shareholder. The loss of the services of any of the Company's key officers could have an adverse effect on the Company, which could have a material adverse effect on the Company's future cash flows, earnings, results of operations and financial conditions. The Company does not have and currently has no plans to obtain key man insurance with respect to any of its key employees. In addition, the Company may need to recruit and retain other qualified managerial and technical employees to build and maintain its operations. If the Company requires such persons and is unable to successfully recruit and retain them, its development and growth could be significantly curtailed.

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\$976 per ounce) for the Company's 2009 production is approximately \$34.5 million or \$0.04 per share based on shares outstanding as at December 31, 2009.

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 earnings to a 10% increase or decrease in the realized mining total cash costs for the Company's 2009 production is approximately \$18.0 million or \$0.02 per share based on shares outstanding as at December 31, 2009.

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 statement 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 Q2.

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 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.

In the fall of 2009, High River's joint venture partner started a legal action in Moscow to declare Prognoz Silver LLC bankrupt. Prognoz Silver is 50% owned by High River and holds the mineral license for the Prognoz silver project. The primary creditor was OJSC Buryatzoloto who was owed approximately \$18 million. In order to protect its interests, Buryatzoloto also filed to put Prognoz Silver into bankruptcy. The Russian courts chose to accept Buryatzoloto's application and appointed an observer to oversee the affairs of Prognoz Silver. Under Russian law, in the event of a bankruptcy, the mineral license held by Prognoz Silver is supposed to be returned to the State. However, in practice there is some leeway and the observer may sell or transfer the license as part of the debt restructuring. As the outcome of the bankruptcy proceedings is uncertain and the law is clear as to what is supposed

to happen. High River and Buryatzoloto will attempt to realize some value from the license. However, it may be necessary for High River to write off some or all of its investment.

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 \$14.2 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 2009 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 2009 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.

(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 will be 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 is in the process of evaluating the requirements of these new standards.

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.

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 Severstal.

- 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 our 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 our 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 our 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 expects to complete Phases I and II during the third quarter of 2010. The Company will continue to update its disclosures throughout the remainder of 2010 to reflect specific actions taken to facilitate 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 has not yet determined its policy choice. The Company may elect to use deemed cost values as determined by Severstal as at the date of its acquisition of High River. Severstal determined these values during 2009 in order to complete its accounting for acquisition of High River under IFRS 3 Business Combinations.*

Decommissioning Liabilities: IFRS 1 provides an exemption to avoid retrospectively calculating the associated asset and depreciation for all decommissioning liabilities.

Impact on the Company: *High River will elect the exemption and adopt IFRIC 1 - Changes in Existing Decommissioning, Restoration and Similar Liabilities prospectively beginning on January 1, 2010.*

Cumulative Translation Adjustment: IFRS 1 provides an exemption to clear out the CTA account at the transition date.

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.*

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 to select and consistently apply 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 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 Company: *The Company will make a final determination of its policy in this area during Phase II.*

Functional Currency: IFRS contains a more comprehensive framework for the determination of functional currency than is presented under Canadian GAAP Section 1651. The Company uses the Canadian \$ as its reporting currency. The functional currency presently used is Canadian \$ for the corporate office, United States \$ for Buryatzoloto, Russian Roubles for Berezitovy and the Central Franc Afrique for Somita.

Impact on the Company: *During Phase II the Company will review the IAS 21 criteria to determine whether there is a material impact upon transition at January 1, 2010 or at December 31, 2010 and for the interim periods and the year then ended. It is likely that one or more entities will change their functional currency. The change is required to be applied on a retrospective basis. As a result, cumulative translation differences relating to these entities will be eliminated and adjustments recorded for non-monetary assets and liabilities for differences between the translation of items at the historical rate and the current rate. Any remaining adjustment will be recognized in retained earnings. The retroactive adoption of a different functional currency can be very complex and time consuming and will affect determinations made under other standards such as income taxes and property, plant and equipment. A validation of the functional currency will be completed early in the IFRS transition process. The Company will calculate the impact on transition resulting from the change in Phase II.*

Foreign Currency Translation: IFRS requires that the current rate method be used to translate the statements of its foreign subsidiaries, the most significant of which in terms of asset value are Jilbey SARL (which holds the Bissa exploration license) and Prognoz Silver LLC (which holds the Prognoz silver exploration license). Under Canadian GAAP, integrated operations are translated using the temporal method.

Impact on the Company: *The Company will translate its subsidiaries using the current rate method in IAS 21. The change is required to be applied on a retrospective basis. As a result, cumulative translation differences relating to these entities will be eliminated and adjustments recorded for non-monetary assets and liabilities for differences between the translation of items at the historical rate and the current rate. Any remaining adjustment will be recognized in retained earnings. The Company will calculate the impact on transition resulting from the change in Phase II.*

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: *During Phase II the Company will review the value-in-use methodology in IAS 36 to determine whether any impairment must be recognized at January 1, 2010.*

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 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 than Canadian dollars, the Company’s functional 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 Burkina Central Franc Afrique, 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 will review (i) the general principles in IAS 12, and (ii) additional guidance from the CICA Accounting Standards Board, if to determine whether any adjustments that might 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 both section 3110 and IAS 37. 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 depreciation and depletion under Canadian GAAP. Typically the IFRS pre-tax risk-free rate is lower than the credit-adjusted risk-free rate which may result in an increase in the reported obligation. The Company will need to implement procedures that allow for re-measurement of the liability at each balance sheet date (i.e. quarterly).*

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 is 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 loan 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. For example, any changes in accounting policies could result in additional controls or procedures being required to address reporting of first time adoption as well as ongoing IFRS reporting requirements. At this point, the Company has not determined its final accounting policy choices. The certifying officers plan to complete the design, and initially evaluate the effectiveness of, any

significant changes to controls in the third quarter of 2010 to prepare for certification under IFRS in 2011. The Company has adopted a financial reporting package model for its operations which is based on a system used by Severstal. The Company intends to expand the use of the model in order to make the transition to IFRS and to meet inter

Financial Reporting Expertise: The planning for the IFRS transition is being done by personnel at Severstal in conjunction with the external auditors. Severstal 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 quarter in conjunction with the 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, or if the Company elects to apply to any future acquisition prior to 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. During the second quarter of 2009, the IASB commenced red liberations of ED-9 and now proposes to allow proportionate consolidation of a jointly controlled entity if the agreement between joint venture partners indicate that the rights of each joint venture partner to the assets and net earnings of the joint arrangement, and obligations of each joint venture partner to the risks and liabilities of the joint arrangement are in proportion to their respective interests in the joint arrangement. The IASB continues to discuss various items on this topic and expects publication of the final Standard at the end of the second quarter of 2010.

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, 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 Corporation's Chief Executive Officer and Chief Financial Officer, on a timely basis so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis, management of the Corporation, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Corporation'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 quarter covered by this Management's Discussion and Analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Corporation'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 that material information is accumulated and communicated to management of the Corporation, 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 applicable Canadian GAAP. 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. In late 2008 and early 2009, testing of internal controls detected some deficiencies in the control environment of a number of areas at some but not all of the operations. The Severstal internal audit department, which participated in the testing of internal controls, assisted in the preparation of a remediation plan. During 2009, the remediation plan was implemented and many of the deficiencies were corrected. One of the outstanding ICFR weaknesses relates to income taxes.

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 staffs 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 June 30, 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 August 13, 2010, the share capital consisted of:

- 799,544,422 common shares issued and outstanding.
- 3,851,100 common share purchase options outstanding at an average exercise price of \$2.25 maturing at various dates until September 29, 2013.
- 59,247,040 warrants outstanding at an average exercise price of \$1.69 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.

Quarter ended June 30, 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\$	1.0287		1.0287		1.0287		1.0287	
Gold ounces sold	37,989		22,217		31,140		91,346	
Gold revenue per financial statements	47,656	1,219	28,304	1,238	37,848	1,182	113,808	1,211
Gold ounces produced	36,467		20,332		30,004		86,803	
Direct mining costs	17,685	471	14,257	682	9,219	299	41,161	461
Mining administrative costs	1,988	53	288	14	822	27	3,098	35
Stripping and mine development adjustments	371	10	–	–	–	–	371	4
Third party smelting, refining & transportation	293	8	175	8	120	4	588	7
By-product credits	(839)	(22)	(419)	(20)	(130)	(4)	(1,388)	(16)
Cash operating costs	19,499	520	14,300	684	10,031	325	43,830	491
Royalty expense and production tax	2,702	72	1,515	72	1,382	45	5,600	63
Total cash costs	22,200	592	15,815	756	11,414	370	49,429	554
Inventory change	(338)		(2,557)		(1,337)		(4,231)	
By-product credits	839		419		130		1,388	
Mining amortization and depletion	6,327		4,311		4,787		15,425	
Asset retirement obligation accretion	195		52		86		333	
Total expenses per financial statements	29,225		18,041		15,080		63,346	

Supplemental Cash Cost Information – Q2 2010							C\$ 000s	US\$/oz
Total cash costs							49,429	554
By-product credit per above							1,388	
Administrative costs per financial statements							552	
Less: non-cash items								
Stock-based compensation							(21)3	
Exploration per financial statements							1,892	
Other expense per financial statements							3,216	
Less: non cash items								
Unrealized foreign exchange							(2,132)	
Gain on sale of assets/write downs							(750)	
Total non-operating cash costs							2,757	31
Total operating and non-operating cash costs								585

Quarter ended June 30, 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\$	1.1686		1.1686		1.1686			
Gold ounces sold	38,384		22,350		17,540		78,274	
Gold revenue per consolidated financial statements	41,869	933	23,912	916	18,780	916	84,561	924
Gold ounces produced	35,835		24,023		20,139		79,997	
Direct mining costs	16,538	396	16,846	600	10,870	462	44,254	473
Mining administrative costs	1,314	31	1,075	38	644	27	3,033	32
Stripping and mine development adjustments	(455)	(11)	–	–	–	–	(455)	(5)
Third party smelting, refining and transportation	438	11	367	13	99	4	904	10
By-product credits	(904)	(22)	(306)	(11)	(47)	(2)	(1,257)	(13)
Cash operating costs	16,931	405	17,982	640	11,566	491	46,479	497
Royalty expense and production tax	2,277	54	1,649	59	555	24	4,481	48
Total cash costs	19,208	459	19,631	699	12,121	515	50,960	545
Inventory change	–		(1,727)		(4,126)		(5,853)	
By-product credits	904		306		47		1,257	
Mining amortization and depletion	5,708		4,924		4,149		14,782	
Asset retirement obligation accretion	103		50		70		223	
Total expenses per consolidated financial statements	25,923		23,184		12,261		61,369	

Supplemental Cash Cost Information for the Quarter Ended June 30, 2009		C\$ 000s	US\$/oz
Total cash costs per ounce produced			545
By-product credit per above		3,622	
Administrative costs per financial statements		3,278	
Less: non-cash items			
Stock option benefit expense		(130)	
Restructuring accruals		352	
Exploration per financial statements			
Other income/(expense) per financial statements		48,105	
Less- non cash items			
Unrealized foreign exchange gain		11,171	
Loss on sale of assets/write downs		(59,19)	
Total non-operating cash costs		8,374	105
Total operating and non-operating cash costs			650

Six months ended June 30, 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\$	1.0375		1.0375		1.0375		1.0375	
Gold ounces sold	77,416	1,162	38,773	1,179	59,975	1,136	176,164	1,157
Gold revenue per consolidated financial statements	93,350		47,442		70,672		211,464	
Gold ounces produced	70,199		33,936		60,430		164,565	
Direct mining costs	36,240	497	26,593	755	22,036	351	84,869	497
Mining administrative costs	3,447	47	624	18	1,401	22	5,472	32
Stripping and mine development adjustments	697	10	–	–	–	–	697	4
Third party smelting, refining and transportation	524	7	281	8	241	4	1,046	8
By-product credits	(1,214)	(17)	(750)	(21)	(248)	(4)	(2,211)	(13)
Cash operating costs	39,695	545	26,748	760	23,431	374	89,873	526
Royalty expense and production tax	5,080	70	2,513	71	2,466	39	10,059	59
Total cash costs	44,775	615	29,260	831	25,897	413	99,933	585
Inventory change	(1,158)		(6,064)		(4,554)		(11,776)	
By-product credits	1,214		750		248		2,211	
Mining amortization and depletion	13,012		7,794		10,442		31,248	
Asset retirement obligation accretion	386		103		131		620	
Total expenses per consolidated financial statements	58,230		31,843		32,164		122,236	

Supplemental Cash Cost Information - Six Months Ended June 30, 2010	C\$ 000s	US\$/oz
Total cash costs	99,933	585
By-product credit per above	2,211	
Administrative costs per financial statements	1,339	
Less: non-cash items		
Stock option benefit expense	(89)	
Exploration per financial statements	3,152	
Other income/(expense) per financial statements	3,998	
Less: non cash items		
Unrealized foreign exchange gain	(1,192)	
Loss on sale of assets/write downs	(781)	
Total non-operating cash costs	6,427	38
Total operating and non-operating cash costs		623

Six months ended June 30, 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\$	1,2056		1,2056		1,2056			
Gold ounces sold	73,404		42,022		39,940		155,366	
Gold revenue per consolidated financial statements	82,236	929	46,625	920	44,479	924	173,340	925
Gold ounces produced	70,625		43,619		42,547		156,791	
Direct mining costs	32,051	376	26,310	500	20,987	409	79,348	420
Mining administrative costs	3,173	37	2,090	40	1,213	24	6,477	34
Stripping and mine development adjustments	36	–	–	–	–	–	36	–
Third party smelting, refining and transportation	870	10	640	12	223	4	1,732	9
By-product credits	(904)	(11)	(592)	(11)	(103)	(2)	(1,599)	(8)
Cash operating costs	35,226	412	28,448	541	22,320	435	85,994	455
Royalty expense and production tax	4,720	55	2,924	56	1,314	26	8,958	47
Total cash costs	39,946	467	31,372	597	23,634	461	94,952	502
Inventory change	–		(2,372)		(1,123)		(1,495)	
By-product credits	904		592		103		1,599	
Mining amortization and depletion	10,728		9,486		8,554		28,768	
Asset retirement obligation accretion	208		100		115		423	
Total expenses per consolidated financial statements	51,786		39,178		31,283		122,247	

Supplemental Cash Cost Information - Six Months Ended June 30, 2009	C\$ 000s	US\$/oz
Total cash costs		502
By-product credit per above	3,964	
Administrative costs per financial statements	6,320	
Less: non-cash items		
Stock option benefit expense	(180)	
Restructuring accruals	(926)	
Exploration per financial statements		
Other income/(expense) per financial statements	66,934	
Less: non cash items		
Unrealized foreign exchange gain	(3,514)	
Loss on sale of assets/write downs	(59,248)	
Total non-operating cash costs	15,351	98
Total operating and non-operating cash costs		600

**High River Gold Mines Ltd.
Second Quarter 2010**

**Interim Consolidated Financial Statements
For the Three Months and Six Months Ended June 30, 2010 and 2009
(Unaudited)**

Notice of No Auditor Review of Interim Financial Statements

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

The management of High River Gold Mines Ltd. is responsible for the preparation of the accompanying unaudited interim consolidated financial statements. The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are considered by management to present fairly the financial position, operating results and cash flows of the Company.

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

s/ Igor Klimanov
Chief Executive Officer

s/ Andrei Maslov
Chief Financial Officer

August 13, 2010

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

(unaudited)	Note	June 30, 2010	December 31, 2009
Assets			
Current Assets			
Cash and cash equivalents	5	\$ 92,730	\$ 82,061
Restricted cash		477	562
Accounts receivable		13,479	18,115
Inventory	6	91,085	81,090
Other assets		16,359	12,382
		214,130	194,210
Investments	7	78,040	64,810
Property, plant and equipment	8	306,041	340,606
Exploration properties and deferred exploration	9	108,062	105,061
Other assets		765	697
Future income taxes		6,624	1,578
Total Assets		\$ 713,662	\$ 706,962
Liabilities			
Current Liabilities			
Accounts payable		\$ 39,063	\$ 39,726
Loans and interest payable	10	17,793	58,666
Non-hedge derivatives	12	6,373	–
		63,229	98,392
Loans and interest payable	10	13,738	25,365
Reclamation and closure costs	11	14,942	14,208
Non-hedge derivatives	12	–	13,684
Future income taxes		30,312	20,567
		122,221	172,216
Non-controlling interest		26,972	21,922
Total Liabilities		149,193	194,138
Shareholders' Equity			
Share capital	14 (b)	610,987	610,770
Warrants	14 (c)	13,265	13,265
Contributed surplus		15,996	15,907
Debenture conversion option	14 (d)	538	538
Deficit		(55,004)	(121,801)
Accumulated other comprehensive income		(21,313)	(5,855)
Total Shareholders' Equity		564,469	512,824
Total Liabilities and Shareholders' Equity		\$ 713,662	\$ 706,962

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On behalf of the Board

s/ Igor Klimanov
Director

s/ Alexey Khudyakov
Director

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

High River Gold Mines Ltd.
Consolidated Statements of Operations

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

(unaudited)	Note	Three months ended June 30,		Six months ended March 31,	
		2010	2009	2010	2009
Revenue					
Gold		\$ 113,808	\$ 84,561	\$ 211,464	\$ 173,340
Silver		1,388	3,622	2,211	3,964
		115,196	88,183	213,675	177,304
Expenses					
Mining costs		42,909	43,332	84,896	86,579
Mine administrative costs		3,679	3,032	5,472	6,477
Mine amortization and depletion		15,425	14,782	31,248	28,768
Asset retirement obligation accretion		333	223	620	423
		62,346	61,369	122,236	122,247
Income before the undernoted					
Administrative costs	15	(552)	(2,135)	(1,339)	(6,320)
Amortization		(107)	(11)	(6)	(31)
Exploration expense		(1,892)	(1,195)	(3,152)	(2,001)
Financing costs and investment income, net	16	504	(3,469)	838	(6,866)
Other expenses	17	(3,215)	(48,105)	(3,998)	(66,934)
Income (loss) before tax and non-controlling interest					
Income tax expense	18	(5,899)	(28,101)	(11,936)	(27,095)
		47,588	(28,101)	83,782	(27,095)
Income (loss) before non-controlling interest					
Non-controlling interest in earnings of subsidiary		41,689	(33,467)	71,846	(32,448)
		(2,422)	(4,310)	(5,049)	(4,398)
Net income (loss) for the period					
		\$ 39,267	\$ (37,777)	\$ 66,797	\$ (36,846)
Net income (loss) per share – basic and diluted					
	19	\$ 0.05	\$ (0.06)	\$ 0.08	\$ (0.06)

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

High River Gold Mines Ltd. Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

(unaudited)	Note	Three months ended June 30,		Six months ended June 30,	
		2010	2009	2010	2009
Operating Activities					
Net income (loss) for the period		\$ 39,267	\$ (37,777)	\$ 66,797	\$ (36,846)
Non-cash items:					
Non-controlling interest in earnings of subsidiary		2,422	4,310	5,049	4,398
Mining costs		(4,231)	(976)	(11,776)	(1,123)
Amortization and depletion		15,532	14,792	31,254	28,798
Asset retirement obligation accretion		333	223	620	423
Financial instrument accretion		270	661	311	454
Fair value adjustments to financial instruments		(3,482)	(1,229)	(7,311)	(3,007)
Stock based compensation		21	130	89	180
Write down of exploration		628	58,784	628	58,784
Loss on disposal of assets		122	434	153	463
Future income taxes		(650)	1,164	1,011	(1,130)
Unrealized foreign exchange loss		3,842	(8,453)	3,223	3,514
Other		980	46	(514)	99
Subtotal		55,054	32,109	89,534	55,007
Change in non-cash working capital	22	(6,254)	(9,288)	(9,235)	(2,514)
Net cash provided by operating activities		48,800	22,821	80,299	52,493
Investing Activities					
Property, plant and equipment		(9,176)	(5,164)	(13,222)	(7,640)
Proceeds on disposal		538	-	542	-
Exploration properties and deferred exploration		(2,411)	(604)	(4,635)	(2,554)
(Increase) decrease in other assets		(165)	3,320	(238)	3,374
Net cash used by investing activities		(11,214)	(2,448)	(17,553)	(6,820)
Financing Activities					
Loans received		-	5,947	-	5,978
Loans repaid		(30,511)	(37,812)	(52,674)	(57,568)
Common shares issued		-	10,623	217	10,623
Net cash used by financing activities		(30,511)	(21,242)	(52,457)	(40,967)
Effect of exchange rate changes on cash held in foreign currencies					
		3,115	(1,021)	(380)	(699)
Increase in cash and cash equivalents during the period					
		10,190	(1,890)	10,669	4,007
Cash and cash equivalents - Beginning of period		82,540	25,020	82,061	19,123
Cash and cash equivalents - End of period		\$ 92,730	\$ 23,130	\$ 92,730	\$ 23,130

Supplementary cash flow information 22

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

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

(Expressed in thousands of Canadian dollars)

(unaudited)	Note	Three months ended June 30,		Six months ended June 30,	
		2010	2009	2010	2009
Share capital					
Balance at beginning of period		\$ 610,987	\$ 543,244	\$ 610,770	\$ 543,244
Issue of common shares		–	10,623	217	10,623
Balance at end of period	14(b)	610,987	553,867	610,987	553,867
Warrants					
Balance at beginning of period		13,265	16,121	13,265	16,627
Expired		–	(373)	–	(879)
Balance at end of period	14(c)	13,265	15,748	13,265	15,748
Contributed surplus					
Balance at beginning of period		15,976	13,433	15,907	12,876
Expired warrants		–	373	–	879
Stock based compensation, net		20	131	89	182
Balance at end of period		15,996	13,937	15,996	13,937
Debenture conversion option	14(d)	538	538	538	538
Deficit					
Balance at beginning of period		94,271	(111,106)	(121,801)	(112,037)
Net income (loss)		39,267	(37,777)	66,797	(36,846)
Balance at end of period		(55,004)	(148,883)	(55,004)	(148,883)
Accumulated other comprehensive income (loss)					
Balance at beginning of period		(22,610)	17,186	(5,855)	15,794
Comprehensive income (loss) for the period		1,297	(13,606)	(15,458)	(12,214)
Balance at end of period		(21,313)	3,580	(31,313)	3,580
Shareholders' equity at end of period		\$ 564,469	\$ 438,787	\$ 564,469	\$ 438,787

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

(Expressed in thousands of Canadian dollars)

(unaudited)	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income (loss)	\$ 39,266	\$ (37,777)	\$ 66,796	\$ (36,846)
Other comprehensive income (loss)				
Unrealized loss on translation of net foreign operations	(8,055)	(15,604)	(24,663)	(29,446)
Net change in unrealized gain on available for sale securities	9,352	1,998	9,205	17,232
Comprehensive income (loss) for the period	1,297	(13,606)	(15,458)	(12,214)
Net comprehensive income (loss) for the period	\$ 40,564	\$ (51,383)	\$ 51,339	\$ (49,060)

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

1. Nature of Operations and Going Concern

These consolidated financial statements include the financial statements of High River Gold Mines Ltd. (the “Company” or “High River”), OJSC Buryatzoloto (“Buryatzoloto”), OOO Berezitovy Rudnik (“Berezitovy”), and Société des Mines de Taparko S.A. (“Somita”). As of March 31, 2009, the Company’s interest in Buryatzoloto is 84.94% of the common shares (82.87% of the voting shares), Berezitovy 99% and 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.

As described in note 10(d), the Company is in violation of certain loan covenants in connection with the Royal Gold, Inc. loan.

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 312,771,131 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 sold Severstal 59,019,367 shares in a private placement for proceeds of \$10,623,000.

In Q2 2010 Severstal acquired an additional 150,000,000 shares and at June 30, 2010, owned approximately 68.9% of High River. In addition, four of the Company’s directors, its Chief Financial Officer and its Chief Executive Officer were employees of Severstal as at June 30, 2010.

2. 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 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 will be 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 is in the process of evaluating the requirements of these new standards.

(e) International Financial Reporting Standards (“IFRS”)

In February 2008, the Accounting Standards Board (“AcSB”) confirmed that IFRS, as issued by the International Accounting Standards Board (“IASB”), will replace Canadian GAAP for publicly accountable enterprises and must be adopted for fiscal years beginning on or after January 1, 2011.

3. 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:

	June 30, 2010	December 31, 2009
Cash and cash equivalents	\$ 92,730	\$ 82,061
Accounts receivable	13,479	18,115
Investments	78,040	64,810
	\$ 184,249	\$ 164,986
Accounts payable	\$ 39,063	\$ 39,726
Loans and interest payable	31,531	84,031
Non-hedge derivatives	6,373	13,684
	\$ 76,967	\$ 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.

Currency risk

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 Central African franc in Burkina Faso (which is tied to the Euro), the Rouble in Russia and the United States dollar. The Company has obtained bank debt to finance development and operation of its mines. The bank debt is denominated in United States dollars.

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. The foreign currency exchange loss in 2010 of \$929,000 is primarily due to the appreciation of the Russian Rouble against the United States dollar.

Sensitivity of pre-tax earnings to a 10% increase or decrease in the C\$/US\$ exchange rate (1.0287 average) for the Company’s Q2 2010 production is approximately \$126,000 or \$0.00 per share based on shares outstanding June 30, 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. The Company has pledged certain investments in support of borrowings and it may be unable to realize its entire interest in an investment quickly at current fair value.

Gold price market risk

The future profitability of the Company and the recoverability of deferred exploration, development and other costs are directly related to the market price of gold to be sold in the future and its operating costs. The Company does not use derivatives to mitigate its exposure to gold price market risk. Sensitivity of annual pre-tax earnings to a 10% increase or decrease in the realized gold price (US\$1,212 per ounce) for the Company's Q2 2010 production is approximately \$11.4 million or \$0.01 per share based on shares outstanding as at June 30, 2010.

Commodity price market risk

The Company is also exposed to commodity price market risk. The Company does not use derivatives to mitigate its exposure to commodity price market risk. Sensitivity of annual pre-tax earnings to a 10% increase or decrease in the realized mining total cash costs (US\$567 per oz) for the Company's Q2 2010 production is approximately 5.1 million or \$0.01 per share based on shares outstanding as at June 30, 2010.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. In 2009, the majority of the Company's debt was restructured with fixed interest rates; therefore, cash interest payments are exposed to interest rate fluctuations. The Company has not used derivatives to mitigate its exposure to interest rate risk. The debt subject to floating interest rates and the estimated weighted average floating interest rates is summarized below.

	Floating interest rate, %	June 30, 2010	Floating interest rate, %	December 31, 2009
Caterpillar Finance France SA	4.1	\$ –	3.9	\$ 1,049

The sensitivity of annual pre-tax earnings to a 100 basis point increase or decrease in the base case LIBOR in Q2 2010 is approximately \$nil as the loan was retired in Q2 2010. The six-month LIBOR for United States dollars was 0.75% as at June 30, 2010.

(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, mineral rights 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 \$92.7 million at June 30, 2010. Working capital was \$150.9 million (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 pledged certain investments and it may be unable to realize its entire interest in an investment quickly at current fair value. 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.

The contractual cash flow requirements for financial liabilities at June 30, 2010, are as follows

	Total	2010	2011	2012
Payables and accruals	\$ 39,063	\$ 39,063	\$ –	\$ –
Debt	22,581	10,660	11,921	–
Interest on debt	8,019	7,064	955	–
Capital lease obligations	1,269	476	793	–
Purchase obligations	6,606	4,000	2,017	589
Other long-term obligations	8,969	8,969	–	–
Total	\$ 86,507	\$ 70,232	\$ 15,686	\$ 589

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

4. 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.

	June 30, 2010	December 31, 2009
Total loans and interest payable	\$ 31,531	\$ 84,031
Less: Cash and cash equivalents	92,730	82,061
Net debt	(61,199)	1,970
Shareholders' equity excluding accumulated other comprehensive income	585,782	518,679
Total Capital	\$ 524,583	\$ 520,649

As described in note 10 (d), Somita is in breach of certain loan covenants. Pursuant to the Amended and Restated Funding Agreement ("Funding Agreement") between Royal Gold, Inc. ("RGI") and Somita, Somita is 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 that, at current market prices, exceed the value of the debt. RGI has not agreed to forbear from asserting breaches in addition to those described above or pursuing any of its remedies under the Funding Agreement or other agreements with High River and its affiliates, including Somita. 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. See note 21 (a). RGI are using this dispute as their justification for not releasing the security they hold.

5. 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 11).

6. Inventory

Inventory consists of the following:

	June 30, 2010	December 31, 2009
Materials and supplies	\$ 50,387	\$ 45,513
Stockpiled ore	30,976	20,374
Gold-in-process	5,187	4,225
Doré alloy	4,060	6,009
Refined gold and silver	475	4,969
	\$ 91,085	\$ 81,090

7. Investments

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

	June 30, 2010		December 31, 2009	
	Fair value	Original Cost	Fair value	Original cost
Detour Gold Corporation (a)	\$ 72,994	\$ 3,616	\$ 55,016	\$ 3,616
Goldrush Resources (b)	1,144	1,657	715	1,657
Other equities (c), (d), (e), (f)	3,902	2,677	9,079	2,677
	\$ 78,040	\$ 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 are pledged and are not capable of reasonably prompt liquidation as long term.

- (a) As at June 30, 2010, the Company held 3,089,057 common shares of Detour Gold Corporation ("Detour"). The Detour shares have been 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.
- (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 \$1,994,000, 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 June 30, 2010, the Company held 7,540,000 common shares or approximately 10.3% of Goldrush (2009 – 12.0%). The shares have been pledged as security for a loan to High River. 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.
- (c) As at June 30, 2010, the Company held 1,790,941 common shares of Intrepid Mines Limited ("Intrepid"). The shares have been pledged as security for a loan to Somita.
- (d) As at June 30, 2010, the Company held 12,015,000 common shares of Pelangio Exploration Inc. ("Pelangio") or approximately 9.9% of Pelangio (2009 – 10.2%). The shares have been pledged as security for a loan to Somita.

- (e) As at March 31, 2010, the Company held 2,245,000 common shares of Merrex Gold Inc. (“Merrex”). These shares have been pledged as security for a loan to High River.
- (f) Merrex issued shares of Frontier Gold Corporation as a return of capital to Merrex shareholders during Q2 2010. At June 30, 2010, High River owns 470,650 shares of Frontier Gold.

8. Property, Plant and Equipment

Carrying value, June 30, 2010	Buryatzoloto	Somita	Berezitovy	Corporate and exploration	Total
Property	\$ 47,381	\$ 44,232	\$ 38,143	\$ –	\$ 129,756
Land and buildings	37,772	1,711	23,069	2,331	64,883
Plant and equipment	20,196	66,245	77,526	–	163,967
Mobile equipment	6,668	17,731	19,899	–	44,298
Capitalized interest	–	7,575	4,594	–	12,169
Assets under construction	4,439	5,645	5,042	–	15,126
Capital leases	2,851	–	2,597	–	5,448
Asset retirement obligation	6,021	1,956	3,127	–	11,104
	125,328	145,095	173,997	2,331	446,751
Accumulated amortization					
Property	(29,276)	(18,378)	(5,314)	–	(52,968)
Land and buildings	(30,178)	(1,089)	(4,884)	(2,027)	(38,178)
Plant and equipment	(10,229)	(11,412)	(11,801)	–	(33,442)
Mobile equipment	(1,990)	(749)	(2,871)	–	(5,610)
Capitalized interest	–	(4,131)	(644)	–	(4,775)
Capital leases	(2,053)	–	(845)	–	(2,898)
Asset retirement obligation	(1,593)	(845)	(401)	–	(2,839)
	(75,319)	(36,604)	(26,760)	(2,027)	(140,710)
Net carrying value	\$ 50,009	\$ 108,491	\$ 147,237	\$ 305	\$ 306,041

Carrying value, December 31, 2009	Buryatzoloto	Somita	Berezitovy	Corporate and exploration	Total
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)	(2,029)	(117,506)
Net carrying value	\$ 56,767	\$ 135,677	\$ 147,744	\$ 418	\$ 340,606

9. Exploration Properties and Deferred Exploration

	January 1, 2010	Additions/ revaluation	Write-down	June 30, 2010
West Africa – Bissa project	\$ 62,636	\$ 2,309	\$ –	\$ 64,945
West Africa – other	15,959	2,567	(962)	17,564
Russia – Prognoz (a)	24,472	(1,124)	–	23,348
Russia – Sergachinsky/South Flank	1,994	211	–	2,205
	\$ 105,061	\$ 3,963	\$ (962)	\$ 108,062

	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 21 (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 \$17,896,000 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. The change from the year-end receivable is due to revaluation of foreign currency amounts.

(c) In 2009, the Company determined that the Novophirsovskoye project was no 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.

10. Loans and Interest Payable

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

	June 30, 2010	December 31, 2009
<i>Buryatzoloto</i>		
Nomos Bank – US\$25m (a)	\$ –	\$ 1,312
Nomos Bank – US\$8m (b)	–	2,519
Nomos Bank (c)	–	7,631
Finance lease obligations	–	283
	–	11,745
<i>Somita</i>		
Royal Gold, Inc. (d)	10,534	21,150
Accrued interest on loan	6,509	8,157
Caterpillar Finance France SA (e)	–	1,049
Ecobank (f)	–	216
	17,043	30,572
<i>Berezitovy</i>		
Nomos Bank (g), (h)	–	14,692
Accrued interest on loan	–	859
Finance lease obligations (l)	750	798
	750	16,349
	\$ 17,793	\$ 58,666

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

	June 30, 2010		December 31, 2009	
	Amortized cost	Carrying Value	Amortized cost	Carrying value
<i>High River</i>				
8% Debentures (i)	\$ 11,665	\$ 11,921	\$ 11,588	\$ 11,921
<i>Somita</i>				
Government of Burkina Faso (j)	524	524	525	530
Ecobank	–	–	86	86
	524	524	611	616
<i>Berezitovy</i>				
Nomos Bank	–	–	11,302	11,549
Finance lease obligations	265	265	555	555
	265	265	11,857	12,104
<i>Prognoz Invest Ltd.</i>				
Arinvest LLC (k)	1,284	1,284	1,309	1,309
	\$ 13,738	\$ 13,994	\$ 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.
- (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 prepaid in Q2 2010.
- (c) In December 2009 Buryatzoloto received a loan from Nomos Bank for the delivery of gold for US\$7,272,000. The loan was repaid in Q1 2010.
- (d) Somita entered into an agreement with Royal Gold, Inc. for project financing of US\$35,000,000 for the construction and development of Somita. In exchange for the financing, RGI receives two concurrent production payments, a tail royalty and a milling fee. The first production payment will continue until US\$35,000,000 (the loan principal) has been paid, or until 804,420 ounces of gold have been produced, whichever occurs first. The first production payment is 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 is set at a 4.3% fixed percentage rate of the produced ounces when the average monthly gold price falls between US\$385 and US\$430 per ounce, or a sliding-scale at a calculated percentage rate, when the average monthly gold price falls 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 continue 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 utilized and repayments have begun.

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 commence once the two concurrent production payments have ceased.

The loan has been unconditionally guaranteed by High River until project completion and is secured by a pledge over the shares of Somita, Pelangio, Detour, and Intrepid. Post-completion, High River has not guaranteed the total loan but has guaranteed that, should Somita not be able to pay the full amount of a quarterly production payment, High River will make up the difference. As at and December 31, 2008, High River had not met the RGI completion test. The loan was reclassified as current, as Somita was in breach of the loan completion covenant. 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. 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. RGI are using this dispute as their justification for not releasing the security they hold. High River expects the RGI loan to be retired in 2010.

- (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 prepaid 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 prepaid 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.

- (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) Arinvest LLC, who holds a 50% interest in the Prognoz silver project, lent funds to the project. The loan is unsecured and is non-interest bearing. Arinvest owes the Prognoz silver project \$17,896,000 (note 10 (a)). The repayment date of the loan cannot be determined as it is not known when Arinvest will pay the amount owing to the Prognoz silver project. See note 21(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(b)). Transaction costs are included in long-term debt and amortized using the effective interest method.

As at June 30, 2010, the long-term loans and estimated interest payable debt maturities for fixed term loans for each of the five years to 2014 are: 2010 - \$17,724,000; 2011 - \$12,876,000; 2012 - \$nil; 2013 - \$nil; 2014 - \$nil.

11. 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 Buryatria region 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 estimated to be US\$4,212,000. A credit adjusted risk-free rate of 9.00% 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 8.75% 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	44	192	51	287
Revaluation	(112)	166	(8)	46
Carrying value, March 31, 2010	7,895	3,193	3,453	14,541
Accretion expense	343	(62)	52	333
Revaluation	205	(97)	(40)	68
Carrying value, June 30, 2010	\$ 8,443	\$ 3,034	\$ 3,465	\$ 14,942

12. Non-Hedge Derivatives

	June 30, 2010	December 31, 2009
RGI loan (a)	\$ 6,373	\$ 13,684

- (a) 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 was reclassified as current in 2010 as it was expected that the RGI loan would be repaid within 12 months.

13. 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 June 30, 2010, there were 10,027,753 options available for grant (December 31, 2009 – 6,362,504).

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	(3,655,835)	\$1.87
Expired	(1,339,000)	\$1.85
Balance – December 31, 2009	5,477,349	\$2.11
Terminated	(649,599)	\$2.23

Exercised	(315,000)	\$0.67
Expired	(161,250)	\$0.67
Balance- March 31, 2010	4,351,500	\$2.25
Terminated	(417,066)	\$2.25
Balance- June 30, 2010	3,934,434	\$2.25

Stock options outstanding:

Exercise price	June 30, 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	802,500	0.7	802,500	1,042,500	1.2	1,042,500
2.35	–	–	–	75,000	1.5	75,000
2.15	1,640,267	1.4	1,640,267	2,185,267	1.9	2,185,267
2.85	100,000	2.3	100,000	100,000	2.7	100,000
2.80	701,667	2.6	638,328	861,666	3.1	539,999
2.19	340,000	2.8	340,000	340,000	3.3	226,667
1.80	350,000	3.1	233,333	363,333	3.6	246,666
0.64	–	–	–	33,333	3.7	33,333
	3,934,434	1.8	3,754,428	5,477,349	2.0	4,925,682

The weighted average exercise price of outstanding stock options was \$2.26 per common share (2009 – \$2.11) and for vested and exercisable stock options \$2.26 (2009 – \$2.07).

The unvested, unamortized fair value of all stock options outstanding at period end was \$17,000 (2009 – \$128,000). The net stock-based compensation expense included in administrative costs in the consolidated statement of operations for the period was \$89,000 (2009 – \$130,000).

14. 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
Balance- March 31, 2010	799,544,422	\$ 610,987
Balance- June 30, 2010	799,544,422	\$ 610,987

- a. 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 sold Severstal 59,019,367 shares in a private placement for proceeds of \$10,623,000.

b. In December 2009, 150,000,000 shares were issued to Polenica Investments Limited for cash proceeds of \$57,000,000 in a private placement.

(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
Balance – March 31, 2010	59,247,040	\$1.69	13,265
Balance – June 30, 2010	59,247,040	\$1.69	\$ 13,265

Warrants outstanding as at:

Exercise price	June 30, 2010		December 31, 2009	
	Number of warrants outstanding	Expiry date	Number of warrants outstanding	Expiry date
\$4.00	18,572,500	Nov. 8, 2010	18,572,500	Nov. 8, 2010
\$0.64	40,674,540	Sep. 29, 2013	40,674,540	Sep. 29, 2013
	59,247,040		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.

In connection with the November 2008 private placement, High River issued 40,674,540 warrants to Severstal. The warrant entitles the holder to acquire one common share for a price of \$0.64 until September 29, 2013.

(d) **Debenture conversion option**

In November 2006, the Company issued \$12,000,000 of convertible debentures (note 10 (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.

15. Administrative Costs

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Other	\$ (325)	\$ (130)	\$ (867)	\$ (2,074)
Stock-based compensation	(21)	(186)	(89)	(180)
Restructuring costs	–	(509)	–	(3,514)
Salaries and benefits	(206)	(1,310)	(383)	(552)
	\$ (552)	\$ (2,135)	\$ (1,339)	\$ (6,320)

Restructuring costs are mainly legal and financial advisory fees. In 2009, restructuring costs included \$1,756,000 relating to severance payments.

16. Financing Costs and Investment Income, Net

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Investment income	\$ 663	\$ 1	\$ 893	\$ 8
Financing costs	(3,363)	(3,951)	(7,005)	(9,238)
Interest on capital lease	(8)	(87)	(50)	(189)
Financial instrument accretion expense	(39)	(661)	(77)	(454)
Fair value adjustments to derivatives	3,251	1,229	7,077	3,007
	\$ 504	\$ (3,469)	\$ 838	\$ (6,866)

Financing costs include interest to RGI of \$2,911,000 (2009 – \$1,068,000) and \$ nil on the Standard Bank/Severstal loan (2009 – \$675,000).

17. Other Expenses

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Foreign exchange	\$ (2,121)	\$ 11,171	\$ (1,192)	\$ (7,750)
Loss on sale or write-off of assets	(122)	(577)	(153)	(606)
Write-down of exploration	(628)	(58,642)	(628)	(58,642)
Management fees	(1,027)	–	(1,967)	–
Other	683	(57)	(58)	64
	\$ (3,215)	\$ (48,105)	\$ (3,998)	\$ (66,934)

18. Income Tax Expense

Income (loss) before income taxes and income tax expense

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Current tax (expense) / recovery:				
Canada		\$ –	\$ –	\$ –
Foreign	(6,549)	(4,201)	(10,925)	(6,482)
Future tax recovery / (expense):				
Canada	65	–	286	–
Foreign	585	(1,165)	(1,297)	1,129
	\$ (5,899)	\$ (5,366)	\$ (11,936)	\$ (5,353)

19. 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.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income for the period	\$ 39,267	\$ (37,777)	\$ 66,797	\$ (36,846)
Weighted average number of shares	799,544,422	597,407,151	799,736,089	593,800,412
Basic income per share	\$ 0.05	\$ (0.06)	\$ 0.08	\$ (0.06)
Incremental shares on assumed exercise of options and warrants	977,181	–	807,698	–
Weighted average number of shares	800,521,603	597,407,151	800,243,787	593,800,412
Diluted income per share	\$ 0.05	\$ (0.06)	\$ 0.08	\$ (0.06)

20. 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 June 30, 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 June 30, 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. Alvarez & Marsal hold a deposit of \$75,000 from High River.

Transactions with Severstal

During the period, officers of the Company who are employees of Severstal have received \$18,000 (2009-\$36,000) as consulting fees from the Company.

During the period, Buryatzoloto paid Severstal \$257,000 (2009 – nil) in management fees.

Berezitovy paid Severstal \$770,000 (2009 – nil) in management fees. Costs relating to the new mill purchased from Tyajmash, a subsidiary of Severstal, were \$1,694,000. Costs relating to the rental of a mobile crusher and parts and equipment from a subsidiary of Severstal were US\$70,000.

21. 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. The Company 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.

In the fall of 2009, High River's joint venture partner started a legal action in Moscow to declare Prognoz Silver LLC bankrupt. Prognoz Silver is 50% owned by High River and holds the mineral license for the Prognoz silver project. The primary creditor was OJSC Buryatzoloto who was owed approximately \$18 million. In order to protect its interests, Buryatzoloto also filed to put Prognoz Silver into bankruptcy. The Russian courts chose to accept Buryatzoloto's application and appointed an observer to oversee the affairs of Prognoz Silver. Under Russian law, in the event of a bankruptcy, the mineral license held by Prognoz Silver is supposed to be returned to the State. However, in practice there is some leeway and the observer may sell or transfer the license as part of the debt restructuring. As the outcome of the bankruptcy proceedings is uncertain and the law is clear as to what is supposed

to happen. High River and Buryatzoloto will attempt to realize some value from the license. However, it may be necessary for High River to write off some or all of its investment.

(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 regulation 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.

(c) Guarantees

In order to retain its skilled employees, Buryatzoloto has guaranteed employee mortgages given by Sberbank RF. As at June 30, 2010, this guarantee amount is \$366,000 (2009 – \$1,202,000). The Company accounts for guarantees at fair value and it estimates the guarantees to have \$nil value, as historically there have been no defaults.

High River has guaranteed a materials supply contract for Somita up to US\$195,000 and it estimates the guarantees to have \$nil value as forecasts show that the operation will generate sufficient cash in the future to meet this obligation.

(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.

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 is unlikely to exceed \$5,000,000;
- (ii) an annual payment of US\$100,000 per year for five 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 and 2009;
- (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 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 has pledged investments to support certain borrowings (note 8).

There is a contingent liability to pay up to \$411,000 in connection with termination provisions of employee contracts.

(e) Operating contractual obligations

<i>(in thousands)</i>	Total	2010	2011	2012	2013 and thereafter
Operating leases ⁽¹⁾	\$ 150	\$ 150	\$ –	\$ –	\$ –
Purchase obligations ⁽²⁾	6,606	4,000	2,017	589	–
Other long-term obligations ⁽³⁾	8,969	8,969	–	–	–
Total	\$ 15,725	\$ 13,119	\$ 2,017	\$ 589	\$ –

(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, issue shares. Berezitovy has signed a contract to purchase a second ball mill from Severstal for 43 million Roubles (\$1.5 million) to be paid in 2010.

22. Supplementary Cash Flow Information

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
(a) Net changes in non-cash working capital				
Accounts receivable	\$ 1,450	\$ (4,569)	\$ 4,359	\$ 634
Inventory	(11,451)	(1,633)	(10,001)	3,381
Other assets	15	(3,386)	(3,473)	(4,637)
Accounts payable	3,846	798	(120)	(1,986)
Interest payable	(114)	(498)	–	94
	\$ (6,254)	\$ (9,288)	\$ (9,235)	\$ (2,514)
(b) Cash paid for interest and financing fees	\$ 6,148	\$ 3,282	\$ 7,002	\$ 7,044
Cash paid for income taxes	\$ –	\$ 2,840	\$ 4,375	\$ 3,110
(c) Non-cash financing activities	\$ –	\$ –	\$ –	\$ –

23. Comparative Figures

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

24. 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.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Property, plant and equipment expenditures, net				
Russia – Buryatzoloto	\$ 2,543	\$ 1,815	\$ 5,148	\$ 3,699
Russia – Berezitovy	5,118	3,329	6,397	3,386
Burkina – Somita	1,500	(93)	1,657	526
Burkina – exploration	15	–	20	29
Corporate/other	–	–	–	–
	9,176	5,051	13,222	7,640
Deferred exploration expenditures				
Russia – Berezitovy	64	133	255	171
Russia – Prognoz (a)	–	–	–	279
Burkina – exploration	2,348	471	4,380	2,103
	2,412	604	4,635	2,554
Total assets as at:				
Russia – Buryatzoloto			152,495	174,901
Russia – Berezitovy			230,848	198,044
Russia – Prognoz			15,419	33,784
Burkina – Somita			152,175	182,848
Burkina – exploration			84,499	75,346
Corporate/other			78,225	(9,858)
			\$ 713,661	\$ 655,067

(a) Included with Russia - Buryatzoloto in 2008.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Revenue (b)				
Russia – Buryatoloto	\$ 48,495	\$ 45,137	\$ 94,564	\$ 85,504
Russia – Berezitovy	28,724	24,218	48,191	47,217
Burkina – Somita	37,977	18,828	70,920	44,583
	115,196	88,183	213,675	177,304
Expenses				
Mining costs				
Russia – Buryatoloto	20,713	18,799	41,384	37,677
Russia – Berezitovy	13,390	17,135	23,322	27,502
Burkina – Somita	8,806	7,398	20,190	21,400
Mine administrative costs				
Russia – Buryatoloto	1,990	1,314	3,447	3,173
Russia – Berezitovy	288	1,075	624	2,090
Burkina – Somita	1401	643	1,401	1,214
Mine amortization and depletion				
Russia – Buryatoloto	6,327	5,708	13,012	10,727
Russia – Berezitovy	4,311	4,924	7,794	9,486
Burkina – Somita	4,787	4,150	10,442	8,555
Asset retirement obligation accretion				
Russia – Buryatoloto	194	102	386	207
Russia – Berezitovy	52	50	103	100
Burkina – Somita	87	71	131	116
	62,346	61,369	122,236	122,247
Administrative costs				
Russia – Buryatoloto	4	–	4	6
Russia – Berezitovy	12	244	250	368
Burkina – Somita	4	–	29	–
Corporate/other	532	1,891	1,056	5,946
	552	2,135	1,339	6,320
Financing costs and investment income, net				
Russia – Buryatoloto	(408)	676	(547)	1,654
Russia – Berezitovy	1,192	2,389	3,040	4,699
Burkina – Somita	392	3,490	44	5,075
Corporate/other	(1,680)	(2,486)	(3,375)	(4,562)
	(504)	3,469	(838)	6,866
Other income/expenses				
Russia – Buryatoloto	2,144	2,641	2,132	(2,990)
Russia – Berezitovy	14,030	18,784	8,984	(14,450)
Burkina – Somita	14,242	6,419	23,218	(2,174)
Corporate/other	(27,201)	(75,949)	(30,336)	(47,320)
	3,215	(48,105)	3,998	(66,934)
Income tax expense (recovery)				
Russia – Buryatoloto	2,292	(765)	6,548	(1,535)
Russia – Berezitovy	(647)	(4,612)	1,356	(3,914)
Burkina – Somita	4,317	–	4,317	–
Corporate/other	(63)	11	(285)	96
	5,899	5,366	11,936	5,353
Net (loss)/income for the period				
Russia – Buryatoloto	11,254	4,733	21,006	11,002
Russia – Berezitovy	(3,902)	12,875	2,718	(15,392)
Burkina – Somita	3,504	8,957	10,136	5,512
Corporate/other	28,411	(64,342)	32,937	(37,969)
	\$ 39,267	\$ (37,777)	\$ 66,797	\$ (36,847)

(b) Sales of gold by Buryatoloto and Berezitovy are to customers in Russia. Sales by Somita are to customers in Switzerland.

Corporate Information

Directors

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

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

Igor Klimanov
Manager of Strategy and Corporate
Development, Severstal Gold LLC
Moscow, Russia

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

Andrei Maslov
Investment Manager
Severstal Gold LLC
Moscow, Russia

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

Officers

Igor Klimanov
Chief Executive Officer

Andrei Maslov
Chief Financial Officer

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

Corporate Office

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Burkina Faso Office

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M5H 4H1

Auditors

KPMG LLP
Toronto, Ontario

Solicitors

Cassels Brock and Blackwell LLP
Toronto, Ontario

Shares Listed

The Toronto Stock Exchange
Symbol: HRG
CUSIP 42979J

Warrants Listed

The Toronto Stock Exchange
Symbol: HRG.WT
CUSIP 42979J156

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.