

**HRG**



**HIGH RIVER GOLD**

---

---

**HIGH RIVER GOLD MINES LTD.  
Q3 Report 2008**

---

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

# High River Gold Mines Ltd.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

*As at September 30, 2008. 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 quarter ended September 30, 2008 should be read in conjunction with the audited Consolidated Financial Statements and related Notes, and Management's Discussion and Analysis as at December 31, 2007. 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](http://www.sedar.com). The date of this Management's Discussion and Analysis is December 17, 2008. 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 and a small placer operation in Russia, through its 84.94%-owned subsidiary, OJSC Buryatzoloto ("Buryatzoloto"), which will produce approximately 123,000 ounces of gold attributable to High River in 2008. 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 is now expected to produce approximately 29,000 ounces attributable to High River in 2008. The Berezitovy Gold Project in Russia owned by Berezitovy Rudnik LLC ("Berezitovy") in which the Company has a 99% interest achieved commercial production on October 1, 2008. Gold production in 2008 is now expected to be approximately 41,000 ounces resulting in 40,000 ounces attributable to High River. In total, High River expects to produce approximately 192,000 attributable ounces of gold in 2008.

### **Forward Looking Statements**

This MD&A contains certain forward-looking statements relating but not limited to the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results.

Potential shareholders and prospective investors should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Shareholders are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. High River undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.

## **Highlights for the Third Quarter of 2008**

### **Financial**

- The Q3 interim consolidated financial statements issued together with this report have been prepared on the basis of accounting principles applicable to a going concern. However, there have been developments (indicated below) that bring this assumption into question.
- In providing support to its two new mines and, initially in the quarter, for the exploration programme on the Bissa and Prognoz projects, the Company's cash reserves were drastically reduced, in an environment of rapidly diminishing market appetite for debt or equity investment of any kind.
- The Company is aware, and has been notified by the respective lenders, that certain covenants of its Somita (Taparko-Bouroum Mine) subsidiary with respect to two separate loan accommodations are in breach. However, no payment demands have been received by the Company, and the Company is in discussions with certain lenders, trade creditors and possible strategic investors/purchasers with respect to the Company's financial situation.
- Net loss of \$15.3 million (\$0.05 per share), compared to \$4.7 million (\$0.02 per share) in Q3 2007.
- Cash conservation measures were put into effect, with work on all exploration projects and the Bissa feasibility study halted. Sales of non-core investments were begun.
- All subsidiaries made their scheduled repayments on the current portion of their long-term debt facilities during the third quarter of 2008.
- Gold revenue of \$34.9 million, an increase of 31% from Q3 2007.
- Attributable gold production declined 2.5% to 33,460 from 34,302 in Q3 2007. Cash operating cost per ounce increased 42% to US\$546 per ounce (excluding cash costs from Berezitovy which was not in commercial production at the end of Q3).

### **Operations**

- Gold production from the Zun-Holba and Irokinda underground gold mines in Russia of 37,608 ounces (100%) at a cash operating cost of US\$541 per oz.
- Taparko-Bouroum Gold Mine in Burkina Faso was shut down the entire third quarter and October due to problems with the drive train of the ball mill. A new custom-made gear box was installed early in November and milling resumed at Taparko-Bouroum.
- Capacity restrictions placed on the ball mill kept the Berezitovy Gold Project from achieving commercial production in the quarter. Commercial production was declared effective October 1, 2008. Gold production totalled 14,293 ounces in the quarter and was credited to development properties.

### **Corporate**

- On July 31, 2008, High River announced an agreement to acquire the remaining 50% of the Prognoz Silver Project ("Prognoz") by issuing shares. The transaction, scheduled to close September 30, was extended to November 30, 2008 due to delays by Russian regulators. On December 4, 2008, the Company announced that the transaction has been terminated.
- On August 1, 2008, High River announced a strategic investment transaction with an indirect wholly-owned subsidiary of the Alfa Group Consortium ("Alfa"). Due to a subsequent deterioration in market conditions the transaction was cancelled.
- High River restructured the Board of Directors by bringing in four independent senior mining and financial executives to help address the concerns regarding future financing and operational issues. The Board established a Special Committee with the mandate of examining strategic alternatives that are available to the Company with the objective of maximizing shareholder value.
- The Special Committee has appointed independent financial advisors to support its mandate.

### **Events Subsequent to Quarter**

- The Special Committee appointed Alvarez & Marsal Canada ULC to assist the Company in the review of corporate liquidity.
- Graham Farquharson, Robert Buchan and Murray Sinclair resigned from the Special Committee and the Board of Directors. Mark Rachovides also resigned as a director. Stephen Polakoff joined the Special Committee.
- On November 16, 2008, the Company announced that it would be late filing its Q3 interim financial statements due to concerns raised by the board of directors regarding the reliability of information that the

Company has received from its 85% owned subsidiary Buryatzoloto. Those concerns have been subsequently addressed to the satisfaction of the Board.

- Effective on November 19, 2008, Richard Morawetz of Alvarez & Marsal Canada ULC was appointed Chief Restructuring Officer reporting directly to the Board of Directors.
- On November 20, 2008, the Company closed a financing for 282.3 million shares and 40.7 million warrants raising \$56.4 million. The purchaser was Lybica Holding B.V., an affiliate of ZAO Severstal Resources, the mining division of OAO Severstal (“Severstal”). Upon completion of the financing, Severstal held 312,771,131 Common Shares representing approximately 53.0% of the currently outstanding Common Shares. Valery Dmitriev and David Mosher resigned as directors. Roman Deniskin, Nikolay Zelenskiy, Evgeny Tulubensky and Oleg Pelevin were appointed as directors.
- On November 27, 2008, terms of the Standard Bank loans were restructured and the bank provided a waiver for the covenants which had been breached.
- On December 4, 2008, the Company announced that the agreement to acquire the remaining 50% interest in the Prognoz Silver Project was terminated.

## **Review of Operations**

The stock price of High River has experienced an unprecedented plunge from \$3.50 per share in February to a low of \$0.46 in September. Subsequent to the quarter end the stock fell further to \$0.04 per share in November. The Company has been impacted by a series of external and internal issues that have created a “perfect storm” of negative market perception including:

- The United States (now world-wide) credit crisis which has made investors risk-averse.
- A steep decline in commodity prices including gold which fell from over US\$1,000 per ounce to below US\$800 per ounce before recovering to US\$884 at the end of the quarter.
- Commissioning problems of the two new mines.
- Termination of two recent proposed transactions – the spin out of the Prognoz Silver Project to Roscan Minerals Corporation and a private placement with Alfa.

Management believes that the Company is presently seriously undervalued when compared to its intrinsic asset value. High River has engaged experts to identify the problems which have been mechanical and equipment related and for which the Company has solutions.

However, in response to shareholder concerns, High River added four new independent members with significant mining industry and financing experience to the Board to help the Company address these concerns. Joining the Board were Robert Buchan, Terrence Lyons, Stephen Polakoff and Murray Sinclair. To make room for the new directors, Michael Chieng, Laurence Curtis, David Davidson and Donald Whalen resigned. Subsequent to the quarter end Graham Farquharson, Robert Buchan, Murray Sinclair, David Mosher and Valery Dmitriev resigned as directors. Four new directors representing Severstal were appointed.

High River is working vigorously to overcome the current challenges.

## **Special Committee**

In August 2008 the Board established a Special Committee comprised of independent directors with the mandate of examining strategic alternatives that are available to the Board with the objective of maximizing shareholder value. On September 11, 2008, High River announced via press release the members of the Special Committee of the Board of Directors. On September 12, 2008, High River reported that the Special Committee had retained CIBC World Markets Inc. and Cormark Securities Inc. as financial advisors to assist in its efforts to examine strategic alternatives for maximizing shareholder value. The Special Committee also retained Fraser Milner Casgrain LLP as legal counsel and Alvarez & Marsal Canada ULC to assist the Company in the review of corporate liquidity.

To date, with the assistance of its financial advisors, the Special Committee has advanced its review of strategic alternatives, including a sale process for all or some of the Company’s assets. In addition, the Special Committee and the Company, with the assistance of Alvarez & Marsal Canada ULC, is engaging in discussions with lenders to the Company to seek sufficient time for the Company to consider alternatives that may be available to the Company for preserving and maximizing shareholder value.

Subsequent to the quarter end, three of the five members of the Special Committee announced that they were resigning as directors. Stephen Polakoff joined the Special Committee. The Special Committee now consists of John Crow, Terrence Lyons and Stephen Polakoff. To the date of this report, cash costs related to the restructuring of the Company during the fourth quarter were approximately \$4.0 million.

The Special Committee and its financial advisors have canvassed a number of qualified potential parties with respect to a sale or financing transaction for some or all the assets of the Company. They provided data room access pursuant to confidentiality agreements to a number of parties. They have received a number of indicative proposals.

## Equity Financing

High River announced on November 20, 2008, that it completed a non-brokered private placement (the "Offering") of 282,288,515 common shares (the "Common Shares") and 40,674,540 warrants (the "Warrants") of the Company, each Warrant entitling the holder thereof to acquire one Common Share at an exercise price of \$0.64 until September 29, 2013. Lybica Holding B.V., an affiliate of ZAO Severstal Resources, the mining division of OAO Severstal, purchased the Common Shares for a price of approximately US\$0.1594 (\$0.20) per Common Share for total aggregate gross proceeds to High River of US\$45,000,000 (\$56,367,000). The Warrants were issued as partial consideration for the purchase price of the Common Shares.

Prior to the Offering, Severstal, through its affiliates, held 30,482,615 Common Shares of High River totalling approximately 9.9% of the outstanding Common Shares. Upon completion of the Offering, Severstal holds 312,771,131 Common Shares representing approximately 53.0% of the currently outstanding Common Shares. More information about Severstal is available at [www.severstal.com](http://www.severstal.com).

As a condition of the Closing, High River agreed to the appointment of Roman Deniskin, Nikolay Zelenskiy, Evgeny Tulubensky and Oleg Pelevin to the board of directors of High River in place of resigning directors David Mosher and Valery Dmitriev. The new directors are respectively CEO, CEO-Gold Division, Chief Legal Officer-Gold Division and Head of Strategy-Gold Division of ZAO Severstal Resources. Management changes are also contemplated including the resignation of David Mosher as President and Chief Executive Officer and the appointment of Nikolay Zelenskiy as Chief Executive Officer.

The Company is relying upon exemptions from the security holder approval requirements of the Toronto Stock Exchange (the "TSX") in Subsection 604(e) of the TSX Company Manual, available in cases of financial hardship. The Company's board of directors, and its independent directors, acting in good faith, have determined that the Company faces serious financial difficulty and that the proposed transaction has been designed to improve the financial position of the Company. As a consequence of relying upon the financial hardship exemptions, the TSX has informed the Company that it will, in the ordinary course, commence a delisting review. The Company believes that, upon completion of the Offering and the filing of its third quarter financial statements, it will be in compliance with TSX listing requirements.

The completion of the Offering is subject to the approval of the TSX and all other necessary regulatory approvals. The securities issuable pursuant to the Offering will be subject to applicable regulatory hold periods. Proceeds of the Offering were used for repayment of the US\$15.0 million to Nomos Bank which was due November 21, 2008, and will be used for provision of approximately US\$9.0 million to Somita for working capital needs, repayment of US\$10.0 million to Nomos Bank due December 21, 2008, and for general corporate purposes.

## Selected Financial Results

The Company reported a net loss of \$15.3 million (\$0.05 per share) in the third quarter of 2008 compared to net loss of \$4.7 million (\$0.02 per share) during the corresponding quarter of 2007.

<i>(in thousands of Canadian dollars except per share amounts)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2008	2007	September 30, 2008	2007
Gold revenue	\$ 34,939	\$ 26,572	\$ 123,375	\$ 84,819
Net income (loss)	(15,348)	(4,657)	(22,382)	(3,495)
Net income (loss) per share (basic)	(0.05)	(0.02)	(0.07)	(0.01)
Cash flow from operations	4,673	1,333	7,092	3,183
Weighted average number of shares outstanding (basic)	307,905,158	260,709,088	307,865,853	253,941,944

## Buryatzoloto Operations

The Company's attributable gold production from Buryatzoloto was 32,945 ounces in the third quarter of 2008, essentially similar to the 34,302 ounces in the corresponding period of 2007. Buryatzoloto continues to be profitable and achieved its production objectives for the third quarter of 2008 with 38,787 ounces of gold produced at an estimated cash operating cost of US\$541 per ounce as compared to 40,403 ounces of gold produced at a cash

operating cost of US\$398 per ounce in the third quarter of 2007. (See the Non-GAAP Measures note regarding cash operating costs.) The increased operating cash cost reflects labour wage increases (due to indexation and implementing employee performance bonus initiatives designed to retain skilled employees), domestic inflation in materials and energy costs, new payroll legislation regarding payment for statutory holidays, and increases in the volume of definition drilling. In addition, the thickness of ore bodies is decreasing, additional timber for support is needed at the greater depths and mining operations are adapting as mining moves from a zone of frozen rock. The resource industry worldwide has experienced significant cost pressures due to strong energy, materials and labour inflation. Domestic inflation in Russia is estimated to be approximately 15% and labour cost increases approximately 30%. The stronger Russian Rouble (“RUB”) exchange rate compared to the previous year contributes to the increase in costs upon translation to United States dollars. Efforts are continuing on the implementation of procedures and processes to optimize the Buryatzoloto operations with the goal of replacing reserves and containing operating cost increases. Calculated cash costs are based on ounces of gold produced.

### **Buryatzoloto Combined Operational and Financial Data**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Tonnes mined	<b>146,000</b>	143,000	<b>452,000</b>	427,000
Tonnes milled	<b>151,000</b>	144,000	<b>419,000</b>	401,000
Gold grade (g/t)	<b>8.2</b>	8.8	<b>8.4</b>	8.9
Recovery (%)	<b>95.7</b>	94.3	<b>95.1</b>	95.3
Gold production (oz) – 100% <sup>(1)</sup>	<b>38,787</b>	40,403	<b>109,592</b>	112,533
High River share of production – 84.94%	<b>32,945</b>	34,302	<b>93,087</b>	95,541
Direct mining cost (US\$/oz)	<b>446</b>	334	<b>466</b>	339
Cash operating cost (US\$/oz)	<b>541</b>	444	<b>529</b>	428

1. Includes gold from the placer operations, 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. The placer operation and one of the circuits at the Irokinda mill operate 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**

The cost per ounce has increased due both to the above noted increased input costs and because more ore is being mined at a lower grade to maintain gold production.

### **Zun-Holba Operational Data**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Tonnes mined	<b>71,000</b>	65,000	<b>216,000</b>	197,000
Tonnes milled	<b>69,000</b>	66,000	<b>204,000</b>	193,000
Gold grade (g/t)	<b>8.4</b>	8.6	<b>8.4</b>	8.8
Recovery (%)	<b>94.9</b>	93.3	<b>94.6</b>	95.7
Gold production (oz) – 100%	<b>17,651</b>	17,440	<b>52,440</b>	52,506
High River share of production – 84.94%	<b>14,993</b>	14,807	<b>44,543</b>	44,578
Direct mining cost (US\$/oz)	<b>569</b>	421	<b>552</b>	389
Cash operating cost (US\$/oz)	<b>616</b>	453	<b>600</b>	412

### **Irokinda Mine**

Direct mining costs increased to approximately US\$365 per ounce compared to approximately US\$293 per ounce in 2007. The cost per ounce has increased due both to the above noted increased input costs and because more ore is being mined at a lower grade to maintain gold production.

## Irokinda Operational Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Tonnes mined	<b>75,000</b>	78,000	<b>236,000</b>	229,000
Tonnes milled	<b>82,000</b>	78,000	<b>215,000</b>	208,000
Gold grade (g/t)	<b>7.9</b>	8.9	<b>8.4</b>	9.1
Recovery (%)	<b>96.5</b>	95.2	<b>95.5</b>	94.9
Gold production (oz) – 100%	<b>19,957</b>	20,806	<b>55,647</b>	57,358
High River share of production – 84.94%	<b>16,943</b>	17,664	<b>47,244</b>	48,697
Direct mining cost (US\$/oz)	<b>365</b>	293	<b>397</b>	309
Cash operating cost (US\$/oz)	<b>413</b>	323	<b>449</b>	334

## Somita Operations (Taparko-Bouroum Gold Mine)

Excessive vibration in the Taparko ball mill drive line resulted in several shutdowns and an overall plant capacity utilization rate of only 54% during the second quarter. An extensive effort was made to identify and correct this issue. Specialized mill consultants conducted a detailed analysis of all major drive line components. Work continued on resolving the problems during the third quarter. Detailed evaluation of the mill drive-train identified the gear-box as the likely source of the excessive vibration which has impeded mill operation.

A new custom-made gear-box was installed early in November. The Taparko-Bouroum ball mill was restarted.

Due to a large stockpile of ore available, mining at Taparko will not resume until 2009 in order to conserve cash. Approximately 204,000 tonnes of mined ore (equivalent to 2.5 months of production) has been stockpiled, ready for processing. As well, waste stripping in the 3/5 and GT pits has resulted in a substantial increase in developed ore available for immediate production blasting.

Year to date, Taparko-Bouroum produced 21,184 attributable ounces of gold. The ball mill was shut-down during the entire third quarter resulting in no material being processed from that source. Gold production recorded in the quarter was from material in process at the end of the second quarter. With the mill restarting early November, total gold production for 2008 at Taparko-Bouroum is expected to equal approximately 30,000 attributable ounces.

## Somita Operating and Financial Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Tonnes mined	<b>13,000</b>	–	<b>255,000</b>	–
Tonnes milled	–	–	<b>258,000</b>	–
Gold grade (g/t)	–	–	<b>3.0</b>	–
Recovery (%)	–	–	<b>91.4</b>	–
Gold production (oz) – 100% <sup>(1)</sup>	<b>571</b>	–	<b>23,538</b>	–
High River share of production – 90%	<b>514</b>	–	<b>21,184</b>	–
Direct mining cost (US\$/oz)	<b>879</b>	–	<b>746</b>	–
Cash operating cost (US\$/oz)	<b>920</b>	–	<b>780</b>	–

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

## Review of Project Development

### Berezitovy Gold Project, Russia

Although High River did not declare commercial production at Berezitovy during Q3, mill throughput has now exceeded the commercial production criteria, as evidenced by the 65% plant capacity utilization in September. Commercial production is defined as 30 consecutive days of production at 60% or more of design capacity. Commercial production was declared effective October 1, 2008.

The ball mill bearings were damaged due to accidental overloading of the ball mill. After re-machining of the bearings, management chose to restrict the mill loading until the re-machined bearings were tested. High River deferred the declaration of commercial production until satisfied that commercial levels of production can be achieved on a sustained basis. The re-machined bearings have performed much better than expected. This, combined

with numerous plant upgrades and repairs including major work on the cyclone pumping system and the installation of a wet tailings storage facility (see press release dated May 6, 2008), resulted in mill throughput rates of approximately 90% of design capacity being recently achieved. New replacement bearings were recently received on-site, and are available for installation should they be required.

The filter station, even with the improvements made in Q2, is not able to handle all tailings from the mine even when the plant is operating at reduced capacity as it did during Q3. A temporary tailings area was built and put into operation to handle the excess “wet” tailings. To affect a permanent solution, a thickener plant may have to be installed prior to the filter station. Work on this project is suspended to conserve cash. The estimated cost is \$1.2 million.

Tonnes processed, grades and recoveries at Berezitovy are below planned levels. Due to the build up of stockpiled ore, ore is being trucked directly to the ball mill. Feed grade is therefore dependent on what is being mined as there is no opportunity to blend in higher grade material. Process plant improvements are ongoing and recoveries are improving. Mill utilization exceeded 83% in October but fell to 65% in November.

### **Berezitovy Production Data**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Tonnes milled	227,000	–	441,000	–
Gold grade (g/t)	2.5	–	2.4	–
Recovery (%)	85.6	–	86.7	–
Gold production (oz) – 100% <sup>(1)(2)</sup>	14,293	–	28,202	–
High River share of production – 99%	14,150	–	27,920	–

1. Gold production is comprised of refined gold and doré alloy.
2. Revenue from gold production is credited to Development properties for Berezitovy.

At the end of the quarter, 390,000 tonnes of ore have been stockpiled, which approximates 3 months of production.

## **Review of Exploration Projects**

### **Bissa Gold Project, Burkina Faso**

Work programmes for the Bissa feasibility study continued during the quarter as part of a preliminary feasibility study. Diamond and reverse circulation drilling to define and upgrade the resource was completed as was the 3-D modelling of the deposits. Resource estimation was begun. Trenching for resource definition and geotechnical mapping was completed. Ten metallurgical samples were taken and heapleach testwork was started. Topographic surveying, evaluation of water sources, finalization of the terms of reference for the ongoing environmental impact work, and the examination of resource relevant drillcore and validation of the work in the field were completed.

In mid-September further work on the project and the feasibility study was suspended to conserve cash. Under the existing mining license, High River must submit a feasibility study by early in 2009 or risk losing the license.

### **Prognoz Silver Project, Russia**

#### **Exploration**

An exploration programme, budgeted at US\$11.0 million for 2008 (30,000 metres of drilling and 5,000 metres of trenching), continued during the quarter. Diamond drilling during the quarter totalled 44 holes (6,621 metres) of which 36 were definition holes at spacings of 20 X 20 metres and 40 X 80 metres on the Glavnaye and Yuzhnaya veins. Further exploration work on the project has been deferred to conserve cash.

#### **Acquisition of the Remaining 50% of Prognoz**

In Q2 2008, High River re-organized its corporate structure transferring Prognoz from Buryatzoloto to a new subsidiary. This had the result of increasing the Company’s indirect interest in Prognoz from 42.3% to 50%. On July 31, 2008, High River announced that it had entered into an arm’s-length agreement to acquire the 50% interest in Prognoz not already owned by High River. Under the terms of the agreement, High River will issue 34.1 million common shares, representing 9.9% of the issued capital of the Company, and will assume debt obligations totalling approximately US\$16 million related to past exploration expenditures on the Prognoz property. The majority of

these debt obligations are owed to High River's subsidiary Buryatzoloto. The transaction, originally scheduled to close September 30, 2008, was extended to November 30, 2008 due to delays in approval by Russia's anti-monopoly regulators. On December 4, 2008 it was announced that the transaction had been terminated. The amount due from the joint venture partner has been reclassified as a long term asset.

### **Novophirsovskoye Gold Exploration Project, Russia**

During the quarter five drill holes (640 metres) were completed consisting of three geological holes (430 metres) and two hydrogeological holes (210) metres). In August a feasibility study was started on the project. Further exploration work on the project has been deferred to conserve cash.

### **Chaya Nickel Deposit, Russia**

In February 2008, High River's subsidiary Buryatzoloto was the successful bidder for a 100% ownership interest in the Chaya Nickel deposit ("Chaya"). The second tranche of the acquisition cost amounting to US\$6.8 million will be paid in the fourth quarter only if Buryatzoloto has found a purchaser or partner for the project.

### **Exposure to Grassroots Exploration in West Africa and Canada**

#### ***Strategic Alliance Partnership with Goldrush Resources Ltd. ("Goldrush")***

High River acquired its interest in Goldrush when the two companies entered into a strategic alliance early in 2006. In the second quarter a mineral resource estimate on the Ronguen gold deposit, located approximately six kilometres from the Bissa deposits, was released. Goldrush curtailed work on its projects in the third quarter in order to conserve cash.

#### ***Strategic Investment in PDX Resources Inc. ("PDX") (formerly Pelangio Mines Inc).***

On September 6, 2008, Pelangio Mines Inc. spun out certain assets into a new company, Pelangio Exploration Inc. ("PX"). Pelangio Mines continued as PDX Resources Inc. High River holds 12,015,000 common shares of PDX, which in turn holds 19 million shares in Detour Gold Corporation. High River received 12,015,000 common shares of PX which owns one million shares of Detour Gold Corporation and exploration properties in Ghana and in Canada. Detour Gold filed a NI 43-101 technical report in July indicating a significant gold resource. PX holds three exploration concessions totalling 290 square kilometres on strike and adjacent to AngloGold Ashanti's Obuasi gold mine in Ghana, West Africa. Subsequent to the spin out, PX acquired an option on exploration properties in Manitouwadge, Ontario. PX's main focus is to advance its exploration programs.

### **Health, Safety and Environment ("HSE")**

High River is committed to the protection of the environment at all stages of the mining cycle. As a means of meeting this commitment, the Company complies with applicable legislative requirements in Russia and Burkina Faso and operates its facilities according to internationally recognized environmental management practices. Operations are fully aware of the potential environmental impacts of their activities and have taken all reasonable precautions to ensure equipment and work practices do not negatively impact the environment. Environmental management programs are implemented that meet the needs at each site. For example, as is the case in Burkina Faso, the Taparko-Bouroum Mine implemented a comprehensive revegetation program of the entire property. Operations also work closely with local communities in the areas of water management and community health. In the unlikely event that an incident does occur, environmental emergency procedures have been implemented and tested.

High River strives to operate safely to prevent injuries to its employees and contractors on site. To achieve "Safe Production", health and safety management systems are continuously implemented and improved. Since the beginning of 2008, several new health and safety programs have been implemented at all operations to address existing operational risks. Employees and contractors working at High River properties must comply with applicable occupational safety and health regulations and follow the requirements of the systems in place.

HSE performance is monitored using globally recognized performance indicators; results and new initiatives are reviewed on a regular basis.

High River strongly believes that it is the duty of every manager and employee to comply with its HSE policies as an integral element of the company's sustainability efforts.

## Overall Financial Performance

### Revenues

The Company's consolidated gold revenues for Q3 2008 increased to \$34.9 million from \$26.6 million in the same quarter of 2007. A higher gold price was the main factor. Year-to-date the Company has higher sales due to both a higher gold price on gold sales and an increase in the number of ounces sold from the contribution of Somita that was not in production in 2007.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Ounces sold	<b>38,891</b>	38,199	<b>136,787</b>	116,325
Refined ounces in inventory	<b>4,914</b>	3,126	<b>4,914</b>	3,126
Realized price, US\$/oz	<b>864</b>	664	<b>902</b>	659
Average C\$ to US\$ exchange rate	<b>1.0404</b>	1.0472	<b>1.0186</b>	1.1061
Gold sales	<b>\$ 34,939</b>	\$ 26,572	<b>\$ 123,375</b>	\$ 84,819
Volume (ounces) variance 000's	<b>481</b>		<b>14,921</b>	
Price variance 000's	<b>8,115</b>		<b>34,288</b>	
Exchange variance 000's	<b>(229)</b>		<b>(10,653)</b>	

### Expenses

Direct mining costs (see Non-GAAP Measures table) have increased during the quarter.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Ounces produced – 100%	<b>39,358</b>	40,403	<b>133,130</b>	112,533
Direct mining costs, US\$/oz	<b>453</b>	334	<b>515</b>	339
Average C\$ to US\$ exchange rate	<b>1.0404</b>	1.0472	<b>1.0186</b>	1.1061
Direct mining cost, C\$	<b>\$ 18,531</b>	\$ 14,059	<b>\$ 69,861</b>	\$ 42,144
Change in direct mining cost due to:				
Volume (ounces) variance 000's	<b>(364)</b>		<b>7,714</b>	
Cost variance 000's	<b>4,947</b>		<b>25,918</b>	
Exchange variance 000's	<b>(111)</b>		<b>(5,915)</b>	

The volume variance year-to-date reflects mainly the contribution from Somita. Somita was not in production until Q4 2007.

The cost variance indicates that costs have increased substantially from last year. At Buryatzoloto, the direct mining costs increased to US\$446 per oz in the quarter compared to US\$334 per oz in the same quarter last year. The increased cost reflects labour wage increases, due to indexation and implementing employee performance bonus initiatives designed to retain skilled employees, domestic inflation in materials and energy costs, and a stronger RUB. The resource industry worldwide has experienced significant cost pressures due to strong energy, materials and labour inflation. Secondly, Buryatzoloto is mining more ore at a lower grade in order to maintain its gold production at historical levels. At Somita, direct mining costs were well above budget on a year-to-date basis at US\$746 per oz as the operation experienced several mill shutdowns due to continuing problems in the grinding mill drive train. Costs at Somita for Q3 2008 are approximately the same as Q2 since the only production came from gold-in-process inventory. Other costs at Somita during Q3 have been classified as standby costs and are not included in the analysis above. Per unit costs at Somita are expected to decline with the resolution of the mechanical issues.

While the third quarter US\$/Canadian\$ exchange rate is approximately unchanged from the same quarter last year, the US\$ weakened significantly during the intervening period. The lower year-to-date exchange rate (1.018) compared to the previous year (1.106) contributed to a decrease in costs upon translation to the Company's reporting currency (exchange variance) and partially offsets the volume and price increases.

The increases in mine administrative costs, mine amortization and asset retirement accretion are primarily due to Somita in Q3 2008. There were no comparable expenses in Q3 2007. The standby cost relates only to Somita.

## Administrative Costs

General and administrative costs increased to \$3.1 million in the third quarter of 2008 compared to \$1.8 million in the corresponding period of last year due to wage increases and stock-based compensation.

## Financing Costs and Investment Income, Net

The Company recorded income of \$330,000 during the third quarter of 2008 compared to an expense of \$5.7 million in the corresponding period of 2007. Interest expense increased to \$1.8 million from \$1.7 million due to higher interest rates. The fair value adjustment to derivatives was a \$2.1 million gain compared to a \$3.3 million expense in 2007. This non-cash gain mainly resulted from an increase in the market price of investments.

## Other Income / (Expense)

Other income / (expense) was a cost of \$9.6 million compared to income of \$1.1 million in 2007. The decrease was due to unrealized foreign exchange losses which increased to \$9.9 million from a gain of \$1.1 million in 2007. Somita, whose functional currency is the euro-linked Central Franc Afrique (“CFA”), has recorded losses as its United States dollar denominated debt has increased in CFA terms.

## Balance Sheet

The Company’s total assets were \$704.1 million at September 30, 2008 compared to \$666.1 million at December 31, 2007. Working capital decreased to a deficit of \$86.5 million from positive \$38.0 million as at December 31, 2007. The decrease is due to several factors. All the debt due to Royal Gold, Inc. (“RGI”) was reclassified as current since the Company was negotiating to restructure its debt and Somita is in breach of certain loan covenants. Some available-for-sale securities that can be realized promptly were reclassified to current assets as the Company intends to sell those securities to generate cash. Cash balances decreased to \$4.1 million from \$51.5 million. Inventory is comprised of:

	September 30, 2008		December 31, 2007	
	Ounces	\$ 000’s	Ounces	\$ 000’s
Doré alloy				
Buryatzoloto	4,431	2,025	3,513	675
Somita	–	–	4,314	1,905
Berezitovy	2,577	1,884	1,504	743
Refined gold				
Buryatzoloto	4,826	1,972	4,566	894
Somita	68	57	145	64
Berezitovy	20	15	–	–

Non-current available-for-sale securities decreased slightly in 2008 due to the revaluation to fair value of the Company’s investment in PDX by \$2.9 million.

Accounts payable increased as Buryatzoloto has accrued the balance of the purchase price of the Chaya property (US\$6.3 million) that is due in the fourth quarter of 2008. The balance of the Chaya purchase cost will be paid in the fourth quarter only if Buryatzoloto has found a purchaser or partner for the project.

## Liquidity and Capital Resources

### Lending Arrangements

The Company is aware, and has been notified by the respective lenders, that certain covenants of its Somita subsidiary with respect to two separate loan accommodations are in breach. However, no payment demands have been received by the Company and the Company is in discussions with certain lenders and trade creditors with respect to the Company’s financial situation. The loan accommodations that are in breach at September 30, 2008 were as follows.

Pursuant to the Amended and Restated Funding Agreement dated February 22, 2006 (the “Funding Agreement”), between 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. Until such Project Completion is achieved, Somita is required to ensure that additional indebtedness incurred in the ordinary course of business does not exceed US\$1.0 million. Indebtedness incurred in the ordinary course of business was approximately \$8.2 million at September 30, 2008. RGI has been granted security interests that include, among other things, the Company’s 90% equity interest in Somita to secure amounts

dispersed by RGI under the Funding Agreement. 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.

Standard Bank Plc - pursuant to a Revolving Credit Facility dated April 19<sup>th</sup>, 2007 as amended between Standard Bank Plc and Somita, Somita is in breach of achieving "Economic Completion" which is defined as Project Completion in accordance with the Funding Agreement with RGI described above.

High River - pursuant to a Revolving Credit Facility dated July 6, 2007 as amended between Standard Bank Plc and High River - is in breach of a condition requiring the Company maintain a working capital ratio as defined in the Facility of 1.2:1. As at September 30, 2008 the ratio is approximately 0.8:1. On November 27, 2008, terms of the Standard Bank loans were restructured and the bank provided a waiver for the covenants which had been breached.

In addition, the Company has met with Nomos Bank, a lender to the Company's 99%-owned subsidiary, Berezitovy Rudnik among others, to discuss security arrangements and other matters. As of this date, no lender to the Company has commenced enforcement proceedings. On November 21, 2008, a scheduled loan repayment due from Berezitovy Rudnik to Nomos Bank of approximately US\$15.2 million was made using funds from the November 20 financing.

The Company's consolidated payables amount to \$33.2 million, as of September 30, 2008. Consolidated accounts payable have ranged from \$33.9 million at June 30, 2008 to \$24.2 million at December 31, 2007. A normal level of accounts payable funded from operating activities is expected to fall within this range for a company the size of High River. Somita trade payables, of which approximately all are over 30 days outstanding, amount to approximately \$8.2 million of the consolidated payables. As of September 30, 2008, the Company has consolidated cash on hand of approximately \$4.1 million and 11,900 ounces of unsold gold worth approximately US\$8.9 million at US\$750 per ounce.

The ability of the Company to continue as a going concern is therefore dependent on the on-going discussions and/or forbearance with the lenders, accommodations from trade creditors, establishing steady production at the two new mines and obtaining additional financing. There is no assurance that the lenders will cooperate with the Company, that trade creditors will provide accommodations, that steady production can be established or that a financing or other transaction can be completed on terms acceptable to the Company.

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

<i>(in thousands)</i>	<b>As at September 30, 2008</b>	As at December 31, 2007
Cash and cash equivalents	<b>\$ 4,073</b>	\$ 51,491
Working capital (deficit)	<b>(86,480)</b>	38,015
Loans and interest payable (long term)	<b>50,848</b>	107,470
	<b>Three Months Ended September 30,</b>	<b>2007</b>
	<b>2008</b>	<b>2007</b>
Cash provided by operating activities	<b>\$ 4,673</b>	\$ 1,333
Cash used in investing activities	<b>(18,715)</b>	(35,785)
Cash provided by financing activities	<b>995</b>	44,602

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. The other two producing operations, Berezitovy and Somita are recently completed development projects which over the past several months have experienced technical issues. Each of these operations should produce about 100,000 ounces of gold per annum under normal circumstances. High River owns 99% of Berezitovy and 90% of Somita.

Berezitovy declared commercial production effective October 1, 2008 and Somita declared commercial production effective October 1, 2007. Since the declaration of commercial production at Somita, production volumes have been inconsistent due to numerous shutdowns, the most recent of which commenced in June 2008 and continued until early November. The length of time required to achieve commercial production at Berezitovy and the lack of production at Somita has placed considerable strain on the cash resources of High River.

On August 1, 2008 High River announced a strategic investment transaction with Alfa. The planned private placement was intended to raise \$286.0 million. On August 26, 2008 the termination of the agreement was announced. The recent decline in the precious metals sector and the stock market in general caused Alfa to reassess its overall investment strategy and plans. The failure to close this private placement financing has placed the Company in a difficult liquidity situation.

Somita will require a significant financial commitment of up to approximately US\$9.0 million to transition to full production by the beginning of December 2008. Somita has completed the drive train repairs and has begun processing ore. The current plan at Somita is to process stockpiled material for the remainder of the year. Mining from the open pits will resume in January 2009. Limited processing in October produced 776 ounces of gold. Production was 1,403 ounces in November. The planned production level for December is approximately 7,000 ounces. Full production at Somita is approximately 8,500 ounces per month. At the present time, Somita has a US\$12.0 million credit facility with Standard Bank Plc and a US\$30.3 million project financing facility with RGI. Berezitovy is in the process of trying to arrange short term financing to meet an anticipated cash flow short fall. On November 21, 2008, a line of credit of US\$15.0 million matured with Nomos Bank. The debt was repaid using proceeds of the November 20<sup>th</sup> financing. Nomos Bank met with the Company in early November to discuss security arrangements and other matters.

The recent financial turmoil has created a situation whereby both debt and equity financing alternatives are extremely expensive and dilutive. High River has a portfolio of available-for-sale securities which it intends to sell. Certain securities have been pledged as security for existing debt facilities and others are available to be sold. It is expected that the sale of those securities, which are not pledged in support of financing facilities, will provide sufficient funding in the short term for the Canadian corporate requirements. To November 30, 2008, approximately \$2.7 million has been generated from the sale of a portion of these securities.

The Company continues to examine options to raise sufficient cash to meet its operating needs until Somita and Berezitovy achieve full production. Options are being reviewed by the Board of Directors include raising additional debt, refinancing outstanding loans, and selling non-core assets.

## **Operating Activities**

Cash flow provided by operating activities for the quarter ended September 30, 2008 was \$4.7 million compared to \$1.3 million provided by operations in Q3 2007. The Taparko ball mill did not operate during the quarter and Berezitovy was operating at a much reduced capacity. All staff at Taparko were not laid off but placed on reduced hours both to retain trained staff who might otherwise have joined competing mining organizations in Burkina Faso and to permit a rapid re-start of the process plant.

## **Investing Activities**

Investing activities consumed \$18.7 million of cash in the third quarter of 2008 compared to \$35.8 million for the same period in 2007. The Berezitovy project received additional funding from High River of \$5.5 million during Q3 2008 and Somita required approximately \$419,000.

The Company entered into an arms-length agreement, dated July 30, 2008, to acquire the remaining 50% interest in the Prognoz Silver Project. Under the agreement, High River will issue 34,100,000 common shares, representing 9.9% of the issued capital of the Company and will assume debt obligations related to past exploration expenditures on the Prognoz property totalling approximately US\$16.0 million. The transaction was subject to regulatory approvals in Canada and Russia. Closing, which was expected by September 30, has been delayed awaiting Russian regulatory approvals. On December 4, 2008, it was announced that the transaction was cancelled.

## **Financing Activities**

All subsidiaries made their scheduled repayments on the current portions of their long-term debt facilities during the quarter. The loan agreements with Standard Bank Plc require that the Company maintain a working capital ratio greater than 1.2 to 1. (See the section titled Liquidity and Capital Resources.) The current amount of the debt owing to RGI and to Standard Bank is excluded in calculating the amount of current liabilities as defined in the agreement.

The loan agreements between Somita and RGI require in part that Somita pass a completion test as defined by December 31, 2007 that includes the requirement that the Taparko-Bouroum mill operate in excess of 90% capacity for 90 consecutive days. Due to mechanical problems with the mill, completion as defined was not achieved and waivers were requested and received from RGI in 2007 and 2008.

The loan agreement between Somita and Standard Bank Plc require that both the above noted covenants be met. Due to mechanical problems with the mill, completion as defined was not achieved and waivers were requested and received from Standard Bank in 2007 and 2008.

At the beginning of Q3, Standard Bank renewed the working capital facilities of High River and Somita and in September added an additional \$2.0 million to the Somita facility. In 2007, the Company received \$25.6 million in new loan financing.

The Company is aware, and has been notified by the respective lenders, that certain covenants of its Somita (Taparko-Bouroum Mine) subsidiary with respect to two separate loan accommodations are in breach at September 30, 2008. However, no payment demands have been received by the Company and the Company is in discussions with certain lenders, trade creditors and possible strategic investors/purchasers with respect to the Company's financial situation. On November 27, 2008, terms of the Standard Bank loan were restructured and the bank provided a waiver for the covenants which had been breached. In addition, at the request of Nomos Bank, meetings were held in early November to discuss security arrangements and other matters. As of this date, no lender to the Company has commenced enforcement proceedings.

High River did not receive any proceeds from the exercise of warrants and stock options in Q3 2008. During the third quarter of 2007, the Company received proceeds of \$3.5 million as a result of the exercise of warrants and \$5.8 million from a private placement financing.

As of December 17, 2008, none of the Company's stock options or warrants are "in-the-money".

### ***Strategic Investment Transaction with Alfa Group Consortium***

On August 1, 2008 High River announced a strategic investment transaction with an indirect wholly-owned subsidiary of Alfa, one of Russia's largest privately owned financial/industrial organizations. The planned private placement was intended to raise \$286 million. On August 26, 2008 the termination of the agreement was announced. The recent decline in the precious metals sector and the stock market in general caused Alfa to reassess its overall investment strategy and plans.

### **Uses of Liquidity**

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

- fund corporate administration and working capital
- service its debt obligations
- finance repairs to the Taparko mill
- complete the Bissa feasibility study at an estimated cost \$1.8 million

It is anticipated that Berezitovy will generate enough cash flow from operations to meet its operating funding requirements. After Somita resolved its mechanical issues with the ball mill drive train, it is also expected to generate sufficient cash flow to meet its operating cost and debt obligations. Exploration at Prognoz and Bissa has been halted as a cash conservation measure and is not slated to resume until market conditions improve.

### **Contractual Obligations and Commercial Commitments**

The following illustrates certain of the Company's significant contractual obligations at September, 2008:

<i>(in thousands)</i>	Total	Q4 2008	2009	2010	2011	2012 and thereafter
Debt	\$ 185,813	\$ 33,438	\$ 90,431	\$ 38,579	\$ 23,365	\$ –
Interest on debt	35,194	3,812	15,375	14,562	1,445	–
Asset retirement obligations <sup>(1)</sup>	18,299	–	–	–	–	18,299
Capital lease obligations	2,808	245	932	932	699	–
Operating leases <sup>(2)</sup>	94	9	40	44	–	–
Purchase obligations <sup>(3)</sup>	8,584	2,004	2,811	1,678	1,369	722
Other long-term obligations <sup>(4)</sup>	11,465	8,342	1,879	389	285	570
<b>Total</b>	<b>\$ 262,256</b>	<b>\$ 47,850</b>	<b>\$ 111,467</b>	<b>\$ 56,184</b>	<b>\$ 27,163</b>	<b>\$ 19,591</b>

All the above relate to situations where a signed contract exists. Items in accounts payable are excluded.

- 1) Amounts shown represent the undiscounted future payments for asset retirement obligations.
- 2) Rent for premises, 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. Loans to Berezitovy and Taparko-Bouroum are non-recourse to High River although High River has pledged some assets as security. Loans and interest payable related to Buryatzoloto are non-recourse to the Company and are repayable solely from the cash flow of that operation.

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)	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q3	Q1	Q4
Revenue	34,940 (34,997)	43,456	45,049	32,177	26,565	27,851	30,644	32,628 (26,408)
Expenses		(41,634)	(33,763)	(33,824)	(22,275)	(21,449)	(22,148)	
All other expenses and taxes	(15,292)	(6,547)	(13,594)	(6,849)	(8,947)	(5,506)	(8,230)	(8,441)
Net (loss) income	(15,349)	(4,725)	(2,308)	(8,496)	(4,657)	896	266	(2,221)
Net (loss) income per share: Basic and diluted	(0.05)	(0.01)	(0.01)	(0.04)	(0.01)	0.00	0.00	(0.01)
Gold sales, oz	38,891	47,905	49,991	40,907	38,199	37,938	40,189	45,818
Gold sales, US\$/oz	864	897	898	769	664	661	651	611
Gold production, oz	39,358	47,141	46,631	45,553	40,403	37,668	34,462	36,432
Direct mining costs, US\$/oz	453	568	519	384	334	329	357	333
Cash operating costs, US\$/oz	546	616	557	521	398	368	389	363

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 partially offset by higher production costs. With the result that margins have been constant.

In the third quarter of 2008, the Taparko ball mill did not operate. The mill resumed production in November. The majority of the costs incurred have been classified as standby costs and are excluded from cash operating costs. Berezitovy attained commercial production at the end of Q3. Lower costs per ounce and higher production are expected during the fourth quarter. At Buryatzoloto, operating costs per ounce typically decline in the second and third quarters compared to Q1 reflecting in part the seasonal impact on the operation.

## Outlook

### Operations

High River anticipates that problems with mechanical equipment at its two new mines will be resolved. Commercial production was declared at Berezitovy October 1, 2008, and the plant ran at approximately 83% capacity in October but dropped to 65% in November. The new gear box was installed at the Taparko mill early in November and start-up is proceeding smoothly. The Company expects to increase its 2008 level of attributable gold production to exceed 200,000 ounces. This is lower than the 281,000 ounces originally planned. High River and Buryatzoloto will maintain their focus on optimizing operations with the objective of replacing reserves and containing operating cost increases.

The discoveries at Bissa indicate potential for a second standalone gold mining operation in Burkina Faso. A preliminary feasibility and updated NI 43-101 report originally planned for 2008 are expected to be delayed until 2009.

### Financial

In providing support to its two new mines and, initially in the quarter, for the exploration programme on the Bissa and Prognoz projects, the Company's cash reserves were drastically reduced, in an environment of rapidly diminishing market appetite for debt or equity investment of any kind. The Company is facing a shortfall in liquidity to meet its current obligations. High River is working with its lenders and financial advisors to address the situation, however, the challenges facing High River in the current highly unsettled markets have created doubt as to whether the Company can continue as a going concern.

The Company is aware, and has been notified by the respective lenders, that certain covenants of its Somita (Taparko-Bouroum Mine) subsidiary with respect to two separate loan accommodations were in breach at

September 30, 2008. However, no payment demands have been received by the Company, and the Company is in discussions with certain lenders, trade creditors and possible strategic investors/purchasers with respect to the Company's financial situation. The Company continues to have discussions with its principal lenders in relation to its current financial situation. On November 27, 2008, terms of the Standard Bank loans were restructured and the bank provided a waiver for the covenants which had been breached.

The ability of the Company to continue as a going concern remains dependent upon these discussions and/or forbearance from its lenders, accommodations from trade creditors, establishing steady production at its two new mines and obtaining additional financings. There can be no assurance that the lenders will cooperate with the Company, that trade creditors will provide accommodations, that steady production can be achieved or that a financing or other transaction can be completed on terms acceptable to the Company.

Cash conservation measures were put into effect, with work on all exploration projects and the Bissa feasibility study halted in Q3. Sales of non-core investments were begun in Q4.

## ***Risks and Uncertainties***

Risks and uncertainties about the Company's business are described in the Management's Discussion and Analysis of the 2007 Annual Report and in the Company's Annual Information Form.

High River is currently facing a liquidity shortfall. The Company has in the past and may in the future seek to acquire additional funding by 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 should the need arise for new equity funding. Due to current market conditions resulting from the world credit crisis, the Company may not be able to borrow additional funds and creditors may request accelerated repayment of existing loans.

The Company is aware, and has been notified by the respective lenders, that certain covenants of its Somita (Taparko-Bouroum Mine) subsidiary with respect to two separate loan accommodations are in breach. However, no payment demands have been received by the Company and the Company is in discussions with certain lenders, trade creditors and possible strategic investors/purchasers with respect to the Company's financial situation. On November 27, 2008, terms of the Standard Bank loans were restructured and the bank provided a waiver for the covenants which had been breached.

In addition, the Company met with Nomos Bank, a lender to the Company's 99%-owned subsidiary, Berezitovy Rudnik among others, to discuss security arrangements and other matters. As of this date, no lender to the Company has commenced enforcement proceedings.

The ability of the Company to continue as a going concern is therefore dependent on the on-going discussions and/or forbearance with the lenders, accommodations from trade creditors, establishing steady production at the two new mines and obtaining additional financing. There is no assurance that the lenders will cooperate with the Company, that trade creditors will provide accommodations, that steady production can be established or that a financing or other transaction can be completed on terms acceptable to the Company.

## ***Changes in Significant Accounting Policies***

Effective January 1, 2008 the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 1535, 3031, 3862 and 3863. Section 1535, on capital disclosures, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity objectives, policies and processes for managing capital. It is expected that the impact on future earnings will not be material.

Section 3031, on inventories, eliminates last-in, first-out accounting for inventories. Certain items (insurance and capital spares) currently carried in inventory will be classed with property, plant and equipment. Other changes include the ability to reverse previous writedowns to net realizable value when there is a subsequent increase in the value of inventories and requirements for additional disclosure. The impact was a gain of \$2,904,000 due to Buryatzoloto changing from the last-in, first-out accounting method. The gain was charged to 2008 opening retained earnings as a transition adjustment on adoption of a new accounting policy.

Sections 3862 and 3863, on financial instrument presentation and disclosures, places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed and is consistent with Section 3861. The new standard removes duplicative disclosures and simplifies the disclosures relating to concentrations of risk, credit risk, liquidity risk and price risk currently found in Section 3861.

## **Critical Accounting Policies and Estimates**

The critical accounting estimates remain unchanged from those disclosed in the Company's 2007 Annual Report.

## **Future Changes in Canadian Accounting Policies**

Section 3064, on goodwill and intangible assets, effective January 1, 2009, establishes revised standards on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with this new standard, EIC 27 on revenues and expenses during the pre-operating phase will be withdrawn with the result that the Company may no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The Company is monitoring and reviewing the CICA plans to make the transition to IFRS. The High River has not yet determined the impact of the transition on its consolidated financial statements.

As a result of the financing discussed previously, Severstal now owns a majority of the shares of the Company. Severstal has indicated that it will be asking High River to make changes as to how the Company reports its financial information. As a result, some accounting policies and statement presentation may change to align the Company's accounting policies more closely with international nature of its controlling shareholder.

## **Changes in Internal Control Over Financial Reporting**

Prior to the third quarter, the Company had been basing its evaluation of internal control over financial reporting ("ICFR") on internally generated procedures. In Q2 the Canadian Securities Administrators revised National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, to require, among other things, that a company use a recognized "control framework" to design its ICFR. During the third quarter, an independent consultant was hired to evaluate ICFR using the model prepared by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Preliminary work was done at head office and at Berezitovy Rudnik but was limited in scope.

The results of this work detected weaknesses in the control environment at Berezitovy. Problems identified included lack of documentation, policies and procedures relating to the information technology and accounting areas.

High River has taken several steps to address the weaknesses:

- a Russian-speaking, Canadian designated accountant was hired as Controller-Operations and spent over 50 days at Berezitovy working with local staff to identify and address the weaknesses;
- personnel re-alignments have taken place at Berezitovy; and
- a multi-disciplinary task force comprised mainly of personnel from Buryatzoloto are visiting Berezitovy to help identify and correct the problems.

The Company believes that no material misstatement of financial reporting has occurred to September 30, 2008, as Berezitovy was not in production and consequently all costs to date have been classified as development expenditures.

No review has commenced at Buryatzoloto or Somita due to resource constraints resulting from the Company's liquidity shortfall.

On November 16, 2008, the Company announced that it would be late filing its Q3 interim financial statements due to concerns raised by the board of directors regarding the reliability of information that the Company has received from its 85% owned subsidiary Buryatzoloto. Those concerns have been subsequently addressed to the satisfaction of the Board.

## **Non-GAAP 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 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 upon production activity.

Quarter ended Sept. 30, 2008	Buryatzoloto		Somita		Total	
	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz
Average exchange rate – C\$ to US\$	1.0404		1.0404		1.0404	
Gold ounces sold	38,291		600		38,891	
Gold revenue per financial statements	34,327	862	612	980	34,939	864
Gold ounces produced	38,787		571		39,358	
<b>Direct mining costs</b>	<b>18,008</b>	<b>446</b>	<b>523</b>	<b>879</b>	<b>18,531</b>	<b>453</b>
Mining administrative costs	1,797	45	19	33	1,816	44
Stripping and mine development adjustments	689	17	–	–	689	17
Third party smelting, refining and transportation	392	10	5	10	397	10
By-product credits	–	–	(1)	(2)	(1)	–
Other	914	23	–	–	914	22
<b>Cash operating costs</b>	<b>21,800</b>	<b>541</b>	<b>546</b>	<b>920</b>	<b>22,346</b>	<b>546</b>
Royalty expense and production tax	2,232	55	23	37	2,255	55
Total cash costs	24,032	596	569	957	24,601	601
Inventory change	(754)		(218)		(972)	
By-product credits	–		1		1	
Mining amortization and depletion	4,330		1,245		5,575	
Asset retirement obligation accretion	84		(97)		(13)	
Standby costs	–		5,805		5,805	
<b>Total expenses per financial statements</b>	<b>27,692</b>		<b>7,305</b>		<b>34,997</b>	

<b>Nine months ended Sept. 30, 2008</b>	<b>Buryatzoloto</b>		<b>Somita</b>		<b>Total</b>	
Average exchange rate – C\$ to US\$	1.0186		1.0186		1.0186	
Gold ounces sold	108,857		27,930		136,787	
Gold revenue per financial statements	97,966	884	25,409	913	123,375	902
Gold ounces produced	109,592		23,538		133,130	
<b>Direct mining costs</b>	<b>51,977</b>	<b>466</b>	<b>17,884</b>	<b>746</b>	<b>69,861</b>	<b>515</b>
Mining administrative costs	5,510	49	764	32	6,274	46
Stripping and mine development adjustments	(661)	(6)	–	–	(661)	(5)
Third party smelting, refining and transportation	1,086	10	114	5	1,200	9
By-product credits	–	–	(70)	(3)	(70)	(1)
Other	1,138	10	–	–	1,138	8
<b>Cash operating costs</b>	<b>59,050</b>	<b>529</b>	<b>18,692</b>	<b>780</b>	<b>77,742</b>	<b>572</b>
Royalty expense and production tax	6,291	56	885	37	7,176	53
Total cash costs	65,341	585	19,577	817	84,918	625
Inventory change	(43)		2,540		2,497	
By-product credits	–		70		70	
Mining amortization and depletion	10,766		6,074		16,840	
Asset retirement obligation accretion	242		22		264	
Standby costs	–		5,805		5,805	
<b>Total expenses per financial statements</b>	<b>76,306</b>		<b>34,088</b>		<b>110,394</b>	

<b>Quarter ended Sept. 30, 2007</b>	<b>Buryatzoloto</b>		<b>Somita</b>		<b>Total</b>	
	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz
Average exchange rate – C\$ to US\$	1.0472	–			1.0472	–
Gold ounces sold	38,199	–			38,199	–
Gold revenue per financial statements	26,572	664	–	–	26,572	664
Gold ounces produced	40,403	–			40,403	–
<b>Direct mining costs</b>	<b>14,059</b>	<b>334</b>	<b>–</b>	<b>–</b>	<b>14,059</b>	<b>334</b>
Mining administrative costs	1,338	32	–	–	1,338	32
Stripping and mine development adjustments	(205)	(5)	–	–	(205)	(5)
Third party smelting, refining and transportation	284	7	–	–	284	7
By-product credits	7	–	–	–	7	–
Other	1,367	30	–	–	1,367	30
<b>Cash operating costs</b>	<b>16,850</b>	<b>398</b>	<b>–</b>	<b>–</b>	<b>16,850</b>	<b>398</b>
Royalty expense and production tax	1,925	46	–	–	1,925	46
Total cash costs	18,775	444	–	–	18,775	444
Inventory change	(382)		–		(382)	
By-product credits	(7)		–		(7)	
Mining amortization and depletion	3,837		–		3,837	
Asset retirement obligation accretion	32		–		32	
<b>Total expenses per financial statements</b>	<b>22,255</b>		<b>–</b>		<b>22,255</b>	

Nine months ended Sept. 30, 2007	Buryatzoloto		Somita		Total	
	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz	C\$ 000s	US\$/oz
Average exchange rate – C\$ to US\$	1.1061				1.1061	
Gold ounces sold	116,325				116,325	
Gold revenue per financial statements	84,819	659	–	–	84,819	659
Gold ounces produced	112,533				112,533	–
<b>Direct mining costs</b>	42,144	339	–	–	42,144	339
Mining administrative costs	4,344	35	–	–	4,344	35
Stripping and mine development adjustments	(943)	(8)	–	–	(943)	(8)
Third party smelting, refining and transportation	879	7	–	–	879	7
By-product credits	(241)	(2)	–	–	(241)	(2)
Other	1,588	13	–	–	1,588	13
<b>Cash operating costs</b>	47,771	384	–	–	47,771	384
Royalty expense and production tax	5,446	44	–	–	5,446	44
Total cash costs	53,217	428	–	–	53,217	428
Inventory change	637		–		637	
By-product credits	241		–		241	
Mining amortization and depletion	11,677		–		11,677	
Asset retirement obligation accretion	100		–		100	
<b>Total expenses per financial statements</b>	65,872		–		65,872	

### ***Supplement to the Financial Statements***

As at December 17, 2008, the share capital consisted of:

- 307,905,158 common shares issued and outstanding.
- 10,497,184 common share purchase options outstanding at an average price of \$2.03 maturing at various dates until September 29, 2013.
- 64,897,040 warrants outstanding at an average exercise price of \$3.80 maturing at various dates until September 29, 2013.
- 5,079,150 shares from conversion of debentures at \$2.35 until December 31, 2011.

**HIGH RIVER GOLD MINES LTD.  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
EXPRESSED IN CANADIAN DOLLARS**

**Q3 REPORT 2008  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008**

### **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 interim consolidated 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/ Nikolay Zelenskiy  
Chief Executive Officer

s/ Steven Poad  
Chief Financial Officer

December 17, 2008

## HIGH RIVER GOLD MINES LTD.

### Consolidated Balance Sheets (Thousands of Canadian dollars)

<i>(unaudited)</i>	Note	September 30, 2008	December 31, 2007
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 4,073	\$ 51,491
Restricted cash		–	69
Accounts receivable		13,043	25,339
Inventory	5	57,193	48,777
Available-for-sale securities	6	5,341	–
Other assets		9,671	4,318
		<b>89,321</b>	129,994
Available-for-sale securities	6	33,045	38,131
Property, plant and equipment	7	207,006	202,780
Exploration properties and deferred exploration	8	142,399	115,643
Development properties	9	213,762	177,417
Due from joint venture partner	10	17,632	–
Other assets		936	2,090
<b>Total Assets</b>		<b>\$ 704,101</b>	<b>\$ 666,055</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable		\$ 33,245	\$ 24,186
Loans and interest payable	13	142,556	67,793
		<b>175,801</b>	91,979
Loans and interest payable	13	50,848	107,470
Reclamation	11	8,485	7,866
Non-hedge derivatives	12	11,553	9,867
Future income taxes		12,475	13,062
		<b>259,162</b>	230,244
Non-controlling interest		19,280	17,830
<b>Total Liabilities</b>		<b>278,442</b>	248,074
<b>Shareholders' Equity</b>			
Share capital	16 (b)	490,226	453,225
Warrants	16 ©	13,680	19,951
Contributed surplus		12,800	11,192
Debenture conversion option	16 (d)	538	538
Deficit		(76,971)	(57,494)
Accumulated other comprehensive income (loss)		(14,614)	(9,431)
<b>Total Shareholders' Equity</b>		<b>425,659</b>	417,981
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 704,101</b>	<b>\$ 666,055</b>
Nature of operations and going concern	1		
Commitments and contingencies	23		

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

**HIGH RIVER GOLD MINES LTD.**

**Consolidated Statements of Operations**

(Thousands of Canadian dollars except per share figures)

<i>(unaudited)</i>	Note	Three months ended September 30,		Nine Months Ended September 30,	
		<b>2008</b>	2007	<b>2008</b>	2007
<b>Revenue</b>					
Gold		<b>\$ 34,939</b>	\$ 26,572	<b>\$ 123,375</b>	\$ 84,819
Silver		<b>1</b>	(7)	<b>70</b>	241
		<b>34,940</b>	26,565	<b>123,445</b>	85,060
<b>Expenses</b>					
Mining costs		<b>21,812</b>	17,048	<b>81,211</b>	49,751
Mine administrative costs		<b>1,816</b>	1,338	<b>6,274</b>	4,344
Mine amortization and depletion		<b>5,576</b>	3,837	<b>16,840</b>	11,677
Asset retirement obligation accretion		<b>(12)</b>	32	<b>264</b>	100
Standby costs		<b>5,805</b>	–	<b>5,805</b>	–
		<b>34,997</b>	22,255	<b>110,394</b>	65,872
<b>Income before the undernoted</b>		<b>(57)</b>	4,310	<b>13,051</b>	19,188
Administrative costs	17	<b>(3,089)</b>	(1,842)	<b>(8,467)</b>	(6,260)
Amortization and depletion		<b>(177)</b>	23	<b>(546)</b>	(85)
Exploration expense		<b>(3,269)</b>	(2,094)	<b>(7,952)</b>	(2,254)
Financing costs and investment income, net	18	<b>330</b>	(5,657)	<b>(8,237)</b>	(10,674)
Other income/(expense)	19	<b>(9,578)</b>	1,076	<b>(3,879)</b>	1,943
<b>Income (loss) before tax and non- controlling interest</b>		<b>(15,840)</b>	(4,184)	<b>(16,030)</b>	1,858
Income tax expense		<b>(322)</b>	(330)	<b>(4,902)</b>	(3,621)
<b>Loss before non-controlling interest</b>		<b>(16,162)</b>	(4,514)	<b>(20,932)</b>	(1,763)
Non-controlling interest in earnings of subsidiary		<b>814</b>	(143)	<b>(1,450)</b>	(1,732)
<b>Net loss for the period</b>		<b>\$ (15,348)</b>	\$ (4,657)	<b>\$ (22,382)</b>	\$ (3,495)
<b>– basic and diluted</b>	20	<b>\$ (0.05)</b>	\$ (0.02)	<b>\$ (0.07)</b>	\$ (0.01)

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

**HIGH RIVER GOLD MINES LTD.**

**Consolidated Statements of Cash Flows**  
(Thousands of Canadian dollars)

<i>(unaudited)</i>	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		<b>2008</b>	2007	<b>2008</b>	2007
<b>Operating Activities</b>					
Net loss for the period		\$ (15,348)	\$ (4,657)	\$ (22,382)	\$ (3,495)
Non-cash items:					
Non-controlling interest in earnings of subsidiary		(814)	143	1,450	1,732
Amortization and depletion		5,101	4,382	17,385	12,265
Asset retirement obligation accretion		(184)	32	264	100
Debenture accretion		1	87	144	257
Financial instrument accretion		84	717	830	1,760
Fair value adjustments to derivatives		(2,108)	3,263	1,686	4,718
Stock option benefit expense		959	558	1,940	1,823
Loss on disposal of assets		41	154	145	174
Future income taxes		(188)	(465)	182	(228)
Unrealized foreign exchange loss		7,668	-	4,594	-
Writedown of carrying value and other		1,877	(1,328)	2,836	(1,326)
Subtotal		(2,911)	2,886	9,074	17,780
Change in non-cash working capital	22	7,584	(1,553)	(1,982)	(14,597)
Net cash provided by operating activities		4,673	1,333	7,092	3,183
<b>Investing Activities</b>					
Property, plant and equipment		(9,897)	(3,482)	(21,668)	(11,121)
Proceeds on disposal		6	-	6	5
Exploration properties and deferred exploration		(9,947)	(2,756)	(28,448)	(12,799)
Development properties		975	(30,230)	(28,409)	(77,331)
(Increase)/decrease in investments		-	(1,186)	(10,802)	(1,186)
Allocation of restricted cash		3	(190)	72	(263)
(Increase)/decrease in other long-term assets		145	2,059	(704)	1,992
Net cash used by investing activities		(18,715)	(35,785)	(89,953)	(100,703)
<b>Financing Activities</b>					
Loans received		13,246	25,590	43,387	61,402
Loans repaid		(12,251)	(4,301)	(38,421)	(14,423)
Common shares issued		-	23,313	30,334	27,741
Net cash provided (used) by financing activities		995	44,602	35,300	74,720
<b>Effect of exchange rate changes on cash held in foreign currencies</b>					
		(69)	(2,605)	143	(2,925)
<b>Increase/(decrease) in cash and cash equivalents during the period</b>					
		(13,116)	7,545	(47,418)	(25,725)
<b>Cash and cash equivalents - Beginning of period</b>		<b>17,189</b>	2,346	<b>51,491</b>	35,616
<b>Cash and cash equivalents - End of period</b>		<b>\$ 4,073</b>	\$ 9,891	<b>\$ 4,073</b>	\$ 9,891
Supplementary cash flow information	22				

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

**HIGH RIVER GOLD MINES LTD.**

**Consolidated Statements of Changes in Shareholders' Equity**  
(Thousands of Canadian dollars)

<i>(unaudited)</i>	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		<b>2008</b>	2007	<b>2008</b>	2007
<b>Share capital</b>					
Balance at beginning of period		<b>\$ 490,162</b>	\$ 343,170	<b>\$ 453,225</b>	\$ 338,371
Issue of common shares		<b>64</b>	21,801	<b>37,001</b>	26,600
Balance at end of period	<i>16(b)</i>	<b>490,226</b>	364,971	<b>490,226</b>	364,971
<b>Warrants</b>					
Balance at beginning of period		<b>13,680</b>	6,855	<b>19,951</b>	6,294
Issued		–	2,990	–	3,555
Exercised		–	–	<b>(6,269)</b>	–
Expired		–	–	<b>(2)</b>	(4)
Balance at end of period	<i>16(c)</i>	<b>13,680</b>	9,845	<b>13,680</b>	9,845
<b>Contributed surplus</b>					
Balance at beginning of period		<b>11,841</b>	11,887	<b>11,192</b>	11,363
Expired warrants		–	–	<b>2</b>	4
Stock-based compensation, net		<b>959</b>	558	<b>1,940</b>	1,823
Stock options exercised		–	(1,061)	<b>(334)</b>	(1,806)
Balance at end of period		<b>12,800</b>	11,384	<b>12,800</b>	11,384
<b>Debenture conversion option</b>	<i>16(d)</i>	<b>538</b>	538	<b>538</b>	538
<b>Deficit</b>					
Balance at beginning of period		<b>(62,603)</b>	(43,059)	<b>(57,494)</b>	(41,562)
Transitional adjustment on adoption of new accounting policies	<i>2</i>	<b>980</b>	–	<b>2,904</b>	(2,659)
Balance at beginning of period as restated		<b>(61,623)</b>	(43,059)	<b>(54,590)</b>	(44,221)
Net loss for the period		<b>(15,348)</b>	(4,657)	<b>(22,381)</b>	(3,495)
Balance at end of period		<b>(76,971)</b>	(47,716)	<b>(76,971)</b>	(47,716)
<b>Accumulated other comprehensive loss</b>					
Balance at beginning of period		<b>33,160</b>	(18,579)	<b>(9,431)</b>	(22,693)
Transitional adjustment on adoption of new accounting policies		–	–	–	8,854
Balance at beginning of period as restated		<b>33,160</b>	(18,579)	<b>(9,431)</b>	(13,839)
Comprehensive loss for the period		<b>(47,774)</b>	(3,354)	<b>(5,183)</b>	(8,094)
Balance at end of period		<b>(14,614)</b>	(21,933)	<b>(14,614)</b>	(21,933)
<b>Shareholders' equity at end of period</b>		<b>\$ 425,659</b>	\$317,089	<b>\$ 425,659</b>	\$ 317,089

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

**HIGH RIVER GOLD MINES LTD.**

**Consolidated Statements of Comprehensive Income (Loss)**  
**(Thousands of Canadian dollars)**

<b>(unaudited)</b>	<b>Three Months Ended</b> <b>September 30,</b>		<b>Nine Months Ended</b> <b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net loss for the period</b>	<b>\$ (15,348)</b>	<b>\$ (4,657)</b>	<b>\$ (22,382)</b>	<b>\$ (3,495)</b>
<b>Other comprehensive income (loss)</b>				
Unrealized gain (loss) on translation of net foreign operations	<b>(7,199)</b>	(5,447)	<b>5,938</b>	6,238
Net change in unrealized gains in available-for-sale securities	<b>(40,575)</b>	2,093	<b>(11,121)</b>	(14,332)
Comprehensive income for the period	<b>(47,774)</b>	(3,354)	<b>(5,183)</b>	(8,094)
<b>Net comprehensive loss for the period</b>	<b>\$ (63,123)</b>	<b>\$ (8,011)</b>	<b>\$ (27,565)</b>	<b>\$ (11,589)</b>

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

# HIGH RIVER GOLD MINES LTD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2008 and 2007

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

---

### 1. Nature of Operations and Going Concern

The unaudited interim consolidated financial statements have been presented in accordance with Canadian generally accepted accounting principles (“GAAP”) for interim reporting. They do not include all the information and disclosures required by Canadian GAAP for annual financial statements. In the opinion of management, all adjustments required for a fair presentation are included in these statements in accordance with the accounting policies of the Company. The interim consolidated financial statements should be read in conjunction with the year-end 2007 audited financial statements for the detailed note disclosure. The statements have not been reviewed by the Company’s independent auditors. Certain prior period figures have been reclassified to conform to the current period presentation.

These consolidated financial statements include the financial statements of the Company, OJSC Buryatzoloto (“Buryatzoloto”), OOO Berezitovy Rudnik (“Berezitovy”), and Société des Mines de Taparko (“Somita”). As of September 30, 2008 the Company’s interest in Buryatzoloto is 84.9%, Berezitovy 99% and Somita 90%. The 50% interest in the Prognoz joint venture is proportionately consolidated.

While these interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles 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 cast substantial doubt on the validity of this assumption.

Delays in starting up the new gold mine in Russia and mechanical problems at the new mine in Burkina Faso have resulted in a liquidity shortfall and in the Company being in breach of lending covenants. During the nine months ended September 30, 2008, the Company incurred a loss of \$22.4 million and has an accumulated deficit of \$77.0 million. Cash on hand at September 30, 2008 totalled \$4.1 million. In addition, the Company has \$193.4 million in debt outstanding of which \$142.6 million is due and payable within the next twelve months. The ability of the Company to continue as a going concern is therefore dependent on the on-going discussions and/or forbearance with the lenders, accommodations from trade creditors, establishing steady production at the two new mines and obtaining additional financing. There is no assurance that the lenders will cooperate with the Company, that trade creditors will provide accommodations, that steady production can be established or that a financing or other transaction can be completed on terms acceptable to the Company. As a result, there is substantial doubt concerning the going concern assumption. The ultimate outcome of these events cannot presently be determined because they are contingent on future matters.

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 revenue and expenses and the balance sheet classifications used. The adjustments could be material.

---

### 2. Changes in Accounting Policies

The Company adopted, effective January 1, 2008, new accounting standards mandated by the Canadian Institute of Chartered Accountants (“CICA”).

Sections 3862 and 3863, on financial instrument disclosures and presentation, places an increased emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

Section 1535, on capital disclosures, requires the disclosure of information about an entity’s objectives, policies and processes for managing capital.

Section 3031, on inventories, eliminates last-in, first-out accounting for inventories. Certain items (insurance and capital spares) previously carried in inventory are classified with property, plant and equipment. Other changes include the ability to reverse previous writedowns to net realizable value when there is a subsequent increase in the value of inventories and requirements for additional disclosure. The impact was a gain of \$2,904,000 due to Buryatzoloto changing from the last-in, first-out accounting method to average cost. The gain was charged to 2008 opening retained earnings as a transition adjustment on adoption of a new accounting policy.

#### *Future Accounting Changes*

Section 3064, on goodwill and intangible assets, effective January 1, 2009, establishes revised standards on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with this new standard, EIC 27 on revenues and expenses during the pre-operating phase will be withdrawn with the result

that the Company may no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations.

The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with International Financial Reporting Standards (“IFRS”) over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The Company is monitoring and reviewing the CICA plans to make the transition to IFRS. High River has not yet determined the impact of the transition on its consolidated financial statements.

Subsequent to the quarter end, an outside investor acquired majority control of the Company. The investor has indicated that it will be asking High River to make changes as to how the Company reports its financial information. As a result, some accounting policies and statement presentation may change to align the Company’s accounting policies more closely with international nature of its controlling shareholder.

### 3. Financial Instruments and Risk Management

The Company’s risk management objectives include minimizing risk 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 does not have written risk management policies or a risk management committee. The Company holds the following financial instruments:

	September 30, 2008	December 31, 2007
Cash and cash equivalents	\$ 4,073	\$ 51,491
Trade receivables	13,043	25,339
Available-for-sale securities	38,386	38,131
Due from joint venture partner	17,632	–
	<b>\$ 73,134</b>	<b>\$ 114,961</b>
Accounts payable	\$ 33,245	\$ 24,186
Loans and interest payable	193,404	175,263
Non hedge derivatives	11,553	9,867
	<b>\$ 238,202</b>	<b>\$ 209,316</b>

#### (a) MARKET RISK

##### *FOREIGN EXCHANGE RISK*

The Company raises equity predominantly in Canadian dollars and presently 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 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.

##### *EQUITY PRICE RISK*

The values of the Company’s available-for-sale 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 market 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.

##### *COMMODITY PRICE RISK*

The future profitability of the Company and the recoverability of deferred project development costs are directly related to the market prices of the products to be sold in the future and its operating costs. The Company does not use derivatives to mitigate its exposure to commodity price risk. Sensitivity of annual earnings to a 10% increase or decrease in the base case gold price (US\$800 per ounce) used for the Company’s 2008 production plan is approximately \$15.9 million or \$0.05 per share based on shares outstanding as at September 30, 2008. Sensitivity of annual earnings to a 10% increase or decrease in the base case mining and milling costs used for the Company’s 2008 production plan is approximately \$6.9 million or \$0.02 per share based on shares outstanding as at September 30, 2008.

##### *INTEREST RATE RISK*

The majority of the Company’s debt has variable 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 as at September 30, 2008 are summarized below.

	Floating interest rate, %	September 30, 2008	Floating interest rate, %	December 31, 2007
<b>High River</b>				
Standard Bank Plc	7.5	\$ 15,574	–	\$ –
<b>Buryatzoloto</b>				
Nomos Bank	8.4	29,746	8.7	35,598
UniCredit Bank	8.2	6,683	8.1	12,643
		<u>36,429</u>		<u>48,241</u>
<b>Somita</b>				
Caterpillar Finance France SA	8.4	7,964	8.6	3,568
Standard Bank Plc	8.5	10,382	8.6	4,763
		<u>18,346</u>		<u>8,331</u>
<b>Berezitovy</b>				
Nomos Bank	9.7	15,573	9.9	62,260
		<u>\$ 85,922</u>		<u>\$ 118,832</u>

The sensitivity of annual pre-tax earnings to a 1% increase or decrease in the base case LIBOR used for the Company's 2008 production plan is approximately \$1.2 million or \$0.00 per share based on shares outstanding as at September 30, 2008. The six-month LIBOR for United States dollars was 3.98% as at September 30, 2008. In 2008, the International Moscow Bank became the UniCredit Bank.

**(b) CREDIT RISK**

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. Counterparties include its current lenders.

**(c) LIQUIDITY RISK**

The Company has in the past and may in the future seek to acquire additional funding by 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's consolidated payables amount to \$33.2 million, as of September 30, 2008. Consolidated accounts payable have ranged from \$33.9 million at June 30, 2008 to \$24.2 million at December 31, 2007. Somita trade payables, of which virtually all are outstanding over 30 days, amount to approximately \$8.2 million of the consolidated payables. As of September 30, 2008, the Company has consolidated cash on hand of approximately \$4.1 million and 11,922 ounces of unsold gold worth approximately US\$8.9 million at US\$750 per ounce.

The ability of the Company to continue as a going concern is therefore dependent on the on-going discussions and/or forbearance with the lenders, accommodations from trade creditors, establishing steady production at the two new mines and obtaining additional financing. There is no assurance that the lenders will cooperate with the Company, that trade creditors will provide accommodations, that steady production can be established or that a financing or other transaction can be completed on terms acceptable to the Company.

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 market 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 following table estimates the undiscounted cash flows of contractual liabilities.

<i>(in thousands)</i>	<b>Total</b>	October to December			
		2008	2009	2010	2011
Debt	\$ 185,813	\$ 33,438	\$ 90,431	\$ 38,579	\$ 23,365
Interest on debt	35,194	3,812	15,375	14,562	1,445
Capital leases	2,808	245	932	932	699
Purchase obligations	7,862	2,004	2,811	1,678	1,369
Other long-term obligations	10,895	8,342	1,879	389	285
<b>Total</b>	<b>\$ 242,572</b>	<b>\$ 47,841</b>	<b>\$ 111,428</b>	<b>\$ 56,140</b>	<b>\$ 27,163</b>

The above table does not include exploration after 2008 or development of the exploration projects as none of the projects have, as yet, received board approval.

**(d) INSURANCE**

The Company purchases limited discretionary insurance to cover catastrophic property damage, business interruption and liability risk.

**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 strategy remained unchanged from 2007 until cancellation on August 26, 2008 of a private placement financing transaction. The Company began changing its approach during the quarter due to the rapidly changing market appetite for risk and the decreased availability of credit. 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.

	<b>September 30, 2008</b>	December 31, 2007
Total debt	<b>\$ 193,404</b>	\$ 175,263
Less: Cash and cash equivalents	<b>4,073</b>	51,491
Net debt	<b>189,331</b>	123,772
Shareholders' equity excluding comprehensive income	<b>440,273</b>	427,412
Total Capital	<b>\$ 629,604</b>	\$ 551,184

The Company is in breach of loan covenants concerning the completion of the Taparko-Bouroum Mine. On November 27, 2008, terms of the Standard Bank loans were restructured and the bank provided a waiver for the covenants which had been breached. Subsequent to the quarter end, Nomos Bank expressed concerns as to its security for loans made to Berezitovy Rudnik.

High River is in discussions with the lenders. To date, no lender to the Company has commenced enforcement proceedings.

**5. Inventory**

Inventory consists of the following:

	<b>September 30, 2008</b>	December 31, 2007
Materials and supplies	<b>\$ 42,986</b>	\$ 31,257
Stockpiled ore	<b>5,477</b>	8,442
Gold-in-process	<b>1,793</b>	4,797
Doré alloy	<b>3,861</b>	3,323
Refined gold	<b>3,076</b>	958
	<b>\$ 57,193</b>	\$ 48,777

---

## 6. Available-For-Sale Securities

The Company's AFS securities comprise the following:

	September 30, 2008		December 31, 2007	
	Fair val	Carrying value	Fair val	Carrying value
<b>Classified as current</b>	<b>\$ 5,341</b>	<b>\$ 10,802</b>	\$ -	\$ -
<b>Classified as long-term</b>				
PDX Resources (formerly Pelangio Mines Inc.)	28,355	3,616	32,561	4,914
Pelangio Exploration (a)	1,322	1,298	-	-
Other equities	2,546	4,940	5,274	4,940
Loans	822	822	-	-
Other equities - no active market (b)	-	-	296	296
	<b>33,045</b>	<b>10,676</b>	38,131	10,150
	<b>\$ 38,386</b>	<b>\$ 21,478</b>	\$ 38,131	\$ 10,150

(a) In the third quarter of 2008, Pelangio Mines Inc. spun out its exploration assets into a new company named Pelangio Exploration Inc. Pelangio Mines Inc. continued as PDX Resources Inc.

(b) Written off in the third quarter.

The quoted market price used to estimate fair value is the period-end bid price in an active market. The Company has reclassified its AFS that are not pledged and are capable of reasonably prompt liquidation to current assets as it intends to sell the assets.

## 7. Property, Plant and Equipment

<b>Carrying value, September 30, 2008</b>	Buryatzoloto	Somita	Berezitovy	Corporate and exploration	Total
Property	\$ 32,514	\$ 60,624	\$ –	\$ –	\$ 93,138
Land and buildings	31,606	1,917	38	2,563	36,124
Plant and equipment	20,399	63,798	–	50	84,247
Mobile equipment	7,786	10,173	–	–	17,959
Capitalized interest	–	12,455	–	–	12,455
Assets under construction	12,359	144	–	–	12,503
Asset retirement obligation	2,024	2,279	2,426	–	6,729
	106,688	151,390	2,464	2,613	263,155
<b>Accumulated amortization</b>					
Property	(10,186)	(3,584)	–	–	(13,770)
Land and buildings	(23,498)	(516)	–	(1,660)	(25,674)
Plant and equipment	(6,228)	(7,080)	–	–	(13,308)
Mobile equipment	(991)	(439)	–	–	(1,430)
Capitalized interest	–	(844)	–	–	(844)
Asset retirement obligation	(790)	(333)	–	–	(1,123)
	(41,693)	(12,796)	–	(1,660)	(56,149)
Net value	\$64,995	\$ 138,594	\$ 2,464	\$ 953	\$ 207,006
<b>Carrying value, December 31, 2007</b>	Buryatzoloto	Somita	Berezitovy	Corporate and exploration	Total
Property	\$ –	\$ 60,417	\$ –	\$ –	\$ 60,417
Land and buildings	29,132	1,524	–	2,525	33,181
Plant and equipment	47,167	61,449	–	–	108,616
Mobile equipment	4,122	9,724	–	–	13,846
Capitalized interest	–	11,465	–	–	11,465
Assets under construction	6,742	46	–	–	6,788
Asset retirement obligation	1,914	2,259	2,426	–	6,599
	89,077	146,884	2,426	2,525	240,912
<b>Accumulated amortization</b>					
Property	–	(974)	–	–	(974)
Land and buildings	(20,587)	(330)	–	(1,709)	(22,626)
Plant and equipment	(8,034)	(4,988)	–	–	(13,022)
Mobile equipment	(366)	(274)	–	–	(640)
Capitalized interest	–	(257)	–	–	(257)
Asset retirement obligation	(529)	(84)	–	–	(613)
	(29,516)	(6,907)	–	(1,709)	(38,132)
Net value	\$ 59,561	\$ 139,977	\$ 2,426	\$ 816	\$ 202,780

## 8. Exploration Properties and Deferred Exploration

	January 1, 2008	Additions	September 30, 2008
West Africa – Bissa project	\$ 50,310	\$ 4,897	\$ 55,207
West Africa – other	11,226	3,285	14,511
Russia – Novophirsovskoye	7,934	2,555	10,489
Russia – Prognoz	45,955	4,536	50,491
Russia – Chaya	–	11,005	11,005
Russia – Sergachinsky	218	478	696
	\$ 115,643	\$ 26,756	\$ 142,399

---

**9. Development Properties**

	January 1, 2008	Additions/ revaluation	September 30, 2008
Berezitovy	\$ 177,417	\$ 36,345	<b>\$ 213,762</b>

During the period, interest of \$4,457,000 (2007 – \$3,513,000) was capitalized as additions.

---

**10. Due from Joint Venture Partner**

High River accounts for its investment in the Prognoz Silver Project as a 50% interest in a joint venture. High River has been funding nearly 100% of exploration work on Prognoz and was recording the joint venture partner's contribution as a current receivable. The contribution was reclassified from accounts receivable in Q3 2008 as the Company is unlikely to receive value in the immediate future. High River classified the amount due as an available-for-sale financial asset. As there is no active market for the asset, the fair value is reported as being the acquisition cost.

---

**11. Reclamation**

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.

<b>Reclamation liability</b>	Buryatzoloto	Somita	Berezitovy	Total
Carrying value, January 1, 2008	\$ 3,130	\$ 2,310	\$ 2,426	\$ 7,866
Accretion expense and revaluation	426	193	–	619
Carrying value, September 30, 2008	<b>\$ 3,556</b>	<b>\$ 2,503</b>	<b>\$ 2,426</b>	<b>\$ 8,485</b>

---

**12. Non-Hedge Derivatives**

	September 30, 2008	December 31, 2007
Goldrush debenture (a)	<b>\$ 1,789</b>	\$ 1,217
RGI loan (b)	<b>9,764</b>	8,650
	<b>\$ 11,553</b>	<b>\$ 9,867</b>

(a) The Goldrush debenture may be converted to common shares of Goldrush at the sole discretion of the issuer. The embedded derivative has been treated as an up-and-out put option and the fair value estimated using a barrier pricing model with the following assumptions: 2.2% risk free rate, 80% volatility, market price of Goldrush common shares of \$0.05, strike price of \$1.00, and term of 2.5 years.

(b) The second production payment due to Royal Gold, Inc. 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.

### 13. Loans and Interest Payable

Current loans and interest payable are comprised of the following:

	September 30, 2008		December 31, 2007	
	Amortized cost	Fair value	Amortized cost	Fair value
<b>High River</b>				
Standard Bank Plc – revolving credit facility (a)	\$ 15,574	\$ 15,167	\$ (427)	\$ –
Accrued interest on loans	249	249	–	–
	<b>15,823</b>	<b>15,416</b>	(427)	–
<b>Buryatzoloto</b>				
Nomos Bank-US\$25M	10,123	10,123	7,856	7,856
Nomos Bank-US\$8M	3,323	3,323	2,357	2,357
Nomos Bank-US\$10M	10,382	10,382	–	–
Nomos Bank-US\$10M (b)	10,382	10,382	–	–
UniCredit-US\$4M	4,153	4,153	3,928	3,928
UniCredit-US\$6.5M	2,530	2,530	3,191	3,191
UniCredit-US\$4M	–	–	3,928	3,928
Accrued interest on loans	62	62	129	129
	<b>40,955</b>	<b>40,955</b>	21,389	21,389
<b>Somita</b>				
Royal Gold, Inc.	31,163	31,447	10,311	10,311
Accrued interest on loan	7,671	7,671	4,812	4,812
Caterpillar Finance France SA	1,384	1,384	1,310	1,310
Accrued interest on loan	22	22	38	38
Government of Burkina Faso	519	519	491	491
Standard Bank Plc-revolving credit facility ©	12,453	12,453	4,763	4,913
Accrued interest on loan	244	244	25	25
	<b>53,456</b>	<b>53,740</b>	21,750	21,900
<b>Berezitovy</b>				
Nomos Bank	15,573	15,573	14,730	14,730
Accrued interest on loan	1,098	1,098	1,317	1,317
Nomos Bank - revolving credit facility	15,573	15,573	9,034	9,034
	<b>32,244</b>	<b>32,244</b>	25,081	25,081
<b>Prognoz Invest Ltd.</b>				
Arinvest	78	78	–	–
	<b>\$ 142,556</b>	<b>\$ 142,433</b>	\$ 67,793	\$ 68,370

(a) The Company borrowed US\$15.0 million from Standard Bank Plc (“Standard Bank”) for working capital requirements of the Berezitovy gold development project during the second quarter. The loan is for a term of one year to July 5, 2008, can be renewed annually for two years, and bears interest payable at LIBOR plus 3.5%. High River has pledged its shares in Jilbey SARL (owner of the Bissa project) and its shares in Goldrush Resources Ltd. and Merrex Resources Inc. in support of the facility. The loan was renewed in July for a further one year period.

(b) On July 16, 2008, Nomos-Bank granted a loan to Buryatzoloto in the amount of US\$10.0 million due December 2008 to finance Buryatzoloto’s working capital. The interest rate is 9.5%. The loan is secured by the Company’s agreements of purchase and sale of gold.

(c) During the third quarter, Standard Bank loaned Somita an additional US\$2.0 million under its working capital facility.

Long-term loans and interest payable are comprised of the following:

	2008		2007	
	Amortized cost	Fair Value	Amortized cost	Fair value
<b>High River</b>				
8% Debentures	\$ 11,936	\$ 11,936	\$ 11,856	\$ 11,856
<b>Buryatzoloto</b>				
Nomos Bank-US\$25M	2,596	2,596	10,066	10,066
Nomos Bank-US\$8M	3,322	3,322	9,820	9,820
Nomos Bank-US\$10M	–	–	5,499	5,499
UniCredit-US\$4M	–	–	1,596	1,596
Loan to Prognoz joint venture	–	–	1,381	1,381
	<b>5,918</b>	<b>5,918</b>	28,362	28,362
<b>Somita</b>				
Royal Gold, Inc.	–	–	23,213	23,784
Accrued interest on loan	–	–	3,285	3,285
Caterpillar Finance France SA	1,363	1,384	2,258	2,293
Ecobank Burkina (a)	515	515	–	–
	<b>1,878</b>	<b>1,899</b>	28,756	29,362
<b>Berezitovy</b>				
Nomos Bank	29,835	30,615	38,496	39,759
<b>Prognoz Invest Ltd.</b>				
Arinvest	1,281	1,281	–	–
	<b>\$ 50,848</b>	<b>\$ 51,649</b>	\$ 107,470	\$ 109,339

(a) Ecobank Burkina granted a loan to Somita in the amount of US\$585,000. The loan has a term of three years and bears interest at 8%. The loan is unsecured.

Loans and interest payable related to the Company's subsidiary Buryatzoloto are non-recourse to the Company and are repayable solely from the cash flow of the applicable operation. Non-hedge embedded derivatives relating to loans are separated and reported at their estimated fair value. Transaction costs are included in long-term debt and amortized using the effective interest method.

The loan agreements between Somita and Royal Gold, Inc. ("RGI") require, in part, that Somita pass a completion test as defined by December 31, 2007, that includes the requirement that the Taparko-Bouroum mill operate in excess of 90% capacity for 90 consecutive days. Due to mechanical problems with the mill, completion as defined was not achieved and waivers were requested and received from RGI in 2007 and 2008 up to September 30, 2008.

The loan agreements with Standard Bank Plc require that the Company and Somita maintain a working capital ratio greater than 1.2 to 1. The ratio calculated in accordance with the loan agreement for High River is approximately 0.8:1 constituting non-compliance with the loan agreement. The current amount of the debt owing to RGI and to Standard Bank is excluded in calculating the amount of current liabilities as defined in the agreements. The loan agreements also require that Somita pass a completion test. Due to mechanical problems with the mill, completion as defined was not achieved and waivers were requested and received from RGI in 2007 and 2008 up to September 30, 2008.

The Company is aware, and has been notified subsequent to the quarter end by the respective lenders, that certain covenants of its Somita subsidiary with respect to two separate loan accommodations are in breach. However, no payment demands have been received by the Company and the Company is in discussions with certain lenders, trade creditors and possible strategic investors/purchasers with respect to the Company's financial situation. On November 27, 2008, terms of the Standard Bank loans were restructured and the bank provided a waiver for the covenants which had been breached.

Also subsequent to the quarter end, Nomos Bank, a lender to Berezitovy, has been in discussions with the Company about increasing its security over the loans granted to Berezitovy. On or about November 21, 2008, there is a scheduled loan repayment due from Berezitovy Rudnik to Nomos Bank of approximately US\$15.2 million. Berezitovy Rudnik does not currently have the funds to make such payment. The Company and Berezitovy Rudnik are considering different options for addressing this loan repayment.

As of this date of these notes to the financial statements, no lender to the Company has commenced enforcement proceedings.

#### 14. Capital Lease

In the second quarter of 2008 Berezitovy entered into leases to purchase mining equipment. Berezitovy has the option to purchase the equipment at a nominal amount at the conclusion of the lease agreements. Berezitovy's obligations under the leases are secured by the lessor's title to the leased equipment. The lease runs for 36 months and the implicit interest rate is approximately 8.4%. The equipment will be delivered in the fourth quarter of 2008.

	2008	
	Minimum lease payments	Present value of payments
Within one year	\$ 708	\$ 678
After one year but not more than five years	1,594	1,345
Total minimum lease payments	2,302	2,023
Less amounts representing finance charges	(279)	-
Present value of minimum lease payments	<u>\$ 2,023</u>	<u>\$ 2,023</u>

#### 15. 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 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. At September 30, 2008, there are 1,000,836 options available for grant (December 31, 2007 – 1,957,503).

Total outstanding stock options are summarized as follows:

	Number of stock options	Weighted average price
Balance – December 31, 2006	15,643,833	\$1.81
Granted	100,000	\$2.85
Terminated	(436,669)	\$2.18
Exercised	(4,044,598)	\$1.48
Balance – December 31, 2007	11,262,566	\$1.97
Granted	1,850,000	\$2.80
Terminated	(30,000)	\$2.44
Exercised	(387,883)	\$1.89
Balance – March 31, 2008	12,694,683	\$2.06
Granted	370,000	\$2.19
Terminated	(668,333)	\$2.16
Expired	(85,000)	\$1.70
Balance – June 30, 2008	12,311,350	\$2.06
Granted	1,520,000	\$1.27
Balance – September 30, 2008	<u>13,831,350</u>	<u>\$2.00</u>

Stock options outstanding:

Exercise price	September 30, 2008			December 31, 2007		
	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
2.23	–	–	–	75,000	0.3	75,000
1.70	–	–	–	50,000	0.4	50,000
0.67	82,500	0.0	82,500	120,000	0.8	120,000
2.25	1,713,333	0.1	1,713,333	1,790,000	0.9	1,790,000
0.67	462,500	0.9	462,500	462,500	1.7	462,500
1.85	1,944,000	1.2	1,944,000	2,135,000	2.0	2,135,000
0.67	476,250	1.4	476,250	507,500	2.2	507,500
2.13	1,697,500	2.4	1,697,500	1,809,166	3.2	603,056
2.35	75,000	2.8	75,000	75,000	3.5	25,000
2.15	3,673,600	3.1	3,673,000	4,138,400	3.9	1,379,462
2.85	100,000	4.0	66,667	100,000	4.9	33,333
2.80	1,716,667	4.3	437,222	–	–	–
2.19	370,000	4.5	113,333	–	–	–
1.80	820,000	4.8	216,667	–	–	–
0.64	700,000	5.0	233,333	–	–	–
	<u>13,831,350</u>	2.6	<u>11,191,305</u>	<u>11,262,566</u>	2.7	<u>7,180,851</u>

The weighted average exercise price of outstanding stock options was \$2.00 per common share (2007 – \$1.94) and for vested and exercisable stock options \$1.94 (2007 – \$1.79). The Company accounts for all stock-based payments using the fair value based method and expenses the stock options. The estimated fair value of the stock options granted is charged to expense and contributed surplus over the vesting period of the options. On exercise of stock options, the contributed surplus is reclassified to capital stock. The fair value of the stock options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	Three months ended		
	September 30, 2008		2007
Number of stock options granted in the quarter	820,000	700,000	100,000
Strike price	\$1.80	\$0.64	\$2.85
Expected dividends	NIL	NIL	NIL
Expected volatility	56.0%	108.0%	56.0%
Risk-free interest rate	3.0%	2.2%	4.2%
Expected life of option	4 years	1 year	5 years
Expected forfeitures	NIL	NIL	NIL
Weighted average grant-date fair values	<u>\$ 0.535</u>	<u>\$ 0.27</u>	\$ 1.49

The unvested, unamortized fair value of all stock options outstanding at period end was \$1,697,000 (2007 – \$4,378,000). The stock based compensation expense included in administrative costs in the income statement for the quarter was \$959,000 (2007 – \$558,000).

## 16. 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, 2006	249,763,444	\$ 338,371
Exercise of stock options	4,044,598	8,470
Exercise of warrants	37,500	114
Conversion of debenture	16,595	–
Financings	41,800,000	112,018
Warrant and share issue expense		(5,748)
Balance – December 31, 2007	295,662,137	453,225
Exercise of stock options	387,883	1,068
Exercise of warrants	11,844,500	35,880
Warrant and share issue expense		(11)
Balance – March 31, 2008	307,894,520	490,162
Conversion of debenture	10,638	64
Balance – June 30, 2008	<b>307,905,158</b>	<b>490,226</b>
<b>Balance – September 30, 2008</b>	<b>307,905,158</b>	<b>\$ 490,226</b>

**(c) WARRANTS**

	Number of warrants	Weighted average price	Estimated fair value
Balance – December 31, 2006	11,912,500	\$2.50	\$ 6,294
Issued	24,222,500	\$3.80	13,681
Exercised	(37,500)	\$2.50	(20)
Expired	(27,500)	\$1.60	(4)
Balance – December 31, 2007	36,070,000	\$3.37	19,951
Exercised	(11,844,500)	\$2.50	(6,269)
Expired	(3,000)	\$2.50	(2)
Balance – March 31, 2008	24,222,500		13,680
Balance – June 30, 2008	24,222,500		13,680
<b>Balance – September 30, 2008</b>	<b>24,222,500</b>		<b>\$ 13,680</b>

Warrants outstanding at September 30:

Exercise price	2008		2007	
	Number of warrants outstanding	Expiry date	Number of warrants outstanding	Expiry date
\$2.50 (i)	–	Jan. 28, 2008	11,847,500	Jan. 28, 2008
\$2.63	300,000	Dec. 31, 2008	300,000	Dec. 31, 2008
\$2.90	600,000	Jun. 13, 2009	600,000	Jun. 13, 2009
\$3.25	2,900,000	Jul. 18, 2009	2,900,000	Jul. 18, 2009
\$3.25	600,000	Mar. 31, 2009	600,000	Mar. 31, 2009
\$3.10	1,250,000	Aug. 29, 2009	1,250,000	Aug. 29, 2009
\$4.00	18,572,500	Nov. 08, 2010	18,572,500	Nov. 08, 2010
	<b>24,222,500</b>		<b>36,070,000</b>	

- (i) In 2006, holders of warrants due January 27, 2007 having an exercise price of \$1.60 were offered a replacement warrant due on January 27, 2008, having an exercise price of \$2.50 for each \$1.60 warrants exercised prior to September 30, 2006. A total of 11,885,000 warrants due on January 28, 2007 were exercised and 11,885,000 replacement warrants issued. During January 2008, a total of 11,844,500 warrants were exercised for proceeds of \$29,611,000.

**(d) DEBENTURE CONVERSION OPTION**

In November 2006, the Company issued a Debenture. The fair value of the option component of the Debenture 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 capital stock if exercised, or to contributed surplus if it expires unexercised.

#### 17. Administrative Costs

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Stock based compensation	\$ (959)	\$ (558)	\$ (1,940)	\$ (1,823)
Salaries and benefits	(1,881)	(555)	(3,514)	(2,134)
Other	(249)	(729)	(3,013)	(2,303)
	<b>\$ (3,089)</b>	<b>\$ (1,842)</b>	<b>\$ (8,467)</b>	<b>\$ (6,260)</b>

#### 18. Financing Costs and Investment Income, Net

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Investment income	\$ 78	\$ 110	\$ 752	\$ 346
Financing costs	(1,772)	(1,698)	(6,329)	(4,284)
Debenture accretion	–	(88)	(144)	(257)
Financial instrument accretion	(84)	(718)	(830)	(1,761)
Fair value adjustments to derivatives	2,108	(3,263)	(1,686)	(4,718)
	<b>\$ 330</b>	<b>\$ (5,657)</b>	<b>\$ (8,237)</b>	<b>\$ (10,674)</b>

#### 19. Other Income (Expenses)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Write-down of carrying value	\$ (289)	\$ –	\$ (296)	\$ –
Loss on sale or write-off of assets	(42)	(154)	(145)	(182)
Management fees	–	15	–	55
Foreign exchange	(9,866)	1,077	(4,797)	819
Other	619	138	1,359	1,251
	<b>\$ (9,578)</b>	<b>\$ 1,076</b>	<b>\$ (3,879)</b>	<b>\$ 1,943</b>

#### 20. Net Loss Per Share

Net loss 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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net loss for the period	\$ (15,349)	\$ (4,657)	\$ (22,382)	\$ (3,495)
Weighted average number of shares	307,905,158	260,709,088	307,865,853	253,941,944
Basic income per share	\$ (0.05)	\$ (0.02)	\$ (0.07)	\$ (0.01)
Incremental shares on assumed exercise of options and warrants	–	–	–	–
Weighted average number of shares	307,905,158	260,709,088	307,865,853	253,941,944
Diluted net loss per share	\$ (0.05)	\$ (0.02)	\$ (0.07)	\$ (0.01)

## 21. Related Party Transactions

The Company's transactions are in the normal course of business and are recorded at the exchange amount. All amounts due to/from related parties are non-interest bearing and payable on demand. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

At September 30, 2008 and 2007, the Company had shareholdings in PDX Resources and Pelangio Exploration. A director of the Company serves as a director of both companies. At September 30, 2008, the Company has an account receivable due from PDX Resources of NIL (2007 – \$5,000) for services provided by High River on behalf of PDX Resources.

At September 30, 2008 and 2007, the Company had a shareholding in Goldrush. An officer of the Company serves as a director of Goldrush. At September 30, 2008, the Company has an account receivable due from Goldrush of \$175,000 (2007 – \$11,000). Pursuant to an agreement, High River provides Goldrush with technical expertise and operations management on a cost recovery basis.

During the period, legal services were provided by Cassels Brock and Blackwell LLP. An officer of the Company is a partner of Cassels Brock and Blackwell LLP. The total cost of the services was \$217,000 (2007 – \$210,000).

Strathcona Mineral Services Ltd. has provided certain advisory services to the Company. A director of the Company is President of Strathcona Minerals Services Ltd. The total cost of the services was \$11,000 (2007 – NIL).

## 22. Supplementary Cash Flow Information

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
(a) Net changes in non-cash working capital				
Accounts receivable	\$ (8,258)	\$ (441)	\$ (13,261)	\$ (15,788)
Inventory	(8,979)	3,776	(13,347)	(5,917)
Other assets	15,954	(954)	14,276	2,006
Accounts payable	5,344	(3,934)	7,574	5,102
Interest payable	3,523	–	2,776	–
	\$ 7,584	\$ (1,553)	\$ (1,982)	\$ (14,597)
(b) Cash paid for interest and financing fees	\$ 2,711	\$ 3,879	\$ 10,617	\$ 5,918
Cash paid for income taxes	\$ (1,881)	\$ 5,571	\$ 3,374	\$ 11,051

## 23. Commitments and Contingencies

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

High River has guaranteed a materials supply contract for Somita up to \$227,000 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.

High River has guaranteed the US\$9,000,000 line of credit to Berezitovy from the Nomos Bank and the US\$12,000,000 credit facility of Somita from Standard Bank and it estimates the guarantees to have NIL value as forecasts show that the operations will generate sufficient cash to meet their obligations. Berezitovy is currently in a dispute with government authorities and certain employees regarding its potential liability for overtime payments under Russian statutory requirements. The potential liability and possible penalties cannot be reliably estimated at this time.

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

- (i) an additional payment of US\$20 per ounce of gold for 20% of any mineral reserves in excess of 150,000 ounces based on a bankable feasibility study;
- (ii) an annual payment of US\$100,000 per year for four years as an advance on the vendor's 10% non-contributing interest, such payment to cease on commencement of production;
- (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. The first payment was made in 2007; 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.

In order to retain its skilled employees, Buryatzoloto has guaranteed employee mortgages given by Sberbank RF. At September 30, 2008, this guarantee amount is US\$2.0 million (2007 – US\$2.1 million). The Company accounts for guarantees at fair value and it estimates the guarantees to have NIL value as historically there have been no defaults.

Berezitovy has entered into a lease. See note 14.

---

#### **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 September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Property, plant and equipment expenditures, net				
Russia – Buryatzoloto	\$ 5,852	\$ 3,434	\$ 14,236	\$ 10,911
Burkina – Somita	4,034	–	7,270	–
Burkina – Exploration	11	68	162	203
Corporate	–	(20)	–	7
	<b>9,897</b>	3,482	<b>21,668</b>	11,121
Deferred exploration expenditures (proceeds)				
Russia – Buryatzoloto	996	2,042	6,333	7,468
Russia – Berezitovy	280	(9)	481	23
Russia – Prognoz (a)	6,701	–	13,564	–
Burkina – Exploration	1,970	723	8,070	5,308
	<b>9,947</b>	2,756	<b>28,448</b>	12,799
Development property expenditures				
Russia – Berezitovy	(975)	17,421	28,409	45,712
Burkina – Somita	–	12,809	–	31,619
	<b>\$ (975)</b>	\$ 30,230	<b>28,409</b>	77,331
Total assets				
Russia – Buryatzoloto			190,997	161,638
Russia – Berezitovy			235,194	193,702
Russia – Prognoz			68,912	–
Burkina – Somita			165,669	150,823
Burkina – Exploration			70,788	61,109
Corporate			(27,459)	17,164
			<b>\$ 704,101</b>	\$ 584,436

(a) Included with Russia - Buryatzoloto in 2007.

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Revenue (b)</b>				
Russia – Buryatzoloto	\$ 34,327	\$ 26,565	\$ 97,966	\$ 85,060
Burkina – Somita	613	–	25,479	–
	<b>39,940</b>	26,565	<b>123,445</b>	85,060
<b>Expenses</b>				
Mining costs				
Russia – Buryatzoloto	21,480	17,048	59,787	49,751
Burkina – Somita	333	–	21,425	–
Mine administrative costs				
Russia – Buryatzoloto	1,796	1,338	5,510	4,344
Burkina – Somita	20	–	764	–
Mine amortization and depletion				
Russia – Buryatzoloto	4,330	3,373	10,766	11,677
Burkina – Somita	1,246	–	6,074	–
Asset retirement obligation accretion				
Russia – Buryatzoloto	84	32	242	100
Burkina – Somita	(97)	–	21	–
Standby costs				
Burkina – Somita	5,805	–	5,805	–
	<b>34,997</b>	22,255	<b>110,394</b>	65,872
Administrative costs				
Russia – Buryatzoloto	(278)	–	(369)	–
Burkina – Somita	(5)	–	(7)	–
Corporate	(2,806)	(1,842)	(8,091)	(6,260)
	<b>(3,089)</b>	(1,842)	<b>(8,467)</b>	(6,260)
Financing costs				
Russia – Buryatzoloto	(739)	(1,046)	(2,736)	(3,156)
Burkina – Somita	(1,897)	–	(6,824)	–
Corporate	2,966	(4,611)	1,323	(7,518)
	<b>330</b>	(5,657)	<b>(8,237)</b>	(10,674)
Other income/(expense)				
Russia – Buryatzoloto	89	(136)	10,266	(998)
Burkina – Somita	(16,487)	–	(9,242)	–
Corporate	6,820	1,212	(4,903)	(945)
	<b>(9,578)</b>	1,076	<b>(3,879)</b>	(1,943)
Income tax expense				
Russia – Buryatzoloto	(322)	(330)	(4,826)	(3,621)
Burkina – Somita	–	–	–	–
	<b>(322)</b>	(330)	<b>(4,902)</b>	(3,621)
Net income (loss) for the period				
Russia – Buryatzoloto	2,870	57	14,465	8,995
Burkina – Somita	(25,389)	–	(24,990)	–
Corporate	7,170	(4,714)	(11,857)	(12,490)
	<b>\$ (15,349)</b>	\$ (4,657)	<b>\$ (22,382)</b>	\$ (3,495)

(b) Sales of gold by Buryatzoloto and Berezitovy are in Russia. Sales by Somita are in Switzerland.

## 25. Subsequent Events

The Special Committee of High River announced it was continuing its review of the Company's corporate liquidity and strategic alternatives, which could include a financing or the sale of all or some of the Company's assets. The ability of the Company to continue as a going concern is therefore dependent on the on-going discussions and/or forbearance with the lenders, accommodations from trade creditors, establishing steady production at the two new mines and obtaining additional financing. There is no assurance that the lenders will cooperate with the Company,

that trade creditors will provide accommodations, that steady production can be established or that a financing or other transaction can be completed on terms acceptable to the Company.

The Company is aware, and was notified by the respective lenders, that certain covenants of its Somita subsidiary with respect to two separate loan accommodations are in breach. However, no payment demands have been received by the Company and the Company is in discussions with certain lenders, trade creditors and possible strategic investors/purchasers with respect to the Company's financial situation. On November 27, 2008, terms of the Standard Bank loans were restructured and the bank provided a waiver for the covenants which had been breached.

Four directors of the Company resigned.

On November 16, 2008, the Company announced that it would be late filing its Q3 interim financial statements due to concerns raised by the board of directors regarding the reliability of information that the Company has received from its 85% owned subsidiary Buryatzoloto. Those concerns have been subsequently addressed to the satisfaction of the Board.

On November 19, 2008, Richard Morawetz of Alvarez & Marsal Canada ULC was appointed Chief Restructuring Officer reporting directly to the Board of Directors.

On November 20, 2008 the Company announced and closed an equity financing. The financing was a non-brokered private placement (the "Offering") of 282,288,515 common shares (the "Common Shares") and 40,674,540 warrants (the "Warrants") of the Company, each Warrant entitling the holder thereof to acquire one Common Share at an exercise price of \$0.64 until September 29, 2013. Lybica Holding B.V., an affiliate of ZAO Severstal Resources, the mining division of OAO Severstal ("Severstal"), agreed to purchase the Common Shares for a price of approximately US\$0.1594 (\$0.20) per Common Share for total aggregate gross proceeds to High River of US\$45,000,000 (\$56,367,000). The Warrants are being issued as partial consideration for the purchase price of the Common Shares.

Severstal, through its affiliates, currently holds 30,482,615 Common Shares of High River totalling 9.9% of the currently outstanding Common Shares. Upon completion of the Offering, Severstal will hold 312,771,131 Common Shares representing approximately 53.0% of the currently outstanding Common Shares. High River has agreed that the Closing will be conditional upon, among other things, Roman Deniskin, Nikolay Zelenskiy, Evgeny Tulubensky and Oleg Pelevin being appointed to the board of directors of the Company on behalf of Severstal Resources in place of resigning directors David Mosher and Valery Dmitriev. Management changes are also contemplated including the resignation of David Mosher as President and Chief Executive Officer and the appointment of Nikolay Zelenskiy as Chief Executive Officer.

The Company is relying upon exemptions from the security holder approval requirements of the Toronto Stock Exchange (the "TSX") in Subsection 604(e) of the TSX Company Manual, available in cases of financial hardship. The Company's board of directors, and its independent directors, acting in good faith, have determined that the Company faces serious financial difficulty and that the proposed transaction has been designed to improve the financial position of the Company. As a consequence of relying upon the financial hardship exemptions, the TSX has informed the Company that it will, in the ordinary course, commence a delisting review. The Company believes that, upon completion of the Offering and the filing of its third quarter financial statements, it will be in compliance with TSX listing requirements.

The completion of the Offering is subject to the approval of the TSX and all other necessary regulatory approvals. The securities issuable pursuant to the Offering will be subject to applicable regulatory hold periods.

On December 4, 2008, the Company announced that the agreement to acquire the remaining 50% interest in the Prognoz Silver Project was terminated.

## CORPORATE INFORMATION

---

### **Directors**

John W. Crow<sup>1,2,3</sup>  
*Independent Businessman*  
Toronto, Ontario

Roman Deniskin<sup>6</sup>  
*CEO Severstal Resources*  
Moscow, Russia

Terrence Lyons<sup>1,3,4,5</sup>  
*Chairman*  
Northgate Minerals Corporation  
Vancouver, British Columbia

Oleg Pelevin<sup>6</sup>  
*Head of Strategy-Gold Division*  
Severstal Resources  
Moscow, Russia

Stephen Polakoff<sup>2,3,5</sup>  
*General Counsel*  
ZAO Integra Management  
Moscow, Russia

Evgeny Tulubensky<sup>6</sup>  
*Chief Legal Officer-Gold Division*  
Severstal Resources  
Moscow, Russia

Nikolay Zelenskiy<sup>6</sup>  
*CEO-Gold Division*  
Severstal Resources  
Moscow, Russia

<sup>1</sup> Member of the Audit Committee

<sup>2</sup> Member of the Corporate Governance and Compensation Committee

<sup>3</sup> Member of the Special Committee

<sup>4</sup> Chairman

<sup>5</sup> As of September 10, 2008

<sup>6</sup> As of November 20, 2008

### **Officers**

Nikolay Zelenskiy  
*Chief Executive Officer*

Donald A. Whalen  
*Executive Vice President*

Michael D. Kelly, P. Eng.  
*Executive Vice President and Chief Operating Officer*  
(As of June 2, 2008)

Steven Poad  
*Chief Financial Officer*

Drifffield M. Cameron, P. Geo  
*Vice President, Exploration*

Dan W. Hrushewsky, CFA  
*Vice President, Investor Relations*

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

### **Other**

John G. Green  
*Controller*

Elaine Simonds  
*Manager, Legal and Regulatory*

### **Corporate Office**

High River Gold Mines Ltd.  
Suite 1700  
155 University Avenue  
Toronto, Ontario M5H 3B7  
Telephone: (416) 947-1440  
Fax: (416) 360-0010  
Email: highrivergold@hrg.ca

### **Russian Subsidiary Offices**

OJSC Buryatzoloto  
Tsvileva St., 9  
Ulan-Ude, Buryat Republic 670034  
Russian Federation  
Telephone: 7 (3012) 440-810  
Fax: 7 (3012) 440-107

Berezitovy Rudnik LLC  
4<sup>th</sup> floor, Krasnoarmeiskaya St. 102  
Blagoveshensk, Amur Region  
675000 Russian Federation  
Telephone: 7 (4162) 220-680  
Fax: 7 (4162) 592-349

### **Burkina Faso Operations Office**

Somita S.A.  
01 BP 2509  
1628, Blvd. Tânsoba Silzaédre  
Secteur 25  
Ouagadougou 01 Burkina Faso

Telephone: (226) 50 35 81 85  
Fax: (226) 50 35 81 87

### **Transfer Agent**

Equity Transfer & Trust Co.  
200 University Avenue, Suite 400  
Toronto, Ontario  
M5H 4H1

### **Auditors**

PricewaterhouseCoopers LLP  
Toronto, Ontario

### **Solicitors**

Cassels Brock and Blackwell LLP  
Toronto, Ontario

### **Shares Listed**

The Toronto Stock Exchange  
Symbol: HRG  
CUSIP 42979J

### **Investor Relations**

For inquiries, or copies of the Company's Annual Information Form, Annual or Quarterly Reports, please contact Investor Relations at (416) 947-1440, 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.