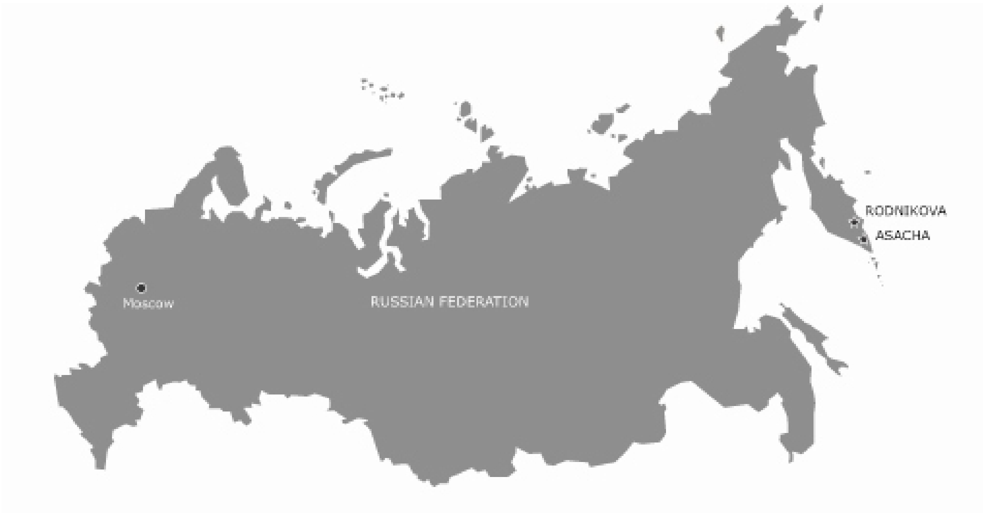
INVESTING IN RUSSIAN GOLD

Trans-Siberian Gold

ANNUAL REPORT AND ACCOUNTS 2010

Highlights



- **Asacha expected to be in production by end July 2011**
- **$18 million additional finance facility obtained for Asacha in October 2010**
- **$1.6 million raised in equity placing, $5.2 million debt converted to equity in March 2010**

Contents

Trans-Siberian Gold publishes its accounts in US dollars ($) and all figures are $ unless otherwise specified.

Trans-Siberian Gold plc (TSG) is a UK-based resources company, established in 2000 with the objective of acquiring and developing a portfolio of quality gold-mining assets in Russia. The Company is listed on the London Stock Exchange's Alternative Investment Market (AIM).

TSG's two projects are located at Asacha and Rodnikova in the Kamchatka peninsula in Far East Russia. In 2010 the Company focused on construction activities at the Asacha site.

The Company's properties contain approximately 1 million oz of gold and about 4.6 million oz of silver in total mineral resources calculated to JORC standards. There is upside potential at both properties.

Gold production at Asacha is expected to commence by the end of July 2011.

Group Mineral Resources (JORC)

JORC RESOURCES - as of 31 March 2011

MINERAL RESOURCE - Asacha

Category	Tonnes	Au g	Ag g	Au Grade g/t	Ag Grade g/t	Au Equivalent g/t	Contained Au oz	Contained Ag oz	Contained *Au Equivalent oz
Measured	308,548	5,361,031	12,491,680	17.4	40.5	18.2	172,361	401,617	180,394
Indicated	741,953	12,873,675	32,969,431	17.4	44.4	18.2	413,898	1,059,992	435,098
Sub-total	**1,050,501**	**18,234,706**	**45,461,111**	**17.4**	**43.3**	**18.2**	**586,259**	**1,461,609**	**615,492**
Inferred	233,068	3,575,326	7,748,520	15.3	33.2	16.0	114,949	249,121	119,932
Total	**1,283,569**	**21,810,032**	**53,209,631**	**17.0**	**41.5**	**17.8**	**701,208**	**1,710,730**	**735,424**

MINERAL RESOURCE - Rodnikova

Resource Category	Tonnes	Au g	Ag g	Au Grade g/t	Ag Grade g/t	Au Equivalent g/t	Contained Au oz	Contained Ag oz	Contained *Au Equivalent oz
Measured	-	-	-	-	-	-	-	-	-
Indicated	518,400	4,266,775	45,522,116	8.2	87.8	10.0	137,180	1,463,570	166,450
Sub-total	**518,400**	**4,266,775**	**45,522,116**	**8.2**	**87.8**	**10.0**	**137,180**	**1,463,570**	**166,450**
Inferred	1,014,500	6,516,237	44,939,241	6.4	44.3	7.3	209,500	1,444,900	238,395
Total	**1,532,900**	**10,783,012**	**90,461,357**	**7.0**	**59.0**	**8.2**	**346,680**	**2,908,470**	**404,845**

4 g/t cut-off
* 50oz of Ag = 1oz of Au equivalent
JORC = Australasian Joint Ore Reserves Committee.

The information in this report relating to Asacha's mineral resources is based on information compiled by Michael O'Brien, and that relating to Rodnikova's mineral resources is based on data reviewed by Vladislav Zhouravlev.

Michael O'Brien is a member of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the styles of mineralisation and types of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Vladislav Zhouravlev, former Chief Geologist at OOO Trans-Siberian Gold Management, is an expert of the GKZ (State Reserves Commission of the Russian Federation) with more than 45 years relevant experience in mineral exploration.

Messrs O'Brien and Zhouravlev are Qualified Persons under the AIM Rules and consent to the inclusion in this report of the matters based on their information in the form and context in which it appears.

Chairman's Statement

Amid continuing concern over the USA's budget deficit and European debt constraints, gold has preserved its special role as a safe haven. As a consequence the gold price increased significantly in 2010 and reached new levels. The consensus view of market analysts appears to be that the gold price will stabilise around current levels and preserve its value in times of budget deficits. The silver price has also reached a record high, becoming an in-demand asset.

In 2010 the Company focused its available resources, utilising the $25 million Sberbank facility agreed in 2009, on maintaining a rapid pace of construction activities at the Asacha site in order to complete mine construction and launch the processing plant in 2011. On the whole, the Company is satisfied with the progress achieved during the year. A more detailed activity report can be found in the CEO's Operating Review.

As activity in the Russian economy picked up, we witnessed the return of inflationary pressures in the Kamchatka region, with substantial cost increases in the construction sector, particularly materials, fuel and transportation. The higher oil price is a key factor behind the strengthening of the Russian rouble, affecting both projected capital and operating costs. These factors, coupled with the need for additional mobile equipment to meet the construction schedule and for improvements to the site's infrastructure (in particular the accommodation camp and intrasite roads) required to support the rapid pace of construction activities, resulted in a substantial increase in Asacha's projected pre startup cost.

In October 2010 the Company reached agreement with Sberbank for an additional five year $18 million loan facility for the Asacha project. In order to prevent any delays in the completion of construction at Asacha while the outstanding conditions of the new Sberbank loan were satisfied, the Company's largest shareholder, UFG Asset Management (UFG), provided the Company with loan finance of up to $2 million on commercial terms. In 2011 UFG and TSG's other major shareholder AngloGold Ashanti (AGA) have provided further loan facilities in aggregate $4.3 million.

In March 2010 the Company's indebtedness to UFG and AGA, in aggregate $5.2 million, was converted into new ordinary shares, at 30.8 pence per share. At the same time the Company raised an additional $1.6 million in a placing of new ordinary shares, also at 30.8 pence per share, with AGA, AGA thereby maintaining its interest in TSG in proportion to that of UFG.

In August 2010 the Company acquired the remaining minority shareholding in its subsidiary ZAO Trevozhnoye Zarevo (TZ) at a cost of $500,000 in accordance with the terms of its original acquisition of TZ, thereby increasing its interest in that company and the Asacha and Rodnikova projects from 95.03% to 100%.

At the end of 2010, in spite of the progress achieved during the reporting period, TSG's management had to reconsider its plans to start the production of gold in the first quarter of 2011. Having considered the likely impact of various factors on the pace of the construction process, as discussed in the CEO's Operating Review, the Company announced on 15 December 2010 that an additional 3 to 4 months would be required to complete the plant, delaying first gold production at Asacha to mid-year 2011.

We believe that the hard times are nearly over and look forward to informing the Company's shareholders of the commencement of gold production at Asacha in the near future. We would like to thank once again our staff for their contribution and our shareholders for their patience and support during this difficult period of time.

Oleg Bagirov
Chairman
27 May 2011

Chief Executive's Operating Review

Asacha Project, Kamchatka Krai

In Kamchatka, TSG's assets are held by its 100%-owned subsidiary, ZAO Trevozhnoye Zarevo (TZ). TZ has two mining licenses, one covering an area of 24 km^2 including the Asacha gold deposit and the other covering an area of 16 km^2 including the Rodnikova gold deposit. Both these deposits are located in the southern part of the Kamchatka peninsula, Rodnikova approximately 90 km by road from the Krai's capital Petropavlovsk-Kamchatsky, Asacha approximately 60 km further south.

Asacha and Rodnikova are epithermal gold/silver deposits located on a tertiary volcanic arc typical of ore systems found along the Pacific Rim. The main ore zone at Asacha consists of five steeply dipping veins with two principal veins averaging over two metres in width. Veins are characterised by low sulphidation quartz-adularia occurring predominately in dacite domes.

The current JORC total mineral resource estimate for Asacha is 1.28 million tonnes with an average gold grade of 17.0g/t and silver grade of 41.5g/t, for approximately 700,000 oz of gold and 1.7 million oz of silver. This is regarded as the base case for the project.

In 2010, as in the previous reporting period, the Company concentrated its efforts on the Asacha project. The $25 million loan facility negotiated in 2009 and the additional facility of $18 million agreed with Sberbank in October 2010, together with financing provided by major shareholders, has not only allowed the restoration of pre-global financial crisis construction activity levels at Asacha but has also facilitated a significant increase in the pace of development in order to complete the construction of the mine and start gold production in 2011.

In 2010 mine development and preparation works, by-product extraction works and exploration works amounted to about 1,600 metres and more than 16,600 m^3 of mining. Ore mined in 2010 during pre-production mining totalled 20,544 tonnes.

From 2008 to 30 April 2011 more than 4,500 metres, and more than 47,000 m^3, of mine development were completed, with a total amount of ore ready for processing of more than 66,000 tonnes, with an average grade of 8.5 g/t and an estimated gold content of 560kg.

Underground activities also included the necessary wooden and metal support installation, fixing, bolting and shotcreting. Mine facilities including chambers for ore loading, the pump station, auxiliary ventilation unit and ore and waste passes were also constructed. Electric cables were laid and pumping equipment and piping to deliver compressed air and water were installed.

The 2011 Mining Plan, which includes the start of extraction works, was approved by Rostechnadzor, the federal agency responsible for industrial and environmental safety, on 16 November 2010. According to that Plan, full-scale stoping will start in July 2011. Therefore in 2010 the Company finalised all major construction objects required for the timely commissioning and successful operation of the underground mine.

In 2010 TZ's chemical laboratory operated successfully to determine gold grade in geologic samples; some 3,376 assay values were obtained in 2010 and about 800 assays in the first quarter of 2011.

As reported earlier, the main principle of construction management at Asacha is the performance of works on an own-account basis with contractors engaged to carry out special activities. To implement this principle, TZ's Construction Department continued to carry out its tasks of efficient management of construction procedures, quality control and coordination of the efforts of all parties involved in construction.

By the end of April 2011 the works at the plant site had reached the final stage. The plant building, including its metal framework, multi-layer roofing with thermal insulation, wall panels, outside concrete walls and foundations for technological equipment, is complete. The internal concrete walls, galleries and inspection platforms are close to completion. A specialist contractor has carried out the installation of the major plant equipment under the supervision of representatives of the Chinese manufacturer and plant designer. The manufacturer and designer have reported their positive conclusion on the mills' installation.

Contractors have also been successfully working on the electric network, plant lighting, technological piping, ventilation, plant water supply system, heating and sewage. Finishing works, including painting, plaster boarding and installing doors and windows have started. The coarse ore bin and the conveyor gallery are also under construction.

Almost all the infrastructure components were under construction in 2010, especially the major ones: the tailings storage facility, fuel storage facility, sewage treatment plant, cyanide storage facility, supply systems and networks.

Chief Executive's Operating Review - continued

At the tailings storage facility the activities were particularly focused on dam construction, earth works and geo-membrane screen laying. These activities were negatively affected by exceptionally rainy conditions at the site during most of the summer, which caused significant over watering of subsurface soils despite the drainage measures taken. In order to catch up, more heavy bulldozers, excavators, dump trucks and other equipment were acquired to increase the productivity of soil removal. The work was undertaken 24 hours a day, allowing the night time employment of machinery from other objects. These steps, together with favourable weather conditions at the site during the autumn, should allow the tailings storage to be operational when gold production is scheduled to commence.

Construction of the other major infrastructure objects is close to completion. The buildings for the repair shop, sewage waters treatment facility, pump water station and fire station have been erected. Water, power and heat supply networks as well as sewage pipelines construction are under way. Four diesel generators have been installed and a grid line built to the mine site. Tanks for the fuel storage facility, fire station and pump water station have also been installed. The construction of the cyanide storage facility was completed and commissioned in February 2011. The contract for cyanide purchasing has been signed, with the first delivery of cyanide to Kamchatka in April 2011.

As at 30 April 2011 TZ employed 434 staff.

At the end of 2010, in spite of the progress achieved during the year, we had to reconsider our plans to start the production of gold in the first quarter of 2011 in the light of the following factors:

- delays in the manufacture and delivery of high-voltage cables and some other electrical equipment and pumps;
- the need for additional design works for early commissioning of the cyanide and fuel storage facilities in accordance with regional and local regulations; and
- unexpected adverse weather conditions, including the extremely rainy summer and the early onset of winter snow.

Having considered the likely impact of these factors on the pace of the construction process, the Company announced on 15 December 2010 that an additional 3 to 4 months would be required to complete the plant, so that gold production at Asacha was expected to commence around mid-year 2011. We are currently on track to launch the processing plant by the end of July 2011.

Mineral Resource - Russian State Geologic Commission for Reserves (GKZ) code

- as at 31 March, 2011

Property	C1 & C2 - oz	Grade g/t	P1 - oz	Grade g/t	P2 - oz
Asacha	699,228	21.6	298,560	19.0	466,500
Rodnikova	486,141	12.9	864,580	11.3	310,000
Total	**1,185,369**		**1,163,140**		**776,500**

Rodnikova Project, Kamchatka Krai

Activities at Rodnikova were limited as the Company concentrated its resources on bringing the Asacha deposit into production. No field work at the deposit was conducted in 2010. The geologic results obtained during the 2008 drilling programme were processed and evaluated and the Report on Mineral Reserves and pre-feasibility study were developed. In March 2011 the Report on Mineral Reserves and the pre-feasibility study for the Rodnikova deposit were submitted to the Kamchatka authorities. After consideration of the report, the Kamchatka authorities have generally approved it and have recommended its submission for final approval to the State Commission on Reserves.

Management

OOO Trans-Siberian Gold Management (TSGM), TSG's 100% owned subsidiary in Moscow, provides managerial, technical, financial and procurement services to the operating subsidiary and currently has 15 employees.

As reported last year, the Company's UK office was closed in February 2009 in order to minimise all expenditure not directly related to the Asacha project, however the Company's Finance Director remains UK based.

Dmitry Khilov
Chief Executive Officer
27 May 2011

Financial Review

Results
The Group's and the Company's results are presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Operations
The Company is in the exploration and development phase of its gold projects in Russia. It therefore received no operating income from those projects during 2010.

The Group recorded a loss from operations for the year of $3.6 million (2009: $5.3 million), after crediting a $270,000 exchange gain (2009: $2.2 million loss). The Board will continue to review the Group's exchange rate risks and the possible use of derivative financial instruments to mitigate against them.

Administration expenses amounted to $1.3 million in UK and $2.8 million in Russia (2009: $1.2 million and $1.9 million respectively), in aggregate $4.1 million (2009: $3.1 million).

Finance income was $50,000 (2009: $104,000). Finance costs were $104,000 (2009: $187,000), net of $1.6 million (2009: $231,000) interest capitalised.

Statement of Financial Position
Total equity was $78.8 million at 31 December 2010 compared to $75.5 million at 31 December 2009.

Total non-current assets increased from $83.3 million to $103.7 million. Property, plant and equipment increased by $12.7 million to $73.1 million, principally reflecting additional $13.0 million assets under construction at Asacha. Capitalised exploration and evaluation expenditure increased from $18.9 million to $29.9 million.

Recoverable Value Added Tax (VAT) at 31 December 2010 was $5.1 million (2009: $4.0 million) with additional VAT arising on increased construction activity in Russia partially offset by increased repayments. VAT amounting to $4.7 million (2009: $2.6 million) was recovered in 2010, however generally VAT on construction costs has not been recoverable until construction is complete and production commences. Consequently prior to 2010, VAT remained in the Group's Statement of Financial Position as a receivable recoverable after more than one year. $4.4 million of the VAT recoverable at 31 December 2010 (including $830,000 outstanding since prior to 2005), which is expected to be received during 2011, is included in current assets, the remaining $745,000 in non-current assets.

Current assets increased from $3.5 million to $11.0 million, including $4.4 million VAT discussed above. Inventories at Asacha comprised fuel $358,000 and other materials and supplies $284,000, in aggregate $642,000 (2009: nil). Cash and cash equivalents increased from $2.0 million to $4.0 million.

Current liabilities at 31 December 2010 totalled $2.7 million (2009: $3.7 million), principally reflecting the conversion into new ordinary shares of amounts owed to AngloGold Ashanti Limited (AGA) in respect of specialist technical consultancy services (the AGA indebtedness) as discussed below and in Note 30 to the financial statements.

Loans and borrowings at 31 December 2010 totalled $32.9 million (2009: $7.3 million), comprising $30.9 million drawn down under two five year facilities provided by Sberbank ($25 million in 2009 and $18 million in 2010) and $2 million outstanding on a facility provided by TSG's major shareholder, UFG Asset Management (UFG). Interest on the UFG facility accrues until repayment of the principal.

In October 2009 TSG's subsidiary ZAO Trevozhnoe Zarevo (TZ) began to draw down a three year $25 million loan facility provided by a Russian bank for the Asacha project. This initial borrowing was refinanced with Sberbank as a five year facility on 30 December 2009. On 1 November 2010 TZ began to draw down an additional five year $18 million facility provided by Sberbank for the Asacha project.

During 2009 UFG provided TSG with two loan facilities, of $3 million and $3.5 million, on commercial terms. The first facility was fully drawn down during 2009. The second facility, which was provided in order to facilitate the refinancing of TZ's $25 million loan facility discussed above, was partially repaid on 30 December 2009. On 23 March 2010 the loans, in aggregate $4.4 million including accrued interest, were converted into TSG shares at 30.8p per share, being the volume weighted average price of TSG's shares for the period of 60 business days prior to UFG serving notice of the exercise of its option to convert the outstanding amounts of both facilities.

Also on 23 March 2010, the AGA indebtedness of $842,000 was converted into TSG shares and additional shares to a value of $1.6 million were placed with AGA, in each case also at 30.8p per share.

Asacha project
The total project cost until Asacha is cash flow positive is now estimated at $130.2 million, net of $10.1 million VAT recoveries, compared to the April 2011 estimate of $129.3 million, net of $10.2 million VAT recoveries. The additional cost of $900,000 includes increased plant costs of $300,000 and pre-operating expenditure of $300,000. The total project cost includes pre-commissioning mining and plant costs of $3.9 million, other pre-operating expenditure of $37.4 million, "first fill" equipment spares and consumables of $1.0 million and contingency of $0.5 million. A further $27.6 million of capital expenditure, including contingency of $4.5 million, will be incurred after the commencement of production, principally completion of the powerline, mine development and the second phase of tailings storage.

Financial Review – continued

At a gold price of $1,000/oz, Life of mine ("LOM") cash costs on an all equity basis on total gold production of 590,000 oz are forecast at $227/oz, before taking account of a $34/oz credit from silver production (assuming a silver price of $20/oz). Cash costs including all royalties and taxes (in total $94.1 million, net of VAT recoveries) on an all equity basis are forecast at $386/oz. Total costs on the same basis, after depreciation of all capital expenditure (including $27.6 million post start up) and pre-start up mining and other operating expenditure, are forecast at $658/oz, giving a $342/oz margin at a gold price of $1,000/oz.

The Key Performance Indicators (KPIs) which will be reported after commencement of production at Asacha will include Group turnover, LOM and staff costs, operating results and a range of health and safety and environmental criteria.

Actual expenditure on the project up to March 2011 amounted to $118.2 million, net of $8.7 million VAT recovered. The remaining costs prior to the commencement of production are estimated at $12.0 million, net of further VAT recoveries of $1.4 million, comprising:

		$ million
Capital expenditure	Mine and mining equipment and facilities	1.1
	Gold plant, site facilities and tailings storage (1st phase)	5.9
	Off-site power supply and other infrastructure	2.2
	Contingency	0.5
	Total capital	9.7
Other costs	Pre-production mining, spares and consumables and other operating costs	3.7
		13.4
Less VAT recoveries		1.4
		12.0

Based upon detailed financial projections the directors are confident that the Group has sufficient funds to cover the final phase of development as detailed above. If the project is subject to unforeseen delays, the Directors are confident that short-term financing can be obtained to bridge any funding gaps.

Events after the reporting date
On 8 April 2011 UFG provided TSG with a loan facility of $2 million on commercial terms, repayable in two equal tranches, respectively on the fourth and fifth anniversaries of the commencement of gold production at Asacha. The facility agreement includes an option for UFG, subject to the requisite approval of TSG's shareholders, to convert any part of the outstanding loan into TSG shares at a price equivalent to the volume weighted average price of TSG's shares for the period of 60 business days prior to notice of such conversion.

On 18 April 2011 AGA agreed to provide the Company with a loan facility of $2.3 million on commercial terms, repayable on the same dates, and with the same conversion option, as the UFG loan discussed above.

Simon Olsen
Finance Director
27 May 2011

Board of Directors

Executive

Dmitry Khilov (Aged 53)
Chief Executive Officer
Dmitry Khilov graduated from the Moscow Institute of Finance in 1980. He has held senior positions at the Russian Ministry of Finance and at the World Bank, and was a member of the Board of Tokobank. From 1998 to 2000, he was Deputy Chairman of Russia's Federal Commission for Securities Markets. From 1995 to 2009 he held senior positions in the United Financial Group (UFG), most recently as Managing Director of the Private Equity Division of UFG Asset Management. He became Deputy Chief Executive Officer of Trans-Siberian Gold in July 2009 and was appointed as Chief Executive Officer in October 2009.

Simon Olsen (Aged 58)
Finance Director and Company Secretary
Simon Olsen qualified as a Chartered Accountant with Thomson McLintock, London, after graduating with a law degree from Oxford University. He spent 13 years with the Danish shipping and industrial group AP Moller in various financial and administrative roles in London, Jakarta and Manila, before moving into the mining sector in 1994, first in Sierra Leone as Financial Controller and then Chief Financial Officer of Sierra Rutile and latterly as Company Secretary of Navan Mining plc

Non-executive

Oleg Bagirov (Aged 59)
Chairman
Oleg Bagirov was educated at Moscow State Institute of Foreign Languages and Financial-Economic Institute. He was Chairman of United Investment Bank, Moscow from 1994 to 2002 and has also held senior positions with both Russian and international banks. He was Chief Executive Officer of OAO Sibirskiy Gorno-Metallurgichesky Alyans until October 2008. He was Chief Executive Officer of Trans-Siberian Gold from September 2006 until October 2009 and became Chairman in November 2009.

Peter Burnell (Aged 70)
Peter Burnell was educated at Magdalen College, Oxford University. He has spent most of his business career as a senior executive and director of Anglo American Corporation of South Africa and Minorco SA. He is currently Chairman of Merrill Lynch Latin American Investment Trust plc.

Florian Fenner (Aged 40)
Florian Fenner, a Chartered Financial Analyst, worked for Schroder Munchmeyer Hengst, a German investment bank before becoming Deputy Head of Research at Brunswick Brokerage, one of Russia's leading investment banks in 1996. He joined Brunswick Capital Management in 1997 and was head of the representative office of Unifund before becoming Managing Partner at UFG Asset Management in 2002.

Charles Ryan (Aged 44)
Charles Ryan is a graduate of Harvard University. He was an Associate and Principal Banker with the European Bank for Reconstruction and Development in London, before becoming a founder director of UFG. After UFG sold its investment banking business to Deutsche Bank in 2006, he spent two years as Chief Country Officer and Chief Executive Officer of Deutsche Bank in Russia, stepping down in October 2008 to become Chairman of UFG Asset Management. He is also a director of PGI Group Plc, the Delta Russia Fund, JSC Sovcomflot, Unifin Bank, Ozon.ru, and serves on the Capital International Inc. Advisory Board.

Directors' Report

The directors present their report and the Company's audited financial statements for the year ended 31 December 2010.

Principal activities and review of business developments
Trans-Siberian Gold plc (the Company) is a UK-based resources company, with the objective of acquiring and developing a portfolio of quality gold-mining assets in Russia. During the year the Company continued to develop its properties in the Russian Federation. Details of the Group's activities, including a summary of the Key Performance Indicators which will be used when gold production commences, are given in the Chief Executive's Operating Review on pages 3 to 4 and the Financial Review on pages 5 to 6.

The Company is a public limited company, incorporated and domiciled in the United Kingdom and has subsidiaries based in the Russian Federation. The Company's registered office is 39 Parkside, Cambridge, CB1 1PN, United Kingdom. The Company's shares are traded on the AIM Market of the London Stock Exchange.

Share capital
The Company's authorised and issued share capital as at 31 December 2010 is set out in Note 12 to the financial statements.

Major shareholdings
At 18 May 2011, the following interests of 3% or more in the issued share capital of the Company appeared in the register maintained in accordance with section 808 of the Companies Act 2006:

	Number of shares	% of share capital
UFG Asset Management	54,177,557	54.36
AngloGold Ashanti	30,599,134	30.70

Results and dividend
The results for the year are set out on pages 13-18. The directors do not recommend the payment of a dividend.

Directors
The current directors of the Company and their brief career details are shown in the Board of Directors section on page 7.

In accordance with the provisions of the Company's Articles of Association, Oleg Bagirov and Charles Ryan retire at the forthcoming Annual General Meeting, and, being eligible, offer themselves for re-election.

Currency
The consolidated financial statements are presented in US dollars ($), which is the functional and presentation currency of the Company and the functional currency of its subsidiaries.

Payments to creditors
The Company's policy is to settle the terms of payment with its suppliers when agreeing the terms of each transaction, either by accepting the suppliers' terms or by making the suppliers aware of alternative terms and abiding by the agreed terms. It does not follow a published code or standard.

Trade payables of the Company at 31 December 2010 represented 30 days' purchases (2009: 15 days).

Related party transactions
Details of related party transactions are set out in Note 30 to the financial statements.

Principal risks and uncertainties
The management of the Group's business and the execution of its strategy are subject to a number of risks. Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, the overall impact of such events may compound the possible adverse effects on the Group.

The key financial risks affecting the Group are set out in Note 17 to the financial statements. The key operating risks affecting the Group are set out below and in the following section entitled *Going Concern*.

The Group's licences
The Group's activities are dependent upon the grant and renewal of appropriate licences, permits and regulatory consents. The licences held by the Group contain a range of obligations, including those described in Note 7 to the financial statements, failure to comply with which could result in penalties being levied or the suspension or revocation of the licence.

Project development risks
Resource estimates are based upon the interpretation of geological data. Project feasibility studies derive estimates of operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates and other factors. As a result, actual operating costs and economic returns may differ from those currently estimated.

Reserve and resource estimates
Reserve and resource estimates may require revision based on actual production experience. The volume and grade of reserves mined and processed and recovery rates achieved may vary from those anticipated and a decline in the market price of gold may render reserves containing relatively lower grades of gold mineralisation uneconomic.

Environmental issues
The Group's operations are subject to environmental regulation, including environmental impact assessments and permitting. Russian environmental legislation comprises numerous federal and regional regulations which are not fully harmonised and may not be consistently interpreted.

Mining and processing risks
The risks inherent in the development and exploitation of mineral deposits, some of which are outside the Group's control, include geological, geotechnical and seismic factors and production risks (ore grade/quality, tonnages and recovery/yields), industrial and mechanical incidents, processing problems, technical failures, labour disputes and environmental hazards including the discharge of toxic chemicals, fire, flooding and other acts of God. The locations of the Group's activities mean that climatic conditions may impact on operations especially the delivery of supplies, equipment and fuel.

As with all mining operations, there is uncertainty associated with the Group's operating parameters and costs. While costs can be budgeted with a reasonable degree of confidence, operating parameters can be difficult to predict and may be affected by factors outside the Group's control.

Gold price volatility
The market price of gold is volatile and is affected by numerous factors which are beyond the Company's control. These factors include world production levels, global and regional economic and political events, international economic trends, inflation, currency exchange fluctuations, industrial and jewellery demand, speculative activity and the political and economic conditions of major gold-producing countries. Additionally, the purchase and sale of gold by central banks or other large holders or dealers and forward sales by producers may also have an impact on the market price.

As a result of the above risks, project expenditure, production volume and operating revenue and costs, among other things, may differ materially from those anticipated. In addition, estimated production dates may be delayed materially. Any such events could materially affect the Group's business, results and cash flows.

Political and economic risks
The Group's assets are located in Russia which is still undergoing a substantial transformation from a centrally controlled command economy to a market-driven economy. In addition, in view of the legal and regulatory regime in Russia, legal inconsistencies may arise.

The regulatory environment
The Group's activities are subject to extensive federal and regional laws and regulations governing various matters, including licensing, production, taxes, mine safety, labour standards, occupational health and safety and environmental protections. Amendments to current laws and regulations governing operations and activities of mining companies or more stringent implementation or interpretation of these laws and regulations could have a material adverse impact on the Group, cause a reduction in levels of production and delay or prevent the development or expansion of the Group's properties in Russia.

Taxation
Russian tax legislation has been subject to frequent change and some of the laws relating to taxes to which the Group is subject are relatively new. The government's implementation of such legislation, and the courts' interpretation thereof, has been sometimes unclear or non-existent, with few precedents established. Differing opinions regarding legal interpretation may exist both among and within government ministries and organisations and various local inspectorates. The introduction of new tax provisions may affect the Group's overall tax efficiency and may result in significant additional tax liability.

Russia's physical infrastructure
Some of Russia's physical infrastructure is in poor condition. This may disrupt the transportation of supplies, add to costs and interrupt operations, with a potentially material adverse effect on the Group's business.

Going concern
The directors believe that the two bank debt facilities, $25 million obtained in September 2009 and refinanced in December 2009 and $18 million agreed in October 2010, and debt facilities totalling $6.33 million made available by the Company's major shareholders (including $4.33 million agreed in April 2011) will provide adequate financing for the Group until the Asacha mine is cash flow positive. Management tightly control the level of committed expenditure to ensure that the Group has sufficient resources available to meet its liabilities as they fall due.

Based on the discussions with potential providers of debt finance and with the Company's major shareholders, the directors believe that any additional funds required until the Asacha mine is cash flow positive could be raised if and when needed and accordingly they are confident that the Group will continue as a going concern and have prepared the financial statements on that basis.

Events after the reporting date
Details of events after the reporting date are disclosed in the Operating and Financial Reviews and in Note 31 to the financial statements.

Auditors
BDO LLP (BDO) have expressed their willingness to be reappointed as auditors of the Company. Upon the recommendation of the audit committee, a resolution to reappoint them as the Company's auditors and to authorise the directors to determine their remuneration will be proposed at the AGM.

Directors’ Report - continued

Disclosure of information to auditors

Each of the directors at the time this report was approved confirms that:

- so far as he is aware, there is no relevant audit information (that is, information needed by the Company’s auditors in connection with preparing their report) of which the Company’s auditors are unaware; and
- he has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

Board of Directors

The Company appointed non-executive directors in 2001 to bring an independent view to the Board, which now comprises two executive directors and four non-executive directors, including the chairman who was formerly the Company’s Chief Executive Officer. Two non-executive directors are appointed by UFG Asset Management, a major shareholder. The other non-executive director is considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of his independent judgement.

The Board ordinarily meets on a bi-monthly basis to determine strategy and to approve budgets and business plans, major capital expenditure, acquisitions and disposals. Additional meetings are held as appropriate to transact other business. Formal agendas, briefing papers and reports are sent to the Board in advance of its meetings. The Board delegates certain of its responsibilities to two Board Committees, which have clearly defined terms of reference as described below.

The directors have access to the advice and services of the Company Secretary, who is also a director. Any director may also take independent professional advice at the Company's expense in the furtherance of his duties.

In accordance with the Articles of Association, each year one third of the directors (generally those who have held office for the longest time since their election) will retire from office at the AGM. A retiring director may be re-elected if eligible and a director appointed by the Board may also be elected, although in the latter case the director's period of prior appointment by the Board will not be taken into account for the purposes of rotation.

Audit Committee

The Audit Committee chaired by Charles Ryan, the other members being Oleg Bagirov and Peter Burnell, meets at least twice a year and is responsible for ensuring that the appropriate financial reporting procedures are properly maintained and reported on and for meeting the auditors and reviewing their reports relating to the financial statements and internal control systems. It is also responsible for monitoring the independence of the auditors. Executive directors may attend meetings of the Audit Committee by invitation; however, at least once a year the Committee meets the auditors without executive directors being present.

Remuneration Committee

The Remuneration Committee, also consisting of Charles Ryan (Chairman), Oleg Bagirov and Peter Burnell, is responsible for reviewing the performance of the executive directors and other senior executives and for determining appropriate levels of their remuneration, in consultation with external advisers as appropriate, with due regard to the interests of shareholders. It meets as required. The committee also makes recommendations to the Board in respect of employee incentives, including the granting of share options.

The Company's remuneration policy is to provide competitive rewards for its executive directors and other senior managers, taking into account the performance of the Company and conditions prevailing in the employment market for executives of equivalent status, both in terms of the level of responsibility of their position and their achievement of recognised job qualifications and skills. Base salaries are reviewed annually.

It is the Company's policy that executive directors' service contracts have no fixed term and that the notice period in those service contracts does not exceed one year. Both Dmitry Khilov's and Simon Olsen's service contracts provide that either party may terminate their employment by giving six months' written notice and that the Company may make a payment in lieu of notice.

Internal control

The Board is responsible for ensuring that the Group maintains an adequate system of internal control and risk management. The internal controls are designed to safeguard the Group’s assets and to ensure the reliability of financial information for both internal use by management and external reporting.

The directors are aware that no system can provide absolute assurance against material misstatement or loss. They are satisfied that the current controls and processes to manage significant risks are adequate with regard to the current stage of the Group’s development. However, they recognise the need to enhance and strengthen the system of internal control and risk management as the Group’s projects are developed towards gold production.

Shareholders

The Board attaches great importance to maintaining good relationships with all its shareholders and ensures that all price sensitive information is released to its shareholders simultaneously in accordance with AIM rules.

The Board believes that the AGM provides an important opportunity for dialogue with private shareholders. At the AGM, the Chief Executive Officer presents a review of the Group’s activities and the directors are available to answer questions.

The Company’s website, www.trans-siberiangold.com, is regularly updated and contains a wide range of information about the Group.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

By order of the Board

Simon Olsen
Company Secretary
27 May 2011

Independent Auditor's Report
to the members of Trans-Siberian Gold plc

We have audited the financial statements of Trans-Siberian Gold Plc for the year ended 31 December 2010 which comprise the consolidated and company statements of financial position, the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors
As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:

- The financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's loss for the year then ended;
- The group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Scott Knight (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
27 May 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Financial Statements
Consolidated Statement of Financial Position

	Note	**31 December 2010 $000**	31 December 2009 $000
Assets			
Non-current assets			
Property, plant and equipment	6	**73,077**	60,381
Exploration and evaluation costs	7	**29,875**	18,881
Trade and other receivables	10	**745**	4,022
Total non-current assets		**103,697**	83,284
Current assets			
Inventories	9	**642**	-
Trade and other receivables	10	**6,423**	1,515
Cash and cash equivalents	11	**3,981**	1,953
Total current assets		**11,046**	3,468
Total assets		**114,743**	86,752
Liabilities			
Non-current liabilities			
Loans and borrowings	15	**32,939**	7,255
Provisions	16	**331**	304
Total non-current liabilities		**33,270**	7,559
Current liabilities			
Trade and other payables	14	**2,674**	3,707
Total current liabilities		**2,674**	3,707
Total liabilities		**35,944**	11,266
Total net assets		**78,799**	75,486
Capital and reserves attributable to owners of the Company			
Share capital	12	**17,323**	15,103
Share premium	12	**77,938**	73,311
Retained deficit		**(16,462)**	(12,928)
Total equity		**78,799**	75,486

The financial statements were approved and authorised for issue by the Board of Directors on 27 May 2011 and were signed on its behalf by:

Dmitry Khilov
Chief Executive Officer

Oleg Bagirov
Chairman

Company Statement of Financial Position

	Note	**31 December 2010 $000**	31 December 2009 $000
Assets			
Non-current assets			
Property, plant and equipment	6	**11**	1
Investment in subsidiaries	8	**119,156**	111,564
Total non-current assets		**119,167**	111,565
Current assets			
Trade and other receivables	10	**1,283**	1,287
Cash and cash equivalents	11	**2,406**	1,086
Total current assets		**3,689**	2,373
Total assets		**122,856**	113,938
Liabilities			
Non-current liabilities			
Borrowings	15	**2,049**	4,000
Total non-current liabilities		**2,049**	4,000
Current liabilities			
Trade and other payables	14	**303**	1,364
Total current liabilities		**303**	1,364
Total liabilities		**2,352**	5,364
Total net assets		**120,504**	108,574
Capital and reserves attributable to owners of the Company			
Share capital	12	**17,323**	15,103
Share premium	12	**77,938**	73,311
Retained earnings		**25,243**	20,160
Total equity		**120,504**	108,574

The financial statements were approved and authorised for issue by the Board of Directors on 27 May 2011 and were signed on its behalf by:

Dmitry Khilov
Chief Executive Officer

Oleg Bagirov
Chairman

Consolidated Statement of Comprehensive Income

	Note	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Revenue		**-**	-
Administrative expenses		**(4,101)**	(3,111)
Other income		**188**	-
Net foreign exchange losses on operating activities		**270**	(2,197)
Loss from operations		**(3,643)**	(5,308)
Finance expense	25	**(104)**	(187)
Finance income	25	**50**	104
Net foreign exchange differences on financing activities	25	**46**	10
Loss before tax	18	**(3,651)**	(5,381)
Income tax credit	26	**129**	124
Loss for the year		**(3,522)**	(5,257)
Total comprehensive expense for the year		**(3,522)**	(5,257)
Loss for the year attributable to:			
Owners of the parent company		**(3,522)**	(5,257)
Non-controlling interest	13	**-**	-
Loss for the year		**(3,522)**	(5,257)
Total comprehensive expense for the year-attributable to:			
Owners of the parent company		**(3,522)**	(5,257)
Non-controlling interest		**-**	-
Loss for the year		**(3,522)**	(5,257)
Loss per share attributable to the owners of the parent company (expressed in cents)			
- basic and diluted	27	**(3.65)**	(6.19)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present the parent company Statement of Comprehensive Income. The profit for the parent company for the year was $4,595,382 (2009: $3,774,638).

Statements of Changes in Equity

Group

	Attributable to owners of the Company			
	Share capital $000	Share premium $000	Retained deficit $000	**Total $000**
At 1 January 2009	15,103	73,311	(7,939)	**80,475**
Loss for the year	-	-	(5,257)	**(5,257)**
Value of share-based payments	-	-	268	**268**
At 31 December 2009	**15,103**	**73,311**	**(12,928)**	**75,486**
At 1 January 2010	15,103	73,311	(12,928)	**75,486**
Loss for the year	-	-	(3,522)	**(3,522)**
Issue of share capital	2,220	4,627	-	**6,847**
Value of share-based payments	-	-	488	**488**
Purchase of non-controlling interest	-	-	(500)	**(500)**
At 31 December 2010	**17,323**	**77,938**	**(16,462)**	**78,799**

Company

	Share capital $000	Share premium $000	Retained earnings $000	**Total $000**
At 1 January 2009	15,103	73,311	16,118	**104,532**
Profit for the year	-	--	3,774	**3,774**
Value of share-based payments	-	-	268	**268**
At 31 December 2009	**15,103**	**73,311**	**20,160**	**108,574**
At 1 January 2010	15,103	73,311	20,160	**108,574**
Total comprehensive income for the year	-	-	4,595	**4,595**
Issue of share capital	2,220	4,627	-	**6,847**
Value of share-based payments	-	-	488	**488**
At 31 December 2010	**17,323**	**77,938**	**25,243**	**120,504**

Consolidated Statement of Cash Flows

	Note	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Cash flows from operating activities			
Loss for the year		**(3,522)**	(5,257)
Adjustment for:			
Depreciation		**1,578**	1,692
Depreciation charged to assets under construction and deferred exploration and evaluation costs		**(1,552)**	(1,273)
Finance expenses – net		**8**	73
Share based payments		**488**	268
Corporation tax credit		**(129)**	(124)
Deferred exploration and evaluation expenditure written off		**-**	(253)
Loss on sale of property, plant and equipment		**50**	61
Cash flows from operating activities before changes in working capital and provisions		**(3,079)**	(4,813)
Increase in inventories		**(642)**	-
(Increase) decrease in trade and other receivables		**(4,244)**	1,695
(Decrease) increase in trade and other payables		**(631)**	30
Cash used in operations		**(8,596)**	(3,088)
Corporation tax received		**160**	121
Interest paid on borrowings		**(440)**	(130)
Net cash flows used in operating activities		**(8,876)**	(3,097)
Investing activities			
Purchase of property, plant and equipment (PPE)		**(10,266)**	(5,699)
Proceeds from sale of PPE		**23**	1
Purchase of exploration and evaluation assets including capitalised interest		**(11,431)**	(1,170)
Interest received - third party		**50**	104
Net cash used in investing activities		**(21,624)**	(6,764)
Financing activities			
Proceeds from issuance of ordinary shares, net of expenses	12	**6,847**	-
Proceeds from bank borrowings	15	**27,635**	3,255
Proceeds from long term borrowings	15	**2,000**	6,500
Repayment of long term borrowings	15	**(4,000)**	(2,500)
Net cash generated from financing activities		**32,482**	7,255
Net increase (decrease) in cash and cash equivalents		**1,982**	(2,606)
Cash and cash equivalents at beginning of the year	11	**1,953**	4,549
Exchange gains on cash and cash equivalents		**46**	10
Cash and cash equivalents at end of the year	11	**3,981**	1,953

Company Statement of Cash Flows

	Note	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Cash flows from operating activities			
Continuing operations			
Profit for the year		**4,595**	3,775
Adjustment for:			
Depreciation		**1**	-
Finance income – net		**(5,937)**	(4,974)
Share based payments		**488**	268
Cash flows from operating activities before changes in working capital and provisions		**(853)**	(931)
Decrease in trade and other receivables		**4**	42
Decrease in trade and other payables		**(778)**	(148)
Cash used in operations		**(1,627)**	(1,037)
Interest paid on borrowings		**(440)**	(130)
Net cash flows used in operating activities		**(2,067)**	(1,167)
Investing activities			
Purchase of property, plant and equipment (PPE)		**(11)**	(1)
Proceeds from sale of PPE		**-**	1
Disposal of exploration and evaluation assets including capitalised interest		**-**	253
Investment in subsidiaries		**(1,500)**	(5,837)
Interest received - third party		**5**	3
Net cash used in investing activities		**(1,506)**	(5,581)
Financing activities			
Proceeds from issuance of ordinary shares, net of expenses	12	**6,847**	-
Proceeds from long term borrowings	15	**2,000**	6,500
Repayment of long term borrowings	15	**(4,000)**	(2,500)
Net cash generated from financing activities		**4,847**	4,000
Net increase (decrease) in cash and cash equivalents		**1,274**	(2,748)
Cash and cash equivalents at beginning of the year	11	**1,086**	3,824
Exchange gains on cash and cash equivalents		**46**	10
Cash and cash equivalents at end of the year	11	**2,406**	1,086

Notes to the Financial Statements

1. General information

Trans-Siberian Gold plc (the Company) is a UK-based resources company, with the objective of acquiring and developing a portfolio of quality gold-mining assets in Russia.

The Company is a public limited company, incorporated and domiciled in the United Kingdom and has subsidiaries based in the Russian Federation. The Company's registered office is 39 Parkside Cambridge CB1 1PN United Kingdom. The registered number of the Company is 1067991. The Company's shares are traded on the AIM Market of the London Stock Exchange.

2. Going concern

The directors believe that the two bank debt facilities, $25 million obtained in September 2009 and refinanced in December 2009 and $18 million agreed in October 2010, and debt facilities totalling $6.3 million made available by the Company's major shareholders (including $4.3 million agreed in April 2011) should provide adequate financing for the Group until the Asacha mine is cash flow positive. However, should the Asacha project be subject to delays or cost overruns, further funds would be required to complete the development. The directors are confident that short-term funding can be obtained to bridge any funding gaps.

3. Principal accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared on the basis of a going concern and in line with International Financial Reporting Standards (IFRS) and IFRIC interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRSs. The adoption of all of the new and revised Standards and Interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to the operations and effective for annual reporting periods beginning on 1 January 2010 are reflected in these financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

a) Standards, amendments and interpretations effective in 2010:

The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2010. Except as noted, the implementation of these standards did not have a material effect on the Group:

- IFRS 3 (revised), *Business combinations*, and consequential amendments to IAS 27, *Consolidated and separate financial statements*, IAS 28, *Investments in associates*, and IAS 31, *Interests in joint ventures*, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. During the period, there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity; there have been no transactions with non-controlling interests.
- IAS 27 (Revised), *Consolidated and separate financial statements,* requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The standard also specifies the accounting when control is lost.
- Amendments to IFRS 2*, Group Cash-settled Share-based Payment Transactions* clarifies that where a parent (or another group entity) has an obligation to make a cash-settled share based payment to another group entity's employees or suppliers, the entity receiving the goods or services should account for the transaction as equity settled.
- The IASB issued *Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)* on 12 March 2009 to clarify the treatment of embedded derivatives in host contracts that are reclassified out of fair value through profit and loss following the changes introduced by the Amendments to IAS 39 and IFRS 7 *Reclassification of Financial Instruments.*
- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation,* clarifies that the presentation currency does not create an exposure to which an entity may apply hedge accounting.
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement: Eligible Hedged Items,* clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in the designation of a one-sided risk in a hedged item.
- The IASB issued *Improvements to IFRSs (2009)* on 16 April 2009, clarifying the requirements of IFRSs and eliminating inconsistencies within and between Standards.

b) Standards, amendments and interpretations effective in 2010 but not relevant for the Group:

- IFRIC 17, Distributions of Non-cash Assets to Owners, clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the entity's discretion and that an entity should measure the dividend payable at the fair value of the net assets to be distributed. This is not currently applicable to the Group, as it has not made any non-cash distributions.
- IFRIC 18, *Transfers of assets from customers*. This is not relevant to the Group, as it has not received any assets from customers.
- *Additional exemptions for first-time adopters* (Amendment to IFRS 1) were issued in July 2009. The amendments can be applied for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.

Notes to the Financial Statements – continued

3. Principal accounting policies - continued

c) Standards, amendments and interpretations that are not yet effective and have not been early adopted:

- Amendment to IAS 32 *Classification of Rights Issues* addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. The Group will apply the Amendment from 1 January 2011.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses transactions in which an entity issues equity instruments to a creditor in return for the extinguishment of all or part of a financial liability. The Group will apply the Interpretation from 1 January 2011
- Amendment to IFRS 1 *First time Adoption of IFRS* in respect of transitional provisions was issued in January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.
- Revised IAS 24 *Related Party Disclosures* responds to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive. The Group will apply the revised standard from 1 January 2011.
- Amendments to IFRIC 14 *IAS 19 Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. Management do not expect this amendment to be relevant to the Group.
- The IASB issued *Improvements to IFRSs (2010)* on 6 May 2010, clarifying the requirements of IFRSs and eliminating inconsistencies within and between Standards. The Group will apply the amendments from 1 January 2011.
- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* requires the disclosure of information in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date irrespective of when the related transfer transaction occurred. The Group will apply the Amendments from 1 January 2012.
- Amendments to IFRS 1 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*. Management do not expect this amendment, which is subject to endorsement by the EU, to be relevant to the Group.
- Amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets* introduces the presumption, when measuring the deferred tax relating to an asset, that the entity will normally recover its carrying amount through sale. Management do not expect this amendment, which is subject to endorsement by the EU, to be relevant to the Group.
- IFRS 9 *Financial Instruments* will eventually replace IAS 39 in its entirety. However, the process has been divided into three main components: classification and measurement, impairment and hedge accounting. The Group will apply the standard from 1 January 2013 subject to endorsement by the EU.

The Group is evaluating the impact of the above pronouncements but they are not expected to have a material impact on the Group's earnings or shareholders' funds.

Basis of consolidation

The consolidated financial statements of the Group include the accounts of Trans-Siberian Gold plc and its subsidiaries. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. The accounting policies and financial year ends of its subsidiaries are consistent with those applied by the Company.

Foreign currency translation

a) Functional and presentation currency

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial information is presented in US dollars ($), which is the functional and presentation currency of the Company and the functional currency of its subsidiaries. The exchange rate on 31 December 2010 was £1:$1.5504 (2009: £1:$1.6129) and $1:RUB30.4769 (2009: $1:RUB30.2442). The average rates applied to transactions during the year were £1:$1.5461 (2009: £1:$1.5894) and $1:RUB30.3692 (2009: $1:RUB31.6316).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the average exchange rate ruling during the month in which the transactions occur. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign exchange gains and losses resulting from the translation of cash, cash equivalents and borrowings denominated in foreign currencies are shown as financing activities; all other foreign exchange gains and losses are shown as operating activities.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers have been identified as the Chief Executive Officer, Finance Director and the non-executive board members.

The operating results of each of the geographical segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance. Russia has exploration and development activities, the United Kingdom office is an administrative cost centre.

Property, plant and equipment
Property, plant and equipment are recorded at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, being:

Buildings: – 3-20 years
Motor vehicles: – 4-7 years
Plant and machinery: – 4-7 years
Office furniture and equipment: – 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses in profit or loss. Assets under construction are not subject to depreciation until the date on which the Group brings them into use.

Leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Assets held under finance leases are capitalised as property, plant and equipment at the estimated present value of the underlying lease payments. The corresponding finance lease obligation is included in creditors due within or after more than one year. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Exploration and evaluation costs
When the Group incurs expenditure on mining properties that have not reached the stage of commercial production, the costs of acquiring the rights to such mining properties and related exploration and evaluation costs, including directly attributable employment costs, are deferred where the expected recovery of costs is considered probable by the successful exploitation or sale of the asset. General overheads are expensed immediately. Depreciation on property, plant and equipment used on exploration and evaluation projects is charged to deferred costs whilst the projects are in progress. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. Finance costs incurred in respect of the Group's general borrowings are expensed in profit or loss as incurred.

Where a feasibility study indicates that the future recovery of costs is not probable, full provision is made in respect of any deferred costs. Where mining properties are abandoned, deferred expenditure is written off in full.

Deferred exploration and evaluation costs are assessed at each reporting date to determine whether there are indicators that the asset may be impaired. If any such indicator exists, a review for impairment is conducted, by estimating the recoverable amount by reference to the net present value of expected future cash flows of the relevant cash generating unit or disposal value if higher. If the recoverable amount is less than the carrying value of an asset, an impairment loss is recognised. Individual mining properties are considered to be separate income generating units for this purpose, except where they would be operated together as a single mining business.

The amounts shown as deferred exploration and evaluation expenditure represent costs incurred and do not necessarily reflect present or future values.

Business combinations
The consolidated financial statements incorporate the results of the business combinations using the acquisition method of accounting. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

Investments
In its separate financial statements, the Company recognises investments in subsidiary companies involved in exploration and development at cost less any provision for impairment.

Financial instruments
Financial assets are recognised when the Group has rights or other access to economic benefits. Such assets consist of cash, equity instruments, contractual rights to receive cash or another financial asset, or contractual rights to exchange financial instruments with another entity on potentially favourable terms. Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. When these criteria no longer apply, a financial asset or liability is no longer recognised. Compound financial instruments are split into their debt and equity components.

Notes to the Financial Statements – continued

3. Principal accounting policies - continued

Financial instruments - continued

If a legally enforceable right exists to set off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts, and the Group intends to settle on a net basis, the relevant financial assets and liabilities are offset.

The Group has no financial instruments that are classified as fair value through profit or loss.

Interest costs are charged against income in the year in which they are incurred. Premiums or discounts arising from the difference between the net proceeds of financial instruments purchased or issued and the amounts receivable or payable at maturity are taken to net interest payable over the life of the instrument.

Inventories

Inventories of consumables are valued at the lower of cost and net realisable value.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Taxation

Current tax is the expected tax payable or recoverable on the taxable profit or loss for the year, using rates enacted at the reporting date and any adjustments to the tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Share-based payment transactions

The Company makes equity-settled share-based payments to certain Group employees under the terms of its employee share option scheme. In addition to those granted under the Company's employee share option scheme, in 2006 the Company granted share options to an adviser. The fair value of options granted to employees is recognised as an employee expense and to advisers as professional fees, with a corresponding increase in equity by way of a credit to retained earnings.

The fair value is measured at grant date and expensed on a straight-line basis over the expected vesting period. The fair value of the options granted is measured using a Black-Scholes valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest or are likely to vest except where non-exercise is only due to the Company's share price not achieving the threshold for vesting. Non-market based vesting conditions are taken into account in estimating the number of options likely to vest. The estimate of the number of options likely to vest is reviewed at each reporting date up to the vesting date, at which point the estimate is adjusted to reflect the actual options exercised. No adjustment is made after the vesting date even if the options are not exercised.

Defined contribution personal pension plan

Contributions to employees' defined contribution personal pension plans are recognised as an expense in profit or loss as the services giving rise to the Group's obligations are rendered by the employees.

Provisions

Provisions for decommissioning, environmental restoration and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Group companies are generally required to restore mine and processing sites at the end of their producing lives to a condition acceptable to the relevant authorities and consistent with the Group's environmental policies. The expected cost of any committed decommissioning or restoration programme, discounted to its net present value where the effect of discounting is material, is provided and capitalised at the beginning of each project. The capitalised cost is amortised over the life of the operation and the increase in the net present value of the provision for the expected cost is included with interest and similar charges.

The costs of on-going programmes to prevent and control pollution and to rehabilitate the environment are charged profit or loss as incurred.

Determination of ore reserves
The Group estimates its ore reserves and mineral resources based on information compiled by Competent Persons as defined in accordance with the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC code).

4. Critical accounting estimates and judgements
Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Use of estimates and assumptions
The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The more significant areas requiring the use of management estimates and assumptions relate to mineral reserves that are the basis of future cash flow estimates and unit-of-production depreciation, depletion and amortisation calculations; decommissioning, site restoration, environmental costs and closure obligations; estimates of recoverable gold and other materials; asset impairments; the fair value and accounting treatment of financial instruments and deferred taxation.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical judgements in applying the entity's accounting policies
a) Exploration and evaluation costs
The recoverability of the amounts shown in the Group statement of financial position in relation to deferred exploration and evaluation expenditure (and also the carrying value of the Company's investments in its subsidiaries) are dependent upon the discovery of economically recoverable reserves, continuation of the Group's interests in the underlying mining claims, the political, economic and legislative stability of the regions in which the Group operates, compliance with the terms of the relevant mineral rights licences, the Group's ability to obtain the necessary financing to fulfil its obligations as they arise and upon future profitable production or proceeds from the disposal of properties. This is discussed further in Note 7.

b) Decommissioning, site restoration and environmental costs
The Group's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Group recognises management's best estimate for asset retirement obligations in the period in which they are incurred. Actual costs incurred in future periods could differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision. Such changes could similarly impact the useful lives of assets depreciated on a straight-line-basis, where those lives are limited to the life of mine.

c) Recoverable Value Added Tax (VAT)
No Russian VAT on construction costs incurred prior to 2006 has been recoverable until construction is complete and production commences. Since 2006 some VAT on construction costs has been recovered, with $4,688,940 received in 2010 (2009: $2,574,904). The directors anticipate that $4,401,376 of the VAT receivable of $5,146,802 (2009: $4,021,956) will be recovered during 2011.

d) Share-based payments
The Company makes equity-settled share-based payments to certain Group employees and advisers. Equity-settled share-based payments are measured at fair value using a Black-Scholes valuation model at the date of grant. The fair value is expensed as services are rendered over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

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

Notes to the Financial Statements – continued

5. Segment information

The Group's operations are entirely focused on gold exploration and development activities within the Russian Federation, with its corporate head office in the UK.

The group has two reportable segments as set out below. The operating results of each of these segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance.

The accounting policies of these segments are in line with those set out in note 3.

Reportable segments as at 31 December 2010

	Head Office $000	Russia $000	Total $000
Revenue	-	-	-
Administration expenses	(1,342)	(2,759)	(4,101)
Other income	-	188	188
Finance expenses	(104)	-	(104)
Finance income	6	44	50
Exchange differences	46	270	316
Taxation credit	-	129	129
Loss for the year after taxation	**(1,394)**	**(2,128)**	**(3,522)**
Non-current assets	11	103,686	103,697
Inventories	-	642	642
Trade and other receivables (current assets)	62	6,361	6,423
Cash and cash equivalents	2,406	1,575	3,981
Segment assets	**2,479**	**112,264**	**114,743**
Loans and borrowings	2,049	30,890	32,939
Trade and other payables (current)	303	2,371	2,674
Provisions	-	331	331
Segment liabilities	**2,352**	**33,592**	**35,944**
Segment net assets	**127**	**78,672**	**78,799**

Reportable segments as at 31 December 2009

	Head Office $000	Russia $000	Total $000
Revenue	-	-	**-**
Administration expenses	(1,198)	(1,913)	**(3,111)**
Finance expenses	(187)	-	**(187)**
Finance income	3	101	**104**
Exchange differences	10	(2,197)	**(2,187)**
Taxation credit	-	124	**124**
Loss for the year after taxation	**(1,372)**	**(3,885)**	**(5,257)**
Non-current assets	1	83,283	**83,284**
Trade and other receivables (current assets)	66	1,449	**1,515**
Cash and cash equivalents	1,086	867	**1,953**
Segment assets	**1,153**	**85,599**	**86,752**
Loans and borrowings	4,000	3,255	**7,255**
Trade and other payables (current)	1,278	2,429	**3,707**
Provisions	-	304	**304**
Segment liabilities	**5,278**	**5,988**	**11,266**
Segment net assets	**(4,125)**	**79,611**	**75,486**

The finance income, finance costs and taxation have been analysed above in line with the way the Group's business is structured.

All material non-current assets other than financial instruments are owned by a Russian subsidiary and are located in Russia.

Share based payments of $488,578 (2009: $267,904) relate solely to Head Office.

All material capital expenditure in the current and previous year relates to the Russia segment.

Trans-Siberian Gold plc is in the exploration and development phase of its gold projects in Russia and therefore received no revenue during the periods reported above.

6. Property, plant and equipment

Group	Buildings	Plant and machinery	Motor vehicles	Office equipment and furniture	Assets under construction [i]	Total
	$000	$000	$000	$000	$000	$000
Cost						
At 1 January 2009	1,188	6,423	620	637	44,086	52,954
Additions	32	277	1,006	54	10,335	11,704
Disposals	(53)	(15)	-	(96)	-	(164)
At 31 December 2009	**1,167**	**6,685**	**1,626**	**595**	**54,421**	**64,494**
Depreciation						
At 1 January 2009	(609)	(1,062)	(500)	(353)	-	(2,524)
Charge for year [ii]	(193)	(850)	(508)	(141)	-	(1,692)
Disposals	10	6	-	87	-	103
At 31 December 2009	**(792)**	**(1,906)**	**(1,008)**	**(407)**	**-**	**(4,113)**
Net book value						
At 1 January 2009	579	5,361	120	284	44,086	50,430
At 31 December 2009	**375**	**4,779**	**618**	**188**	**54,421**	**60,381**
Cost						
At 1 January 2010	1,167	6,685	1,626	595	54,421	64,494
Additions	-	812	513	23	13,000	14,348
Disposals	-	(102)	(50)	(210)	-	(362)
At 31 December 2010	**1,167**	**7,395**	**2,089**	**408**	**67,421**	**78,480**
Depreciation						
At 1 January 2010	(792)	(1,906)	(1,008)	(407)	-	(4,113)
Charge for year [ii]	(148)	(986)	(386)	(58)	-	(1,578)
Disposals	-	56	38	194	-	288
At 31 December 2010	**(940)**	**(2,836)**	**(1,356)**	**(271)**	**-**	**(5,403)**
Net book value						
At 1 January 2010	375	4,779	618	188	54,421	60,381
At 31 December 2010	**227**	**4,559**	**733**	**137**	**67,421**	**73,077**

i Assets under construction comprise $5,492,166 (2009: $5,482,371) in relation to the construction of an access road to Asacha, $51,750,233 (2009: $43,448,977) for building construction and infrastructure, and $10,178,029 (2009: $5,489,326) for plant and equipment at Asacha.

ii $1,551,553 (2009: $1,272,854) of the depreciation charge related to property, plant and equipment used on exploration and evaluation projects or assets under construction and was capitalised in exploration and evaluation costs or property, plant and equipment in accordance with the Group's accounting policy.

Notes to the Financial Statements – continued

6. Property, plant and equipment - continued

Company	Office equipment and furniture $000
Cost	
At 1 January 2009	105
Additions	1
Disposals	(87)
At 31 December 2009	**19**
Depreciation	
At 1 January 2009	(104)
Charge for year	-
Disposals	86
At 31 December 2009	**(18)**
Net book value	
At 1 January 2009	1
At 31 December 2009	**1**
Cost	
At 1 January 2010	19
Additions	11
Disposals	(10)
At 31 December 2010	**20**
Depreciation	
At 1 January 2010	18
Charge for year	1
Disposals	(10)
At 31 December 2010	**9**
Net book value	
At 1 January 2010	1
At 31 December 2010	**11**

7. Exploration and evaluation costs

Movements on deferred exploration and evaluation expenditure, by location of the property, are as follows:

	Kamchatka $000	Total $000
At 1 January 2009	**17,089**	**17,089**
Additions [i]	2,045	2,045
Expenditure written off [ii]	(253)	(253)
At 31 December 2009	**18,881**	**18,881**
At 1 January 2010	**18,881**	**18,881**
Additions [i]	10,994	10,994
At 31 December 2010	**29,875**	**29,875**

i Additions include capitalised PPE depreciation (see Note 6[ii]).

ii Expenditure written off represents an agreed reduction in the cost of technical consultancy services provided by AngloGold Ashanti Limited – see note 30.

Additions in 2010 include $1,599,832 (2009: $231,145) of interest capitalised. The cumulative amount of interest capitalised in exploration and evaluation costs is $3,161,661 (2009: $1,561,829).

The carrying values of exploration and evaluation costs are predicated on the Company's continued pursuit of its strategy in respect of these properties.

Deferred exploration expenditure relates to the following agreements held by the Company's subsidiary ZAO Trevozhnoye Zarevo (TZ).

Asachinskoye (Asacha) mineral rights licence issued by the Kamchatka Department of the Geological Committee of the Russian Ministry for Natural Resources

On 8 September 1994 the Kamchatka Department of the Geological Committee of the Russian Ministry for Natural Resources issued a licence, after tender, to TZ for the exploration and development of the Asacha minerals deposit in Kamchatka. The licence includes extraction of gold and silver and is valid until 1 September 2014.

Under the Licencing Agreement as revised in 2006, TZ was required to bring the Asacha mine into operation at its projected capacity in accordance with the technical design at a rate of at least 1,000 kg of gold per annum by 31 December 2008. That requirement was partially fulfilled in 2008, with the commencement of mining activities and first ore extraction. In December 2008 the Kamchatka regional governmental commission noted the delay in mining but concluded that work to finalise construction should continue to put the gold plant into operation in 2009. Government authorities have since been kept advised of the development of the project and although it is expected that, due to funding constraints arising in 2008-09, construction at Asacha will now be completed by the middle of 2011 with gold production commencing by the end of July 2011, the Company believes that there will be no adverse consequences of the delay. Discussions in respect of any required amendments to the licence have already commenced with the appropriate authorities and it is expected that these will be concluded after the start up.

Rodnikovoye (Rodnikova) mineral rights licence issued by the Kamchatka Department of the Geological Committee of the Russian Ministry for Natural Resources

On 8 September 1994 the Kamchatka Department of the Geological Committee of the Russian Ministry for Natural Resources issued a licence, after tender, to TZ for the exploration and development of the Rodnikova minerals deposit in Kamchatka. The licence includes extraction of gold and silver and is valid until 1 September 2014.

Under the Licencing Agreement as revised in 2006, the company was required to complete the exploration programme of the licence area and to submit a geological report containing reserve calculations for approval by the state geological authorities before 31 December 2008 and to prepare and permit a feasibility study for the development of the deposit before 31 March 2010. A pre-feasibility study containing the required reserve calculations was submitted in December 2008. This was discussed by the State Expert Commission for Reserves in June 2009 and their comments and recommendations received in August 2009. During 2010 the geologic report and the pre-feasibility study were completely revised taking into account the latest geologic exploration results. The final report on Rodnikova's Mineral Reserves and the pre-feasibility study were submitted to the authorities in March 2011, with approval expected later in 2011.

8. Investments in subsidiary undertakings

Company	**2010 $000**	2009 $000
Interests in subsidiary undertakings		
At 1 January	**33,722**	29,782
Additional capital contributions [i]	**4,250**	4,193
Disposals [ii]	**-**	(253)
At 31 December	**37,972**	33,722
Loans to subsidiary undertakings		
At 1 January	**77,842**	70,874
Additions	**7,092**	11,161
Loans forgiven [i]	**(3,750)**	(4,193)
At 31 December	**81,184**	77,842
Total investments		
At 1 January	**111,564**	100,656
Additions	**7,592**	11,161
Disposals	**-**	(253)
At 31 December	**119,156**	111,564

i During 2010, the Company purchased the remaining 4.97% non-controlling interest in a subsidiary as discussed in Note 13. The Company also made additional capital contributions to its subsidiaries through the forgiveness of loans of $3,749,501(2009: $4,193,458) in order to correct negative equity positions in those subsidiaries' local accounts.

ii Disposals represent an agreed reduction in the cost of technical consultancy services provided by AngloGold Ashanti Limited – see note 30.

Interest deemed to arise from the deferred payment of the purchase consideration for the Company's subsidiaries has been capitalised in the cost of the relevant investment where such interest qualifies for capitalisation within the Group's deferred exploration expenditure. The cumulative amount of interest capitalised is $121,300 (2009: $121,300).

9. Inventories

Group	**2010 $000**	2009 $000
Fuel	**358**	-
Other materials and supplies	**284**	-
At 31 December	**642**	-

Notes to the Financial Statements – continued

10. Trade and other receivables

		Group		Company	
	Note	**31 December 2010 $000**	31 December 2009 $000	**31 December 2010 $000**	31 December 2009 $000
Non-current:					
Taxes recoverable – value added tax [i]		**745**	4,022	**-**	-
		745	4,022	**-**	-
Current:					
Taxes recoverable – value added tax [i]		**4,402**	2	**6**	2
Prepayments and accrued income		**1,967**	1,329	**46**	28
Receivables from related parties	30	**7**	33	**7**	33
Receivables from subsidiary companies		**-**	-	**1,221**	1,221
Income tax asset		**43**	74	**-**	-
Other receivables		**4**	77	**3**	3
		6,423	1,515	**1,283**	1,287
		7,168	5,537	**1,283**	1,287

i Russian VAT to the value of $4,688,940 (2009: $2,574,904) was recovered in 2010. The current Russian VAT receivable includes $830,277 (2009 non-current: $4,021,956) which is expected to be received once the Group commences gold production.

11. Cash and cash equivalents

	Group		Company	
	31 December 2010 $000	31 December 2009 $000	**31 December 2010 $000**	31 December 2009 $000
Cash at bank	**3,981**	1,953	**2,406**	1,086
Short-term bank deposits	**-**	-	**-**	-
	3,981	1,953	**2,406**	1,086

There are no restrictions over the access to, and use of, the Group's bank and cash balances, other than those that customarily relate to periodic short-term deposits.

12. Share capital and premium

Group and Company	Number of shares authorised	Number of shares allotted and fully paid	Share capital $000	Share premium $000	Total $000
At 1 January 2009	150,000,000	84,913,031	15,103	73,311	88,414
At 31 December 2009	**150,000,000**	**84,913,031**	**15,103**	**73,311**	**88,414**
At 1 January 2010	150,000,000	84,913,031	15,103	73,311	88,414
Shares issued					
- Placing for cash	-	14,756,339	2,220	4,627	6,847
At 31 December 2010	**150,000,000**	**99,669,370**	**17,323**	**77,938**	**95,261**

All shares are ordinary shares with a par value of 10 pence.

On 23 March 2010 3,533,534 ordinary shares were issued at 30.8 pence per share for a total cash consideration, before issuing costs, of £1.1 million ($1,636,956) to AngloGold Ashanti Limited (AGA).

Also on 23 March 2010 11,222,805 ordinary shares were issued, also at 30.8 pence per share, to UFG Asset Management (UFG) and to AGA in settlement of the Company's indebtedness, in aggregate $5,209,133 including accrued interest. 9,408,002 shares were issued to UFG in consideration of the conversion of the outstanding amounts of two loan facilities as discussed in Note 15. 1,814,803 ordinary shares were issued to AGA in settlement of technical consultancy services provided by AGA as discussed in Note 30.

Share capital represents amounts subscribed for share capital at nominal value.

The share premium account represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares.

Retained earnings (deficit) represents the cumulative net gains and losses recognised in the statement of comprehensive income less any amounts reflected directly in other reserves.

13. Non-controlling interests

Under the terms of its acquisition of ZAO Trevozhnoye Zarevo (TZ), the Company (TSG) agreed with the two non-controlling shareholders to purchase their residual shareholdings, in aggregate 9.95%, for $500,000 each, conditional upon the Company's directors formally deciding to proceed with mine development of the Asacha deposit. In 2007, TSG completed the acquisition of one of the non-controlling shareholdings in TZ at a cost of $431,031 (including expenses), thereby increasing its interest in the Asacha and Rodnikova projects to 95.03%. Acquisition costs were charged to exploration and evaluation costs.

TSG purchased the remaining 4.97% non-controlling shareholding on 4 August 2010 at a cost of $500,000. In accordance with IAS27 this acquisition has been treated as an equity transaction with the costs charged to retained earnings.

14. Trade and other payables

		Group		Company	
	Note	**31 December 2010 $000**	31 December 2009 $000	**31 December 2010 $000**	31 December 2009 $000
Current:					
Trade payables		**1,074**	1,386	**38**	23
Amounts due to related parties	30	**-**	1,099	**-**	1,084
Amounts due to subsidiary companies		**-**	-	**85**	86
Social security and other taxes		**322**	149	**9**	9
Other payables		**1,111**	911	**4**	-
Accrued expenses		**167**	162	**167**	162
		2,674	3,707	**303**	1,364

15. Borrowings

		Group		Company	
	Note	**31 December 2010 $000**	31 December 2009 $000	**31 December 2010 $000**	31 December 2009 $000
Non-current:					
Bank Borrowings		30,890	3,255	-	-
Related party - convertible debt	30	2,049	4,000	2,049	4,000
Current:					
Related party – other loans		-	-	-	-
		32,939	7,255	**2,049**	4,000

Movement in borrowings is analysed as follows:

	2010 $000	2009 $000	**2010 $000**	2009 $000
At 1 January	7,255	-	4,000	-
Increase in borrowings	29,635	9,755	2,000	6,500
Interest on related party loan	49		49	-
Repayment of loan	-	(2,500)	-	(2,500)
Conversion of loans to equity	(4,000)	-	(4,000)	-
At 31 December	**32,939**	**7,255**	**2,049**	**4,000**

On 19 October 2009 ZAO Trevozhnoye Zarevo (TZ) began to draw down a three year $25 million loan facility for the Asacha project from a Russian bank at an annual interest rate of 14.5%. This initial borrowing was refinanced with a five year facility from Sberbank on 30 December 2009 at an annual interest rate of 11.75%. The annual interest rate reduced to 10.5% in May 2010. Repayments are scheduled to commence in December 2011.

On 27 October 2010 TZ agreed a further loan facility of $18 million for the Asacha project with Sberbank at an annual interest rate of 10.5%. Repayments are scheduled to commence in September 2012.

On 29 May 2009 UFG Asset Management (UFG), a related party by virtue of its then 51.55% holding in the shares of the Company, provided TSG with a loan facility of $3 million on commercial terms. On 8 December 2009 TSG drew down a second loan facility of $3.5 million provided on commercial terms by UFG in order to facilitate the refinancing of TZ's $25 million loan facility discussed above. Following completion of the refinancing of TZ's facility, TSG repaid $2.5 million to UFG on 30 December 2009.

Each of the facilities was repayable in two equal tranches, the first on the earlier of the first anniversary of the commencement of gold production at Asacha and 30 September 2011, and the second on the earlier of the second anniversary of the commencement of gold production at Asacha and 30 September 2012, each facility agreement including an option for UFG, subject to the requisite approval of TSG's shareholders, to convert any part of the outstanding loan into TSG shares at a price equivalent to the volume weighted average price of TSG's shares for the period of 60 business days prior to notice of such conversion. On 25 February 2010 UFG served notice of its option to convert the outstanding amounts of both facilities. On 23 March 2010 the loans, in aggregate $4,366,781 including accrued interest, were converted into TSG shares as discussed in Note 12.

Notes to the Financial Statements – continued

15. Borrowings - continued

In consideration of the May 2009 facility, the Company also agreed, subject to obtaining the necessary shareholder approvals, to issue warrants to subscribe for additional TSG shares to UFG on terms to be agreed and considered as fair and reasonable by the Company's Board (excluding those directors connected to UFG) after consultation with TSG's Nominated Adviser. No warrants were issued in 2009 or 2010 or after the reporting date.

On 26 October 2010 UFG, a related party by virtue of its then 53.36% holding in the shares of the Company, provided TSG with a loan facility of $2 million on commercial terms, repayable in two equal tranches, respectively on the fourth and fifth anniversaries of the commencement of gold production at Asacha. The facility agreement includes an option for UFG, subject to the requisite approval of TSG's shareholders, to convert any part of the outstanding loan into TSG shares at a price equivalent to the volume weighted average price of TSG's shares for the period of 60 business days prior to notice of such conversion.

After the reporting date, as discussed in Note 31, UFG and AngloGold Ashanti Limited, also a related party by virtue of its 30.7% holding in the shares of the Company, agreed to provide additional facilities, in aggregate $4.3 million, on commercial terms, each with the same conversion option, exercisable prior to scheduled repayments on the same dates, as the 2010 UFG loan.

16. Provisions

Environmental/site restoration provision	**2010 $000**	2009 $000
At 1 January	**304**	254
Charged to exploration and evaluation costs	**27**	50
At 31 December	**331**	304

The above provision relates to site restoration at the Asacha project, which is expected to be utilised by 2018 based on the current mineable resource. The amount of $330,777 (2009: $304,023) is included in exploration and evaluation costs and is calculated based on regional data from the Monitoring Ecological Centre of Kamchatka.

17. Derivatives and other financial instruments

Details of the significant accounting policies in respect of financial instruments are disclosed in Note 3.

Financial risk management
The Group is exposed through its operations to the following financial risks: liquidity risk, credit risk, cash flow interest rate risk, commodity price risk and foreign exchange risk. The Board seeks to minimise the Group's exposure to those risks by reviewing and agreeing policies for managing each financial risk and monitoring them on a regular basis. No formal policies have been put in place in order to hedge the Group's activities to the exposure to interest risk, commodity price risk or currency risk, however as the Group enters commercial production these may be considered. No derivatives or hedges were entered into during the period.

There have been no substantive changes in the Group's exposure to financial instrument risks, its policies and processes for managing those risks or the methods used to measure them unless otherwise stated in this note.

Principal financial instruments
The Group's principal financial instruments, from which financial instrument risk arises, comprise long-term convertible debt, long and short-term loans, cash and short-term deposits as well as trade and other receivables and trade payables which arise directly from its operations.

Liquidity risk
The Group's policy is to ensure that it has sufficient cash to allow it to meet its liabilities when they become due. As stated in Note 2 the Group has significant funding needs in order to finance the completion of the Asacha project, continue exploration at its properties and provide on-going working capital. The directors believe that the two five year Sberbank debt facilities, $25 million obtained in September 2009 and refinanced in December 2009 and $18 million agreed in October 2010, and debt facilities totalling $6.3 million made available by the Company's major shareholders (including $4.3 million agreed in April 2011 as discussed in Note 31) will provide adequate financing for the Group until the Asacha mine is cash flow positive.

Cash forecasts identifying the Group's funding and liquidity requirements are reviewed regularly by the Board. As described in Note 15, in 2009 UFG Asset Management (UFG) provided two bridging finance facilities of $3 million and $3.5 million respectively, the latter to facilitate the refinancing discussed above. $2.5 million of the second UFG facility was repaid in December 2009 on completion of that refinancing. The remaining amounts of the two UFG facilities were converted into ordinary shares in the Company on 23 March 2010 as discussed in Notes 15 and 30. At the reporting date the Group's long term borrowings comprised the two five year Sberbank facilities for the Asacha project discussed above and a $2 million facility agreed by UFG on 27 October 2010.

The contractual maturities of the Group's financial liabilities (which are all carried at amortised cost) are shown in the table below:

Group **2010**	**Carrying amount $000**	**Contractual cash flows $000**	**6 months or less $000**	**6 to 12 months $000**	**12 to 36 months $000**	**36 to 72 months $000**
Current financial liabilities						
Trade and other payables	2,674	2,674	2,454	220	-	-
Non-current financial liabilities						
Loans and borrowings	32,890	32,890	-	1,500	24,890	6,500
Interest	49	8,176	658	1,617	4,144	1,757
	35,613	**43,750**	**3,112**	**3,337**	**29,034**	**8,257**

Company **2010**	**Carrying amount $000**	**Contractual cash flows $000**	**6 months or less $000**	**6 to 12 months $000**	**12 to 36 months $000**	**36 to 72 months $000**
Current financial liabilities						
Trade and other payables	303	303	303	-	-	-
Non-current financial liabilities						
Loans and borrowings	2,000	2,000	-	-	-	2,000
Interest	49	1,574	-	-	-	1,574
	2,352	**3,877**	**303**	**-**	**-**	**3,574**

Group **2009**	**Carrying amount $000**	**Contractual cash flows $000**	**6 months or less $000**	**6 to 12 months $000**	**12 to 36 months $000**	**36 to 72 months $000**
Current financial liabilities						
Trade and other payables	3,368	3,368	3,148	220	-	-
Non-current financial liabilities						
Loans and borrowings	7,255	7,255	-	-	7,255	-
Interest	339	2,726	898	535	1,293	-
	10,962	**13,349**	**4,046**	**755**	**8,548**	**-**

Company **2009**	**Carrying amount $000**	**Contractual cash flows $000**	**6 months or less $000**	**6 to 12 months $000**	**12 to 36 months $000**	**36 to 72 months $000**
Current financial liabilities						
Trade and other payables	1,025	1,025	1,025	-	-	-
Non-current financial liabilities						
Loans and borrowings	4,000	4,000	-	-	4,000	-
Interest	339	1,713	663	300	750	-
	5,364	**6,738**	**1,688**	**300**	**4,750**	**-**

The conversion of loans into TSG shares on 23 March 2010 is discussed in Notes 15 and 30.

Notes to the Financial Statements – continued

17. Derivatives and other financial instruments continued

Credit risk

The credit risk on liquid funds is limited because the counterparties are banks with credit ratings assigned by international credit rating agencies. The Company made investments in and loans to one of its subsidiaries during the year, recovery of which is dependent on the future income generation of that subsidiary.

The Group and Company's maximum exposure to credit risk by class of individual financial instrument is shown in the table below:

Group	2010		2009	
	Carrying value $000	**Maximum exposure $000**	**Carrying value $000**	**Maximum exposure $000**
Current financial assets classified as loans and receivables				
Cash and cash equivalents	**3,981**	**3,981**	1,953	1,953
Trade and other receivables	**11**	**11**	110	110
	3,992	**3,992**	2,063	2,063

Company	2010		2009	
	Carrying value $000	**Maximum exposure $000**	**Carrying value $000**	**Maximum exposure $000**
Current financial assets classified as loans and receivables				
Cash and cash equivalents	**2,406**	**2,406**	1,086	1,086
Trade and other receivables	**1,231**	**1,231**	1,257	1,257
Non – current financial assets				
Loans to subsidiaries	**81,184**	**81,184**	77,843	77,843
	84,821	**84,821**	80,186	80,186

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk from its deposits of cash and cash equivalents with banks. The cash balances maintained by the Group are managed in order to ensure that the maximum level of interest is received for the available funds but without affecting working capital flexibility.

The Group was not exposed to cash flow interest rate risk on the two bridging finance facilities provided by UFG in 2009 (the outstanding balances of which were converted into TSG shares on 23 March 2010) which bore a fixed rate of interest. The $25 million facility for the Asacha project entered into in September 2009 bore interest at 14.5%. It was refinanced with Sberbank on 30 December 2010 at 11.75%, reduced to 10.5% in May 2010. The additional $18 million facility for the Asacha project entered into on 27 October 2010 also bears interest at 10.5%. The Group is not exposed to cash flow interest rate risk on the $2 million facility provided by UFG on 27 October 2010, nor on the two facilities provided by major shareholders in April 2011, all of which bear fixed rates of interest. The Group has no other debt or fixed rate finance leases. No subsidiary of the Group is permitted to enter into any borrowing facility or lease agreement without the Company's prior consent.

The interest rate profile of the Group's financial assets at 31 December 2010 was as follows:

		31 December 2010 $000	31 December 2009 $000
Cash			
US dollars	Floating rate	**2,289**	1,053
Sterling	Non-interest bearing	**20**	24
Sterling	Floating rate	**1,199**	-
Russian roubles	Floating rate	**473**	876
		3,981	1,953

The interest rate profile of the Company's financial assets at 31 December 2010 was as follows:

		31 December 2010 $000	31 December 2009 $000
Cash			
US dollars	Floating rate	**1,180**	1,053
Sterling	Non-interest bearing	**20**	24
Sterling	Floating rate	**1,199**	-
Russian roubles	Floating rate	**7**	9
		2,406	1,086

The interest rate profile of the Group's financial liabilities at 31 December 2010 was as follows:

		31 December 2010 $000	31 December 2009 $000
Loans			
US dollars	Fixed rate – 15%	**2,000**	4,000
	Floating rate	**32,890**	3,255
Russian roubles	Floating rate	**-**	-
		34,890	7,255

The interest rate profile of the Company's financial liabilities at 31 December 2010 was as follows:

		31 December 2010 $000	31 December 2009 $000
Loans			
US dollars	Fixed rate – 15%	**2,000**	4,000
Russian roubles	Floating rate	**-**	-
		2,000	4,000

The weighted average interest rate payable during the year was 10.71% (2009: 14.5%) on floating rate US dollar loans.

The weighted average interest rates earned during the year were 0.5% (2009: 0.52%) on floating rate sterling cash balances and 1.15% (2009: 0.25%) on floating rate US dollar balances and 8.17% (2009: nil) on floating rate Russian rouble balances. At the year end, the Group had cash on overnight deposit and for periods of between two weeks and one month. Short-term deposits during the year included overnight, one-week, one-month and three month notice periods.

Commodity price risk

The Group has not yet commenced commercial gold mining and does not hold any financial instruments to hedge the commodity price risk on its expected future production. The Board will review this exposure prior to the commencement of production at Asacha.

Foreign currency risk

The Group reports in US dollars and a large proportion of its business is conducted in dollars. It also conducts business in Russian roubles and sterling.

The Group's principal exchange rate risk is an appreciation of the Russian rouble against the US dollar which would impact on certain of the Group's operating costs. The Board will continue to review the Group's exchange rate risks and the possible use of derivative financial instruments to mitigate against them.

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their functional currency. Foreign exchange differences on retranslation of these assets and liabilities are taken to profit or loss. All amounts are shown in their US dollar 000 equivalents.

	31 December 2010		31 December 2009	
	RUB	**GBP**	RUB	GBP
Non-current:				
Trade and other receivables	**745**	**-**	4,022	-
Current:				
Trade and other receivables	**4,396**	**3**	38	33
Trade and other payables	**(2,237)**	**(38)**	(2,207)	(98)
Cash	**473**	**1,219**	389	24
	3,377	**1,184**	(1,780)	(41)

Foreign exchange gains totalling $316,487 (2009: $2,186,996 loss) have been recognised in the statement of comprehensive income for the year. A 10% appreciation of the Russian rouble and sterling at the reporting date (to $1:RUB27.4292 and £1:US$1.7054 respectively) would, all other variables held constant, have reduced the Group's loss for the year by $410,000 (2009: $245,000). A 10% depreciation of the Russian rouble and sterling at the reporting date (to $1:RUB33.5246 and £1:US$1.3954 respectively) would, all other variables held constant, have increased the Group's loss for the year by $357,000 (2009: $200,000). The impact of such sterling appreciation on the Company's GBP net monetary assets would have been to increase its profit after tax by $118,000 (2009 profit after tax: $4,000 decrease).

Notes to the Financial Statements – continued

17. Derivatives and other financial instruments continued

Fair values of the Group's and Company's financial liabilities and assets

The following is a comparison by category of the carrying amounts and the fair values of the Group's and Company's financial assets and liabilities as at 31 December 2010.

	Book value		Fair value	
Group	**31 December 2010 $000**	31 December 2009 $000	**31 December 2010 $000**	31 December 2009 $000
Primary financial instruments				
Long-term borrowing	**(32,939)**	(7,255)	**(32,939)**	(7,255)
Provisions	**(331)**	(304)	**(331)**	(304)
Cash and cash equivalents	**3,981**	1,953	**3,981**	1,953
	(29,289)	(5,606)	**(29,289)**	(5,606)

	Book value		Fair value	
Company	**31 December 2010 $000**	31 December 2009 $000	**31 December 2010 $000**	31 December 2009 $000
Primary financial instruments				
Long-term borrowing	**(2,049)**	(4,000)	**(2,049)**	(4,000)
Cash and cash equivalents	**2,406**	1,086	**2,406**	1,086
	357	(2,914)	**357**	(2,914)

The fair value of long-term borrowing (which is US dollar floating rate debt except for $2 million at fixed rate), provisions and receivables falling due after more than one year are shown at their carrying values as any differences are not material. The fair value of cash and cash equivalents equates to their carrying value because of the short maturity of these instruments.

Capital risk management

The Group's primary objective when managing capital is to ensure that there is sufficient capital available to support the Group's funding requirements, including capital expenditure, in a way that optimises the cost of capital, maximises shareholders' returns and ensures the Group's ability to continue as a going concern. There were no changes to the Group's capital management approach during the year.

The Group may make adjustments to the capital structure as opportunities arise, as and when borrowings mature or as and when funding is required. This may take the form of raising equity, debt finance, equipment supplier credits or a combination thereof.

The Group monitors capital on the basis of the gearing ratio, which is defined as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt. While the Group does not set absolute limits on the ratio, the Group believes that a ratio of up to 40% is acceptable in the final stages of the construction of the Asacha mine and that optimally this should reduce to below 25% when the mine is in production. The Company's policy in respect of capital risk management is the same as that of the Group.

The gearing ratios at 31 December 2010 and 2009 were as follows:

Group	Note	**31 December 2010 $000**	31 December 2009 $000
Total borrowings	15	**32,939**	7,255
Less: cash and cash equivalents	11	**(3,981)**	(1,953)
Net debt		**28,958**	5,302
Total equity		**78,799**	75,486
Total capital		**107,757**	80,788
Gearing ratio		**26.9%**	6.6%

Company	Note	**31 December 2010 $000**	31 December 2009 $000
Total borrowings	15	**2,049**	4,000
Less: cash and cash equivalents	11	**(2,406)**	(1,086)
Net debt		**(357)**	2,914
Total equity		**120,504**	108,574
Total capital		**120,147**	111,488
Gearing ratio		**(0.3%)**	2.6%

18. Loss before taxation

	Note	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Loss before taxation is stated after charging (crediting):			
Employment benefit expense	19	**2,522**	1,786
Depreciation of property, plant and equipment - owned assets	6	**1,578**	1,692
Depreciation charged to assets under construction and deferred exploration and evaluation costs		**(1,552)**	(1,273)
Loss on sale of property, plant and equipment		**50**	61
Operating lease rentals:			
- plant and machinery		**-**	-
- other		**213**	202

19. Employee benefit expense

Group	Note	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Wages and salaries		**6,837**	4,224
Social security costs		**1,469**	296
Pension contributions		**26**	-
Share-based payment transactions	21	**488**	268
Total employee benefit expense		**8,820**	4,788
Employee benefit expense capitalised [i]		**(6,298)**	(3,002)
Employee benefit expense charged to the statement of comprehensive income		**2,522**	1,786

The average number of Group employees during the year (including executive directors) was:

By activity:	**2010 - Number**	2009 - Number
Exploration and development [i]	**394**	198
Administration	**61**	31
	455	229

i Exploration and development employee benefit costs have been capitalised under exploration and evaluation costs.

20. Directors' remuneration and other interests

The aggregate remuneration of the directors of the Company was as follows:

	Note	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Basic salary		**436**	413
Fees		**64**	68
Pension contributions		**26**	-
Bonus		**-**	55
Benefits in kind		**5**	3
Directors' remuneration		**531**	539
Employer's National Insurance contributions		**21**	24
Share-based payment transactions	21	**380**	173
Key management compensation		**932**	736
Average number of directors during the year		**6**	7

Notes to the Financial Statements – continued

20. Directors' remuneration and other interests – continued
The following table shows the directors who served during the year or in the previous year together with an analysis of their remuneration:

	Basic salary $000	Fees $000	Pension Contributions $000	Benefits in kind $000	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Executive directors						
D Khilov	274	-	-	-	**274**	58
SV Olsen	162	-	26	5	**193**	180
OE Bagirov	-	-	-	-	**-**	233
Non-executive directors						
OE Bagirov	-	40	-	-	**40**	7
PCD Burnell	-	24	-	-	**24**	25
A Doumnov	-	-	-	-	**-**	36
F Fenner	-	-	-	-	**-**	-
CE Ryan	-	-	-	-	**-**	-
	436	**64**	**26**	**5**	**531**	539

The terms of Mr Olsen's employment contract were amended by a salary sacrifice arrangement in 2010 whereby, with effect from 1 April 2010, in consideration of a £20,000 reduction in his annual salary, the Company has made contributions to his personal pension plan. In 2009 Mr Bagirov received a bonus of three months' salary in accordance with his employment contract on first drawdown of the Asacha project finance facility.

The following tables show the beneficial interests of the directors who held office at the end of the year in the ordinary shares of the Company (except for the beneficial interests of Messrs Fenner and Ryan by virtue of their connection with the Company's major shareholder UFG Asset Management) and the interests of directors in share options:

Shares	Shares held at 1 January 2010	Additions	Disposals	**Shares held at 31 December 2010**
PCD Burnell	240,000	-	-	**240,000**

Options	Exercise price	Options held at 1 January 2010	Options expired/lapsed during the year	Options granted during the year	**Options held at 31 December 2010**	Normal exercise dates
SV Olsen	94p ($1.46)	**150,000**	-	**-**	**150,000**	20.12.07 – 19.06.11
SV Olsen	22.5p ($0.35)	**849,130**	-	-	**849,130**	24.07.11 – 24.07.14
OE Bagirov	22.5p ($0.35)	**1,698,260**	-	-	**1,698,260**	24.07.11 – 24.07.14
D Khilov	22.5p ($0.35)	**2,122,825**	-	-	**2,122,825**	24.07.11 – 24.07.14
		4,820,215	**-**	**-**	**4,820,215**	

$ exercise prices are shown for indicative purposes only, calculated at 31 December 2010 exchange rates.

All options were granted in respect of qualifying services.

The options with an exercise price of 94p were granted under an employee share scheme approved by special resolution of the Company on 26 September 2003 and are not exercisable until the later of 18 months from the date of grant of the option or the commencement of gold production by any member of the Group.

The options with an exercise price of 22.5p (2009 Options) were granted under an employee share option scheme approved by special resolution of the Company on 18 August 2008. Exercise of 50 per cent of the 2009 Options is subject to approval of the Asacha plant by the State Commission and first production of gold at Asacha. Subject to the satisfaction of these performance conditions, those options may be exercised prior to the commencement of the three year period shown in the above table. Exercise of the remaining 50 per cent of the 2009 Options is subject to the Asacha plant achieving throughput of 10,000 tonnes for two consecutive months.

21. Share option schemes

a) Employees

A share option scheme (2003 scheme) was approved by special resolution of the Company on 26 September 2003, whereby options granted are not exercisable until the later of 18 months from the date of grant or the commencement of gold production by any member of the Group. Following the expiry of the five year term of the 2003 scheme, a new employee share option scheme was approved by special resolution of the Company on 18 August 2008. The new scheme also includes the commencement of gold production as a condition to exercise as described in Note 20.

None of the terms and conditions of the share options were varied during the year. All share options were issued for nil cash consideration.

	Exercise price	Options held at 1 January 2010	Options expired/lapsed during the year	Options granted during the year	**Options held at 31 December 2010**	Normal exercise dates
2003 Scheme	94p ($1.46)	150,000	-	**-**	**150,000**	20.12.07 – 19.06.11
2008 Scheme	22.5p ($0.35)	7,217,605	(849,130)	-	**6,368,475**	24.07.11 – 24.07.14
		7,367,605	(849,130)	**-**	**6,518,475**	

$ exercise prices are shown for indicative purposes only, calculated at 31 December 2010 exchange rates.

The above table includes the interests of directors in share options as shown in Note 20. No options have been granted since the year end.

b) Non-employees

In addition to those granted under the Company's employee share option schemes, the Company has granted, for nil cash consideration, options to advisers entitling the option holders to subscribe for ordinary shares exercisable within an agreed time period as listed in the table below:

Exercise price	Options held at 1 January 2010	Options expired/lapsed during the year	Options granted during the year	**Options held at 31 December 2010**	Normal exercise dates
94p ($1.46)	80,000	-	-	**80,000**	20.12.07 – 19.06.11
	80,000	-	-	**80,000**	

$ exercise prices are shown for indicative purposes only, calculated at 31 December 2010 exchange rates.

No options were granted to non-employees during the year or since the year end.

The market price of the Company's shares at 31 December 2010 was 69p (2009: 31p) and the range of market prices during the year was between 22p and 70p (2009: 11.5p and 44.5p).

22. Share-based payments

The terms and conditions of the options granted (see Note 21), all of which are settled by physical delivery of shares, are as follows:

Grant date / recipients	Number of instruments	Vesting conditions	Contractual life of options
Option grant to directors and advisers on 20 June 2006.	230,000	18 months from the date of grant or the commencement of gold production by any member of the Group.	5 years
Option grant to directors and employees on 24 July 2009.	6,368,475	24 months from the date of grant or the commencement of gold production by any member of the Group.	5 years
Total share options	6,598,475		

Notes to the Financial Statements – continued

22. Share-based payments - continued

The number and weighted average exercise prices of share options for the year ended 31 December 2010 is as follows:

	Weighted average exercise price 2010	**Number of options 2010**	Weighted average exercise price 2009	Number of options 2009
Outstanding at the beginning of the year	**25p ($0.40)**	**7,447,605**	111p ($1.61)	330,000
Granted during the year	**-**	**-**	22.5p ($0.36)	7,217,605
Forfeited/lapsed during the year	**22.5p ($0.35)**	**(849,130)**	-	-
Expired during the year	**-**	**-**	150p ($2.40)	(100,000)
Outstanding at the end of the year	**25p ($0.39)**	**6,598,475**	25p ($0.40)	7,447,605
Exercisable at the end of the year	**-**	**-**	-	-

The options outstanding at 31 December 2010 have an exercise price in the range of 22.5p to 94p ($0.35 to $1.46) (2009: 22.5p to 94p ($0.36 to $1.52)) and a weighted average contractual life of 5 years (2009: 5 years).

No options were exercised during 2010 or 2009.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of fair value of the services received is measured using a Black-Scholes valuation model, taking into account the terms and conditions upon which the options were granted. The contractual life of the options (typically five years) is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

The fair value of share options granted during the year, using the Black-Scholes model, and the assumptions made in their calculation are as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Fair value at measurement date		12.8p
Share price (mid-market)	**-**	28p
Current price	**-**	25p
Exercise price	**-**	22.5p
Expected volatility	**-**	67%
Option life	**-**	5 years
Expected dividends	**-**	0%
Risk-free interest rate	**-**	0.05%

The current price is the price at which the shares can be sold in an arm's length transaction between knowledgeable, willing parties and is calculated by applying a bid price discount factor of 10.7% to the mid-market price. The expected volatility is based on the historic performance of Trans-Siberian Gold's shares on the Alternative Investment Market of the London Stock Exchange. The option life represents the period over which the options granted are expected to be outstanding and is equal to the contractual life of the options. The risk-free interest rate used is equal to the yield available on the principal portion of UK government issued Gilt Strips with a life similar to the expected term of the options at the date of measurement.

There are no market conditions associated with the share option grants.

The total expense recognised in profit or loss arising from equity-settled share-based payment transactions is as follows:

	Note	**Year ended 31 December 2010 $000**	Year ended 31 December 2009 $000
Share options granted in 2009 to:			
Directors	19, 20	380	173
Employees		108	95
Total expense for the year		**488**	**268**

23. Pension arrangements

The Company does not provide a pension scheme for its directors or employees. With effect from 1 April 2010 the Company has made contributions to the personal pension plan of a director under the terms of a salary sacrifice arrangement as discussed in Note 20.

24. Auditors' remuneration

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Services provided by the Group's auditor and network firms: [i]		
Fees payable to the Company's auditor for the audit of parent company and consolidated financial statements	**79**	72
Write back prior year provision	**-**	(43)
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries pursuant to legislation	**78**	84
Audit of local accounts of Russian subsidiaries [i]	**35**	15
Tax services [ii]	**8**	32
Write back prior year provision for tax services	**(7)**	-
	193	160

i In addition to the amounts disclosed above, all of which were paid to BDO LLP a further $0 (2009: $17,453) was paid to other auditors in respect of the statutory audits of the Group's Russian subsidiaries.
ii Tax services include fees paid in respect of tax compliance and tax advice.

25. Finance income and expense

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Finance income:		
Interest income on short-term bank deposits	**50**	104
Finance income	**50**	104
Finance expense:		
Interest payable on long-term convertible debt	**(206)**	(364)
Interest payable on long term bank debt	**(1,497)**	(54)
Less: interest capitalised [i]	**1,599**	231
Finance expense	**(104)**	(187)
Net foreign exchange gains on financing activities	**46**	10
Net finance expense	**(8)**	(73)

i The weighted average interest rate used to determine the amount of borrowing costs eligible for capitalisation was 10.71% (2009: 15%)

Notes to the Financial Statements – continued

26. Income tax

	Year ended 31 December 2010 $000	Year ended 31 December 2009 $000
Current tax - UK Corporation tax	**-**	-
Current tax - Russian Corporation tax	**129**	(124)
Current tax credit	**(129)**	(124)

Factors affecting tax charge for the year:		
Group loss before tax	**(3,651)**	(5,381)
	(3,651)	(5,381)
Tax credit at the UK corporation tax rate of 28%	**1,022**	(1,507)
Effects of:		
Difference in Russian tax rate (20%) to UK standard rate	**660**	732
Income not subject to tax	**(976)**	-
Expenses not deductible for tax purposes	**130**	104
Capital allowances (utilised) in excess of depreciation	**(13)**	1
Other temporary differences	**(47)**	(94)
Tax losses carried forward for offset against profits of future periods	**1,280**	640
Adjustment to tax charge in respect of prior years	**(141)**	-
Total income tax credit for the year	**(129)**	(124)

During the exploration and development stages, the Group will accumulate tax losses which may be carried forward. As at 31 December 2010, the Company had deferred tax losses carried forward with an estimated tax value of $2,299,263 (2009: $2,040,290). The subsidiaries in Russia had tax losses carried forward with a tax value, at the standard rate of corporation tax in Russia of 20% effective from 1 January 2009, of $4,807,000 (2009: $3,786,156). Tax losses carried forward in the subsidiaries are available for use over a 10-year period and, for periods starting on or after 1 January 2007, an offset of 100% is available. Of the total available Russian subsidiaries' tax credits, $944,318 will be available until 31 December 2020, $358,309 will be available until 31 December 2019, $3,149,310 will be available until 31 December 2018, $316,410 will be available until 31 December 2016 and the remaining $38,653 until 31 December 2015.

The tax losses arising in the current and prior periods will reduce the Group's tax liability in the future and give rise to deferred tax assets. The directors believe that it would not be prudent to recognise such tax assets before such time as the Group generates taxable income. Hence no tax asset has been recognised.

27. Earnings per ordinary share

The calculation of basic loss per 10p ordinary share is based on the retained loss for the year ended 31 December 2010 of $3,521,962 (2009: $5,259,233 loss) and on 96,595,133 (2009: 84,913,031) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividends during the year.

The Group had no dilutive potential ordinary shares in either year that would serve to increase the loss per ordinary share. There is therefore no difference between the basic and diluted loss per share for either year. 6,598,475 (2009: 7,447,605) potential ordinary shares have therefore been excluded from the above calculations.

28. Contingencies

Under the terms of his employment contract a former director of the Company is entitled to a payment of $250,000 within 180 days of the Asacha mine substantially achieving throughput, recovery and gold production levels as specified in a bankable feasibility study or as deemed acceptable by the Remuneration Committee, with two additional amounts of $125,000 due to him in the event that the Asacha mine has met those criteria and the Company's share price at that time is trading at more than, respectively, £1.875 and £2.25.

On 21 February 2009 the Company assigned the remaining term (approximately two years, ten months) of a six year lease of office premises in Toft, Cambridge to a third party, resulting in a contingent liability of $33,334 (2009: $69,355).

29. Commitments

a) Operating lease commitments

The Group leases various offices and other buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group also leases various plant and machinery under cancellable operating lease agreements. The lease expenditure charged to profit or loss during the year is disclosed in Note 18.

The total future minimum lease payments under non-cancellable operating leases are as follows:

	Equipment		Land and buildings	
Group	**2010 $000**	2009 $000	**2010 $000**	2009 $000
Liabilities:				
No later than 1 year	**12**	11	**246**	285
	12	11	**246**	285

The company had no operating lease commitments.

b) Capital commitments

Contracted commitments for capital purchases as at 31 December 2010 amount to $248,918 (2009: $680,162), as detailed below:

	2010 $000	2009 $000
Asacha project – due within one year	**249**	680
Rodnikova project – due within one year	**-**	-
	249	680

30. Related party transactions

Directors' emoluments are detailed in Note 20. Other related party transactions involved major shareholders UFG Asset Management (UFG) and AngloGold Ashanti Limited (AGA) and OAO Sibirskiy Gorno-Metallurgichesky Alyans (SiGMA), as detailed below:

Related party	Nature of transaction	**Purchases during the year to 31 December 2010 $000**	**Amount owing (owed) at 31 December 2010 $000**	Purchases during the year to 31 December 2009 $000	Amount owing (owed) at 31 December 2009 $000
AngloGold Ashanti	Technical services	**-**	**-**	(253)	745
	Loan interest	**24**	**-**	106	106
	Other services	**(7)**	**(7)**	-	(33)
		17	**(7)**	(147)	818
UFG	Loans (see Note 15)	**2,000**	**2,000**	6,500	4,000
	Loan interest	**182**	**49**	257	233
		2,182	**2,049**	6,757	4,233
SiGMA	Equipment	**18**	**-**	15	15
		18	**-**	15	15
Total		**2,217**	**2,042**	6,625	5,066

In 2009 TSG and AGA agreed the outstanding amount due to AGA in respect of the technical services previously provided by AGA at $744,567 (the $253,285 reduction being written off exploration and evaluation costs as shown in Note 7) and that this amount, less $32,693 costs incurred by TSG on behalf of AGA, being $711,874 net, should bear interest on commercial terms with effect from 1 January 2009. On 23 March 2010 1,814,803 ordinary shares were issued to AGA in settlement of $842,352 for the technical services, including accrued interest, as discussed in Note 12.

Also on 23 March 2010 9,408,002 ordinary shares were issued to UFG in settlement of the Company's indebtedness, in aggregate $5,209,133 including accrued interest, in respect of the outstanding amounts of two loan facilities as discussed in Notes 12 and 15.

Loan facilities provided by UFG and AGA after the reporting date are discussed in Note 31.

SiGMA is a gold focussed exploration company, with assets held in the Kamchatka peninsula in Far East Russia, in which UFG held a majority interest until early 2008. Mr Bagirov resigned as a director of SiGMA on 30 June 2009 and Mr Khilov resigned as Chairman of SiGMA's Board of directors on 20 May 2010.

The directors of the Company consider that there are no key management personnel, as defined by IAS 24, *Related party transactions*, other than the directors themselves.

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31. Events after the reporting date

On 8 April 2011 UFG Asset Management (UFG) provided TSG with a loan facility of $2 million on commercial terms, repayable in two equal tranches, respectively on the fourth and fifth anniversaries of the commencement of gold production at Asacha. The facility agreement includes an option for UFG, subject to the requisite approval of TSG's shareholders, to convert any part of the outstanding loan into TSG shares at a price equivalent to the volume weighted average price of TSG's shares for the period of 60 business days prior to notice of such conversion.

On 18 April 2011 AngloGold Ashanti Limited (AGA) agreed to provide the Company with a loan facility of $2.3 million on commercial terms, repayable on the same dates, and with the same conversion option, as the UFG loan discussed above.

32. Principal subsidiaries

The Group has interests in the following subsidiaries which are included in these financial statements by way of consolidation:

Subsidiary undertaking	Country of incorporation/ registration	Principal activity	Principal Country of operation	Description and proportion of shares held
OOO Trans-Siberian Gold Management	Russia	Administration	Russia	Participating shares 100%
ZAO Trevozhnoye Zarevo	Russia	Exploration and development	Russia	Common shares 100%

The group acquired the remaining 4.97% minority shareholding of ZAO Trevozhnoye Zarevo in August 2010.

Directors and Board Committees

Directors

Oleg Bagirov	Non-executive Chairman
Dmitry Khilov	Chief Executive Officer
Simon Olsen	Finance Director and Company Secretary
Peter Burnell	Non-executive
Florian Fenner	Non-executive
Charles Ryan	Non-executive

Audit Committee

Charles Ryan	Chairman
Oleg Bagirov	
Peter Burnell	

Remuneration Committee

Charles Ryan	Chairman
Oleg Bagirov	
Peter Burnell	

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