



# **Trans-Siberian Gold**

Interim Report 2006



# CHIEF EXECUTIVE OFFICER'S REPORT

## Highlights

- **Asacha mine development expected to commence in 4th quarter 2006**
- **Asacha production targeted to commence in 4th quarter 2008**
- **Indicative terms for Asacha project finance agreed with Standard Bank**
- **Sale of Krasnoyarsk properties for US\$40 million agreed in principle**

I am pleased to report with our interim results to 30 June 2006, on a period of further progress in the development of our Russian gold projects in Kamchatka and Krasnoyarsk Krai.

Trans-Siberian Gold plc is in the exploration and development phase of its gold projects and therefore received no operating income in the period. Administration expenses for the half year amounted to US\$3.4m compared to US\$3.3m for the corresponding period of 2005 and US\$7.0m for 2005 as a whole. 2005 comparatives have been restated as a result of the first time adoption of FRS 20 "Share-based payments".

The operating loss was US\$2.5m (2005 first half US\$4.4m), after crediting US\$874,000 of exchange gains (2005 first half US\$1.1m loss) from the impact of a weakening US dollar on sterling denominated bank deposits. Interest earned was US\$155,000 (2005 first half US\$314,000).

Interest payable of US\$11,000 (2005 US\$nil) relates to a US\$10m loan from AngloGold Ashanti Limited ("AGA") received in June 2006. As announced on 21 September 2006, it has been agreed that this loan may be converted into TSG shares by the Company at any time after 31 December 2006, subject to shareholder approval and the provisions of the City Code on Takeovers and Mergers should this lead to AGA's interest in TSG exceeding 29.9%. Such conversion will be at the then current market price of the Company's shares.

Capitalised exploration and evaluation expenditure and tangible assets increased by US\$3.0m and US\$3.5m respectively (2005 first half US\$4.4m and US\$0.7m respectively). Cash in hand and at bank increased from US\$11.9m to US\$12.3m, including the receipt of the US\$10m AGA loan.

### Asacha Project, Kamchatka Oblast

Work continued in a number of areas to advance the Asacha gold project. As announced on 30 May 2006, the Asacha licence condition in respect of the timing of the first 1,000 kg of gold production was amended, extending this condition to 31 December 2008.

The shortcomings in the mining and processing plans identified in the technical review undertaken on behalf of the banks mandated to provide up to US\$50 million of project finance for Asacha have been addressed. The Company understands that the final technical review report will be delivered to Standard Bank in the near future. Indicative terms for this project finance were agreed in June 2006. Work on the necessary legal due diligence and documentation for the project finance facility has continued in parallel to the technical review.

The balance of the funding required for the development of Asacha is expected to be provided by the sale of TSG's two Krasnoyarsk Krai based subsidiaries to AGA for US\$40 million, in respect of which an agreement in principle was announced on 21 September 2006.

### Veduga Project, Krasnoyarsk Krai

The pre-feasibility scoping study undertaken by Aker Kvaerner in 2005 concluded that none of the three oxidation processes for the partially refractory ore at Veduga were economically viable at the then current gold price, through a combination of high capital costs for the oxidation plant, a relatively small ore resource in relation to the capital costs and the absence of grid power.

During 2006, efforts have been directed at resolving these issues. Initial scoping studies indicated that modifications to the metallurgical process could facilitate greater concentration during flotation, thereby reducing the volume to be treated with a consequent reduction in operating costs. Reappraisal of the geochemical data for Veduga in conjunction with a new structural model was undertaken, prior to commencement in August 2006 of an airborne electro-magnetic survey of the deposit and the surrounding exploration licence area. This survey was intended to identify targets for drilling in the 2006/07 winter drilling season, aimed at increasing the size of the resource and thereby achieving economies of scale. As announced in June 2006, grid power for the project is expected to be available from the second phase of the Boguchanskaya hydro-electric power plant.

As announced last week, TSG has agreed in principle to sell all of its interest in the Veduga project, as well as its other Krasnoyarsk Krai property, Bogunay, to AGA for a cash consideration of US\$40 million. The importance of this transaction for the Group's financial position and the basis of preparation of the interim financial statements is explained in more detail in Note 2 to the financial information.

**Oleg Bagirov**

27 September 2006

# INDEPENDENT REVIEW REPORT TO TRANS-SIBERIAN GOLD PLC

## Introduction

We have been instructed by the directors of Trans-Siberian Gold plc (the "Group") to review the financial information for the six months ended 30 June 2006 which comprises the consolidated balance sheet as at 30 June 2006 and the related consolidated profit and loss account and cash flow statement for the six months then ended and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the Alternative Investment Market ("AIM") rules and ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

This interim report has been prepared in accordance with the basis set out in Note 1 to the financial information.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the disclosed accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the company for the purpose of assisting the directors in their ongoing stewardship of the company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Emphasis of matter – going concern

In arriving at our review conclusion, which is not qualified, we have considered the adequacy of the disclosures made in Note 2 to the financial information concerning the Group's requirements for additional financing and its plans for raising this finance. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial information does not include the adjustments that would result if the Group was not able to continue as a going concern.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

## PricewaterhouseCoopers LLP

Chartered Accountants  
London  
27 September 2006

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the 6 months ended 30 June 2006

	Reviewed 6 months to 30.06.2006 US\$	Restated <sup>ii</sup> 6 months to 30.06.2005 US\$	Restated <sup>ii</sup> 12 months to 31.12.2005 US\$
<b>TURNOVER</b>	-	-	-
Administration expenses	(3,331,811)	(3,293,948)	(7,046,509)
Exchange gain (loss) <sup>i</sup>	874,322	(1,140,911)	(1,853,442)
<b>OPERATING LOSS</b>	<b>(2,457,489)</b>	(4,434,859)	(8,899,951)
Interest receivable and similar income	154,528	313,521	643,897
Interest payable and similar charges	(10,552)	-	-
Loss on ordinary activities before taxation	(2,313,513)	(4,121,338)	(8,256,054)
Tax on loss on ordinary activities	(24,889)	(6,781)	(10,843)
Loss on ordinary activities after taxation	(2,338,402)	(4,128,119)	(8,266,897)
Minority interest – equity	38,279	-	(38,279)
<b>LOSS FOR THE PERIOD</b>	<b>(2,300,123)</b>	(4,128,119)	(8,305,176)
Basic loss per ordinary share (cents)	5.59	10.65	21.40

There is no difference between the loss on ordinary activities before taxation and the loss for the financial period stated above and their historical cost equivalents.

There are no recognised gains or losses other than those stated above.

- i. Exchange gain of \$874,322 principally reflects the depreciation of the US dollar on sterling cash deposits.
- ii. Restated as a result of the first time adoption of FRS 20 'Share-based payments' (see note 1 below).

# CONSOLIDATED BALANCE SHEET

at 30 June 2006

	Note	Reviewed 30.06.2006 US\$	Reviewed 30.06.2005 US\$	Audited 31.12.2005 US\$
<b>FIXED ASSETS</b>				
Exploration and evaluation properties	3	27,701,712	22,158,368	24,699,333
Tangible assets	4	19,569,258	9,743,571	16,099,665
<b>TOTAL FIXED ASSETS</b>		<b>47,270,970</b>	31,901,939	40,798,998
<b>CURRENT ASSETS</b>				
Debtors				
Amounts falling due within one year		3,370,274	3,312,943	2,187,805
Amounts falling due after more than one year		4,853,568	4,105,215	4,608,939
		<b>8,223,842</b>	7,418,158	6,796,744
Cash at bank		12,301,644	22,866,955	11,902,705
		<b>20,525,486</b>	30,285,113	18,699,449
<b>CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR</b>		<b>(3,418,367)</b>	(1,526,250)	(2,817,671)
<b>NET CURRENT ASSETS</b>		<b>17,107,119</b>	28,758,863	15,881,778
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>64,378,089</b>	60,660,802	56,680,776
Convertible debt falling due after more than one year		(10,000,000)	-	-
Provisions for liabilities and charges		(156,694)	(83,177)	(156,694)
<b>NET ASSETS</b>		<b>54,221,395</b>	60,577,625	56,524,082
<b>CAPITAL AND RESERVES</b>				
Called up share capital	5	6,951,312	6,933,497	6,951,312
Share premium account	6	60,821,126	60,846,822	60,821,126
Profit and loss account	6	(13,551,043)	(7,202,694)	(11,286,635)
<b>SHAREHOLDERS' FUNDS</b>		<b>54,221,395</b>	60,577,625	56,485,803
Minority Interest		-	-	38,279
<b>CAPITAL EMPLOYED</b>		<b>54,221,395</b>	60,577,625	56,524,082

# CONSOLIDATED CASH FLOW STATEMENT

for the 6 months ended 30 June 2006

	Note	Reviewed 6 months to 30.06.2006 US\$	Reviewed 6 months to 30.06.2005 US\$	Audited 12 months to 31.12.2005 US\$
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	7	<b>(2,611,793)</b>	(4,065,762)	(8,313,619)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>				
Interest received		163,590	331,337	653,123
Interest paid		-	-	-
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>163,590</b>	331,337	653,123
<b>CORPORATION TAX PAID</b>		<b>(60,675)</b>	(8,887)	(12,949)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>				
Purchase of tangible fixed assets		(3,418,183)	(2,947,471)	(6,485,043)
Receipts from disposal of tangible fixed assets		15,496	-	-
Exploration and evaluation expenditure		(4,147,946)	(4,486,921)	(7,255,755)
<b>Net cash outflow from capital expenditure and financial investment</b>		<b>(7,550,633)</b>	(7,434,392)	(13,740,798)
<b>ACQUISITIONS</b>				
Payments to acquire subsidiary undertakings		-	-	(10,542)
Cash held by subsidiaries acquired		-	-	-
<b>Net cash outflow from acquisitions</b>		<b>-</b>	-	(10,542)
<b>NET CASH OUTFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>		<b>(10,059,511)</b>	(11,177,704)	(21,424,785)
<b>MANAGEMENT OF LIQUID RESOURCES</b>				
Decrease (increase) in bank deposits		1,183,876	(2,343,758)	6,263,975
<b>FINANCING</b>				
Issue of ordinary shares, net of expenses		-	14,493,698	14,485,817
Increase in convertible debt		10,000,000	-	-
<b>INCREASE IN CASH FOR THE PERIOD</b>		<b>1,124,365</b>	972,236	(674,993)
<b>RECONCILIATION OF CASH BALANCES</b>				
Cash at start of period		390,553	1,066,072	1,066,072
Currency exchange differences		1,176	(1,993)	(526)
Increase in cash for the period		1,124,365	972,236	(674,993)
<b>CASH AT END OF PERIOD</b>		<b>1,516,094</b>	2,036,315	390,553

# NOTES TO THE FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES

a. The financial information in the interim report has been prepared on the basis of accounting policies consistent with those set out in the Annual Report and Accounts 2005, with the exception of the adoption of FRS 20 'Share-based payments' which has been applied for the first time with effect from 1 January 2006.

The Group makes equity-settled share-based payments to certain employees under the terms of its employee share option scheme. In accordance with FRS 20, these equity-settled share-based payments are measured at fair value at the date of grant determined using a Black-Scholes valuation model and expensed on a straight-line basis over the vesting period, based on an estimate of the shares that will ultimately vest.

b. The financial information is unaudited but has been reviewed by the auditors and their report is set out on page 2.

c. The financial information shown for the year ended 31 December 2005 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 ("the Act") and has been extracted from the full Annual Report and Accounts for the year ended 31 December 2005 which has been filed with the Registrar of Companies. The Independent Auditors' Report on the financial information contained in the Annual Report and Accounts 2005 was unqualified, however because of the existence of a material uncertainty which cast significant doubt about the Group's ability to continue as a going concern, the Independent Auditors' Report contained an emphasis of matter to this effect. The Independent Auditors' Report did not contain a statement under either Section 237(2) or (3) of the Act.

## 2. GOING CONCERN

As discussed in Note 2 'Going concern' in the Group's Annual Report and Accounts 2005, the Group has significant funding needs in order to finance the Asacha project, continue exploration at its properties and provide ongoing working capital. The Company anticipated being able to raise equity during the third quarter of 2006 to enable it to meet its funding requirements. However, as announced on 17 August 2006, it was not possible to raise the required level of equity funding on acceptable terms, wherefore the Company elected to consider a number of financing alternatives.

As stated in the Chief Executive Officer's Report and discussed further in Note 8 'Subsequent events', on 21 September 2006 the Company announced that, subject to limited due diligence and the required regulatory approvals, including an amendment to the Veduga licence, it had agreed in principle to sell all of its interests in its two wholly owned subsidiaries, OOO GRK Amikan ("Amikan") and OOO AS Angarskaya Proizvodstvennaya Kompaniya ("AS APK"), to AngloGold Ashanti Limited ("AGA") for a cash consideration of US\$40 million.

The Group intends to utilise the majority of the proceeds from the sale of Amikan and AS APK, together with project finance of up to US\$50 million from Standard Bank plc as announced on 9 June 2006, to bring the Asacha mine into production by late 2008 with the balance to be used for the Group's general working capital requirements until Asacha is in production.

As at the date of publication of the interim report, the sale of Amikan and AS APK and the project finance from Standard Bank plc remain subject to final agreement. Should the Company be unable to conclude the sale of Amikan and AS APK in the short term and secure the project finance from Standard Bank plc, the Group may not be able to develop the Asacha project or continue as a going concern for the foreseeable future.

Based on their discussions with the Group's financial advisers and major shareholders, the directors believe that the sale of Amikan and AS APK will proceed as planned and the project finance from Standard Bank plc will be secured in a timescale which enables the residual Group to continue in operation. Accordingly, they are confident that the Group will continue as a going concern and have prepared the interim financial information on that basis. The interim financial information does not include the adjustments that would result if the Group was not able to continue as a going concern.

## 3. EXPLORATION AND EVALUATION PROPERTIES

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

	01.01.2006 US\$	Additions US\$	30.06.2006 US\$
Kamchatka – Asacha	9,491,185	1,893,791	<b>11,384,976</b>
Krasnoyarsk - Veduga	14,181,128	594,558	<b>14,775,686</b>
Krasnoyarsk - Bogunay	1,027,020	514,030	<b>1,541,050</b>
	24,699,333	3,002,379	<b>27,701,712</b>

#### 4. TANGIBLE FIXED ASSETS

	Buildings US\$	Plant and machinery US\$	Motor vehicles US\$	Office equipment and furniture US\$	Assets under construction <sup>a</sup> US\$	Total US\$
<b>COST</b>						
At 01.01.2006	981,333	1,817,921	1,145,838	557,965	12,753,915	17,256,972
Additions	12,891	227,644	9,364	18,380	3,568,981	3,837,260
Disposals	(14,208)	(14,690)	-	(1,545)	-	(30,443)
<b>At 30.06.2006</b>	<b>980,016</b>	<b>2,030,875</b>	<b>1,155,202</b>	<b>574,800</b>	<b>16,322,896</b>	<b>21,063,789</b>
<b>ACCUMULATED DEPRECIATION</b>						
At 01.01.2006	(210,725)	(367,239)	(299,354)	(279,989)	-	(1,157,307)
Charge for period <sup>b</sup>	(83,478)	(100,161)	(98,762)	(66,299)	-	(348,700)
Disposals	4,960	6,078	-	438	-	11,476
<b>At 30.06.2006</b>	<b>(289,243)</b>	<b>(461,322)</b>	<b>(398,116)</b>	<b>(345,850)</b>	<b>-</b>	<b>(1,494,531)</b>
<b>NET BOOK VALUE</b>						
At 31.12.2005	770,608	1,450,682	846,484	277,976	12,753,915	16,099,665
<b>At 30.06.2006</b>	<b>690,773</b>	<b>1,569,553</b>	<b>757,086</b>	<b>228,950</b>	<b>16,322,896</b>	<b>19,569,258</b>

a. Assets under construction comprise \$4,331,652 in relation to the construction of an access road to Asacha, and \$11,267,862 for building construction and \$723,382 for plant and equipment at Asacha, Veduga and Bogunay.

b. \$261,298 of the depreciation charge related to fixed assets used on exploration and evaluation projects and was charged to deferred costs in accordance with the group's accounting policy.

#### 5. CALLED UP SHARE CAPITAL

	Number	30.06.2006 £	Number	31.12.2005 £
<b>AUTHORISED</b>				
Ordinary shares of 10p each	100,000,000	10,000,000	100,000,000	10,000,000
<b>ALLOTTED AND FULLY PAID</b>				
At the beginning of period	41,163,949	6,951,312	34,932,364	5,815,464
Shares issued:				
Placing for cash	-	-	6,131,585	1,118,033
Options exercised	-	-	100,000	17,815
<b>At the end of period</b>	<b>41,163,949</b>	<b>6,951,312</b>	<b>41,163,949</b>	<b>6,951,312</b>

## 6. RESERVES

<b>SHARE PREMIUM</b>	<b>30.06.2006 US\$</b>	<b>31.12.2005 US\$</b>
At the beginning of period	<b>60,821,126</b>	47,471,157
Shares issued:		
Placing for cash - gross	-	13,416,399
- costs	-	(128,783)
	-	13,287,616
Options exercised	-	62,353
<b>At the end of period</b>	<b>60,821,126</b>	<b>60,821,126</b>

<b>PROFIT AND LOSS ACCOUNT</b>	<b>30.06.2006 US\$</b>	<b>Restated 31.12.2005 US\$</b>
At the beginning of period	<b>(11,286,635)</b>	(3,167,691)
Share-based payments charged to profit and loss	<b>35,715</b>	186,232
Loss for the period	<b>(2,300,123)</b>	(8,305,176)
<b>At the end of period</b>	<b>(13,551,043)</b>	<b>(11,286,635)</b>

## 7. RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	<b>6 months to 30.06.2006 US\$</b>	<b>Restated 6 months to 30.06.2005 US\$</b>	<b>Restated 12 months to 31.12.2005 US\$</b>
Operating loss	<b>(2,457,489)</b>	(4,434,859)	(8,899,951)
Depreciation	<b>87,402</b>	81,443	159,719
Loss on disposal of fixed assets	<b>3,471</b>	5,316	8,871
Provision for liabilities and charges	-	-	73,517
Increase in debtors and prepayments	<b>(242,384)</b>	(151,016)	(189,157)
Increase in VAT debtor	<b>(199,023)</b>	(833,774)	(1,405,695)
Increase in creditors and accruals	<b>618,965</b>	305,638	175,183
(Profit) loss on foreign exchange	<b>(458,450)</b>	868,374	1,577,662
Share-based payments charged to profit and loss	<b>35,715</b>	93,116	186,232
<b>Net cash outflow from operating activities</b>	<b>(2,611,793)</b>	<b>(4,065,762)</b>	<b>(8,313,619)</b>

## 8. SUBSEQUENT EVENTS

On 21 September 2006, the Company announced that, subject to limited due diligence and the required regulatory approvals, including an amendment to the Veduga licence, it had agreed in principle to sell all of its interests in its two wholly owned subsidiaries, OOO GRK Amikan and OOO AS Angarskaya Proizvodstvennaya Kompaniya, to AngloGold Ashanti Limited for a cash consideration of US\$40 million.

The Interim Report was approved by the Board of Directors on 27 September 2006.

# DIRECTORS AND ADVISORS

## Directors

Peter Burnell	Non-executive Chairman
Oleg Bagirov	Chief Executive Officer
Simon Olsen	Finance Director and Company Secretary
Philip Bowring	Non-executive
Richard Duffy	Non-executive
Boris Fedorov	Non-executive
Florian Fenner	Non-executive
Benjamin Guenther	Non-executive
Jocelyn Waller	Non-executive

## Audit Committee

Peter Burnell  
Philip Bowring  
Richard Duffy

## Remuneration Committee

Peter Burnell  
Philip Bowring  
Richard Duffy

## Nominated advisor and broker

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