



Trans-Siberian Gold

INTERIM REPORT 2008

Highlights

- Accelerating investment at Asacha
- Asacha on track for gold production in 3rd quarter 2009
- Major shareholder commitment in \$12.6 million placing and equity conversion of \$8.2 million debt

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Chief Executive Officer's report

I am pleased to report our results for the six months to 30 June 2008 and further progress in the development of our Russian gold projects in Kamchatka.

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 \$2.6 million compared to \$2.5 million for the corresponding period of 2007 and \$4.6 million for 2007 as a whole. The operating loss was \$2.0 million (2007 first half: \$2.4 million), after crediting \$543,000 of exchange gains (2007 first half: \$130,000).

Finance income was \$361,000 (2007 first half: \$164,000). Finance costs of \$328,000 (2007 first half: \$778,000) principally comprised \$321,000 (2007 first half: \$504,000) interest on the \$10 million loan from AngloGold Ashanti Limited (AGA) received in June 2006. Finance costs in the first half of 2007 also included \$274,000 on the \$10 million advance payment of the sale consideration for the Krasnoyarsk properties completed in June 2007.

The loss for the period was \$2.0 million (2007 first half \$3.0 million loss from continuing operations).

Property, plant and equipment and capitalised exploration and evaluation costs at the Group's Kamchatka properties increased by \$8.1 million and \$1.0 million respectively in the first half of 2008 (2007 first half: \$793,000 and \$670,000 respectively). The reductions attributed to discontinued operations in the first half of 2007 amounted to \$1.6 million and \$19.8 million respectively. Trade and other receivables increased by \$4.4 million (2007 first half: \$742,000), principally reflecting \$3.5 million higher prepayments in respect of plant and equipment. Cash and cash equivalents reduced from \$27.6 million to \$6.7 million.

Asacha Project, Kamchatka Krai

Progress has continued to be made at the Asacha Project. A self propelled Boomer 282 drilling rig was delivered to site and two underground dump trucks are expected to be operational by the end of September 2008. In the first half of 2008, more than 300 metres of mine development were completed, with an additional 314 metres by the end of August 2008. A new brigade of experienced miners from the Magadan region arrived at site in June 2008. Construction of a second portal has commenced and both portal areas prepared for operational use. It is now planned to manufacture explosives on site and the process to obtain the necessary permit has started.

The Chinese manufactured main process plant equipment was transported to Vladivostok and the first shipment reached Kamchatka in early September 2008. The KEMIX screens were shipped from Durban and were expected at site by the end of September 2008. Excavation of the plant's foundation area and its gravel backfilling was completed by July 2008. The construction of concrete bedding for the plant has been completed with major concrete operations commencing in the second half of September 2008, utilising both fixed and mobile mixing units, a pump and pipeline to deliver concrete up to 300 metres. Contracts for delivery of pumps, lifting equipment and smelting unit have been signed and contracts for the remaining auxiliary equipment (compressors, sampling, etc) for the plant are being prepared.

Shipment of three containerised 1 MW diesel power units equipped with a heat utilisation system is expected in September 2008. Three substations and indoor switchgear have also been shipped to Kamchatka. The primary section of the design documentation of the external 35 kV power supply system is now being permitted in Kamchatka.

The road between the plant site and the tailings storage site has been completed. The first tailings storage compartment has been cleared of trees and more than 50% of its vegetation cover. 150,000m² of film screen for the tailings facility has been shipped from its manufacturer. The ditch to drain water from the tailings sites is under construction.

The accommodation camp's boiler house has been completed. The boiler house will be commissioned in spring 2009 when the heating system is constructed. Temporary water supply, heating and hot water supply and power have been organised. The first of two cold warehouses was nearing completion during the third quarter, with foundations for the second unit completed.

An on-site crushing and screening plant processed more than 4,000m³ of basalt in its first three months of operation, for use in the gravel bedding of foundations, concrete works throughout the construction site and maintenance of on-site roads.

The total capital cost of the Asacha project prior to commencement of production is now estimated at \$106.7 million, net of \$9.2 million VAT recoveries, compared to the May 2008 estimate of \$105.6 million. The May estimate included a \$3.5 million net increase in pre-start up capital expenditure for the provision of external power supply. Other capital cost increases, including those reflecting the assumption of a stronger Russian rouble, have been substantially offset by savings in other areas, including design revisions and the use of own labour and equipment for much of the infrastructure and tailings dam construction. The total project cost includes pre-commissioning mining costs of \$5 million, other pre-operating expenditure of \$24.4 million, "first fill" equipment spares and consumables of \$1 million and contingency of \$1.8 million.

Chief Executive Officer's report continued

Actual expenditure on the project up to July 2008 amounted to \$67.5 million, net of \$1.4 million VAT recovered. The remaining costs prior to the commencement of production are estimated at \$39.2 million, net of further VAT recoveries of \$7.8 million, comprising:

		\$ million
Capital expenditure	Mine and mining equipment and facilities	6.7
	Gold plant, site facilities and tailings storage (1st phase)	12.3
	Off-site power supply and other infrastructure	16.4
	Contingency	1.8
	Total capital	37.2
Other costs	Pre-production mining, spares and consumables and other operating costs	9.8
		47.0
Less VAT recoveries		7.8
		39.2

A further \$10.1 million of capital expenditure will be incurred after the commencement of production (including \$5.5 million on mine development, \$3.5 million on the second phase of tailings storage and solid waste landfill and \$0.4 million contingency).

On 18 August 2008 the Company raised \$12.4 million (net of expenses) through a placing of 26,507,899 new ordinary shares at 25.5 pence per share to UFG Asset Management (UFG), two Directors (Alexander Doumnov and Peter Burnell) and other shareholders (the Placing). On the same day the Company's existing debt facilities, comprising \$6 million remaining on the loan provided to TSG by AGA in June 2006 and \$2 million advanced to TSG by UFG on 17 July 2008, in total \$8.2 million including accrued interest, were converted into new ordinary shares, also at 25.5p per share.

In addition to the Placing proceeds of \$12.4 million, we believe that total additional funding of \$27 million will be required to provide adequate financing for the Group until the Asacha mine is cash flow positive. The Placing proceeds, together with \$1.6 million VAT recovered in August 2008, will be sufficient for the Group's funding requirements until December 2008, by which time further progress with mine development and plant construction is expected to have been achieved at Asacha. It is our intention to satisfy the forecast additional requirement of \$27 million through debt finance in respect of which negotiations continue with a Russian bank.

Rodnikova Project, Kamchatka Krai

The results of exploration undertaken in 2007 increased the inferred category resource by 634,000 tonnes, containing 124,100 oz gold and 652,730 oz silver, as included in the following table:

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	6.42	44.3	7.3	209,500	1,444,900	238,395
Total	1,532,900	10,783,012	90,461,357	7.03	59.0	8.21	346,680	2,908,470	404,845

4 g/t cut-off

*50 oz Ag = 1 oz Au equivalent

The drilling programme in the first half of 2008 encompassed more than 5,500 metres. Analysis of three holes drilled on the southern flank of the vein zone traced the zone to a depth of 150 metres, with intercepts of 19 metres @ 7.8 grammes/tonne (g/t) Au, 85.4 g/t Ag, 21.8 metres @ 6.05 g/t Au, 40.5 g/t Ag and 10 metres @ 4.76 g/t Au, 39.0 g/t Ag. Further results from the drilling programme on the southern flank of Zone 44 between Vilyucha River and Spokolny Creek are expected during the second half of 2008, following which a decision on a further exploration programme will be taken.

Oleg Bagirov

26 September 2008

The information in this report relating to mineral resources at Rodnikova is based on data reviewed by Mr Vladislav Zhouravlev, Chief Geologist of OOO Trans-Siberian Gold Management who is an expert of the GKZ (State Reserves Commission of the Russian Federation) with 45 years relevant experience in mineral exploration and a Qualified Person under AIM rules. Mr Zhouravlev consents to the inclusion of the information in the form and context in which it appears.

Condensed consolidated interim balance sheet

at 30 June 2008

	Note	30 June 2008 unaudited \$	30 June 2007 unaudited \$	31 December 2007 audited \$
Assets				
Non-current assets				
Property, plant and equipment	6	35,357,571	22,507,305	27,240,876
Exploration and evaluation costs	7	15,198,448	12,679,585	14,128,780
Taxes recoverable – value added tax		5,740,416	4,948,316	4,864,407
		56,296,435	40,135,206	46,234,063
Current assets				
Trade and other receivables		11,209,925	3,464,600	6,853,218
Cash and cash equivalents		6,693,806	38,128,605	27,629,429
		17,903,731	41,593,205	34,482,647
Total assets		74,200,166	81,728,411	80,716,710
Capital and reserves attributable to equity holders of the Company				
Ordinary shares		6,951,312	6,951,312	6,951,312
Share premium		60,821,126	60,821,126	60,821,126
Retained earnings		(2,726,568)	429,539	(841,613)
Total equity		65,045,870	68,201,977	66,930,825
Liabilities				
Non-current liabilities				
Borrowings	8	–	10,000,000	10,000,000
Provisions for other liabilities and charges	9	292,344	200,489	266,463
		292,344	10,200,489	10,266,463
Current liabilities				
Trade and other payables		2,861,952	2,980,512	3,519,422
Borrowings	8	6,000,000	–	–
Provisions for other liabilities and charges	9	–	345,433	–
		8,861,952	3,325,945	3,519,422
Total liabilities		9,154,296	13,526,434	13,785,885
Total equity and liabilities		74,200,166	81,728,411	80,716,710

The notes on pages 7 to 14 form an integral part of this condensed interim financial information.

Condensed consolidated interim income statement

for the 6 months ended 30 June 2008

	Note	6 months to 30 June 2008 unaudited \$	6 months to 30 June 2007 unaudited \$	12 months to 31 December 2007 audited \$
Continuing operations				
Revenue		–	–	–
Administrative expenses		(2,568,559)	(2,486,407)	(4,569,122)
Other income		–	5,886	6,267
Net foreign exchange gains on operating activities		542,964	130,295	644,365
Operating loss	5	(2,025,595)	(2,350,226)	(3,918,490)
Finance income		361,350	164,106	934,617
Finance costs		(327,689)	(778,449)	(1,289,346)
Net foreign exchange gains on financing activities		–	18,189	18,492
Loss before income tax		(1,991,934)	(2,946,380)	(4,254,727)
Income tax refund (expense) – (Russian)		20,331	(10,791)	(54,752)
Loss from continuing operations		(1,971,603)	(2,957,171)	(4,309,479)
Discontinued operations				
Profit from discontinued operations		–	20,547,058	20,547,058
(Loss) profit for the period		(1,971,603)	17,589,887	16,237,579
Attributable to:				
Equity holders of the company		(1,971,603)	17,589,887	16,237,579
Minority interest		–	–	–
(Loss) profit for the period		(1,971,603)	17,589,887	16,237,579
(Loss) earnings per share attributable to the equity holders of the company (expressed in cents per share)				
– basic		(4.79)	42.73	39.45
– diluted		(4.79)	42.72	39.45
Loss per share from continuing operations attributable to the equity holders of the company (expressed in cents per share)				
– basic		(4.79)	(7.18)	(10.47)
– diluted		(4.79)	(7.18)	(10.47)

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.

The notes on pages 7 to 14 form an integral part of this condensed interim financial information.

Condensed consolidated interim statement of changes in equity for the 6 months ended 30 June 2008 (unaudited)

	Capital \$	Retained earnings \$	Total equity \$
At 1 January 2007	67,772,438	(17,238,935)	50,533,503
Profit for the period	-	17,589,887	17,589,887
Total recognised income and expense for the period	-	17,589,887	17,589,887
Share options scheme: - value of share-based payments	-	78,587	78,587
At 30 June 2007	67,772,438	429,539	68,201,977
At 1 January 2008	67,772,438	(841,613)	66,930,825
Loss for the period	-	(1,971,603)	(1,971,603)
Total recognised income and expense for the period	-	(1,971,603)	(1,971,603)
Share options scheme: - value of share-based payments	-	86,648	86,648
At 30 June 2008	67,772,438	(2,726,568)	65,045,870

The notes on pages 7 to 14 form an integral part of this condensed interim financial information.

Condensed consolidated interim cash flow statement

for the 6 months ended 30 June 2008

	6 months to 30 June 2008 unaudited \$	6 months to 30 June 2007 unaudited \$	12 months to 31 December 2007 audited \$
Cash flows from operating activities			
Continuing operations			
Cash used in operations	(2,757,241)	(2,189,648)	(3,972,804)
Interest paid on borrowings	(1,712,075)	(273,951)	(273,951)
Corporation tax paid	(7,593)	(68,586)	(104,447)
	(4,476,909)	(2,532,185)	(4,351,202)
Discontinued operations	-	(566,499)	(566,499)
Net cash used in operating activities	(4,476,909)	(3,098,684)	(4,917,701)
Cash flows from investing activities			
Continuing operations			
Purchase of property, plant and equipment (PPE)	(12,078,153)	(1,268,605)	(10,706,533)
Proceeds from sale of PPE	7,628	-	9,950
Purchase of exploration and evaluation assets	(765,724)	(1,769,876)	(1,796,286)
Interest received – third party	378,164	144,972	918,898
	(12,458,085)	(2,893,509)	(11,573,971)
Discontinued operations	-	37,085,453	37,085,453
Net cash (used) generated in investing activities	(12,458,085)	34,191,944	25,511,482
Cash flows from financing activities			
Continuing operations			
Repayment of convertible debt	(4,000,000)	-	-
	(4,000,000)	-	-
Discontinued operations	-	4,465,699	4,465,699
Net cash (used) generated in financing activities	(4,000,000)	4,465,699	4,465,699
Net (decrease) increase in cash and cash equivalents	(20,934,994)	35,558,959	25,059,480
Cash and cash equivalents at beginning of period	27,629,429	2,551,457	2,551,457
Exchange (losses) gains on cash and cash equivalents	(629)	18,189	18,492
Cash and cash equivalents at end of period	6,693,806	38,128,605	27,629,429

The notes on pages 7 to 14 form an integral part of this condensed interim financial information.

Notes to the condensed interim financial information

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 and principal place of business is Church Barn, Old Farm Business Centre, Church Road, Toft, Cambridge, CB23 2RF, United Kingdom. The Company's shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange.

This consolidated interim financial information was approved by the Board on 26 September 2008.

The interim financial information for the six months ended 30 June 2008 and 30 June 2007 is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The comparative financial information for the year ended 31 December 2007 has been derived from the statutory financial statements for that period. Statutory accounts for the year ended 31 December 2007 were approved by the Board on 23 June 2008 and filed with the Registrar of Companies. The Independent Auditors' Report on those accounts 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 Companies Act 1985.

2. Principal accounting policies

The Group's principal accounting policies applied in the presentation of the consolidated interim financial information are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated, and are consistent with those that the directors intend to use in the financial statements for the year ending 31 December 2008 which will be prepared in accordance with IFRS as adopted by the EU.

Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008, has been prepared under the historical cost convention and in accordance with the AIM Rules and complies with IAS 34 Interim financial reporting as adopted by the EU. The interim condensed consolidated financial report should be read in conjunction with the annual report and accounts for 2007.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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 3.

The following new interpretations are mandatory for the first time for the financial years as shown, however none of these is considered by management to be relevant for the Group:

- IFRIC 11 *IFRS 2 – Group and treasury share transactions*, effective for annual periods beginning on or after 1 March 2007.
- IFRIC 12 *Service concession arrangements*, effective for annual periods beginning on or after 1 January 2008.
- IFRIC 13 *Customer Loyalty Programmes*, effective for accounting periods beginning on or after 1 July 2008, subject to endorsement by the EU.
- IFRIC 14, *IAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*, effective from 1 January 2008, subject to endorsement by the EU.

The following Standards, amendments and interpretations are not yet effective and have not been early adopted:

- IAS 23 (Amendment), *Borrowing costs*, effective from 1 January 2009, subject to EU endorsement. It requires an entity to capitalise 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. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009, subject to endorsement by the EU.
- IFRS 8, *Operating segments*, effective for annual periods beginning on or after 1 January 2009, subject to EU endorsement. It replaces IAS 14 and aligns segment reporting with the requirements of US standard SFAS 131, *Disclosures about segments of an enterprise and related information*. The new standard requires a *management approach* under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. Management do not foresee any changes to the Group's geographical or business segments.
- Amendments to IAS 32, *Financial instruments: Presentation*, and IAS 1, *Presentation of financial statements: Puttable financial instruments and obligations arising on liquidation* (effective from 1 January 2009). The amendments to the standards are still subject to endorsement by the EU but it is not expected to have an impact.
- Amendment to IFRS 2, *Share-based payment Vesting conditions and cancellations*, clarifies that only service conditions and performance conditions are vesting conditions and specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the amended standard from 1 January 2009 but it is not expected to have a significant impact.
- 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. The Group will apply the revised standard from 1 January 2010 subject to endorsement by the EU.
- IFRS 3 (Revised), *Business combinations*, continues to apply the acquisition method to business combinations, with some significant changes. The Group will apply the revised standard from 1 January 2010 subject to endorsement by the EU.

Notes to the condensed interim financial information

continued

2. Principal accounting policies continued

Basis of consolidation

The consolidated financial information of the Group includes the accounts of Trans-Siberian Gold plc and its subsidiaries. The results of Trans-Siberian Gold plc's subsidiary undertakings are accounted for from the date on which the Company gains control.

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.

(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 the income statement. 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

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments.

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 – 16 years

Motor vehicles – 5 years

Plant and machinery – 4 years

Office furniture and equipment – 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 "Other income" in the income statement.

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 the income statement 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 within 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 mineral 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 fixed assets used on exploration and evaluation projects is charged to deferred costs whilst the projects are in progress. Finance costs incurred in respect of exploration and evaluation projects are capitalised in those instances where the other expenditure attributable to those projects is also being capitalised. Finance costs are also only capitalised during periods when exploration and evaluation activities are in progress. Finance costs incurred in respect of the Group's general borrowings are expensed in the profit and loss account as incurred. Any discount on deferred purchase consideration is added back to reflect the actual cash paid in respect of net assets acquired on acquisition of companies.

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 income 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.

Investments

Investments are valued at cost or, where there has been an impairment in value, at their recoverable amount. Investments in subsidiary companies involved in exploration and development are recorded at cost where the expected recovery of costs is considered probable.

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.

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.

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, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Taxation

Current tax is the expected tax payable or recoverable on the taxable profit or loss for the year, using rates enacted at the balance sheet 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 substantially enacted by the balance sheet 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, the Company has granted share options to some advisers. 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.

Notes to the condensed interim financial information

continued

2. Principal accounting policies continued

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 balance sheet 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.

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 cost of ongoing programmes to prevent and control pollution and to rehabilitate the environment is charged to the income statement 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).

3. 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 balance sheet 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 disposition of properties.

(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)

Generally, Russian VAT on construction costs has not been recoverable until construction is complete and production commences, although some amounts have been recovered since 2006. The directors anticipate that the VAT debtor of \$5,740,416 (2007 first half: \$4,948,316) will be recovered, however if the Group's projects do not proceed to production some VAT may be irrecoverable.

(d) Share-based payments

The Company makes equity-settled share-based payments to certain Group employees and advisors. 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.

4. Going concern

The Group has significant funding needs in order to finance the completion of the Asacha project, continue exploration at its properties and provide ongoing working capital.

In addition to the \$12.4 million raised through the equity placing completed in August 2008 as detailed in Note 12, the directors believe that total additional funding of \$27 million will be required to provide adequate financing for the Group until the Asacha mine is cash flow positive. The proceeds of the equity placing of \$12.4 million, together with \$1.6 million VAT recovered in August 2008, will be sufficient for the Group's funding requirements until December 2008. It is currently the intention of the Board to satisfy the forecast additional requirement of \$27 million through debt finance in respect of which negotiations continue with a Russian bank. 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.

Notwithstanding the material uncertainty related to the raising of additional finance which may cast significant doubt on the Group's ability to continue as a going concern, the directors believe that the necessary funds to provide adequate financing until the Asacha mine is cash flow positive can be raised as required and 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.

5. Segment information – Geographical

	Russia \$	UK \$	Total continuing operations \$	Total discontinued operations (Russia) \$	Total Group \$
Six months ended 30 June 2007					
Segment revenue	-	-	-	-	-
Segment operating loss	(979,134)	(1,025,659)	(2,004,793)	(418,266)	(2,423,059)
Six months ended 30 June 2008					
Segment revenue	-	-	-	-	-
Segment operating loss	(1,055,003)	(916,600)	(1,971,603)	-	(1,971,603)

The Group's operations are entirely focused on exploration and development activities within the Russian Federation, with its corporate head office in the UK. Whilst the directors believe that there is only one relevant class of business, they recognise that the risks and returns of operating within these two economic environments are significantly different and have accordingly presented the Group's results by geographical location.

Notes to the condensed interim financial information

continued

6. Property, plant and equipment

	Buildings \$	Plant and machinery \$	Motor vehicles \$	Office equipment and furniture \$	Assets under construction ^a \$	Total \$
Cost						
At 1 January 2007	1,013,001	2,077,054	1,155,298	554,397	20,275,473	25,075,223
Additions	57,989	107,859	-	77,444	878,460	1,121,752
Disposals	-	(1,403)	-	(8,537)	-	(9,940)
Discontinued operations	(315,902)	(938,295)	(747,755)	(157,368)	(360,885)	(2,520,205)
At 30 June 2007	755,088	1,245,215	407,543	465,936	20,793,048	23,666,830
Accumulated depreciation						
At 1 January 2007	(371,937)	(556,683)	(499,345)	(382,251)	-	(1,810,216)
Charge for period ^b	(80,557)	(104,240)	(97,564)	(44,141)	-	(326,502)
Disposals	-	415	-	7,289	-	7,704
Discontinued operations	124,737	389,952	340,540	114,260	-	969,489
At 30 June 2007	(327,757)	(270,556)	(256,369)	(304,843)	-	(1,159,525)
Net book value						
At 1 January 2007	641,064	1,520,371	655,953	172,146	20,275,473	23,265,007
At 30 June 2007	427,331	974,659	151,174	161,093	20,793,048	22,507,305
Cost						
At 1 January 2008	1,172,608	2,967,956	520,048	579,472	23,389,185	28,629,269
Additions	-	2,687,318	71,331	38,633	5,771,491	8,568,773
Disposals	-	-	-	(2,237)	-	(2,237)
At 30 June 2008	1,172,608	5,655,274	591,379	615,868	29,160,676	37,195,805
Accumulated depreciation						
At 1 January 2008	(405,374)	(347,722)	(343,446)	(291,851)	-	(1,388,393)
Charge for period ^b	(103,185)	(248,338)	(71,187)	(29,019)	-	(451,729)
Disposals	-	-	-	1,888	-	1,888
At 30 June 2008	(508,559)	(596,060)	(414,633)	(318,982)	-	(1,838,234)
Net book value						
At 1 January 2008	767,234	2,620,234	176,602	287,621	23,389,185	27,240,876
At 30 June 2008	664,049	5,059,214	176,746	296,886	29,160,676	35,357,571

a. Assets under construction at 30 June 2008 include \$20,637,207 for building construction, \$4,457,123 in relation to the construction of an access road and \$4,061,058 for plant and equipment at Asacha.

b. \$423,867 (2007 first half: \$267,862 of which \$118,293 related to discontinued activities) of the depreciation charge related to property, plant and equipment used on exploration and evaluation projects and was capitalised in exploration and evaluation costs in accordance with the Group's accounting policy.

Contracted commitments for capital purchases amount to \$4,621,460 (2007 first half: \$3,353,176).

7. Exploration and evaluation costs

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

	1 January 2007 \$	Additions \$	Disposals \$	30 June 2007 \$
Kamchatka – Asacha and Rodnikova	12,009,511	670,074	-	12,679,585
Krasnoyarsk – Veduga	15,843,762	1,622,532	(17,466,294)	-
Krasnoyarsk – Bogunay	1,946,696	400,319	(2,347,015)	-
	29,799,969	2,692,925	(19,813,309)	12,679,585
	1 January 2008 \$	Additions \$	Disposals \$	30 June 2008 \$
Kamchatka – Asacha and Rodnikova	14,128,780	1,069,668	-	15,198,448
	14,128,780	1,069,668	-	15,198,448

8. Borrowings

	30 June 2008 \$	30 June 2007 \$	31 December 2007 \$
Non-current	–	10,000,000	10,000,000
Current	6,000,000	–	–
	6,000,000	10,000,000	10,000,000

Borrowings were reclassified from Non-current to Current as explained in Note 10.

Movement in borrowings is analysed as follows:

	\$
Six months ended 30 June 2007	
At 1 January 2007	10,350,289
Increase in borrowings by discontinued operations	4,465,699
Advance on sale of subsidiaries	10,000,000
Repayment of advance upon completion of sale of subsidiaries	(10,000,000)
Discontinued operations	(4,815,988)
At 30 June 2007	10,000,000
Six months ended 30 June 2008	
At 1 January 2008	10,000,000
Repayment	(4,000,000)
At 30 June 2008	6,000,000

All borrowings were from AngloGold Ashanti Limited (AGA), a related party by virtue of its 29.79% holding at 30 June 2008 in the shares of the Company. Details of related party transactions are given in Note 10.

9. Provisions for liabilities and charges

	Legal claims provision \$	Environmental/ site restoration provision \$	Total \$
Six months ended 30 June 2007			
At 1 January 2007	–	200,489	200,489
Additional provisions	345,433	–	345,433
At 30 June 2007	345,433	200,489	545,922
Six months ended 30 June 2008			
At 1 January 2008	–	266,463	266,463
Additional provisions	–	25,881	25,881
At 30 June 2008		292,344	292,344

10. Related party transactions

There are no related party transactions other than those relating to major shareholder AngloGold Ashanti Limited, as detailed below:

Related party	Nature of transaction	Purchases during the 6 months to 30 June 2008 \$	Amount owing/ (owed) at 30 June 2008 \$	Purchases during the 6 months to 30 June 2007 \$	Amount owing/ (owed) at 30 June 2007 \$
AngloGold Ashanti	Technical services	–	997,852	214,530	997,852
	Loans (see Note 8)	(4,000,000)	6,000,000	14,465,699	10,000,000
	Loan interest	321,109	120,235	868,726	995,556
	Other services	–	(32,693)	(5,947)	(32,693)
		(3,678,891)	7,085,394	15,543,008	11,960,715

The Company reported on 25 February 2008 that the previously reported increase in the interest of UFG Asset Management (UFG) and its associates to 32.96% of the Company's shares constituted an Event of Change of Control (ECC) in respect of the \$10 million loan provided to TSG by AGA in June 2006 (the AGA loan). The AGA loan had been repayable in equal tranches, on the first and second anniversaries of the commencement of gold production at Asacha, and was convertible into TSG shares when the Company raised new equity, however as a result of the ECC the capital and accrued interest of the loan became immediately due and payable. Having repaid \$4 million and accrued interest, in total \$5.7 million, the Company and AGA agreed that the \$6 million remaining on the loan would be converted into TSG shares at the same time and on the same terms as the planned equity raising which the Company had announced on 22 May 2008. Details of the equity raising and loan conversion effected in August 2008 are given in Note 12.

Notes to the condensed interim financial information

continued

11. Contingent liabilities

In 2007 the Company (TSG) acquired one of the minority shareholdings in ZAO Trevozhnoye Zarevo (TZ), thereby increasing its interest in that company and the Asacha and Rodnikova projects to 95.03%. TSG and the remaining minority shareholder in TZ have agreed that TSG's purchase of its interest in TZ will be effected once TZ has received the required construction permit for dangerous objects.

12. Subsequent events

On 18 August 2008, following approval by TSG's shareholders of the necessary resolutions, the Company raised \$12.4 million (net of expenses) through a placing of 26,507,899 new ordinary shares at 25.5p per share to UFG Asset Management (UFG), two Directors (Alexander Doumnov and Peter Burnell) and other shareholders (the Placing). On the same day the Company's existing debt facilities, comprising \$6 million remaining on the loan provided to TSG by AngloGold Ashanti Limited (AGA) in June 2006 and \$2 million advanced to TSG by UFG on 17 July 2008, in aggregate \$8.2 million including accrued interest, were converted into new ordinary shares, also at 25.5p per share (the Conversion).

Shareholders also approved an increase in the Company's authorised share capital to £15,000,000 by the creation of an additional 50,000,000 ordinary shares.

As a result of the Placing and the Conversion, the Company's issued share capital increased to 84,913,031 ordinary shares. Following the Placing and Conversion, the Company was informed by UFG and AGA that their respective shareholdings had increased to 44,119,555 and 25,250,797 shares, representing 51.96% and 29.74% of the Company's issued share capital.

Notes

Notes

Directors and Advisers

Directors and Board Committees

Directors

Alexander Doumnov	Non-executive Chairman
Oleg Bagirov	Chief Executive Officer
Simon Olsen	Finance Director and Company Secretary
Peter Burnell	Non-executive
Boris Fedorov	Non-executive
Florian Fenner	Non-executive
Dmitry Khilov	Non-executive

Audit Committee

Alexander Doumnov
Peter Burnell
Dmitry Khilov

Remuneration Committee

Alexander Doumnov
Peter Burnell
Dmitry Khilov

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