



Trans-Siberian Gold

INTERIM REPORT 2009

Highlights



- **\$25 million loan facility for Asacha signed, first drawdown expected in October 2009**
- **Asacha on track for production in 4th quarter 2010**
- **\$3 million loan from major shareholder UFG**

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Chief Executive Officer's report

I am pleased to report our results for the six months to 30 June 2009 and further progress in the development of the Asacha gold project in Kamchatka, including the signing of an agreement with a Russian bank to provide \$25 million to bring the Asacha project into production.

Trans-Siberian Gold plc is in the exploration and development phase of its gold projects and therefore received no operating income in the period. Administrative expenses for the half year amounted to \$1.3 million compared to \$2.3 million for the corresponding period of 2008 (restated as a result of the capitalisation of borrowing costs in respect of the Asacha project in accordance with IAS 23) and \$4.3 million for 2008 as a whole.

Finance income was \$99,000 (2008 first half: \$361,000). Finance costs were \$13,000 (2008 first half: \$328,000, principally comprising interest on a loan from AngloGold Ashanti Limited (AGA) which was converted to equity in August 2008).

The loss for the period was \$4.1 million (2008 first half restated: \$1.7 million) including exchange losses of \$2.9 million (2008 first half exchange gain \$543,000).

Property, plant and equipment and capitalised exploration and evaluation costs at the Group's Kamchatka properties increased by \$1.4 million and \$392,000 respectively in the first half of 2009 (2008 first half restated: \$8.1 million and \$2.2 million respectively). Cash and cash equivalents reduced from \$4.5 million to \$1.8 million.

In May 2009 the Company's largest shareholder UFG Asset Management (UFG) agreed to provide the Company with bridging finance of up to \$3 million on commercial terms, while negotiations continued with several Russian banks regarding provision of debt finance for the Asacha project. \$2 million had been drawn down by 30 June 2009.

Asacha Project, Kamchatka Krai

In light of the financial constraints caused by the delayed negotiations in respect of bank financing as discussed in the Company's 2008 Annual Report, it was decided to maintain certain minimum economically/technically required activities in order to avoid damage to the site and to fulfil payment obligations. The funds remaining from the equity raising undertaken in August 2008, some cost reduction initiatives and the UFG loan have been sufficient to support minimum construction activities and to complete settlement for equipment and materials that were partially prepaid earlier.

At the site a short-term commissioning plan was modified to focus on major critical works.

Mine activities went on continuously from February 2009. By 1 September 2009, 561 metres of mine development and preparation works had been completed, corresponding to more than 5,500 m³ of mining. Overall extracted ore mined is about 37,000 tonnes.

A modular surface building, required for the mine's technical needs, was constructed at the mine site. The underground emergency alarm system and high voltage mining equipment were installed and the relevant cables laid; two underground transformer substations were also assembled. Underground activities also included installation of the necessary wooden and metal supports, fixing, bolting and shotcreting.

A chemical laboratory to determine gold grade in geologic samples was put into operation and the first 250 assay values were obtained.

The works at the plant site continued as well. By 1 September 2009 the concrete foundations of the plant building (concrete plate and column foundations) were 85% complete (100% under the technological part of the building, with foundation works for the administrative and office part of the plant building having started in August). Preparatory works for the equipment foundations concreting started. Sand and gravel are being produced at the site's crushing unit and concrete at its concrete plant.

Earth works at the tailings storage facility site started in July and soil removal at the fuel storage facility site in June 2009. The tailings storage facility hill ditch was prepared to catch and remove run-off waters.

Construction of some minor roads at the tailings facility site (for soil removal) and the road at the mine site to the second adit entrance is ongoing. Maintenance of the access road was undertaken and the quality of the access road cover improved significantly.

Activities were also focused on preparation of the storage facilities at site and the transit storage base at Thermalny. The plant metal frame was shipped and most of it delivered to site (60% of the metal parts are now at site, 20% at Thermalny and the remaining 20% is being delivered). All the vital facilities of the site were maintained and were operating as required; the camp's canteen was expanded and improved.

In August we received the detailed design for the power grid line and our specialists are now reviewing the drawings in order to optimise technical solutions and minimise equipment and construction costs.

Negotiations were held with potential suppliers and contractors in order to prepare contracts for the remaining equipment and materials and for undertaking specific works at the site.

The total capital cost of the Asacha project prior to commencement of production is now estimated at \$106.1 million, net of \$10.8 million VAT recoveries, compared to the June 2009 estimate of \$104.1 million. The latest estimate includes \$1.7 million in respect of mining and plant expenditure previously scheduled as post start up costs. The total project cost includes pre-commissioning mining costs of \$3.2 million, other pre-operating expenditure of \$29.0 million, "first fill" equipment spares and consumables of \$1.1 million and contingency of \$1.8 million.

Chief Executive Officer's report continued

At a gold price of \$750/oz, Life of mine ("LOM") cash costs on an all equity basis on total gold production of 590,000 oz are forecast at \$162/oz, before taking account of a \$18/oz credit from silver production. Cash costs including all royalties and taxes (in total \$65.0 million, net of VAT recoveries) on an all equity basis are forecast at \$273/oz. Total costs on the same basis, after depreciation of all capital expenditure (including \$7.7 million post start up) and pre-start up mining and other operating expenditure, are forecast at \$471/oz, giving a \$279/oz margin at a gold price of \$750/oz.

Actual expenditure on the project up to August 2009 amounted to \$83.6 million, net of \$5.2m VAT recovered. The remaining costs prior to the commencement of production are estimated at \$22.5 million, net of further VAT recoveries of \$5.6 million, comprising:

		\$ million
Capital expenditure	Mine and mining equipment and facilities	2.7
	Gold plant, site facilities and tailings storage (1st phase)	8.0
	Power supply and other infrastructure	6.7
	Contingency	1.8
	Total capital	19.2
Other costs	Pre-production mining, spares and consumables and other operating costs	8.9
		28.1
Less VAT recoveries		5.6
		22.5

A further \$7.7 million of capital expenditure will be incurred after the commencement of production (including \$3.4 million on mine development, \$3.6m on the plant, tailings storage and solid waste landfill and \$0.7m contingency).

In addition to the \$3 million UFG loan, we believe that total additional funding of \$25 million will be required to provide adequate financing for the Group until the Asacha mine is cash flow positive. During the period discussions took place with several Russian banks regarding project finance of \$25 million for Asacha. Two banks agreed to consider our loan application and the relevant procedures and negotiations continued during the third quarter. An agreement has now been signed with one of those banks for a three year \$25 million loan facility. We expect to satisfy the remaining conditions, including finalisation of security, to allow first drawdown of the facility within the next few weeks.

Rodnikova Project, Kamchatka Krai

No further geologic exploration works at the deposit were conducted. The pre-feasibility study (Techno-Economic Study of Deposit Development Conditions) required for the Russian State Commission for Reserves which approves the deposit reserves and issues relevant permits was developed. After it had discussed the study, the Commission provided the Company with some recommendations at the end of August. The final Report on Reserves is being developed by the Company's geologists, taking into account these recommendations, and the revised report will be presented by the end of the year.

Oleg Bagirov

29 September 2009

The information in this report relating to Asacha's mineral resources is based on information compiled by Michael O'Brien, a member of the Australasian Institute of Mining and Metallurgy, who 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. Mr O'Brien is a Qualified Person under AIM rules and consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Condensed consolidated balance sheet

at 30 June 2009

	Note	30 June 2009 unaudited \$000	30 June 2008 restated unaudited \$000	31 December 2008 audited \$000
Assets				
Non-current assets				
Property, plant and equipment	7	51,851	35,358	50,430
Exploration and evaluation costs	8	17,481	16,352	17,089
Taxes recoverable – value added tax		6,106	5,740	8,359
Total non-current assets		75,438	57,450	75,878
Current assets				
Inventories		-	-	-
Trade and other receivables		4,489	11,210	3,460
Cash and cash equivalents		1,836	6,694	4,549
Total current assets		6,325	17,904	8,009
Total assets		81,763	75,354	83,887
Liabilities				
Non-current liabilities				
Trade and other payables		-	-	-
Loans and borrowings	9	2,000	-	-
Provisions	10	254	292	254
Total non-current liabilities		2,254	292	254
Current liabilities				
Trade and other payables		3,140	2,862	3,158
Corporation tax liability		-	-	-
Employee benefits		-	-	-
Loans and borrowings	9	-	6,000	-
Provisions	10	-	-	-
Total current liabilities		3,140	8,862	3,158
Total liabilities		5,394	9,154	3,412
Total net assets		76,369	66,200	80,475
Capital and reserves attributable to equity holders of the Company				
Share capital		15,103	6,951	15,103
Share premium reserve		73,311	60,821	73,311
Retained earnings		(12,045)	(1,572)	(7,939)
Total equity		76,369	66,200	80,475

Restatement

The comparative amounts for the period ended 30 June 2008 have been changed from those which were reported in the 2008 interim statement. For more information, see Note 2.

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

Condensed consolidated statement of comprehensive income for the 6 months ended 30 June 2009

	Note	6 months to 30 June 2009 unaudited \$000	6 months to 30 June 2008 restated unaudited \$000	12 months to 31 December 2008 audited \$000
Revenue		-	-	-
Other operating income		7	-	-
Administrative expenses		(1,335)	(2,343)	(4,314)
Exchange differences on translating foreign operations		(2,864)	543	(3,571)
Loss from operations		(4,192)	(1,800)	(7,885)
Finance expense		(13)	(328)	(118)
Finance income		99	361	440
Exchange differences on financing activities		11	-	(345)
Loss before tax		(4,095)	(1,767)	(7,908)
Income tax (expense) refund		(11)	20	10
Loss for the period		(4,106)	(1,747)	(7,898)
Other comprehensive income		-	-	-
Total comprehensive income for the period	6	(4,106)	(1,747)	(7,898)
Loss attributable to:				
Owners of the parent		(4,106)	(1,747)	(7,898)
Minority interest		-	-	-
		(4,106)	(1,747)	(7,898)
Total comprehensive income attributable to:				
Owners of the parent		(4,106)	(1,747)	(7,898)
Minority interest		-	-	-
		(4,106)	(1,747)	(7,898)
Loss per share (expressed in cents per share)				
Basic and diluted		(4.84)	(4.24)	(15.45)

There is no difference between the loss before taxation and the total comprehensive income for the financial period stated above and their historical cost equivalents.

Restatement

The comparative amounts for the period ended 30 June 2008 have been changed from those which were reported in the 2008 interim statement. For more information, see Note 2.

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Condensed consolidated statement of changes in equity for the 6 months ended 30 June 2009 (unaudited)

	Share Capital \$000	Share Premium \$000	Restated Retained earnings \$000	Total equity \$000
Balance at 1 January 2008	60,821	6,951	88	67,860
Dividends	-	-	-	-
Total comprehensive income for the period	-	-	(1,747)	(1,747)
Value of share-based payments	-	-	87	87
Balance at 30 June 2008	60,821	6,951	(1,572)	66,200
Issue of share capital	12,635	8,152	-	20,787
Issuing costs	(145)	-	-	(145)
Dividends	-	-	-	-
Total comprehensive income for the period	-	-	(6,151)	(6,151)
Value of share-based payments	-	-	(216)	(216)
Balance at 31 December 2008	73,311	15,103	(7,939)	80,475
Dividends	-	-	-	-
Total comprehensive income for the period	-	-	(4,106)	(4,106)
Value of share-based payments	-	-	-	-
Balance at 30 June 2009	73,311	15,103	(12,045)	76,369

Restatement

The comparative amounts for the period ended 30 June 2008 have been changed from those which were reported in the 2008 interim statement. For more information, see Note 2.

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

Condensed consolidated cash flow statement for the 6 months ended 30 June 2009

Note	6 months to 30 June 2009 unaudited \$000	6 months to 30 June 2008 restated unaudited \$000	12 months to 31 December 2008 audited \$000
Cash flows from operating activities			
Continuing operations			
Loss for the period	(4,106)	(1,747)	(7,898)
Adjustments for:			
Depreciation	781	451	1,138
Depreciation charged to deferred costs	(751)	(424)	(1,076)
Foreign exchange losses	-	-	-
Finance (income) expenses - net	(99)	(258)	23
Share based payments	-	87	(129)
Corporation tax (refund) expense	11	(20)	(10)
Gain on sale of property plant and equipment	-		
Cash flows from operating activities before changes in working capital and provisions	(4,164)	(1,911)	(7,952)
Increase (decrease) in trade and other receivables	1,300	(1,440)	(5,460)
Increase (decrease) in inventories	-	-	-
Decrease (increase) in trade and other payables	708	620	467
Decrease (increase) in provisions and employee benefits	-	(26)	12
Cash used in operations	(2,156)	(2,757)	(12,933)
Corporation tax paid	(6)	(8)	2
Interest paid on borrowings	(13)	(812)	(814)
Discontinued operations	-	-	(2)
Net cash flows from operating activities	(2,175)	(3,577)	(13,747)
Investing activities			
Purchase of property, plant and equipment (PPE)	(2,462)	(13,178)	(19,265)
Proceeds from sale of PPE	94	8	-
Purchase of exploration and evaluation assets	(249)	(566)	(630)
Interest received - third party	65	378	456
Net cash used in investing activities	(2,552)	(13,358)	(19,439)
Financing activities			
Proceeds from convertible debt	-	-	2,000
Proceeds from issuance of ordinary shares, net of expenses	-	-	12,450
Proceeds from bank borrowings	-	-	-
Proceeds from (repayment of) long term borrowings	2,000	(4,000)	(4,000)
Net cash generated from (used in) financing activities	2,000	(4,000)	10,450
Net decrease in cash and cash equivalents	(2,727)	(20,935)	(22,736)
Cash and cash equivalents at beginning of period	4,549	27,630	27,630
Exchange gains on cash and cash equivalents	12	(1)	(345)
Cash and cash equivalents at end of period	1,836	6,694	4,549

Restatement

The comparative amounts for the period ended 30 June 2008 have been changed from those which were reported in the 2008 interim statement. For more information, see Note 2.

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

Unaudited notes forming part of the condensed consolidated interim financial information for the period ended 30 June 2009

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 Company's shares are traded on the Alternative Investment Market (AIM) of the London Stock Exchange.

This condensed consolidated interim financial information was approved by the Board on 29 September 2009.

The interim financial information for the six months ended 30 June 2009 and 30 June 2008 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 2008 has been derived from the statutory financial statements for that period. Statutory accounts for the year ended 31 December 2008 were approved by the Board of directors on 22 June 2009 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 2009 which will be prepared in accordance with IFRS as adopted by the EU.

Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2009 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 2008.

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 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 2009:

- IFRS 8, *Operating segments*, 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. Management do not foresee any changes to the Group's geographical or business segments.
- IAS 23 (Amendment), *Borrowing costs*, 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 is removed. The Group early adopted IAS 23 (Amended) in its 2008 financial statements using 27 June 2006 as the date of transition and restated prior period information to apply the Standard to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. This change resulted in the capitalisation of \$280,459 interest in 2008 (in Exploration and evaluation costs), with a prior year adjustment of \$928,925.
- Amendment to IAS 1, *Presentation of financial statements: A Revised Presentation* aims to improve the ability of users of financial statements to analyse and compare information in those statements.
- 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. Management do not expect application of the amendment to have a significant impact.
- Amendments to IAS 32, *Financial instruments: Presentation*, and IAS 1, *Presentation of financial statements: Puttable financial instruments and obligations arising on liquidation*. Management do not expect the amendments to the standards to have a significant impact.
- The IASB issued 'Improvements to IFRSs' on 22 May 2008, which comprises a collection of amendments to IFRSs, primarily effective for annual periods beginning on or after 1 January 2009. The directors do not expect these amendments to have a significant effect on the financial statements.

b) Standards, amendments and interpretations effective in 2009 but not relevant for the Group:

- IFRIC 13, *Customer loyalty programmes*, effective for annual periods beginning on or after 1 January 2009..
- IFRIC 15, *Agreements for the Construction of Real Estate*, effective for annual periods beginning on or after 1 January 2009.

2. Principal accounting policies continued

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

- 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*. The Amendment is effective for annual periods ending on or after 30 June 2009 but has not yet been endorsed by the EU.
- 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.
- 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.
- 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 Group will apply the revised standard from 1 January 2010.
- 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. The Group will apply the Interpretation from 1 January 2010.
- 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. The Group will apply the Interpretation from 1 January 2010 subject to endorsement by the EU.
- The IASB issued '*Improvements to IFRSs (2010)*' on 16 April 2009, clarifying the requirements of IFRSs and eliminating inconsistencies within and between Standards. The Group will apply the amendments from 1 January 2010 subject to endorsement by the EU. Management do not expect application of the amendments to have a significant impact.
- Amendments to IFRS 2, *Group Cash-settled Share-based Payment Transactions* clarifies that where a parent company 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 Group will apply the Interpretation from 1 January 2010 subject to endorsement by the EU.

d) Interpretation that is not yet effective and not relevant for the Group:

IFRIC 18, *Transfer of Assets from Customer*, effective for annual periods beginning on or after 1 January 2009, but not yet endorsed by the EU. Management do not expect the interpretation to be relevant for the Group.

Basis of consolidation

The consolidated financial information of the Group includes 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.

(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. The directors have determined that the Group operates primarily in one business segment, gold exploration and development activities, and in two geographical segments: Russia and the United Kingdom.

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. In 2008 the Group early adopted IAS 23 (Amendment), *Borrowing costs*, which 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. Finance costs incurred in respect of the Group's general borrowings are expensed in the income statement 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 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.

Business combinations

The consolidated financial statements incorporate the results of the business combinations using the acquisition method of accounting. In the consolidated balance sheet, 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 income statement from the date on which control is obtained. 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.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

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 where the expected recovery of the amount recognised 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. Compound financial instruments are split into their debt and equity components.

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 period 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.

2. Principal accounting policies continued

Taxation

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

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. 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 basis on which the Group estimates its ore reserves and mineral resources derives from 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 disposal 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 \$3,049,147 (2008 first half: \$5,740,416) 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. Loss per share

The calculation of basic and diluted loss per share has been based on the loss for the period of \$4,105,863 (2008 first half restated: \$1,747,001) and the weighted average number of shares being 84,913,031 ordinary shares issued for the period ended 30 June 2009 (2008 first half: 41,163,949)

5. 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.

The directors believe that total additional funding of \$25 million will be required to provide adequate financing for the Group until the Asacha mine is cash flow positive. It is currently the intention of the Board to satisfy that requirement through debt finance in respect of which an agreement has now been signed with a Russian bank. Drawdown of the \$25 million loan remains subject to the satisfaction of various conditions, including the finalisation of security, which are expected to be completed during October 2009. 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 uncertainty related to satisfaction of the conditions precedent to first drawdown of the loan which may cast doubt on the Group's ability to continue as a going concern, the directors believe that those conditions will be satisfied and that the loan will provide adequate financing until the Asacha mine is cash flow positive. Accordingly the directors 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.

6. Segment information - Geographical

	Russia \$000	UK \$000	Total Group \$000
Six months ended 30 June 2008 restated			
Segment revenue	-	-	-
Segment comprehensive income	(830)	(917)	(1,747)
Six months ended 30 June 2009			
Segment revenue	-	-	-
Segment comprehensive income	(3,664)	(442)	(4,106)

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.

7. Property, plant and equipment

	Buildings \$000	Plant and machinery \$000	Motor vehicles \$000	Office equipment and furniture \$000	Assets under construction ^a \$000	Total \$000
Cost						
At 1 January 2008	1,173	2,967	520	579	23,390	28,629
Additions	-	2,688	71	39	5,771	8,569
Disposals	-	-	-	(2)	-	(2)
Discontinued operations	-	-	-	-	-	-
At 30 June 2008	1,173	5,655	591	616	29,161	37,196

Accumulated depreciation

At 1 January 2008	(406)	(347)	(343)	(292)	-	(1,388)
Charge for period ^b	(103)	(249)	(71)	(29)	-	(452)
Disposals	-	-	-	2	-	2
Discontinued operations	-	-	-	-	-	-
At 30 June 2008	(509)	(596)	(414)	(319)	-	(1,838)

Net book value

At 1 January 2008	767	2,620	177	287	23,390	27,241
At 30 June 2008	664	5,059	177	297	29,161	35,358

Cost

At 1 January 2009	1,188	6,423	620	637	44,086	52,954
Additions	-	-	-	112	2,167	2,279
Disposals	-	(16)	(52)	(87)	(23)	(178)
Reclassifications	39	638	757	9	(1,443)	-
At 30 June 2009	1,227	7,045	1,325	671	44,787	55,055

Accumulated depreciation

At 1 January 2009	(609)	(1,062)	(500)	(353)	-	(2,524)
Charge for period ^b	(81)	(533)	(136)	(31)	-	(781)
Disposals	-	6	9	86	-	101
At 30 June 2009	(690)	(1,589)	(627)	(298)	-	(3,204)

Net book value

At 1 January 2009	579	5,361	120	284	44,086	50,430
At 30 June 2009	537	5,456	698	373	44,787	51,851

- Assets under construction at 30 June 2009 comprise \$4,574,073 for building construction, \$34,478,089 for plant and equipment at Asacha, \$5,729,446 in relation to the construction of an access road and \$5,316 for infrastructure at Rodnikova.
- \$751,337 (2008 first half: \$423,867) 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 \$1,800,000 (2008 first half: \$4,621,460).

8. Exploration and evaluation costs

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

	1 January 2008 \$000	Additions \$000	Disposals \$000	30 June 2008 \$000
Kamchatka – Asacha and Rodnikova - restated	15,058	1,294	-	16,352
	15,058	1,294	-	16,352
	1 January 2009 \$000	Additions \$000	Disposals \$000	30 June 2009 \$000
Kamchatka – Asacha and Rodnikova	17,089	392	-	17,481
	17,089	392	-	17,481

9. Borrowings

	30 June 2009 \$000	30 June 2008 \$000	31 December 2008 \$000
Non-current	2,000	-	-
Current	-	6,000	-
	2,000	6,000	-

Movement in borrowings is analysed as follows:

	\$000
Six months ended 30 June 2008	
At 1 January 2008	10,000
Repayment	(4,000)
At 30 June 2008	6,000

Six months ended 30 June 2009	
At 1 January 2009	-
Additions	2,000
At 30 June 2009	2,000

All borrowings during the first half of 2009 were from UFG Asset Management, a related party by virtue of its 51.64% holding at 30 June 2009 in the shares of the company. All borrowings during the equivalent period in 2008 were from AngloGold Ashanti Limited, 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 11.

10. Provisions

	Legal claims provision \$000	Environmental/ site restoration/ provision \$000	Total \$000
Six months ended 30 June 2008			
At 1 January 2008	-	266	266
Additional provisions	-	26	26
At 30 June 2008	-	292	292
Six months ended 30 June 2009			
At 1 January 2009	-	254	254
Additional provisions	-	-	-
At 30 June 2009	-	254	254

11. Related party transactions

There are no related party transactions other than those relating to 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 6 months to 30 June 2009 \$000	Amount owing/ (owed) at 30 June 2009 \$000	Purchases during the 6 months to 30 June 2008 \$000	Amount owing/ (owed) at 30 June 2008 \$000	Purchases during the 12 months to 31 December 2008 \$000	Amount owing/ (owed) at 31 December 2008 \$000
AGA	Technical services	-	998	-	998	-	998
	Loans (see Note 9)	-	-	(4,000)	6,000	-	-
	Loan interest	-	-	321	120	378	-
	Other services	-	-	-	(33)	-	(33)
		-	998	(3,679)	7,085	378	965
UFG	Loan	2,000	2,000	-	-	2,000	-
	Loan interest	13	13	-	-	21	-
		2,013	2,013	-	-	2,021	-
SIGMA	Equipment rent	4	-	-	-	128	-
		4	-	-	-	128	-
		2,017	3,011	(3,679)	7,085	2,527	965

On 27 May 2009 the Company's largest shareholder UFG Asset Management (UFG) agreed to provide the Company with bridge finance of up to \$3 million on commercial terms. 50% of the loan is repayable on the earlier of the first anniversary of the commencement of gold production at Asacha and 30 September 2011, the balance on the earlier of the second anniversary of first gold production and 30 September 2012. \$2 million had been drawn down by 30 June 2009.

If the Company raises equity during the term of the loan, UFG may convert any part of the outstanding loan into TSG shares at the same time and price per share as that equity raising. UFG also has an option, 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.

SIGMA is a gold focussed exploration company, with assets held in the Kamchatka Krai peninsula in Far East Russia, in which UFG held a majority interest until early 2008. Two of the company's directors, Messrs Doumnov and Khilov are directors of SIGMA. One of the Company's directors, Mr Bagirov was a director of SIGMA until 30 June 2009.

12. 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.

13. Subsequent events

During the third quarter of 2009, negotiations continued with two Russian banks regarding project finance to bring the Asacha mine into production. In September 2009 an agreement was signed with a Russian bank for a three year loan facility of \$25 million. It is expected that the remaining conditions, including finalisation of security, will be satisfied to allow first drawdown of the facility during October 2009.

Notes

Notes

Directors and Advisers

Directors and Board Committees

Directors

Alexander Doumnov	Non-executive Chairman
Oleg Bagirov	Chief Executive Officer
Dmitry Khilov	Deputy 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
Peter Burnell
Dmitry Khilov

Remuneration Committee

Charles Ryan
Peter Burnell
Dmitry Khilov

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