INVESTING IN RUSSIAN GOLD

Trans-Siberian Gold plc

INTERIM REPORT 2016

Highlights

- **Profit before tax $6.6 million (first half 2015: $3.1m)**
- **Refined gold production 18,680 oz., 5.3% higher than first half 2015**
- **Asacha plant processed average 13,441 tonnes per month, 7.5% above target**
- **Cost of sales $685/oz. and cash costs $393/oz., 3.8% and 1.8% lower than first half 2015**
- **$1.0 million loan instalments prepaid**

Contents

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

Chief Executive's Operating Review

Our results for the six months to 30 June 2016 included increases of 1.2% and 5.3% respectively in gold in dore and refined gold production compared to the first half of 2015.

Revenue from the sale of 18,864 oz. of refined gold and 22,743 oz. of refined silver (2015 first half: 17,714 oz. and 23,840 oz. respectively) was $23.2 million and $350,000 respectively (2015 first half: $21.1 million and $373,000). Average realised prices were $1,231/oz. gold and $15/oz. silver (2015 first half: $1,192/oz. and $16/oz.). Cost of sales per oz. gold, net of credits from silver sales revenue, was $685 (2015 first half: $712). Cash cost per oz. gold including depletion, net of the silver credit and excluding royalties, was $436 (2015 first half: $489). Cash cost per oz. gold excluding depletion, net of the silver credit and excluding royalties, was $393 (2015 first half: $400). These significant reductions reflect the impact of the further depreciation of the Russian rouble against the US dollar which commenced in the second half of 2014.

No additional impairment provision (2015 first half: $1.3 million) has been recognised against the ore stockpile, reflecting the difference between its expected net realisable value at a gold price of $1,200/oz. (2015 first half: $1,106/oz.) and cost, including processing, refining and royalties.

Administrative expenses for the half year amounted to $592,000 in the UK and $2.0 million in Russia, in aggregate $2.6 million compared to $482,000 and $2.0 million respectively, in aggregate $2.5 million, for the corresponding period of 2015.

Finance income was $74,000 (2015 first half: $212,000). Finance costs were $1.1 million (2015 first half: $1.3 million).

The profit for the period was $5.8 million (2015 first half: $1.3 million) net of exchange losses of $74,000 (2015 first half exchange loss: $589,000). The profit for the period included a tax charge of $804,000 (2015 first half: $1.9 million).

Ore stocks are stated net of impairment provisions of $10.3 million (2015 first half: $10.9 million, representing the difference between the ore stockpile's expected net realisable value at a gold price of $1,200/oz. (2015 first half: $1,106/oz.) and cost, including processing, refining and royalties.

Cash and cash equivalents increased from $12.6 million at 31 December 2015 to $18.0 million.

Borrowings reduced from $20.2 million at 31 December 2015 to $19.7 million, reflecting a further repayment of the project finance facilities provided by Sberbank to the Company's subsidiary ZAO Trevozhnoye Zarevo (TZ) for the development of Asacha. In July 2016, TZ prepaid $1.0 million which had been due in December 2016.

Asacha mine, Kamchatka Krai

In the six months to 30 June 2016, mine development and preparation works, by-product extraction works and exploration works comprised 2,101 metres with more than 87,000 tonnes of ore extracted.

In the reporting period, the Asacha plant processed an average 13,441 tonnes of ore per month (2015 first half: 13,252 tonnes per month). The average processed gold grade was 7.74 g/t (2015 first half: 7.80 g/t). The average gold grade in the first two months of the second quarter exceeded 8.5 g/t but planned ore extraction from a lower grade stope in June reduced the average grade for the quarter to 8.11 g/t. Gold recovery averaged 95.13% during the reporting period (2015 first half: 95.6%).

Underground mining activity at Asacha in July was affected by an unexpected rockfall. The need to install additional roof supports reduced the amount of new ore cut during that month. The consequential impact on July's production of processing a higher proportion of lower grade stockpile ore was partially offset by increasing plant throughput to 14,137 tonnes, 13% above the planned level. In August, the plant processed 13,830 tonnes; that month's production of 2,630 oz. was 10% above target. Gold production was also 12% above target in the first half of September.

Mine preparatory activities have commenced at level 150 m. In August, stoping commenced at level 167 m. Level 100 m is now expected to be reached in March 2017, with stoping starting there by mid-2017, enabling the delivery each month of up to 12,500 tonnes of high quality stoping ore to the plant.

Chief Executive's Operating Review - continued

Mining and production at Asacha in the first half of 2016 is shown in the following table.

		1st quarter 2016	2nd quarter 2016	1st half 2016	July / August 2016	January / August 2016	January / August 2015	1st half 2015
Mine development	(metres)	1,115	986	2,101	840	2,941	2,671	1,838
Ore extracted	(tonnes)	44,067	43,281	87,348	27,951	115,299	116,559	88,133
Ore processed	(tonnes)	40,300	40,436	80,646	27,967	108,613	107,183	79,513
Average gold grade	(g/t)	7.38	8.11	7.74	5.84	7.25	7.70	7.80
Average silver grade	(g/t)	10.75	12.96	11.86	12.07	11.91	12.42	13.11
Gold recovery rate	(%)	94.95	95.30	95.13	95.24	95.15	95.48	95.60
Silver recovery rate	(%)	77.36	82.45	80.17	82.59	80.81	76.14	75.96
Gold in dore	(oz.)	9,202	10,109	19,311	5,078	24,389	25,367	19,088
Silver in dore	(oz.)	10,818	14,244	25,062	9,128	34,190	32,980	25,594
Gold refined	(oz.)	9,343	9,337	18,680	3,987	22,667	24,322	17,746
Silver refined	(oz.)	11,542	11,869	23,411	6,693	30,104	31,505	23,420

Personnel
As at 30 June 2016, 592 personnel were employed in Kamchatka (31 December 2015: 568).

Events after the reporting date
On 5 September 2016, as discussed in Notes 15 and 17 to the financial statements, the Company announced a proposed capital reduction, whereby, subject to the approval of the Company's shareholders and the High Court of Justice in England and Wales, the share premium account would be cancelled in order to create distributable profits. The cancellation was approved by the Company's shareholders on 29 September 2016.

Dmitry Khilov

29 September 2016

The information in this report relating to Asacha's mineral resources is based on information compiled by Michael Stewart, 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 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Stewart is a Qualified Person as defined by the 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 Statement of Financial Position at 30 June 2016

	Note	**30 June 2016 unaudited $000**	30 June 2015 unaudited $000	31 December 2015 audited $000
Assets				
Non-current assets				
Mining properties	6	**27,644**	25,636	27,048
Property, plant and equipment	7	**47,248**	50,343	50,288
Deferred exploration and evaluation costs	8	**1,643**	1,643	1,643
Inventories	9	**6,358**	6,600	4,874
Deferred tax asset		**536**	1,617	1,341
Total non-current assets		**83,429**	85,839	85,194
Current assets				
Inventories	9	**5,300**	7,274	5,782
Trade and other receivables		**3,884**	2,308	1,661
Cash and cash equivalents		**17,996**	7,633	12,643
Total current assets		**27,180**	17,215	20,086
Total assets		**110,609**	103,054	105,280
Liabilities				
Non-current liabilities				
Loans and borrowings	10	**12,526**	19,218	16,596
Deferred tax liabilities		**-**	-	-
Provisions	11	**826**	617	723
Total non-current liabilities		**13,352**	19,835	17,319
Current liabilities				
Trade and other payables		**3,351**	3,899	3,405
Borrowings	10	**7,203**	1,597	3,637
Total current liabilities		**10,554**	5,496	7,042
Total liabilities		**23,906**	25,331	24,361
Total net assets		**86,703**	77,723	80,919
Capital and reserves attributable to owners of the Company				
Share capital	15	**18,988**	18,988	18,988
Share premium	15	**89,520**	89,520	89,520
Retained deficit		**(21,805)**	(30,785)	(27,589)
Total equity		**86,703**	77,723	80,919

Condensed Consolidated Statement of Comprehensive Income - for the 6 months ended 30 June 2016

	Note	**6 months to 30 June 2016 unaudited $000**	6 months to 30 June 2015 unaudited $000	12 months to 31 December 2015 audited $000
Revenue	12	**23,570**	21,487	44,059
Cost of sales	13	**(13,275)**	(12,989)	(28,777)
Ore stock inventory impairment		**-**	(1,297)	(722)
Gross profit		**10,295**	7,201	14,560
Administrative expenses		**(2,568)**	(2,529)	(5,562)
Other income		**7**	173	86
Net foreign exchange differences on operating activities		**(74)**	(588)	(316)
Profit from operations		**7,660**	4,257	8,768
Finance expense		**(1,146)**	(1,328)	(2,461)
Finance income		**74**	212	301
Net foreign exchange differences on financing activities		**-**	(1)	6
Profit before tax		**6,588**	3,140	6,614
Income tax charge		**(804)**	(1,865)	(2,143)
Profit for the period		**5,784**	1,275	4,471
Total comprehensive income for the period		**5,784**	1,275	4,471
Profit for the period attributable to:				
Owners of the parent company		**5,784**	1,275	4,471
Profit for the period		**5,784**	1,275	4,471
Total comprehensive income for the period attributable to:				
Owners of the parent company		**5,784**	1,275	4,471
Profit for the period		**5,784**	1,275	4,471
Profit per share attributable to the owners of the parent company (expressed in cents)				
- basic and diluted	14	**5.26**	1.16	4.06

Condensed Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2016

	Attributable to owners of the Company			
	Share capital $000	Share premium $000	Retained deficit $000	**Total equity $000**
At 1 January 2015	**18,988**	**89,520**	**(32,060)**	**76,448**
Total comprehensive income for the period	-	-	1,275	1,275
At 30 June 2015	**18,988**	**89,520**	**(30,785)**	**77,723**
Total comprehensive income for the period	-	-	3,196	3,196
At 31 December 2015	**18,988**	**89,520**	**(27,589)**	**80,919**
Total comprehensive income for the period	-	-	**5,784**	**5,784**
At 30 June 2016	**18,988**	**89,520**	**(21,805)**	**86,703**

Condensed Consolidated Statement of Cash Flows for the 6 months ended 30 June 2016

	6 months to 30 June 2016 unaudited $000	6 months to 30 June 2015 unaudited $000	12 months to 31 December 2015 audited $000
Cash flows from operating activities			
Profit for the period	**5,784**	1,275	4,471
Adjustment for:			
Mining properties depletion charged to income statement	**826**	1,877	1,840
Depreciation of property, plant and equipment charged to income statement	**3,475**	2,694	5,841
Finance expense – net	**1,072**	1,117	2,154
Impairment of ore stocks	**-**	1,297	722
Corporation tax charge	**804**	1,865	2,143
Loss on sale of property, plant and equipment	**10**	-	24
Cash flows from operating activities before changes in working capital and provisions	**11,971**	10,125	17,195
Increase in inventories	**(467)**	(2,948)	(317)
Increase in trade and other receivables	**(2,109)**	(779)	(240)
(Decrease) increase in trade and other payables	**(69)**	799	390
Cash generated from operations	**9,326**	7,197	17,028
Corporation tax received	**-**	-	(8)
Interest paid on borrowings	**(1,146)**	(1,503)	(2,636)
Net cash flows generated from operating activities	**8,180**	5,694	14,384
Investing activities			
Mining and mine development	**(1,518)**	(361)	(1,523)
Purchase of property, plant and equipment (PPE) and exploration/evaluation assets	**(818)**	(831)	(2,430)
Proceeds from sale of PPE	**-**	-	-
Interest received	**74**	212	301
Net cash used in investing activities	**(2,262)**	(980)	(3,652)
Financing activities			
Repayment of bank borrowings	**(504)**	(4,140)	(5,143)
Repayment of short term borrowings	**-**	(891)	(891)
Repayment of finance leases	**(61)**	-	(12)
Net cash used in financing activities	**(565)**	(5,031)	(6,046)
Net increase (decrease) in cash and cash equivalents	**5,353**	(317)	4,686
Cash and cash equivalents at beginning of the period	**12,643**	7,951	7,951
Exchange (loss) gain on cash and cash equivalents	**-**	(1)	6
Cash and cash equivalents at end of the period	**17,996**	7,633	12,643

Unaudited notes forming part of the condensed consolidated interim financial information for the period ended 30 June 2016

1. General information

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

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

This condensed consolidated interim financial information was approved by the Board on 29 September 2016.

The interim financial information for the six months ended 30 June 2016 and 30 June 2015 is unreviewed and unaudited and does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006. The comparative financial information for the year ended 31 December 2015 has been derived from the statutory financial statements for that year. Statutory accounts for the year ended 31 December 2015 were approved by the Board of directors on 8 June 2016 and filed with the Registrar of Companies. The Independent Auditors' Report on those accounts was unqualified.

2. Going concern

The Group's operations are cash generative and 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. Regular cash forecasts are reviewed to assess the potential impact of factors such as changes in commodity prices, production rates and the timing of capital expenditure.

The Group has reported an operating profit for the period of $7.7 million, which is stated after significant non-cash depreciation and impairment charges. The Directors have reviewed the Group's cash flow forecast for the period to 31 December 2017 and they believe that, taking account of reasonably possible changes in commodity prices, trading performance and expenditure and scheduled repayment of bank loan facilities, the Group has adequate resources to continue in operational existence for the foreseeable future, wherefore the directors are confident that the Group will continue as a going concern and have prepared the financial statements on that basis.

3. 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 2016 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 2016 has been prepared 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 does not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the annual report and accounts for 2015.

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

The estimates and underlying assumptions are reviewed on an on-going 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.

The same accounting policies, presentation and methods of computation are followed in this condensed consolidated interim financial information as were applied in the Group's latest annual audited financial statements except that, in the current financial year, the Group has adopted a number of new or revised Standards and interpretations. However, none of these has had a material impact on the Group's reporting.

None of the IFRS and IFRIC amendments or interpretations issued by the IASB since the publication of the latest annual report is expected to have a material impact on the Group.

Basis of consolidation

The consolidated financial statements of the Group include the accounts of Trans-Siberian Gold plc and its subsidiaries. Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. 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.

3. Principal accounting policies – continued

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

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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. Foreign exchange gains and losses resulting from the translation of cash, cash equivalents and borrowings denominated in foreign currencies are shown as financing activities; all other foreign exchange gains and losses are shown as operating activities.

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

The operating results of each of the geographical segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance. The Group has one operating segment in Russia which has production, exploration and development activities. The Group's activities in the United Kingdom are of an administrative and corporate nature and do not form part of the operating segment.

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

Buildings – 3-20 years
Motor vehicles – 4-7 years
Plant and machinery – 4-12 years
Office furniture and equipment – 3-5 years

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

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

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

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

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.

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

A project's deferred exploration and evaluation expenditure is transferred to non-current mining assets when the decision to proceed to the development stage of that project is taken.

Mining properties
Once a project reaches the stage of commercial production, the capitalised exploration and evaluation expenditure, other than that on buildings, plant and machinery and equipment, related to that project is transferred to tangible assets as mining properties.

Mining properties are depleted over the estimated life of Asacha's Main Zone resource on a 'unit of production' basis.

Commercial resources are measured and indicated resources. Changes in commercial resources affecting unit of production calculations are dealt with prospectively over the revised remaining resources.

Impairment
The carrying amount of the Group's non-current assets is compared to the recoverable amount of the assets whenever events or changes in circumstances indicate that the net book value may not be recoverable. The recoverable amount is the higher of value in use and the fair value less costs to sell.

Value in use is estimated by reference to the net present value of expected future cash flows of the relevant cash generating unit. 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.

If the recoverable amount is less than the carrying amount of an asset, an impairment loss is recognised. The revised carrying amounts are amortised in line with the Group's accounting policy.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. The reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the prior reporting periods.

Financial assets
The Group classifies all of its financial assets as loans and receivables which comprise trade and other receivables and cash and cash equivalents.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the consolidated income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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 – for the purpose of the statement of cash flows - bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the consolidated statement of financial position.

Financial liabilities
The Group classifies all of its financial liabilities as other financial liabilities which include trade payables, other short-term monetary liabilities and bank borrowings.

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Inventories
Raw materials and consumables, which consist of fuel and materials used in mining operations, spare parts and tools for development activities are initially recognised at cost, and subsequently valued at the lower of cost and net realisable value.

Stockpiles comprise ore containing gold and are valued at the lower of weighted average cost (including direct labour costs and related overheads) and net realisable value (using assay data to estimate the amount of gold contained in the stockpiles, adjusted for expected gold recovery rates).

3. Principal accounting policies – continued

Inventories - continued

Finished goods (comprising refined gold and silver) and work in progress (including gold in circuit and gold dore) are stated at the lower of weighted average cost and net realisable value. Cost includes direct materials, direct labour costs and production overheads, including depreciation and depletion of relevant property, plant and equipment and mining properties.

Net realisable value represents the estimated selling price less all expected costs to completion and costs to be incurred in selling and distribution.

Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Group's ordinary shares are classified as equity instruments.

Revenue

The Group has entered into contracts for the sale of refined gold and silver. Revenue arising from sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards have been transferred to the customer and collection of the sale price is reasonably assured.

Taxation

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

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

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

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

Share-based payment transactions

The Company makes equity-settled share-based payments to certain Group employees under the terms of its employee share option scheme. The fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity by way of a credit to retained earnings.

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

Defined contribution personal pension plan

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

Provisions

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

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

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

Determination of ore reserves

The Group estimates its ore reserves and mineral resources based on information compiled by Competent Persons as defined in accordance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC code).

4. Critical accounting estimates and judgements

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

Use of estimates and assumptions

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

The more significant areas requiring the use of management estimates and assumptions relate to mineral resources 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; deferred taxation; and contingencies.

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) Mining properties

The recoverability of the amounts shown in the Group statement of financial position in relation to mining properties (and also the carrying value of the Company's investments in its subsidiaries) are dependent upon compliance with the terms of the relevant mineral rights licences, extension of the terms of those licences beyond their current expiry dates, the political, economic and legislative stability of the regions in which the Group operates, the Group's ability to maintain the necessary financing to fulfil its obligations as they arise, the successful extraction of the defined mineral resources and the future profitable production or proceeds from the disposal of properties.

b) Deferred exploration and evaluation costs

The recoverability of the amounts shown in the Group statement of financial position in relation to deferred exploration and evaluation expenditure (and also the carrying value of the Company's investments in its subsidiaries) are dependent upon the discovery of economically recoverable reserves, continuation of the Group's interests in the underlying mining claims, the political, economic and legislative stability of the regions in which the Group operates, compliance with the terms of the relevant mineral rights licences, extension of the terms of those licences beyond their current expiry dates, the Group's ability to obtain the necessary financing to fulfil its obligations as they arise and the future profitable production or proceeds from the disposal of properties.

c) Ore stocks

The recoverability of the amounts shown in the Group statement of financial position in relation to ore stocks is dependent on the gold price. Impairment provisions are recognised in accordance with the Group's accounting policies to reflect any anticipated shortfall between net realisable value and cost, including processing and refining. Part of the Group's ore stockpile may be classified as non-current inventories, if it is expected to be processed later than one year from the reporting date.

d) 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.

e) Deferred tax

The Group has incurred trading losses in previous periods which give rise to potential deferred tax assets. The recognition of the deferred tax asset is dependent upon the Group making sufficient taxable profits in future periods to utilise those losses.

f) 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.

5. Segment information

The Group's operations are entirely focused on gold production and exploration and development activities within the Russian Federation, with its corporate head office in the UK. The operating segment has been identified on the basis of internal reports about the components of the Group. The Group has one reportable segment, being operations in Russia, whose accounting policies are in line with those set out in Note 3. The operating results of this segment are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance. With the exception of $592,000 corporate costs, the numbers in the primary statements reflect the results of the sole operating segment.

6. Mining properties

Mining properties assets relate to the Asachinskoye (Asacha) mining licence held by the Company's subsidiary ZAO Trevozhnoye Zarevo (TZ).

	$000
Cost	
At 1 January 2015	**57,317**
Additions	544
At 30 June 2015	**57,861**
Depletion	
At 1 January 2015	**(30,348)**
Charge for period	(1,877)
At 30 June 2015	**(32,225)**
Net book value	
At 1 January 2015	**26,969**
At 30 June 2015	**25,636**
Cost	
At 1 July 2015	**57,861**
Additions	1,434
At 31 December 2015	**59,295**
Depletion	
At 1 July 2015	**(32,225)**
Charge for period	(22)
At 31 December 2015	**(32,247)**
Net book value	
At 1 July 2015	**25,636**
At 31 December 2015	**27,048**
Cost	
At 1 January 2016	**59,295**
Additions	1,739
At 30 June 2016	**61,034**
Depletion	
At 1 January 2016	**(32,247)**
Charge for period	(1,143)
At 30 June 2016	**(33,390)**
Net book value	
At 1 January 2016	**27,048**
At 30 June 2016	**27,644**

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 2015	**78,108**	**17,527**	**2,293**	**475**	**695**	**99,098**
Additions	3	216	-	1	426	646
Disposals	-	(147)	(46)	(3)	-	(196)
At 30 June 2015	**78,111**	**17,596**	**2,247**	**473**	**1,121**	**99,548**
Depreciation						
At 1 January 2015	**(32,068)**	**(9,703)**	**(2,193)**	**(424)**	**(183)**	**(44,571)**
Charge for period [b]	(4,246)	(521)	(50)	(13)	-	(4,830)
Disposals	-	147	46	3	-	196
At 30 June 2015	**(36,314)**	**(10,077)**	**(2,197)**	**(434)**	**(183)**	**(49,205)**
Net book value						
At 1 January 2015	46,040	7,824	100	51	512	54,527
At 30 June 2015	**41,797**	**7,519**	**50**	**39**	**938**	**50,343**
Cost						
At 1 July 2015	**78,111**	**17,596**	**2,247**	**473**	**1,121**	**99,548**
Additions	225	1,839	-	1	(6)	2059
Disposals	-	(89)	-	-	-	(89)
At 31 December 2015	**78,336**	**19,346**	**2,247**	**474**	**1,115**	**101,518**
Depreciation						
At 1 July 2015	**(36,314)**	**(10,077)**	**(2,197)**	**(434)**	**(183)**	**(49,205)**
Charge for period [b]	(1,518)	(524)	(35)	(12)	-	(2,089)
Disposals	-	64	-	-	-	64
At 31 December 2015	**(37,832)**	**(10,537)**	**(2,232)**	**(446)**	**(183)**	**(51,230)**
Net book value						
At 1 July 2015	**41,797**	**7,519**	**50**	**39**	**938**	**50,343**
At 31 December 2015	**40,504**	**8,809**	**15**	**28**	**932**	**50,288**
Cost						
At 1 January 2016	**78,336**	**19,346**	**2,247**	**474**	**1,115**	**101,518**
Additions	1	160	486	-	151	798
Disposals	-	(916)	-	(12)	-	(928)
At 30 June 2016	**78,337**	**18,590**	**2,733**	**462**	**1,266**	**101,388**
Depreciation						
At 1 January 2016	**(37,832)**	**(10,537)**	**(2,232)**	**(446)**	**(183)**	**(51,230)**
Charge for period [b]	(2,740)	(1,034)	(42)	(12)	-	(3,828)
Disposals	-	907	-	11	-	918
At 30 June 2016	**(40,572)**	**(10,664)**	**(2,274)**	**(447)**	**(183)**	**(54,140)**
Net book value						
At 1 January 2016	**40,504**	**8,809**	**15**	**28**	**932**	**50,288**
At 30 June 2016	**37,765**	**7,926**	**459**	**15**	**1,083**	**47,248**

a. Assets under construction at 30 June 2016 comprise $1,083,567 (31 December 2015: $932,589) for building construction and infrastructure at Asacha.

b. $117,983 (2015 first half: $175,248) of the depreciation charge is included in additions to mining properties. $18,237 (2015 first half: $51,887) of the depreciation charge related to property, plant and equipment used on exploration and evaluation projects or assets under construction and was capitalised in exploration and evaluation costs or property, plant and equipment in accordance with the Group's accounting policy. $217,004 (2015 first half: $1,909,286) of the depreciation charge is included in inventories.

c. The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases:

	30 June 2016 $000	30 June 2015 $000	31 December 2015 $000
Plant and machinery	552	168	703
Motor Vehicles	-	-	-
Office equipment and furniture	-	-	-
	552	168	703

8. Deferred Exploration and evaluation costs

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

	Asacha $000
At 1 January 2015	**1,643**
Additions [i]	-
At 30 June 2015	**1,643**
At 1 July 2015	**1,643**
Additions [i]	-
At 31 December 2015	**1,643**
At 1 January 2016	**1,643**
Additions [i]	-
At 30 June 2016	**1,643**

i Additions include capitalised PPE depreciation (see Note 7[b]).

9. Inventories

	30 June 2016 $000	30 June2015 $000	31 December 2015 $000
Non-current:			
Ore stocks	**6,358**	6,600	4,874
	6,358	**6,600**	**4,874**
Current:			
Gold in progress	**1,566**	3,325	1,848
Silver in progress	**26**	53	32
Ore stocks	**706**	347	542
Fuel	**893**	1,253	1,004
Other materials and supplies	**2,109**	2,296	2,356
	5,300	**7,274**	**5,782**
At end of period	**11,658**	**13,874**	**10,656**

Ore stocks are stated net of impairment provisions totalling $10.3 million (2015 first half: $10.9 million), reflecting the difference between their expected net realisable value at a gold price of $1,200/oz. and cost, including processing, refining and royalties. Gold in progress, silver in progress and ore stocks include mining properties depletion $150,000 (2015 first half: $90,000).

10. Borrowings

	30 June 2016 $000	30 June 2015 $000	31 December 2015 $000
Non-current:			
Bank borrowings	**12,207**	19,218	16,209
Finance lease obligations	**319**	-	387
	12,526	**19,218**	**16,596**
Current:			
Bank borrowings	**7,046**	1,554	3,563
Finance lease obligations	**157**	43	74
	7,203	**1,597**	**3,637**
At end of period	**19,729**	**20,815**	**20,233**

Movement in borrowings is analysed as follows:	**6 months to 30 June 2016 $000**	6 months to 30 June 2015 $000	12 months to 31 December 2015 $000
At beginning of period	**20,233**	**26,137**	**26,137**
Interest on related party and other loans	**-**	14	14
Repayment of loans and accrued interest	**(516)**	(5,301)	(6,298)
IAS39 adjustment to net present value of restructured bank borrowings	**(3)**	60	57
Finance leases	**15**	(95)	323
At end of period	**19,729**	**20,815**	**20,233**

In 2009 and 2010 ZAO Trevozhnoye Zarevo (TZ) arranged two loan facilities for the Asacha project, in total $43 million, with the Russian bank Sberbank. Repayments under the initial five year $25 million facility and the second $18 million facility, each of which initially bore an annual interest rate of 10.5%, commenced in November 2011 and September 2012 respectively. The loans are secured by pledges over certain moveable assets and the shares of TZ and OOO Trans-Siberian Gold Management, TSG's other subsidiary. In September 2013 the terms of the two loan facilities were extended to December 2018. Repayment of the $26.5 million then outstanding under the two facilities commenced in March 2014. In March 2015, in addition to the $300,000 repayment due in that month, TZ prepaid $2.2 million, which had been scheduled to be repaid in 2018, and $1.7 million which had been due later in 2015. In August 2015 TZ made a further prepayment of $1.0 million which had been due in 2016. In July 2016, TZ made a further prepayment of $1.0 million which had been due in December 2016.

In 2013, it was agreed that a gold price hedge programme would be implemented for the revised term of the facilities. It was subsequently agreed with the bank to defer the start of the price protection programme in consideration of an increase to the interest rate to 11.5% until such commencement. On 4 April 2016, the interest rates on the two loan facilities were reduced to 9.3% (applied to $9.65 million) and 9.7% (applied to $10.35 million).

In 2012, UFG Asset Management (UFG) and AngloGold Ashanti Limited (AGA), each a related party by virtue of their then respective 54.42% and 31.17% holdings in the shares of the Company, agreed to provide short term loan facilities, in aggregate $781,000 (increased to $891,000 in January 2013), on commercial terms including interest at 8%. The terms of the two facilities were extended, ultimately to 31 March 2015. Both facilities were repaid in full on 12 March 2015.

11. Provisions

	6 months ended 30 June 2016 $000	6 months ended 30 June 2015 $000	Year ended 31 December 2015 $000
At beginning of period	**723**	**609**	**609**
Liability adjustment	**(85)**	-	205
Finance charge – unwinding of discount	**80**	61	59
Exchange difference	**108**	(53)	(150)
At end of period	**826**	**617**	**723**

The provision relates to site restoration at the Asacha mine, which is expected to commence in 2026. The amount of $825,827 (31 December 2015: $723,462) is included in Mining Properties and is calculated based on regional data from the Monitoring Ecological Centre of Kamchatka.

12. Revenue

	6 months ended 30 June 2016 $000	6 months ended 30 June 2015 $000	Year ended 31 December 2015 $000
Gold	**23,220**	21,114	43,322
Silver	**350**	373	737
Total revenue	**23,570**	**21,487**	**44,059**

13. Cost of sales

	6 months ended 30 June 2016 $000	6 months ended 30 June 2015 $000	Year ended 31 December 2015 $000
Wages and salaries	**3,348**	3,409	6,737
Energy and materials	**3,437**	3,709	10,536
Depreciation	**3,302**	2,693	5,702
Depletion	**826**	1,877	1,840
Other costs	**2,362**	1,301	3,962
Total cost of sales	**13,275**	**12,989**	**28,777**

14. Earnings per share

The calculation of basic and diluted loss per share has been based on the profit for the period of $5,784,903 (2015 first half: $1,275,048) and the weighted average number of shares being 110,053,073 ordinary shares issued for the period ended 30 June 2016 (2015 first half: 110,053,073).

15. Share capital and premium

	Number of shares authorised	Number of shares allotted and fully paid	Share capital $000	Share premium $000	Total $000
At 1 January 2015	150,000,000	110,053,073	18,988	89,520	108,508
At 30 June 2015	150,000,000	110,053,073	18,988	89,520	108,508
At 31 December 2015	**150,000,000**	**110,053,073**	**18,988**	**89,520**	**108,508**
At 1 January 2016	150,000,000	110,053,073	18,988	89,520	108,508
At 30 June 2016	**150,000,000**	**110,053,073**	**18,988**	**89,520**	**108,508**

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

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

The share premium account represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares. On 5 September 2016, as discussed in Note 17, the Company announced a proposed capital reduction, whereby, subject to the approval of the Company's shareholders and the High Court of Justice in England and Wales, the share premium account would be cancelled in order to create distributable profits. The cancellation was approved by the Company's shareholders on 29 September 2016.

16. Related party transactions

Related party transactions involving major shareholders AngloGold Ashanti Limited (AGA) and UFG Asset Management (UFG) are detailed below:

Related party	Nature of transaction	Purchases during the 6 months to 30 June 2015 $000	Amount owing at 30 June 2015 $000
AGA	Loan	-	-
	Loan interest	5	-
		5	**-**
UFG	Loan	-	-
	Loan interest	9	-
		9	**-**
Total		**14**	**-**

Related party	Nature of transaction	Purchases during the 6 months to 31 December 2015 $000	Amount owing at 31 December 2015 $000
AGA	Loan	-	-
	Loan interest	-	-
		-	-
UFG	Loan	-	-
	Loan interest	-	-
		-	-
Total		**-**	-

Related party	Nature of transaction	Purchases during the 6 months to 30 June 2016 $000	Amount owing at 30 June 2016 $000
AGA	Loan	-	-
	Loan interest	-	-
		-	**-**
UFG	Loan	-	-
	Loan interest	-	-
		-	**-**
Total		**-**	**-**

Loan facilities provided by UFG and AGA are discussed in Note 10.

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

17. Events after the reporting date

On 5 September 2016 the Company announced a proposed capital reduction, whereby, subject to the approval of the Company's shareholders and the High Court of Justice in England and Wales, the share premium account would be cancelled in order to create distributable profits. The cancellation was approved by the Company's shareholders on 29 September 2016.

Directors and Board Committees

Directors

Charles Ryan	Non-executive Chairman
Dmitry Khilov	Chief Executive Officer
Simon Olsen	Finance Director and Company Secretary
Peter Burnell	Non-executive
Robert Sasson	Non-executive

Audit Committee
Charles Ryan
Peter Burnell
Robert Sasson

Remuneration Committee
Charles Ryan
Peter Burnell
Robert Sasson

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