Stockholm den 20 november 2006

INTERIM REPORT, 1 JANUARY – 30 SEPTEMBER 2006

- Varyag Resources was listed on the First North list of the Stockholm Stock Exchange on 7 August 2006.
- A public offering to subscribe for shares provided the company SEK 441 million before issue expenses. A total of 8,818,800 shares was subscribed.
- Acquisition of 40 per cent of the shares in the Russian forestry companies PIK 89, Tuba-Les and Tuba-Lesprom was completed through utilisation of call option agreements in August

Events after the close of the period

- An agreement was reached in November to invest USD 9.7 million in development of three aggregate deposits in Belamorsk

OPERATIONS

Varyag Resources seeks to invest, actively manage and sell investments primarily in unlisted companies in the commodities sector in Russia and in the rest of the CIS.

Varyag Resources AB is the Group's Parent Company, with its registered office in Stockholm. In addition to the Parent Company, the Group consists of the subsidiary Varyag Capital (Cyprus) Ltd with its registered office in Nicosia, Cyprus. The Parent Company was established on 20 December 2005. Operations began on 1 August 2006 and the company was listed on the First North list of the Stockholm Stock Exchange on 7 August 2006. Paid subscribed shares (BTA) in the company were traded during the period 7 August to 28 August, when trading in the share commenced. During the first six months 2006, no operations were conducted in the Group. Investments in Russia will be owned via the newly started wholly owned subsidiary Varyag Capital (Cyprus) Ltd. To ensure the availability of advice in connection with the implementation of investments, Varyag Resources concluded a management agreement with Taiga Capital Ltd, which conducts operations in Moscow. The management agreement extends for a period of seven years from 31 July 2006. The management team in Moscow has been expanded and now comprises five people who focus on business development, implementation, legal affairs and analysis. Additional strengthening of resources in investment management will occur in pace with the completion of investments.

Operations since the listing on First North

Forestry

The acquired companies PIK 89, Tuba-Les and Tuba-Lesprom are located at Ust-ilimsk in the Irkutsk region. Their combined harvest volume amounts to some 1 million m3 per year and the current annual harvest is about 750,000 m3 annually. By means of these acquisitions, about half of the asset base has been gained that is deemed to be appropriate for a market listing.

Varyag has commenced an action programme to raise harvest levels that will increase sawmill output. Current operations mainly involve manual harvesting. To raise the harvest level within the framework of the licenses, a decision was made to procure harvesters at a value of some USD 3 million. There is substantial synergism among the companies and Varyag has appointed a steering group to identify and implement measures to expand operations and raise the level of processing. The international brand, PIK 89 Angara, will be the joint brand for wood products and timber. Demand for wood products is robust and the market is marked by rising prices. Demand from Japan and China, plus higher demand from the domestic market, is driving development.

In addition to these acquisitions, additional investment alternatives have been identified in the forestry sector and the company is currently conducting due diligence in respect of these.

PIK-89
A 40 per cent shareholding was acquired for about USD 8.1 million. Vostok Nafta owns 40 per cent and Russian partners 20 per cent of the remaining shares. This corresponds to an EBITDA multiple of about 3-3.5 of the anticipated earnings for 2006. Sales totalled approximately USD 22 million. PIK-89 is expected to comprise the core of a forestry group with a possible exit horizon of some three years. The company is one of the largest dedicated harvesting and sawmill companies in the Irkutsk region. The company's leases cover an area of 345,000 hectares. The forest holdings are favourably located with an average distance of 90 km to the sawmills, which have direct connections to the rail network. Pik-89 is permitted to cut 629,000 m3 of roundwood annually. Annual harvesting is about 450,000 m3. Using its own sawmills, the company produces about 120,000 m3 sawn timber products as well as 1,800 m3 finger-joints along with glulam beams. Some 90 per cent of output is exported, primarily to Japan, China and the Middle East.

Tuba-Les
A 40 per cent shareholding was acquired for approximately USD 2.1 million. Vostok Nafta owns 40 per cent and Russian partners 20 per cent of the remaining shares. This corresponds to an EBITDA multiple of 2.5 times the anticipated earnings for 2006. Sales amount to about USD 6.5 million. The plan is to integrate Tuba-Les into a forestry company whose core is made up of PIK-89. The company conducts integrated harvesting and sawmill operations. The leases at the disposal of the company cover an area of 120,000 hectares. Tuba-Les is licensed to fell some 242,000 m3 roundwood and volume extraction rate is currently about 193,000 m3. The company's sawmills produce some 22 000 m3 sawn timber products. Logistically, the forest holdings are favourably located with an average distance of some 50 km to the sawmill.

Tuba-Lesprom
This is an add-on acquisition to Tuba-Les. A 40 per cent shareholding was acquired for some USD 0.7 million. Vostok Nafta owns 40 per cent and Russian partners 20 per cent of the remaining shares. The company holds harvesting licenses for up to 139,000 m3 per year across an area of about 70,000 hectares. Harvesting currently amounts to about 109,000 m3. Saw timber is currently sold primarily to China and Japan. As part of efforts to raise the processing level, it is planned to integrate operations through delivery of raw materials to Tuba-Les sawmills.

Aggregates
Varyag has finalised negotiations regarding an investment in Belomorsk *(Russkaja Gornaya Kompaniya)* for the production of aggregate/gravel for the expanding road construction and building sector. The deposit amounts to 152 million tonnes and from the logistics viewpoint is very attractively located near railways and canals. This industrial sector is extremely fragmented and there are acquisition opportunities at values considerably below the valuation multiples for the building and cement industry. The investment will amount to USD 9.7 million in shares and convertibles. This provides a shareholding of 51 per cent before conversion and 80 per cent after conversion. When fully expanded, this facility will attain annual output of 1.5 million tonnes. Russian output is currently about 150 million tonnes annually. The approved federal road construction programme in Russia is expected to increase demand for this material by about 65 per cent. The exit horizon for this investment is when the initial production capacity is achieved, which is expected to occur during 2008. At this time, it will be possible to decide on a continued expansion, alternatively an exit, depending on market conditions.

Gas
Varyag provides financial support to Transnafta in conjunction with the auction of gas licenses. On the receipt of gas licenses, Varyag will contribute to financing and thus become a shareholder in the company.

Coal
Because certain questions regarding mining and prospecting licenses could not be resolved satisfactorily, the company has elected not to complete the previously named investment in the Iskra mining company in the Krasnoyarsk region. Varyag is currently appraising other investment opportunities in the coal sector.

Metals
Varyag has identified a company that producers an input good for the steel industry and for which Russia is currently a net importer. Technical due diligence of this company has commenced.

General
Varyag is deemed to be well positioned in terms of its target of being fully invested within 18-24 months. There is favourable potential to complete acquisitions at attractive levels in the natural resources sector. Investments frequently need to be consolidated and co-ordinated to attain economies of scale, and capital injected to ensure growth and expansion. To prepare and create the conditions for attractive prices in exit situations, part of the value growth is attained through creating legal and financial transparency. Transparency creates the conditions for financing with external capital.

GROUP

EARNINGS

The Group did not conduct any operations during the first six months of the year. Consequently, earnings were for the reporting period 1 July – 30 September was the same as for the interim period 1 January – 30 September. The Group was established during the year and thus no comparative data are provided.

Operating profit/loss

The operating loss totalled SEK 3,233,000. Since operations commenced during the third quarter and no corporate acquisitions were completed, operations only report costs. Costs consisted primarily of management service expenses in Russia amounting to SEK 1,848,000 as well as personnel expenses of SEK 315,000 and consulting expenses of SEK 310,000.

Financial income
Financial income consisted of interest income of SEK 1,290,000.

Tax and earnings after tax

The Group has no tax expenses and the loss after tax was SEK 1,943,000. The tax receivable for accrued loss carry-forwards is not reported.

INVESTMENTS, FINANCING AND LIQUIDITY

Investments

Call option agreements covering the acquisition of 40 per cent of the shares in three Russian forestry companies PIK-89, Tubales and Tubalesprom in Ust Ilimsk for a total of USD 10.9 million were utilised in August. Since payment for and possession of the shares did not take place until October, the acquisition will not be reported as an investment until the subsequent quarter. Investments in tangible fixed assets during the period totalled SEK 72,000.

Financing

July 2006 marked the completion of an offering to subscribe for shares that provided the company with SEK 440,940,000 before issue expenses. The subscription price was SEK 50 per share. The new share issue provided the company with SEK 425,475,668 after share issue expenses.
Financing is currently conducted using shareholders' equity. Reported shareholders' equity at the close of the period was SEK 426,044,000, which corresponds to SEK 48.04 per share and an equity/assets ratio of 99.3 per cent.

Cash and cash equivalents

Cash and cash equivalents at the close of the period totalled SEK 426,986,000.

Finance policy – currency risk
As a measure to safeguard the company's investment capacity, the Board has decided that funds intended for investment shall be placed in a basket of currencies comprising 30-35 per cent EUR, 35-50 per cent USD and 0-30 per cent RUB. When an investment decision is made, an amount corresponding to the payment price is hedged in the currency in which payment is to be made. On the closing date, USD 20,658,000 was hedged for forthcoming approved investments. Currency exposure in completed investments will not be hedged. The company's currency exposure with regard to annual management fees and Parent Company expenses is in SEK.

EVENTS AFTER THE CLOSE OF THE PERIOD

In October, a 40 per cent shareholding was acquired in the three Russian forestry companies PIK-89, Tubales and Tubalesprom in Ust Ilimsk for a total of USD 10.9 million. The forestry companies' total permissible harvesting of roundwood amounted to about 1 million m3 while annual harvesting is about 750,000 m3 annually.

In November, November 51 per cent of the shares was acquired in a newly formed Russian company that was created to fund the development three aggregate deposits near Belomorsk in Karelia. The deposits have a combined reserve base of 152 million tonnes. Fully developed, the production capacity is expected to reach some 1.5 million tonnes. Through the investment, Varyag gains exposure to the growing road building and construction sectors in Russia. Varyag will invest a total amount of USD 9.7 million in equity and convertible debt. The convertible loan will be converted at exit, at which point Varyag's equity interest will increase to 80 per cent. Varyag's Russian partners will contribute licenses for extraction in the three gravel deposits plus a 25 per cent interest in the Zalatukha company, which is currently producing 920,000 tonnes of aggregates. The investment amount will be drawn down in pace with development of the company's operations and will be contingent upon the Russian partners ensuring ongoing compliance with the mining licenses and related environmental legislation.

The funds provided by Varyag will be invested in the development of three deposits located near Belomorsk in Karelia. The deposits are favourably located with railroad and canal access. The three deposits have a combined reserve base of 152 million tonnes, which corresponds to approximately one year's consumption in Russia. The combined output of all three deposits is expected to be some 1.5 million tonnes of sellable aggregates once the deposits have been developed.

NOMINATION COMMITTEE

A Nomination Committee has been appointed comprising Hans Hedström from HQ Fonder, Per Josefsson from Zenit, Jörgen Persson from Dunross & Co., Viking Kjellström from SEB Fonder and Varyags's Board Chairman Sven Hirdman as convening authority.

PARENT COMPANY JANUARY – SEPTEMBER 2006

Profit before tax totalled SEK 19,000. Investments for the period amounted to SEK 72,000. The Parent Company's cash and cash equivalents totalled SEK 426 986,000 at the close of the period.

ORGANISATION

The Board of Directors consists of the Chairman Sven Hirdman, and members Thomas Krishan and Johan Unger, all of whom were newly elected at the Extraordinary General Meeting of shareholders in April 2006 as well as the members Agneta Dreber, Torbjörn Gunnarsson and Pia Rudengren, all of whom were newly elected at the Extraordinary General Meeting of shareholders in May 2006. Torbjörn Gunnarsson was appointed Chief Executive Officer in May 2006.

SHARE DATA

The Varyag share was listed on the First North list of the Stockholm Stock Exchange on 7 August 2006 and consists of a single series. Each share entitles the holder to one voting right. The par value of the share is SEK 10. Trading is conducted under the ticker designation VARY and a trading lot comprises 100 shares.

The share split and subsequent new share issue to companies in the HQ Group in April 2006 raised the company's share capital to SEK 500,000 and the number of shares outstanding from 1,000 till 50,000.
The public offering and subsequent new share issue in August 2006 raised the company' share capital by SEK 88,188,000 to SEK 88,688,000 and the number of shares outstanding from 50,000 till 8,868,800.

At the close of the period, the share price for Varyag Resources was SEK 51.75 kronor and market capitalisation was approximately SEK 459 million. The number of shares was 2,334.

Trend in share capital

Transaction	Year	Change in number of shares	Total number of shares	Change in share capital, SEK	Total share capital, SEK
Establishment of company	2005	1 000	1 000	100 000	100 000
Share split	2006	9 000	10 000	-	100 000
New share issue *	2006	40 000	50 000	400 000	500 000
New share issue **	2006	8 818 800	8 868 800	88 288 000	88 688 000

*New share issue to companies in the HQ Group
**New share issue after the public offering to subscribe for shares

Major shareholders as of 30 September 2006 according to VPC

Shareholder	Number	Percentage shareholding and voting rights
Staffan Rasjö	800 000	9.02
HQ Rysslandsfond	600 000	6.77
Fonden Zenit	589 000	6.64
Investors Life Insurance Corp.	435 000	4.9
Dunross & Co	400 000	4.51
CS SEC (Europe) Ltd	369 000	4.16
SEB Östeuropafond	333 814	3.76
EFG Private Bank SA	280 000	3.16
Euroclear Bank S.A/N.V	210 800	2.38
Skrindan AB	200 000	2.26

Consolidated income statement

Amounts in SEK 000s	2006 1/7-30/9	2006 1/1-30/9
Operating expenses	-3 233	-3 233
Operating profit/loss	**-3 233**	**-3 233**
Interest income	1 290	1 290
Profit/loss after financial items	**-1 943**	**-1 943**
Tax on profit for the period	-	-
Profit/loss for the period	**-1 943**	**-1 943**

DATA PER SHARE

	2006 1/7-30/9	2006 1/1-30/9
Earnings, SEK	-0.64	-1.89
Shareholders'' equity, SEK	48.04	48.04
Share price, SEK	51.75	51.75

NUMBER OF SHARES

	2006 1/7-30/9	2006 1/1-30/9
At the beginning of the period	50 000	1 000
At the end of the period	8 868 800	8 868 800

Definition of key data

Earnings per share
Profit after tax divided by the weighted average number of shares.

Shareholders' equity per share
Reported shareholders' equity in relation to the number of shares at the close of the period.

Consolidated balance sheet

	2006
Amounts in SEK 000s	**30/9**
Assets	
Fixed assets	
Equipment	72
Total fixed assets	**72**
Current assets	
Other current assets	1 930
Cash and bank balances	426 986
Total current assets	**428 916**
Total assets	**428 988**
Shareholders' equity and liabilities	
Shareholders' equity	426 044
Non-interest bearing liabilities	2 944
Total shareholders' equity and liabilities	**428 988**

CHANGES IN SHAREHOLDERS' EQUITY

	2006	2006
AMOUNTS IN SEK 000s	**1/7-30/9**	**1/1-30/9**
Opening shareholders' equity	500	100
New share issues	440 940	441 340
Share issue expenses	-15 464	-15 464
Unconditional shareholder contribution	2 000	2 000
Translation difference	11	11
Profit/loss for the period	-1 943	-1 943
Shareholders' equity at the close of the period	**426 044**	**426 044**

Consolidated cash-flow statement

Amounts in SEK 000s	2006 1/7-30/9	2006 1/1-30/9
Profit/loss after financial items	-1 943	-1 943
Adjustment for items not included in cash flow, etc.	10	10
Cash flow from operating activities before changes in working capital	**-1 933**	**-1 933**
Cash flow from changes in working capital	1 015	1 141
Cash flow from operating activities	**-918**	**-792**
Investments in subsidiaries	–	-26
Acquisition of office equipment	-72	-72
Cash flow from financing activities	**-72**	**-98**
New share issues	425 476	425 876
Shareholder contributions	2 000	2 000
Cash flow from financing operations	**427 476**	**427 876**
Cash flow for the period	**426 486**	**426 986**
Cash and cash equivalents at the beginning of the period	500	0
Cash and cash equivalents at the close of the period	**426 986**	**426 986**

Accounting principles

This interim report has been drawn up in compliance with the accounting principles presented below, which apply to financial reporting by Varyag Resources.

Statement concerning compliance with applicable regulatory framework
The consolidated financial statements and the annual report are prepared in accordance with Swedish law and the general standards and statements of the Swedish Accounting Standards Board (BFN). The standards of BFN applicable to large companies have been applied, unless otherwise stated. Uniform principles are applied to the consolidated financial statements and the annual report of the Parent Company.

Basis of preparation
The consolidated financial statements are prepared based on historical cost. All amounts are presented in thousands of Swedish kronor (SEK 000s), unless otherwise stated.

Basis of consolidation
The consolidated financial statements comprise the Parent Company and its subsidiaries. The financial reports of the Parent Company and its subsidiaries included in the consolidated financial statements refer to the same period and are prepared in accordance with the accounting principles adopted by the Group.

All intra-company transactions, income, costs, profit or loss arising from transactions between companies included in the consolidated financial statement are eliminated in their entirety.

A subsidiary is a company over which the Parent Company has a controlling influence, generally as a consequence of a holding of shares that, directly or indirectly, provides the Parent Company the control over more than 50 per cent of the voting power. Acquired subsidiaries are included in the consolidated financial statements using the purchase method. According to the purchase method the acquisition is considered a transaction by which the Group indirectly acquires the assets of the subsidiary and assumes its liabilities and other obligations. The fair value of the assets and liabilities are determined in connection with the acquisition and constitutes, thereafter, the Group’s acquisition cost. The difference between the cost of the shares, including any transaction costs, and the fair value of the net assets is recognised as goodwill. Goodwill is recognised as an asset in the balance sheet and is depreciated over the expected useful life, generally not more than twenty years. Where the difference is negative, a negative goodwill arises, which is credited to the income statement in future periods or immediately, depending on the nature of the acquired assets and the reason for the negative difference.

A subsidiary is included in the consolidated financial statements as of the time of the acquisition, i.e. the day on which the Parent Company acquires a controlling influence, and is included in the financial statements until the date on which the controlling influence ceases.

Minority interest is such part of a subsidiary’s results or net assets, respectively, which is not, directly or indirectly, owned by the Parent Company. The minority interest is estimated based on the values which, applying the Group’s accounting principles, are recognised in the subsidiary’s accounting. Minority interest in the subsidiary’s net assets is reported as a separate item between liabilities and equity. The minority share of the net profit for the year is reported as an adjustment item in the income statement immediately before the net profit.

An associate is an entity over which the Parent has significant influence, generally through a shareholding of more than 20 per cent but not more than 50 per cent of the voting power of the shares. Associates are included in the consolidated financial statements as of the date on which significant influence was acquired, and are accounted for under the equity method. Investment in an associate is initially recognised at cost under the heading Investment in Associate. The acquisition cost is allocated to the acquired share of the underlying assets and liabilities, by analogy with the requirements concerning an acquisition of a subsidiary.

The Group’s share of the net profit of the associate, after adjustment for amortisation of goodwill and amortisation or depreciation of any surplus values of the assets, is reported in the income statement under the heading Income from Associate, and the item Investment in Associate is adjusted. Dividends received reduce the carrying amount. Where recognised losses in the associate exceed the carrying amount of Investment in Associate, it is reduced to zero.

Reductions for losses are made also against unsecured receivables, the economic substance of which renders them part of the net investment in the Associate. Surplus losses are not recognised unless guarantees have been granted to cover losses incurred in the associated company. Profit or loss incurred in transactions between group companies and associates are eliminated in proportion to ownership.

Transactions, receivables and liabilities in foreign currency
Transactions in foreign currency are translated in the reporting currency at the rate of exchange on the transaction date. Monetary assets and liabilities are translated as at the balance sheet date at the rate of exchange on the balance sheet date. Any differences in the rate of exchange arising from the translation are recognised in the income statement. Non-monetary assets and liabilities are recognised at historical rates of exchange, i.e. at the rates of exchange on the respective transaction dates.

Foreign operations
Foreign subsidiaries and associates are translated into Swedish currency. Assets and liabilities are translated at the rates of exchange on the balance sheet date. Income and expenses are translated at the average rate of exchange for the year. Differences arising at the translation are recognised directly in equity and classified as Translation Difference. On disposal of a subsidiary or an associate the accumulated translation difference is recognised in the income statement as part of the gain or loss on disposal.

Revenue
Revenue from sale of goods is recognised at the time of delivery, exclusive of value added tax and selective taxes. Revenue from services is recognised as they are provided. Revenue from assignments at fixed price is recognised by reference to the stage of completion.

Borrowing costs
Borrowing costs, including arrangement fees, are recognised as an expense in the income statement in the period to which they relate.

Intangible assets
Acquired intangible assets, including goodwill, are recognised as assets in the balance sheet and valued at cost less accumulated amortisation and any impairment. Research and development costs are recognised as an expense in the income statement in the period in which they are incurred.

Tangible fixed assets
Tangible fixed assets are recognised as an asset in the balance sheet and valued at cost less accumulated depreciation and any impairment. Cost includes, in addition to the purchase price, expenses directly related to the asset to bring it in place and in condition for the intended use.

Depreciation and amortisation
Tangible fixed assets are depreciated and amortised at the depreciable amount straight-line over the estimated useful life. The depreciable amount is the difference between cost and the estimated residual value, which, for intangible assets, is normally estimated at zero. The estimated useful life and the residual value are assessed annually. Tangible fixed assets may include components of significant value, the useful life of which exceeds that of the underlying asset. In such case, the component is depreciated over its useful life.

Financial assets and liabilities
Loans and receivables and other financial instruments are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are de recognised or impaired.

Impairment
When there are indications that the carrying amount of an asset is impaired in, the asset is assessed for impairment. If the carrying amount exceeds the recoverable amount, the asset is considered impaired the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of an asset's estimated value in use and the estimated net selling price. The value in use is estimated as the present value of future cash flows generated by the asset. For assets that do not generate a cash flow that is independent of the cash flows from other assets, the cash flow estimate is based on the smallest identifiable group of assets that are independent of the cash flow from other assets. Investment in Associates is tested for impairment individually for each investment. An impairment loss is reversed where the reason for the impairment is removed.

Inventory
Inventory is valued at the lower of cost and net realisable value. Cost includes all expenses to bring the goods in place and usable condition. Cost is calculated according to the method first-in-first-out.

Lease agreements
Finance leases, which transfer to the Group substantially all risks and benefits incidental to ownership of the leased asset, are capitalised at the inception of the lease at fair value of the leased property. Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are recognised in the income statement in the period to which the relate. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Pensions
Pension liabilities in foreign entities are recognised in accordance with local regulations. Pension liabilities in the Parent Company are calculated in accordance with customary technical principles for Swedish insurance.

Provisions
A provision is recognised when a legal or constructive obligation arises as a consequence of an event, and it is likely that the obligation must be met, and the amount can be reliably estimated.

Income tax
Income tax is comprised of current and deferred taxes. Income tax is recognised in the income statement when the tax is related to items recognised in the income statement. Income tax is recognised directly in equity when the tax is related to items recognised directly in equity. Deferred tax is calculated as the difference between, on the one hand, the tax base of assets and liabilities and, on the other hand, their carrying amounts (temporary differences). Deferred tax is calculated based on the tax rates estimated to apply to settlement of the tax. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax assets are recognised only where it is likely that the deductible temporary difference can be utilized, thereby reducing future tax expense.

Stockholm, 20 November 2006

Varyag Resources AB (publ)

Board of Directors

This interim report has not been reviewed by the company’s auditors.

FOR FURTHER INFORMATION, CONTACT:

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FORTHCOMING INFORMATION

Year-end report for the period through 31 December 2006	28 February 2007
Interim report for the period through 31 March 2007	30 May 2007
Interim report for the period through 30 June 2007	30 August 2007
Interim report for the period through 30 September 2007	30 November 2007

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