

Stockholm, 31 May 2007

INTERIM REPORT 1 January – 31 MARCH 2007

- Acquisition of receivables in coal-mining company, ZAO PKF Unal
- Acquisition of sawmill in Bogouchan, Krasnoyarsk
- Mikhail M. Zadornov, former Finance Minister in the Russian Federation, appointed new member of the Investment Advisory Committee

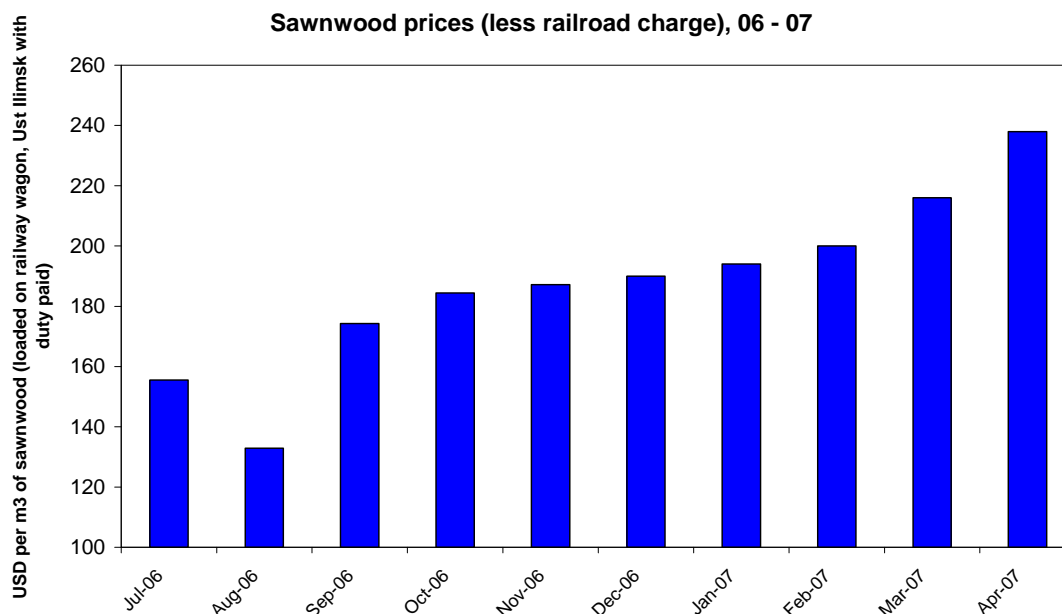
INVESTMENT UPDATE

Progress on investing the Company's capital in accordance with the investment strategy has generally been good, at the end of Q1-2007 we announced two new investments, namely; ZAO PFK "Unal" and the acquisition of OOO Bogouchanski, or the Viking project. Although the initial outlay for both projects is relatively limited, the follow on capital investments are relatively large. In the case of Unal we hope to invest a further USD 4.25 million in this project, with our partner in this project investing an equal amount in the event that we are successful in winning the auction for Unal's fixed assets. Similarly the entry costs for the Bogouchanski project are relatively low, however the total follow on equity expenditure will be some USD 8.5 million split equally between Varyag and Vostok Nafta. We consider these additional investments to be "committed" at the time that we make the initial investment, accordingly on this basis just under 60% of the Company's cash was invested or committed to projects at the end of Q1-2007. This level of investment places us well within our stated timetable of being fully invested within 18 to 24 months of the IPO and whilst it is desirable to be fully invested from day one, we believe that current progress is acceptable. In particular, we are very focused on our chosen sectors and have strict investment criteria, we have had to walk away from some investments where we have felt that the risks have been too high and/or our investment criteria have not been met. As such we have invested funds more slowly than we could have done, but we have retained discipline in applying the Company's investment strategy and criteria. We believe that in the medium term, this approach will pay off and shareholders will be rewarded for their patience.

Developments at portfolio companies

Forestry

We experienced mixed trends in the portfolio companies during the quarter, on the positive side the rally in the price of forest product prices has continued and accelerated into 2007. As a result of the strength in forest product prices, shares in several listed forestry companies in Sweden have rallied strongly over the year. We believe that this provides grounds to assume that the value of our holdings will be similarly re-rated. The positive operating environment has been felt most strongly at the PIK group of companies where operating cash flows have expanded during the quarter, reaching an all time high in April 2007. In the event that prices stay at these levels, or accelerate further the signs are that we will end 2007 well ahead of budget.



Source: PIK-2005 company management

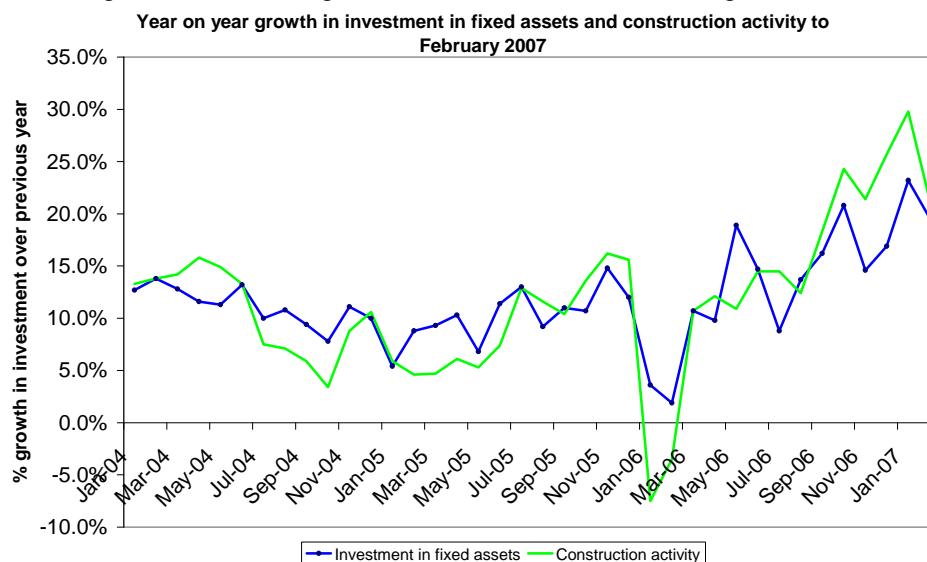
On a less positive note, we have faced some management problems at our smaller forestry company, Tuba-Les. Our assessment is that the Tuba-Les management had failed to control costs and manage working capital properly. Following several management meetings beginning in November 2006 we (in conjunction with the other shareholders) decided to replace most of Tuba-Les' senior management after the end of the first quarter. Up to their replacement, the previous management team had accumulated more than USD 1 million in unpaid creditors, in addition the company is facing some restructuring charges in connection with a proposed dramatic reduction in workforce numbers. The shareholders will therefore be required to inject new equity into this company in order to restore its working capital position, we estimate that Varyag will have to contribute a net USD 750,000 to this recapitalisation. This additional equity will effectively increase our entry cost and whilst this is certainly not welcome, we are confident that the underlying business is sound and that Tuba-Les can generate significant profits under new management. Ultimately, the important issue is to be able to identify and resolve such problems in a timely manner.

We have now settled the transaction to acquire 80% of a new company called OOO "Bogouchanski LPK", this company owns the fixed assets and land related to the Viking sawmill project near the town of Bogouchan in the Krasnoyarsk region. The old Viking sawmill is currently mothballed and the intention is to reanimate this via a new equity injection of at least USD 4.25 million net to Varyag (with a similar amount to be funded by Vostok Nafta). This funding will be used to acquire new equipment and expand the plant's design capacity from around 50,000m3 per annum of sawnwood up to 100,000m3 of sawnwood per annum. We have appointed several key managers at OOO "Bogouchanski LPK"s and they are currently in the final stages of completing the equipment specification and costings for reanimating this plant, the intention is to start acquiring equipment in June 2007 and to move towards full production in Q1-2008.

We are in the final stages of acquiring one more harvesting and sawmilling facility also in East Siberia in addition to the Company's assets in Ust Ilimsk and Bogouchan, once this transaction is settled we will have sufficient scale in order to build up a listable company. We will be taking the first steps towards creating such an entity by consolidation our forestry holdings into a single legal entity to be jointly owned with Vostok Nafta Limited.

Russian Gravel Company

The market for gravel in Russia continues to strengthen on the back of the ongoing construction boom in Russia, we expect this situation to continue at least into the near future. As a result the prices of gravel continue to grow and the market continues to grow in absolute size.



Source: Rosstat - social economic conditions in Russia - Dec 2006

The progress on the Russian Gravel Company continues to be in line with plan at the end of Q1-2007 we had disbursed some USD 4.1 million of our USD 9.7 million commitment and this amount has been paid over to the company's key equipment suppliers. This amount has been disbursed in the form of an interim term loan, which will be replaced by a USD 6.742 million convertible loan as soon as the appropriate share and bank accounts are opened. The remaining amount will be disbursed relatively soon after the end of the quarter, the current plan is to have first production sometime in September or October 2007 after which the company should quickly move up to producing 1 million tonnes of sellable gravel per year. In the event that current gravel prices hold, we would hope to generate returns in excess of our initial expectations provided the project implementation and management holds to plan. In cooperation with our Russian partners in this venture, we are looking at opportunities to absorb other gravel quarrying facilities in the Karelia region in order to build up further scale.

ZAO PFK Unal

Shortly after the end of Q1-2007, Varyag became ZAO PFK "Unal's" largest single creditor by acquiring debts owed by Unal to various third parties. As a result of these transactions, we now have a dominant position on the company's creditor committee. The company itself is in bankruptcy and the company's operations are effectively run by the creditors, during the next stage of bankruptcy the company's assets will be sold off at auction and Varyag intends to participate at that auction. In the event that we win that auction, we will be shareholders in a debt free company, which owns ZAO PFK "Unal's" fixed asset base, this new company should also (subject to certain restrictions) acquire a clean mining license over ZAO PFK "Unal's" 49 million tonne ABC1 + C2 coal reserve base. The intention is the to inject some USD 9.5 million in equity into the new company in order to fund the work necessary in order to restore coal production up to some 1 million tonnes per annum.

The project carries a number of risks, in particular that we will not be able to win the planned auction and/or that ZAO PFK "Unal's" coal mining license will be revoked altogether. Our current exposure to this investment is relatively limited and we will only seek to increase our investment once these two uncertainties have been resolved. In the event that we are able to win the proposed auction and

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the new company recovers production up to 1 million tonnes, then this will be a valuable asset which we have been able to acquire for a relatively small investment. Although this project carries high risks, we believe that it carries commensurately high rewards. In order to limit any downside exposure on this project, we have signed a framework agreement with a Russian company, Trans-Nafta, in order split the risks and rewards for this investment on a 50-50 basis. This arrangement provides Varyag with some downside protection as well as giving us the benefit of having a strong local partner with a background in the energy sector based on its gas production, trading and transportation silks.

Other investments

At the end of the quarter we were far advanced on two other investments, we are awaiting certain formalities to be completed on those transactions. In particular, we intended to bid for a coal asset in March 2007 and provided a RUB 290 million bridge loan in order to participate in the relevant auction. This auction was however postponed from March 2007 to June 2007 accordingly the outcome of this auction remains unknown, in the event that we win the auction in conjunction with our Russian partner, this will provide the Company with a significant increase in our coal assets.

Investeringar, geografiskt läge



GROUP

In the consolidated balance sheet at 31 March 2007 and at 31 December 2006, the associated companies are disclosed at acquisition value rather than in accordance with the equity method, because the portfolio companies' accounts have not yet been adapted to the requirements to which publicly listed companies are subject.

RESULTS

During the first half of 2006, no operations were conducted within the Group. Since the Group was formed during the second half of 2006, no comparative figures are provided for the quarter.

Operating loss

An operating loss of SEK 4,852,000 was reported for the first quarter. Operating expenses relate primarily to management service expenses in Russia amounting to SEK 2,691,000 and personnel costs of SEK 670,000 during the first quarter.

Financial items

Interest income during the first quarter amounted to SEK 3,467,000 and unrealized exchange-rate gains to SEK 4,688,000. The exchange-rate gains do not impact on cash flow.

Tax and profit after tax

The Group has no reported tax expenses, due to loss carry-forwards from 2006, and profit after tax amounted to SEK 3,303,000 for the first quarter. The tax assets related to the accrued loss carry-forwards have not been reported.

INVESTMENTS, FINANCING AND LIQUIDITY

Investments

Investments in associated companies amounted to SEK 987,000 for the first quarter, which mainly comprised acquisition costs. In March, lending to Belomorsky Karier increased by SEK 14,018,000 (USD 2,000,000).

Current assets

Of the total of SEK 116 606,000 approximately SEK 77,451,000 pertains to bridging loans for participation in an auction of coal assets. This amount also affects the cash flow from changes in working capital.

Cash and cash equivalents

Cash and cash equivalents amounted to SEK 222,107,000 on the balance-sheet date.

EVENTS AFTER PERIOD END

The acquisition of the 50% shareholding in a terminal for the loading of timber for railway transport was completed in April. The terminal is located in Ust-Ilimsk and handles virtually all railway goods from Ust-Ilimsk. The shareholding was acquired for USD 0.37 million and represents a commitment to invest an additional USD 0.5 million. The regional authorities have decided that all exports of sawtimber must go via an approved terminal. This requirement was introduced as a way of inhibiting illegal felling.

During April and May, 80% of the share capital of OOO "Bogouchanski LPK" was acquired from two Russian individuals for a total of RUB 67.2 million. The remaining 20% of the shares will be acquired at a later stage for RUB 16.8 million. The company's principal asset is a sawmill facility located in the Bogouchan area of Krasnoyarsk, which has an annual capacity of approximately 50,000 m³ of sawn timber. The mill has been non-operational since 2000. Varyag's Investment Manager (Taiga Capital Limited) has identified a local partner who intends to acquire 25% of the company's share capital. Vostok Nafta has expressed an interest in implementing this investment on a 50-50 basis with Varyag. As a result of the sale to the local partner and the planned partial sale to Vostok Nafta, Varyag's shareholding will be reduced to 37.5%.

In April and May, receivables from and shares in the ZAO PKF Unal coal-mining company were acquired in an amount totalling RUB 31.4 million. The company is currently in a state of bankruptcy and its effective control lies

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with its creditors. These acquisitions will result in Varyag gaining a dominant position in the company's creditor committee. Varyag also submitted loans of RUB 14 million in April and May for the financing of working capital and the maintenance of the company's operations. The coalmine, which is located in the city of Chernogorsk in the Republic of Khakasia in Siberia, has a licence for the mining of ABC₁ +C₂ thermal coal assets.

In May, a convertible loan of USD 6.742 million in Russian GravelCo (Cyprus) Ltd was acquired, in accordance with an agreement signed in November 2006.

PARENT COMPANY JANUARY – MARCH 2007

Profit before taxes for the first quarter amounted to SEK 5,258,000, which did not affect cash flow during the first quarter of 2007. The result includes unrealized exchange-rate gains of SEK 3,924,000. The Parent Company's cash and cash equivalents amounted to SEK 198,100,000 at the end of the period.

ORGANISATION

The Board of Directors consists of Chairman of the Board Sven Hirdman, and the Members of the Board Agneta Dreber, Thomas Krishan, Pia Rudengren, Johan Unger and Torbjörn Gunnarsson. Torbjörn Gunnarsson is also CEO of the company.

After the end of the period Nadja Borisova has assumed the position of CFO.

New member of the Investment Advisory Committee

Mikhail M. Zadornov, former finance minister in the Russian Federation, has consented to becoming a member of the Investment Advisory Committee, replacing Yevgeni Yassin who has stepped down.

SHARE DATA

The Varyag share is listed on the First North list of the Stockholm Stock Exchange. Trading is conducted under the ticker designation VARY and a trading lot comprises 100 shares. The number of shares outstanding amounts to 8,868,800. The turnover rate for the share during the first quarter of 2007 was approximately 42 per cent. The average daily turnover during the year was 14,800 shares, corresponding to approximately SEK 928,000. The average difference between the bid price and the selling price was 1.38 per cent.

At the close of the period, the share price for Varyag Resources was SEK 61.00 kronor and its market capitalisation was approximately SEK 541 million. The number of shareholders was 1,796.

Major shareholders as of 31 March 2007 according to VPC

Shareholder	Number	Percentage
AB Landå	1 000 000	11.28
Staffan Rasjö	800 000	9.02
HQ Rysslandsfond	694 600	7.83
Fonden Zenit	589 000	6.64
Dunross & Co	400 000	4.51
CS SEC (Europé) Ltd	369 000	4.16
EFG Private Bank SA	280 000	3.16
Perj Förvaltnings AB AB	200 000	2.26
Euroclear Bank S.A/N.V	181 800	2.05
Johan Rapp	150 000	1.69
Others	4 204 400	47.41
	8 868 800	100.00

Consolidated income statement

Amounts in SEK 000s	2007	2006
	1 Jan-31 March	1 Jan-31 Dec
Other operating revenues	212	71
Other external costs	-4 390	-6 968
Personnel costs	-670	-1 377
Depreciation	-4	-14
Operating loss	-4 852	-8 288
Interest income	3 467	4 828
Exchange-rate changes	4 688	-9 042
Profit/loss after financial items	3 303	-12 502
Tax on loss for the period	-	-
Profit/loss for the period	3 303	-12 502

PER SHARE DATA

	2007	2006
	31/03	31/12
Earnings, SEK	0.37	-4.16
Shareholders' equity, SEK	47.15	46.57
Share price, SEK	61.00	57.25

NUMBER OF SHARES

	2007	2006
	1 Jan-31 March	1 Jan-31 Dec
Beginning of period	8 868 800	1 000
End of period	8 868 800	8 868 800
Average number of shares	8 868 800	3 006 061

Definition of key figures

Earnings per share

Profit/loss after tax divided by weighted average number of shares.

Shareholders' equity per share

Reported shareholders' equity in relation to the number of shares at the end of the period.

Consolidated balance sheet

Amounts in SEK 000s	2007 31 March	2006 31 Dec
Assets		
<i>Fixed assets</i>		
Equipment	102	106
Participations in associated companies	80 811	77 786
Total fixed assets	80 914	77 892
<i>Current assets</i>		
Other current assets	116 606	21 060
Cash and bank balances	222 107	316 100
Total current assets	338 713	337 160
Total assets	419 626	415 052
Shareholders' equity and liabilities		
Shareholders' equity	418 141	412 991
Interest-free liabilities	1 486	2 061
Total shareholders' equity and liabilities	419 626	415 052

CHANGES IN SHAREHOLDERS' EQUITY

Amounts in SEK 000s	2007 1/1-31/03	2006 1/1-31/12
Opening shareholders' equity	412 991	100
New share issues		441 340
Issue expenses		-15 869
Unconditional shareholder contribution		2 000
Translation difference	1 847	-2 078
Net profit/loss for the period	3 303	-12 502
Shareholders' equity at end of period	418 141	412 991

Consolidated cash flow statement

Amounts in SEK 000s	2007 1 Jan-31 March	2006 1 Jan-31 Dec
Profit/loss after financial items	3 303	-12 502
Adjustment for non-cash items, etc.	-4 684	9 056
Cash flow from operating activities before changes in working capital	-1 381	-3 446
Cash flow from changes in working capital	-81 545	-4 395
Cash flow from operating activities	-82 926	-7 841
Investments in office fittings		-110
Investments in financial assets	-15 005	-94 474
Cash flow from investing activities	-15 005	-94 584
New share issues	-	425 471
Shareholder contribution	-	2 000
Cash flow from financing activities	-	427 471
Cash flow during the period	-97 931	325 046
Cash and cash equivalents, beginning of period	316 100	-
Exchange-rate differences on cash and cash equivalents	3 938	-8 946
Cash and cash equivalents, period end	222 107	316 100

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Accounting principles

This interim report has been prepared in accordance with the accounting principles presented in the annual report for 2006. The reporting of associated companies is commented upon above under the section headed Group.

Stockholm, 31 May 2007

Varyag Resources AB (publ)

Board of Directors

This interim report has not been subject to examination by the company's auditor.

FOR FURTHER INFORMATION, PLEASE CONTACT:

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FORTHCOMING INFORMATION

Annual General Meeting

1 June 2007

Interim report Jan-June, 2007

30 August 2007

Interim report Jan-Sept, 2007

29 November 2007

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