

Central Asia Gold

May 23, 2006

Central Asia Gold AB (publ)

Interim three month report for the quarter ended March 31, 2006

- Letter of intent concluded regarding the acquisition of a significant gold deposit in Siberia. The acquisition is scheduled to get completed in summer 2006.
- The subsidiary OOO Artelj Tyva is preparing to commence the gold production season 2006. The gold production as usual starts in the end of May.
- The production of high grade gold concentrates in the Kopto plant amounted to 8.6 kg during the first quarter of 2006. In addition the Kopto plant during the same period yielded some 11 kg of gold concentrates stored in the tailings pond.
- The Tardan development programme is proceeding according to plan.
- Consolidated revenues for the period amounted to MSEK 0.62 (MSEK 0).
- The net result after tax for the reporting period was MSEK -1.61 (MSEK 0.33).
- EPS was SEK -0.007 for the reporting period (SEK 0.002)

Background

Central Asia Gold AB ("CAG AB") is a Swedish junior mining company with operations in Eastern Siberia, Russia. The group structure consists of the Swedish joint stock parent company, that in its turn controls two wholly-owned Russian subsidiaries of the limited liability type. Further, the subsidiary OOO Tardan Gold owns three other subsidiaries. The first, OOO Mars, is owned 50% and contains vehicles and equipment. The second one, the alluvial gold producer OOO Artelj Tyva, is owned 99.8%. Lastly, OOO Tardan Gold owns the subsidiary OOO Perspektiva, that is a recently incorporated company without significant assets used by the Central Asia Gold group as a vehicle when participating in public privatization auctions in Russia.

The operations involve exploration and production of gold, currently mainly in the Tyva region bordering to Mongolia.

The group's main assets comprise four mineral licenses held by the various subsidiaries. The licenses as at early January 2006 encompass some 333,000 troy ounces ("oz") of gold reserves according to the Russian C1+C2 categories, as well as 215,000 oz of P1 gold resources and 4,354,000 oz of P2 gold resources.

CAG AB got publicly listed on the Swedish NGM Nordic Growth Market stock exchange on March 29, 2005. The number of shareholders was 3,974 as per the end of April 2006.

Results – the Group

For the quarter ended March 31, 2006 the group reports a net result after tax of MSEK -1.61 (MSEK 0.33) which corresponds to SEK -0.007 per share (SEK 0.002).

Gold sales revenues were MSEK 0 during the reporting period (0). In addition to that, a revenue component of MSEK 0.62 (0) in the P/L-account relates to service income from the subsidiary OOO Mars, that offers transportation services, partly to external clients.

Operating costs amounting to MSEK 5.13 on the subsidiary level have been capitalised during the quarter Jan – March 2006 (MSEK 2.69).

Net financial items were MSEK 0.43 during the reporting period (MSEK 0.35).

The tax cost for the quarter was 0 (MSEK 0.40).

It should be stressed that the subsidiary OOO Artelj Tyva as an alluvial gold producer is engaged in seasonal production of gold during the warm part of the year, that is during the period May – October. Further, it should be mentioned that the gold production of the subsidiary OOO Tardan Gold during the reporting period has been sold after the end of the first quarter 2006.

Operations

Tardan

General overview

Tardan is a medium sized gold deposit that was privatised in a public auction in the summer of 2003. The Tardan officially established Russian reserves (C1/C2) and P1 resources, lastly updated in the early 1990ies, amount to 413,000 oz of gold. In addition, it is estimated to contain 4,354,000 oz of P2 gold resources (Russian classification standards). The appraisal work has so far only been conducted to a depth of some 100 m.

Some 30 ore bodies exist within a 3.3 square kilometre area of the license block 80 km to the East of the region's capital Kyzyl. The average gold grade of the reserves is 10.7 grams/tonne ("g/t").

A considerable exploration programme which involved core drilling, trenching and construction of underground drifts and shafts was carried out in the Soviet times and has in 2004-2006 been supplemented by new data gathering.

High grade ore bodies

The development programme in respect of the high grade gold ore bodies on the Tardan deposit continues according to plan. During the first quarter of 2006 the ground clearing

works in respect of the four main ore bodies has continued. Two of them have now almost been cleared in total. The other two ore bodies are still being subject to these operations.

The processing plant has been ordered and the required prepayments have been done. According to the contract the plant shall be delivered during autumn 2006 and then be installed. Central Asia Gold estimates to receive certain gold production from this plant already in 2006, but that will be within the context of the fine-tuning period of the plant.

In parallel to the preparations for the gold production start on Tardan, continuous geologic work is being conducted. This is also a demand by the license agreement. During spring 2006 four wells got drilled by the company's drilling rig with a total length of 270 m. These drilling materials as well as drilling materials from last year were reviewed during the quarter resulting in analysis results from 350 core intersections. Also, two surface trenches with a total volume of 2,700 m³ were constructed. To this should be added that a large number of surface samples from the Tardan license block were collected and analysed during spring 2006.

Low grade gold mineralization

Already in 2004 the geologists of Central Asia Gold started to look for possible reserve increase opportunities on the Tardan license block. The approach chosen was to confirm a large scale presence, and an economically feasible development plan, for the lower grade gold concentrations on Tardan. This is dependent on the fact that a review of historic data as well as of newly collected information shows that the gold on Tardan is distributed over wider areas of the license block than the so far established high grade ore bodies. So far the attention has been focused on the so called "Area 2" to the East of the high grade ore bodies 24 – 29. Here a more detailed analysis has been of an area of some 15,400 m². It is believed that this area alone may contain up to 10 tonnes (some 300,000 oz) of gold in the ground with a relatively low content (averaging some 2.28 g/t). As regards Area 2, one deep well and numerous surface trenches were constructed in the Soviet times, and the ore body no 1 with recoverable reserves is located there. A lot of new data was gathered in 2005, partly via two surface trenches. The analysed data so far supports the hypothesis that there exist extractable gold ores with a relatively low gold grade within this particular area.

Possible X-ray based separation of the ores

Central Asia Gold's geologic department has during 2005 and 2006 tested an X-ray based separation system of the ores from Tardan and Kopto. The X-ray system does not react directly on the gold in the ores, but indirectly via the copper grade in them. The correlation between copper and gold in the ores is high, which implies that a high copper content corresponds to a high gold grade and vice versa. In separations trials conducted satisfactory results have been achieved. Although it is too early to guarantee anything, the thus far performed trials seem to indicate that the mentioned separation system will be able to increase the efficiency on the Tardan deposit. On the one hand, the method ought to be able to reduce the waste rock component in the ore processing, and on the other hand the method should be capable of separating the ores that need to be grinded from those that only need to be crushed. The high grade ores namely need to both crushed and grinded before they go to the gravimetric enrichment process and finally to leaching in tanks. The low grade gold ores are planned to get only crushed before they get leached on open pads (heap leaching). This heap leaching method is today used on similar low gold grade ores for example in the surrounding

regions in Khakasiya and Krasnoyarsk. A decision to launch the development programme for these lower grade gold assets can probably be expected in 2007.

Kopto

General

Together with the Kopto deposit followed an acquisition of a small processing plant built in the 1990ies. The plant was modified in summer 2005 and also in 2006, and currently has an ore processing capacity of some 3 tonnes/hour. The equipment comprises crushers, a roller mill, cyclones, separators and shaking tables for a gravimetric process. The number of employees on the Kopto base currently amounts to some 50 (in one shift). The employees in general work three weeks on/three weeks off. The Kopto plant is a small experimental unit, but has for Central Asia Gold during the first year of operations served as an experimental platform helping the organization to prepare for the production work on the Tardan deposit that is located not far away.

Production

During the first quarter of 2006 3,000 tonnes of ore were processed. That resulted in 8.6 kg high grade gold concentrates and some 11 kg of gold concentrates via tailings interimistically stored in the tailings pond. After the final enrichment stage in an external refinery this resulted in some 7.3 kg of chemically pure gold. The extreme cold during the passed winter season negatively impacted on the utilization of the mill.

Gold sales

During the quarter January – March 2006 no gold sales were recorded. A first batch of gold was sold after the end of the quarter. Sales proceeds amounted to some 160 TUSD equalling 676 USD/oz.

The placer deposit Sivo Pravy Uval

This placer deposit held by the subsidiary OOO GRK Tomano (“Tomano”) is located in the Buryatiya region of Russia, which borders to the Tyva region. It holds 19,000 oz of Russian C1 gold reserves.

Central Asia Gold in March 2005 concluded a joint venture agreement in respect of the future development programme of this project. The joint venture partner, the Russian company OOO GRK Oreol (“Oreol”) is the operator of the project, and shall secure the financing. So far no major development activity has yet been conducted on the license block.

The subsidiary gold placer producer Artelj Tyva

The subsidiary OOO Artelj Tyva produces gold from two gold placers, Bolshoy Agliyak and Maly Agliyak. Remaining official gold reserves C1/C2 according to the Russian State Reserve Committee (GKZ) amounted to some 80,000 oz as at the beginning of 2006. The average gold grade in the gold containing sands is recorded at 0.95 g/m³.

As a placer gold producer, Artelj Tyva produces gold during the warm season of the year, that is during May – October. During the first quarter of 2006 the company has been engaged in the usual preparatory activities ahead of the start of the production season such as servicing of the heavy equipment. During the early part of the second quarter the digging of the gold

bearing sands has commenced and in late May the gold production starts. The working capital requirement has been met by the other companies of the Central Asia Gold group.

Provided nothing unexpected occurs, OOO Artelj Tyva plans to produce 250 – 300 kg of gold during 2006. Last year 315 kg of gold was produced.

Investments, Liquidity and Financing

Net investments into material fixed assets and financial fixed assets during the reporting period amounted to MSEK 6.80 (MSEK 5.02).

Cash on group accounts was MSEK 50.09 at the end of the reporting period (MSEK 15.04).

The significant liquid assets as at end of the reporting period resulted from Central Asia Gold's participation in a Russian privatization auction in respect of zink deposit in the beginning of April. By the end of March external financing was attracted through a loan in order to ascertain admittance to the auction, and this loan financing had a considerable impact on the group liquid assets.

Furthermore, Central Asia Gold in the end of February 2006 secured an external credit from a Western institution amounting to slightly more than MSEK 10. The credit is targeted for the working capital requirement of the subsidiary Artelj Tyva during this year. The loan has a duration of 180 days and carries a SEK interest rate of 8% p.a.

Employees

The group companies on average employed 377 persons during the first quarter of 2006, whereof 40 women and 337 men.

Share data and outstanding warrants

Currently the number of issued shares amounts to 230,752,479. Par value per share is SEK 0.20. All shares carry one vote and have equal rights to the company's assets and profits. In addition, 6 million warrants have been issued. Each warrant gives the right to subscribe to one new share at a subscription price of SEK 0.40 per share. The warrants will expire at the end of December 2006. During the reporting period some 2.14 million warrants of another series with a strike price of SEK 0.60 per one share got subscribed.

Major events after the end of the reporting period

Letter of intent regarding acquisition of gold deposit

Central Asia Gold has signed a letter of intent in respect of the acquisition of a significant gold deposit in Siberia. This object has not yet been in production but has been subject to a relatively extensive appraisal programme. The Russian established gold reserves in the categories C1 + C2 amount to roughly 8 tonnes (some 250,000 oz). The reserves, though, have only been assigned to a limited part of the ore zone and only down to a depth of some 30 m. The gold project is of a so called stockwork type and the ores therefore continue in the depth dimension. In addition, the Central Asia Gold geologists believe that the gold reserves extend also outside the currently appraised area.

In the vicinity of the deposit a gravimetric plant has been constructed, however has not yet been fully commissioned. Certain other equipment also exists, such as building, power lines and drilling equipment. Thus the infrastructure of the project is favourable.

The executed agreement gives Central Asia Gold a right to conduct a due diligence programme during roughly a month. During this period no one else has the right to intervene in the process according to the agreement. The price for the transaction is in principle fully agreed, and is divided on the one hand on the gold reserves in the ground, and on the other hand on the fixed assets on the surface.

The price for 100% of the gold reserves has been determined to be 6 million USD (MUSD). For the total of the fixed assets the asked price is some 12 MUSD. Central Asia Gold may choose to only acquire the gold reserves if it is established that the fixed assets are not suitable. The data verification campaign will give the answer to this question. The sellers may also decide to retain a part of the project, however Central Asia Gold will not buy less than 75% of the project if proceeding with the purchase.

Central Asia Gold believes the project may contain considerably more gold reserves than so far established, but does not want to reveal more information before the acquisition has been completed. The probability of completing the deal is relatively high, but there exists no guarantee that so will happen. Partly this depends on the conclusions of Central Asia Gold's due diligence programme.

Proposal for a directed rights issue paid through set-off of debt

Central Asia Gold ("CAG") in the end of March 2006 entered into a financing agreement with the well-known Norwegian entrepreneurs Mr. Arne Blystad and Mr. Paal Hveem. The aim of the agreement was to secure enough financing for CAG to participate in a Russian privatization auction regarding the zink deposit Kyzyl-Tazhdyg. The auction was however subsequently lost against Chinese competition.

In accordance with the financing agreement the Norwegian investors obliged, irrespective of the auction result, to subscribe to a directed rights issue of shares amounting to the equivalent of at least 5 million USD ("MUSD") using the USD/SEK rate of 7.84 on the transaction day, which was March 29, 2006. In return they were given an option to, at their discretion, subscribe to another 5 MUSD. The rights issue price was agreed to be the average share price of CAG on the stock exchange during a 20 day trading period including and preceding the transaction day. This average share price was SEK 1.44 per share. The option entitled the Norwegian investors to consider the bigger rights issue amount during one month, that is to the end of April 2006. At that time they accepted the bigger rights issue amount.

The proposal by the Board of Directors thus implies that the Annual General Meeting approve to issue a maximum of 54,444,444 new shares at an issue price of SEK 1.44 per share leading to an increase of the share capital by a maximum of SEK 10,888,888.80. Mr. Blystad and Mr. Hveem shall be the sole subscribers to this rights issue. The rights issue will be paid through a set-off of debt amounting to MUSD 10 owned by Central Asia Gold to Mr. Blystad and Mr. Hveem.

Today there are 230,752,479 shares outstanding in CAG. Mr. Blystad and Mr. Hveem will thus, subject to AGM approval, become owners of 19.09% of the shares and votes of CAG. In this context, Mr. Hveem is proposed to become a Board Director of Central Asia Gold AB.

Next reports due

The other established reporting dates in 2006 are the following:

Annual General Meeting:	June 9, 2006
Second quarter report (Jan – June):	August 30, 2006
Third quarter report (Jan – Sept):	November 29, 2006

Company information

The full name of the parent company is Central Asia Gold AB (publ). It is a joint stock company of the public type headquartered in Stockholm with Swedish registration number 556659-4833. The registered address is Brovägen 9, SE-182 76 Stocksund.

Central Asia Gold AB

org no 556659-4833

GROUP PROFIT**AND LOSS ACCOUNT**

(all amounts in TSEK)

	2006-01-01 - 2006-03-31	2005-01-01 - 2005-03-31	2005-01-01 - 2005-12-31
Net sales	621	-	2 536
Capitalised costs		2 681	16 738
Dissolvement of negative goodwill	5 129	-	7 685
Total revenues	5 750	2 681	26 959
Operating costs			
Cost of goods sold	-	-	-748
External costs	-1 680	-1 377	-9 560
Salary related costs	-4 060	-1 664	-9 778
Depreciation	<u>-1 146</u>	<u>-71</u>	<u>-3 823</u>
	-6 886	-3 112	-23 909
Operating result	-1 136	-431	3 050
Net financial items	-434	348	976
Result after net financial items	-1 570	-83	4 026
The period's tax cost	-4	417	-7
Minority interest	-35	-	-
Net result after tax for the period	-1 609	334	4 019
<i>Earnings per share before dilution, SEK</i>	-0,007	0,002	0,022
<i>Earnings per share after dilution, SEK</i>	-0,007	0,002	0,021
Number of shares issued at period end	230 752 479	163 088 774	228 608 802
Average number of shares for the period	230 347 562	143 922 107	183 287 071
Average number of shares for the period after dilution	234 994 483	147 902 227	189 572 354

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GROUP BALANCE SHEET	March 31,	March 31,	Dec 31,
(all amounts in TSEK)	2006	2005	2005
ASSETS			
FIXED ASSETS			
Intangible fixed assets	62 520	37 268	57 546
Tangible fixed assets	43 815	6 114	42 080
<i>Financial fixed assets</i>	2 844	1 427	2 718
Total fixed assets	109 179	44 809	102 344
CURRENT ASSETS			
Inventories	20 209	1 634	9 207
Current receivables	90 005	3 404	10 360
Cash and bank	50 089	15 042	17 128
Total current assets	160 303	20 080	36 695
TOTAL ASSETS	269 482	64 889	139 039
EQUITY AND LIABILITIES			
Total equity	117 088	63 439	117 376
Minority interest	354	-	51
Provisions	15 926	-	15 036
Current Liabilities	136 114	1 450	6 576
TOTAL EQUITY AND LIABILITIES	269 482	64 889	139 039
ASSETS PLEDGED			
Bank accounts	50	50	50
CONTINGENT LIABILITIES			
	-	-	-

org no 556659-4833

GROUP CASHFLOW ANALYSIS	Jan - March	Jan - March	Jan - Dec
(All amounts in TSEK)	2006	2005	2005
Operating activities	262	-45	-556
Paid/received interest and similar items	-439	127	-249
Cash flow from operations before changes in working capital	-177	82	-805
<i>Changes in working capital</i>	38 576	-5 945	-8 341
Net cash flow used in operating activities	38 399	-5 863	-9 146
Net cashflow used in investing activities	-6 803	-5 025	-50 501
Net cash flow from financing activities	1 286	10 188	60 529
Increase in cash and bank	32 882	-700	882
Cash and bank at the beginning of the period	17 128	15 522	15 522
Translation difference in cash and bank	79	221	724
Cash and bank at the end of the period	50 089	15 043	17 128

Central Asia Gold AB

org no 556659-4833

STATEMENT OF CHANGES IN EQUITY (GROUP)

(Expressed in TSEK)	Share capital	Restricted reserves	Non-restricted reserves	Total
Equity as at Dec 31, 2005	45 722	68 032	3 621	117 376
New rights issues	429	857		1 286
Rights issue costs				
Translation difference			35	35
The net result for the period			-1 609	-1 609
Equity as at March 31, 2006	46 150	68 890	2 048	117 088

Central Asia Gold AB

org no 556659-4833

KEY RATIOS	2006-03-31	2005-03-31	2005-12-31
Group			
Total assets, TSEK	269 482	64 889	139 039
Total equity, TSEK	117 088	63 439	117 376
Equity ratio, %	43,4%	97,80%	84,4%
Interest bearing debt, TSEK	10 352	no	no
Employees at period end	403	106	449
Per share data			
Earnings per share, SEK	-0,007	0,002	0,022
Equity per share (SEK)	0,507	0,389	0,513
Return on equity (%)	-1,37%	0,40%	4,7%

Key ratio definitions

Total assets, TSEK	Total assets at period end
Total equity, TSEK	Total equity at period end
Equity ratio, %	Total equity divided by total assets expressed as a percentage
Interest bearing debt, TSEK	Total interest bearing debt at the period end
Earnings per share	Net result after tax for the period divided by the average number of outstanding shares for the period before dilution
Equity per share (SEK)	Total equity at the period end divided by the total number of shares outstanding at the period end
Return on equity (%)	Net result after tax for the period divided by the average equity for the same period

Accounting principles

Group

As from financial year 2005, Central Asia Gold prepares its consolidated group accounts in accordance with International Financial Reporting Standards (IFRS, previously IAS). The group in this report applies the same accounting principles and calculation methods as in the most recent interim report and annual report. For a description of these principles, reference is being made to the latest interim report and annual report.

Segment information

The company's accounting is focused on the primary segments - geographic areas. These are defined as separate countries. The secondary segments are various kinds of minerals. For the time being, the group is active within gold production (as from Q1 2005) in one single country, Russia. Therefore no segment information is provided at this point in time.

Related party transactions

Sale of 48% of the subsidiary OOO Mars

The subsidiary OOO Mars primarily extends transportation services to the group companies of Central Asia Gold in Russia. The reason is that outsourcing possibilities do not exist in these remote places. OOO Mars also partly services external clients, primarily the oil company OOO STS-Services forming part of the Swedish Malka Oil group. Michail Malyarenko and Alexander Merko are some of the main owners of Malka Oil AB. In order to simplify the cost calculations it was during the reporting period decided to sell 48% of OOO Mars to OOO STS-Service. At the same time OOO STS-Service acquired the 2% minority in OOO Mars. Thereafter OOO STS-Service and OOO Tardan Gold are equal owners of OOO Mars. The price for the 48% interest was net book value amounting to some 1 million roubles. Since OOO Tardan Gold still has a significant influence on OOO Mars the latter will continue to be consolidated in the Central Asia Gold group accounts.

Security services

The Russian subsidiaries OOO Tardan Gold and OOO Artelj Tyva today purchase security services from the company OOO "Ochrannaya Firma Shtjit". This company is owned 60% by Michail Malyarenko. The pricing of the services is done at arm's length. During the first quarter of 2006 a total of 919,000 roubles were paid in respect of such services (some TSEK 250).

Office rent

Part of the group's management and administration works in the city of Tomsk in Siberia. Here they rent office space in a building owned by Michail Malyarenko. A number of external companies also rent office space in this building. During the first quarter of 2006 the Central Asia Gold group has paid Tomsk office rent in an amount of 255,000 roubles (some TSEK 68). This is the same office rent payable by external tenants in the building.

Management company

In order to optimize the cost for management services part of the central administration in the city of Tomsk has been separated into a special management company. This management company as at end of March 2006 comprised some 10 employees including Michail Malyarenko, legal staff, book-keepers, controllers, interpretists and logistics personnel. The aim of this measure is to reduce the administrative costs as the management company also will be able to offer services to external clients. Another aim is to get better a cost distribution base between the various group companies. The management company shall not be profit maximising. During the first quarter of 2006 the subsidiary OOO Tardan Gold paid in total 2 million roubles (some TSEK 535) in respect of management services from this company. These costs were previously represented by salary and other costs in respect of the own group staff. The owners of the management company are Central Asia Gold's two main owners Alexander Merko and Michail Malyarenko.

This report has not been subject to review by the company's auditors.

Stockholm, May 22, 2006

The Board of Directors of Central Asia Gold AB (publ)

For further information, please visit our website www.centralasiagold.se or contact Mr. Torbjörn Ranta, Managing Director, on telephone/fax +46 8 624 26 80, cell phone +46 708 85 55 04 or via email torbjorn.ranta@centralasiagold.se, address: Brovägen 9, SE-182 76 Stocksund, Sweden.

Central Asia Gold AB is a Swedish junior mining company focused on gold production and exploration in Russia and Mongolia in the central parts of Asia. The gold production was initiated in late January 2005 and the assets today encompass some 548,000 troy ounces (1 troy ounce = 31.1 g) of Russian gold reserves C1/ C2 and gold resources P1. CAG AB plans to reach a yearly production volume of at least 800 kg of gold (24,000 oz) as from the second half of 2007.

Cautionary Statement

Statements and assumptions made in this report with respect to Central Asia Gold AB's ("CAG") current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of CAG. Forward-looking statements include but are not limited to those using words such as "may", "might", "seeks", "expects", "anticipates", "estimates", "believes", "projects", "plans", "strategy", "forecast" and similar expressions. These statements reflect management's expectations and assumptions in light of currently available information. They are subject to a number of risks and uncertainties, including but not limited to (i) changes in the economic, regulatory and political environments in the countries where CAG operates; (ii) changes as regards the geologic information available in respect of the various projects undertaken; (iii) CAG's continued ability to secure enough financing for carrying on its operations as a going concern; (iv) the success of its potential joint ventures and alliances if any; (v) exchange rates,

particularly between the Russian rouble and the U.S. dollar. In light of the many risks and uncertainties surrounding any gold production and exploration company at an early stage of its development, the actual results could differ materially from those presented and forecast in this report. CAG assumes no unconditional obligation to immediately update any such statements and/or forecasts.