

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2008

This report is dated May 15, 2008

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of our operations should be read in conjunction with the consolidated financial statements of Arawak Energy Limited ("Arawak" or the "Company") and Notes relating thereto as at and for the three months ended March 31, 2008 (unaudited), for the three months ended March 31, 2007 (unaudited) and for the year ended December 31, 2007. Our financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in US dollars, unless otherwise indicated.

This MD&A contains certain "forward-looking statements". Forward-looking statements are not based on historical facts but rather on management's expectations regarding the Company's future growth, results of operations, production, future capital and other expenditure, competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, but are not limited to, risks associated with the oil and gas industry (for example operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditure; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments and risk associated with international activity. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in the Company's securities should not place undue reliance on these forward-looking statements.

Certain financial measures referred to in this MD&A are not prescribed by Canadian GAAP. These non-GAAP financial measures do not have any standardised meaning and therefore may not be comparable to similar measures presented by other companies. Funds from Operations (dollars and per share amounts) are included because some investors use this information to analyse operating performance and liquidity. The additional information should not be considered in isolation or as a substitute for measures of performance prepared in accordance with Canadian GAAP. Funds from operations per share and funds from operations are expressed before changes in non-cash working capital. A reconciliation of funds from operations to cash flow from operating activities is provided within the statement of cash flows.

This MD&A uses certain terms which are specific to the oil and gas industry. These are non-GAAP terms and are defined within our document. Except as otherwise required by the context, reference in this MD&A to "our", "we" or "us" refer to the combined business of Arawak and all subsidiaries and associated companies.

Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website at www.arawakenergy.com.

OVERALL PERFORMANCE AND OPERATIONS REVIEW

Arawak Energy Limited (“Arawak” or the “Company”) enjoyed an excellent first quarter of 2008 with production from Kazakhstan, Russia and Azerbaijan averaging 11,948 barrels of oil equivalent per day (“boepd”), up 31% from 9,088 barrels of oil per day (“bopd”) in the first quarter of 2007 and up 1% from 11,775 boepd in the fourth quarter of 2007.

In Kazakhstan, where the Company has a 100% interest in six blocks, the aggressive 2007 drilling programme has wound down over the first quarter of 2008. A further eight wells were drilled at Akzhar, the largest of the Company’s fields. Seven of these wells were exploration or appraisal wells and of these, five have been completed as commercial producers, including well 92, which has proved up oil in multiple horizons 1.7 km from the nearest producing well. Work will now focus on the preparation of the Technical Scheme of Development (“TSD”), needed to facilitate the envisaged transition from the contractual exploration phase to the production phase. On completion of the TSD, intensive development drilling can commence. Similarly, no further drilling took place in the Company’s Besbolek field as the Company is in the advanced stage of preparation of the TSD, which is needed to facilitate the transition to the contractual production phase. The Company is now producing at less than capacity at both Akzhar and Besbolek fields due to the regulatory restraints inherent in the exploration phase, which will be lifted in the production phase. The new oil processing facility for Besbolek is now complete and the Company’s own transfer station is in the process of being commissioned, allowing direct injection of Besbolek crude to the main KazTransOil pipeline.

At Alimbai, the last of five exploration wells will be drilled in the second quarter, and so far oil productive sands have been encountered in three of the four exploration wells drilled. The successful exploration wells are being progressively tested, zone by zone. Test production from Alimbai is currently around 300 bopd, although none of the thickest and most prospective Baremian intervals have yet been tested. Once the testing programme has been completed, the wells will be shut-in in accordance with regulations until the start of the production phase. The next phase of development will be a \$4.0 million seismic survey, comprising approximately 200 line km 2D and 27 sq km 3D, which will be shot later this year. A seismic survey will also be acquired at the Company’s large East Zharkamys III exploration block and at Tamdykol, the new exploration block that was acquired in May 2008. Survey work on the Akzhar-Kenkiyak pipeline has commenced, and construction is expected to commence in the third quarter.

In Russia, the Company successfully drilled into a new pool in the North Israel block, proving up additional reserves. The Company has a 50% interest in this block and is the operator. The successful well 64 is now flowing approximately 270 bopd from a deeper horizon than previously encountered on the block. The Company will shortly move uphole and test the main productive horizon. An application to drill an additional well in the new pool is currently in process with the regulatory authorities. 81 sq km of 3D seismic data is now being processed prior to interpretation later in the second quarter and further drilling will follow later in the year. A 33 sq km 3D seismic shoot has been completed on the Company’s newly acquired 100% owned South Sotchemyu block, with interpreted maps expected by mid year. Additional 2D seismic will be shot in the winter of 2008/09. At Sotchemyu-Talyu, where the Company also has a 50% interest and is the operator, side-track wells were drilled for the first time using our own drilling rig. The first such side track well is flowing 375 bopd. 120 km of 2D seismic is expected to be acquired later in the year over the Company’s 100% owned Kymbozhyuskaya exploration block.

In Azerbaijan, Southwest Gobustan, the small quantities of oil and gas production are being progressively shut down due to water handling problems. These issues will be addressed in conjunction with a new field development plan, which will be produced after completion of interpretation of the 2D and 3D seismic survey over the 3 blocks.

Sales volumes rose 21% to 1,003,587 barrels from 826,973 barrels in the first quarter of 2007 and declined 13% from 1,156,232 barrels in the last quarter of 2007 due to a reduction in inventory in the fourth quarter of 2007. The average realised selling price in the first quarter of 2008 was \$66.34, compared with \$43.30 in the first quarter of 2007.

Oil and gas sales revenues were \$66.6 million in the first quarter of 2008 compared with \$35.8 million in the first quarter of 2007 and \$79.6 million in the last quarter of 2007. The net income in the first quarter of 2008 was \$8.5 million compared with \$1.3 million in the first quarter of 2007 and \$21.9 million in the last quarter of 2007. However, the net income for the fourth quarter of 2007 included certain one-off reductions in the tax charge for the year following a review of the group’s tax position,

whilst operating costs in the first quarter of 2008 include \$3.0 million incurred in relation to the re-domiciliation and potential London listing. Also in the first quarter of 2008, both of our major producing fields in Kazakhstan moved to the Excess Profit Tax environment, following increases in production and profit. Current income tax in the first quarter of 2008 was \$14.1 million compared to \$5.9 million in the first quarter of 2007 with \$13.0 million accounted for in Kazakhstan. Funds from operations were \$16.1 million in the first quarter of 2008, an increase of 83% over the first quarter of 2007 and capital expenditure was \$10.6 million excluding acquisitions.

In the first quarter of 2008, the Azerbaijani operations contributed a loss of \$0.2 million to the consolidated results of Arawak. Prior to commencement of commercial operations in the second quarter of 2007, Arawak reflected the result of its Azerbaijani operations through their carrying value in Arawak's consolidated balance sheet.

FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

| For the three months ended March 31 | 2008 | 2007 ² | 2006 ² |
|-------------------------------------|-----------|-------------------|-------------------|
| Crude oil sales | \$66,580 | \$35,804 | \$27,719 |
| Net income | \$8,473 | \$1,268 | \$5,292 |
| Per share - basic | \$0.049 | \$0.007 | \$0.031 |
| Per share - diluted | \$0.049 | \$0.007 | \$0.030 |
| Funds from operations ¹ | \$16,068 | \$8,760 | \$10,590 |
| Per share - basic | \$0.092 | \$0.051 | \$0.061 |
| Per share - diluted | \$0.092 | \$0.051 | \$0.062 |
| Capital expenditure | \$10,563 | \$7,700 | \$9,627 |
| Shareholders' equity | \$174,586 | \$130,042 | \$115,543 |
| Shares outstanding - basic | 173,892 | 173,392 | 173,175 |
| Shares outstanding - diluted | 174,276 | 174,476 | 174,622 |
| Weighted average shares - basic | 173,892 | 173,392 | 173,039 |
| Weighted average shares - diluted | 174,276 | 174,476 | 174,486 |

¹ Funds from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital.

² Certain comparative figures have been restated to conform to the current financial statement presentation.

OPERATIONAL HIGHLIGHTS

| For the three months ended March 31 | 2008 | 2007 |
|--|-----------|-----------|
| Production - boe | 1,087,237 | 817,983 |
| Average daily production - boe | 11,948 | 9,088 |
| Sales - boe | 1,003,587 | 826,973 |
| <u>Revenue and expenses per boe sold</u> | | |
| Crude oil and gas sales | \$66.34 | \$43.30 |
| Interest and other income | \$0.69 | \$0.36 |
| Royalties and taxes | (\$14.45) | (\$10.29) |
| Production costs | (\$9.01) | (\$4.87) |
| Transportation and selling expenses | (\$5.44) | (\$4.98) |
| Net operating income | \$38.13 | \$23.52 |

NETBACK TABLE

The following table presents the operations and earnings netbacks on a per barrel basis calculated by dividing total Company revenues and costs by total sales volumes.

For the three months ended March 31

| Per boe | 2008 | 2007 |
|--|-------------|-------------|
| Crude oil and gas sales | 66.34 | 43.30 |
| Interest and other income | 0.69 | 0.36 |
| Total revenue | 67.03 | 43.66 |
| Royalties and taxes | (14.45) | (10.29) |
| Production costs | (9.01) | (4.87) |
| Transportation and selling expenses | (5.44) | (4.98) |
| Net operating income | 38.13 | 23.52 |
| General and administrative expenses | (5.51) | (3.78) |
| Re-domiciliation and potential listing costs | (3.03) | - |
| Realised foreign exchange gain | 1.59 | 0.03 |
| Interest expense | (1.11) | (2.23) |
| Current income tax expense | (14.08) | (7.09) |
| Funds from operations | 15.99 | 10.45 |
| Depletion, depreciation and amortisation | (8.22) | (9.59) |
| Stock option compensation | (0.29) | (1.02) |
| Accretion expense | (0.14) | (0.09) |
| Unrealised foreign exchange gain (loss) | - | 0.15 |
| Future income tax recovery | 1.08 | 1.65 |
| Net income | 8.42 | 1.55 |

PRODUCTION

Overall, the Company's production increased 33% in the first quarter of 2008 versus the first quarter of 2007 to 1,087,237 boe or the equivalent of 11,948 boepd from 817,983 barrels or 9,088 bopd.

Production from our Kazakhstani operations increased 58% to 676,184 barrels or the equivalent of 7,431 bopd in the first three months of 2008 versus 429,044 barrels or 4,767 bopd for the same period in 2007.

In Russia, production increased 2% in the first quarter of 2008 to 395,233 barrels or the equivalent of 4,343 bopd versus 388,939 barrels or 4,322 bopd for the first quarter of 2007.

For the three months ended March 31

| | 2008 | 2007 | Increase | Percentage increase |
|--|-------------|-------------|-----------------|----------------------------|
| <u>Production - boe</u> | | | | |
| Kazakhstan | 676,184 | 429,044 | 247,140 | 58% |
| Russia | 395,233 | 388,939 | 6,294 | 2% |
| Azerbaijan | 15,820 | - | 15,820 | n/a |
| Total | 1,087,237 | 817,983 | 269,254 | 33% |
| <u>Average daily production - boe</u> | | | | |
| Kazakhstan | 7,431 | 4,767 | 2,664 | 56% |
| Russia | 4,343 | 4,322 | 21 | 0% |
| Azerbaijan | 174 | - | 174 | n/a |
| Total | 11,948 | 9,088 | 2,859 | 31% |

SALES

For the three months ended March 31

| | 2008 | 2007 | Change | Percentage change |
|------------------------------------|-----------|---------|---------|-------------------|
| Sales – boe | | | | |
| Kazakhstan | 591,868 | 457,195 | 134,673 | 29% |
| Russia | 397,053 | 369,778 | 27,275 | 7% |
| Azerbaijan | 14,666 | - | 14,666 | n/a |
| Total | 1,003,587 | 826,973 | 176,614 | 21% |
| Average sales price per boe | | | | |
| Kazakhstan | \$73.09 | \$47.67 | \$25.42 | 53% |
| Russia | \$58.14 | \$37.88 | \$20.26 | 53% |
| Azerbaijan | \$16.12 | - | \$16.12 | n/a |
| Weighted Average | \$66.34 | \$43.30 | \$23.04 | 53% |

Sales volume increased 21% to 1,003,587 boe in the three months ended March 31, 2008 from 826,973 barrels in the same period in 2007 reflecting our production growth and an increase in crude oil inventory in the period. The average sales price received in the first quarter increased to \$66.34 per boe in 2008 from \$43.30 in the first quarter of 2007. The average selling price per barrel is dependent upon world benchmark and domestic prices, and is impacted by the mix between export and domestic sales as well as between Kazakhstan and Russia as detailed in the marketing section below.

For the three months ended March 31

| Sales composition by volume | 2008 | 2007 |
|------------------------------------|------|------|
| Kazakhstan export | 43% | 47% |
| Russian domestic | 25% | 24% |
| Russian export | 15% | 21% |
| Kazakhstan domestic | 16% | 8% |
| Azerbaijan | 1% | 0% |
| Total | 100% | 100% |

MARKETING

The majority of Kazakhstani crude is exported by pipeline and sold as Urals Export Blend, FOB (free on board) Odessa, Ukraine while crude is also exported by train and sold FCA (free carrier) Poland. Russian crude is exported by pipeline and sold as Urals Export Blend FOB Primorsk, Russia. In Kazakhstan, domestic oil sales are sold either ex-field or delivered to the local refinery. In Russia, domestic sales are sold ex-field. Azerbaijani oil is exported FOB Novorossiysk while gas and condensate are sold ex-field.

For the three months ended March 31, 2008

| Export oil sales | Kazakhstan | Russia | Azerbaijan | Total |
|--------------------------------------|------------|----------|------------|----------|
| Volume - barrels | 428,084 | 148,663 | 1,610 | 578,357 |
| Percentage of total sales by country | 72% | 37% | 11% | 58% |
| Revenue (thousands) | \$38,233 | \$13,637 | \$148 | \$52,018 |
| Average export price per barrel | \$89.31 | \$91.73 | \$92.15 | \$89.94 |
| Domestic oil sales | | | | |
| Volume - boe | 163,784 | 248,390 | 13,056 | 425,230 |
| Percentage of total sales by country | 28% | 63% | 89% | 42% |
| Revenue (thousands) | \$5,026 | \$9,448 | \$88 | \$14,562 |
| Average domestic price per boe | \$30.69 | \$38.04 | \$6.75 | \$34.25 |

For the three months ended March 31, 2007

| Export oil sales | Kazakhstan | Russia | Total |
|--------------------------------------|-------------------|---------------|--------------|
| Volume - barrels | 394,135 | 172,557 | 566,692 |
| Percentage of total sales by country | 86% | 47% | 69% |
| Revenue (thousands) | \$20,492 | \$9,662 | \$30,154 |
| Average export price per barrel | \$51.99 | \$55.99 | \$53.21 |

Domestic oil sales

| | | | |
|--------------------------------------|---------|---------|---------|
| Volume - barrels | 63,060 | 197,221 | 260,281 |
| Percentage of total sales by country | 14% | 53% | 31% |
| Revenue (thousands) | \$1,303 | \$4,347 | \$5,650 |
| Average domestic price per barrel | \$20.66 | \$22.04 | \$21.71 |

Kazakhstan

Total sales volume in Kazakhstan increased 29% in the first quarter of 2008 versus the same period in 2007 as a result of a 58% production increase partially offset by an increase in inventory. Export sales volume increased 9% while domestic sales volume increased 160%.

Revenues from Kazakhstan export sales increased 87% to \$38.2 million from \$20.5 million due to a 9% sales volume increase to 428,084 barrels from 394,135 barrels and a 72% increase in the average export price per barrel to \$89.31 from \$51.99.

Domestic sales revenues in Kazakhstan increased 286% due to a 160% increase in sales volume to 163,784 barrels from 63,060 barrels and a 49% increase in the average domestic price per barrel to \$30.69 from \$20.66.

Russia

Total sales volume in Russia increased 7% in the three months ended March 31, 2008 versus the same period in 2007 as a result of a 2% increase in production and a decrease in inventory. The sales mix in Russia during the first quarter of 2008 was 63% domestic and 37% export, versus 53% domestic and 47% export in the first quarter of 2007.

Revenues from Russian export sales increased 41% to \$13.6 million from \$9.7 million due to a 64% increase in the average export price per barrel to \$91.73 from \$55.99 and despite a 14% decrease in the sales volume to 148,663 barrels from 172,557 barrels.

Domestic sales revenues in Russia increased 117% to \$9.4 million from \$4.3 million due to a 73% increase in the average domestic price per barrel to \$38.04 from \$22.04 and a 26% increase in sales volume to 248,390 barrels from 197,221 barrels.

CRUDE OIL INVENTORY

Crude oil inventory consists of amounts produced and in storage tanks at the end of each period and is recorded at the lower of cost, determined on a weighted average basis, and net realisable value. The table below summarises the current period oil movement and inventory balances.

For the three months ended March 31

| In boe | 2008 | 2007 |
|---------------------------------|-------------|-------------|
| Crude oil inventory - beginning | 120,056 | 99,353 |
| Production | 1,087,237 | 817,983 |
| Sales | (1,003,587) | (826,973) |
| Field usage and shipping losses | (58,482) | (10,227) |
| Crude oil inventory - ending | 145,225 | 80,136 |

ROYALTIES AND TAXES

For the three months ended March 31

| In thousands of US dollars | 2008 | 2007 |
|-----------------------------------|-------------|-------------|
| Mineral resource extraction tax | 7,361 | 3,732 |
| Export duties | 6,395 | 4,245 |
| Royalties | 742 | 533 |
| Total | 14,498 | 8,510 |

Mineral resource extraction tax

The Company is subject to production taxes in Russia at a rate established monthly by the state based on current world oil prices. The tax increased 84% to \$18.54 per barrel sold in the first three months in 2008 from \$10.09 per barrel in the same period in 2007.

Export duties

Export sales in Russia are subject to export duties with rates established by the state two months in advance based on prevailing world oil prices. Export duties are not levied on domestic sales. The export duties increased 75% to \$43.02 per barrel of Russian export sales in the first quarter of 2008 compared to \$24.60 in the first quarter in 2007.

Royalties

For its producing fields in Kazakhstan, Arawak pays royalties monthly to the Government using stabilised rates that are graduated and increase with cumulative annual production. The increase in royalties in absolute terms in the first quarter of 2008 reflects the increased sales. However as a percentage of Kazakhstan sales revenues royalties decreased to 1.7% in the first quarter of 2008 from 2.4% in the first quarter of 2007.

PRODUCTION COSTS

Production costs increased to \$9.0 million or \$9.01 per barrel sold in the quarter ended March 31, 2008 compared to \$18.8 million or \$5.07 per barrel sold for the year 2007 and \$4.0 million or \$4.87 per barrel sold in first quarter of 2007. This sharp increase in production costs on a per barrel basis was due to a combination of factors including escalating diesel fuel and electricity costs, the commencement of production operations in the Alimbai field in Kazakhstan, local currency cost inflation in both Russia and Kazakhstan, and the effect of a weak US dollar increasing local currency costs in US dollar terms.

TRANSPORTATION AND SELLING COSTS

Transportation and selling expenses include pipeline, trucking and other selling costs associated with marketing and delivering crude oil to markets. These costs increased to \$5.5 million or \$5.44 per barrel sold in the first quarter of 2008 from \$4.1 million or \$4.98 per barrel sold in the first quarter of 2007 due mainly to the devaluation of the US dollar as a significant portion of these costs are denominated in local currency.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased to \$5.5 million in the first quarter of 2008 from \$3.1 million in the first quarter of 2007 due primarily to the recognition of the Company's proportion of Azerbaijan costs and higher head office expenses (partly recharged to the Kazakhstani business segment).

RE-DOMICILIATION AND POTENTIAL LISTING COSTS

The Company incurred \$3.0 million in relation to corporate re-domiciliation from Anguilla to Jersey and the proposed additional listing on the London Stock Exchange.

INTEREST EXPENSE

Interest expense decreased to \$1.1 million in the first quarter of 2008 from \$1.8 million in the same period in 2007 due mainly to the decrease in BNP Paribas loan outstanding in Russia and a reduction in US dollar interest rates.

CURRENT INCOME TAX EXPENSE

Current income tax expense increased to \$14.1 million or \$14.08 per barrel in the first quarter of 2008 versus \$5.9 million or \$7.09 per barrel for the first quarter of 2007 reflecting higher profitability in the current period and the higher Excess Profit Tax ("EPT") rate reached on the Akzhar field and EPT charges this year on Besbolek and Alimbai fields.

Arawak is subject to EPT on the Akzhar, Besbolek and Karataiky hydrocarbon contracts in Kazakhstan at incremental tiered rates based on each contract's cumulative internal rate of return in excess of 20%. The EPT rates for these fields range from 0 to 30%. For the Alimbai field and East Zharkamys III block in Kazakhstan, EPT rates range from 0 to 60% and are calculated based on the ratio of net income to deductions in excess of 20%.

FUTURE INCOME TAX

Future income tax recovery decreased to \$1.1 million or \$1.08 per barrel in the first quarter of 2008 versus \$1.4 million or \$1.65 per barrel for the first quarter of 2007 reflecting the movement in the temporary differences between accounting and tax books.

DEPLETION, DEPRECIATION AND AMORTISATION

Depletion, depreciation and amortisation expense decreased to \$8.22 per barrel (or \$8.3 million) in the first three months of 2008 from \$9.59 per barrel (\$7.9 million) in the first three months of 2007 due mainly to increased reserves updated at the end of 2007 in comparison to the reserves used throughout 2007.

CAPITAL EXPENDITURE

In the first quarter of 2008 a total of \$10.6 million was spent on capital expenditure compared to \$7.7 million in the previous year, excluding acquisitions. The majority of the capital expenditure was incurred in Kazakhstan.

OUTSTANDING SHARE DATA

The table below sets out the Company's outstanding shares.

| As at: | May 14, 2008 | March 31, 2008 | December 31, 2007 |
|---------------------|--------------|----------------|-------------------|
| Common Shares | 173,891,865 | 173,891,865 | 173,891,865 |
| Exchangeable Shares | - | - | - |
| Total outstanding | 173,891,865 | 173,891,865 | 173,891,865 |
| Stock Options | 12,502,500 | 12,502,500 | 12,502,500 |

LIQUIDITY AND CAPITAL RESOURCES

The levels of cash, current assets and current liabilities are as set out below and expressed in thousands of US dollars.

| As at | March 31, 2008 |
|---------------------------|----------------|
| Cash and cash equivalents | 17,465 |
| Current assets | 74,371 |
| Current liabilities | (92,868) |
| Net current assets | (18,497) |

The Company's cash deposits are held principally in US dollars and are centrally managed. Surplus funds are placed on short-term deposit. Operational funds are kept in Azerbaijan, Russia and Kazakhstan.

The Company has a crude oil sales prepayment facility which allows Arawak to draw prepayments on future oil sales up to a maximum of \$50.0 million. The amount drawn as at March 31, 2008 was \$47.5 million and at December 31, 2007 was \$45.0 million.

In May 2008 the Company's wholly-owned subsidiary Altius Petroleum International BV ("Altius") signed a five year \$80 million reserve-based finance facility with the major European bank Calyon as mandated lead arranger. The initial committed amount of this revolving reserve-based facility is \$60 million. Other lenders are already in discussions to join the lending consortium and this event will trigger the increase in the facility to the full \$80 million. Altius expects to be able to draw down the initial amount within the second quarter of 2008, subject to customary conditions precedent. The main purposes of the facility will be to repay the existing Vitol pre-payment facility in full and to fund future developments in Kazakhstan, including the Akzhar-Kenkiyak pipeline, which is expected to be commissioned within the next 12 months.

Arawak's 50% owned joint venture in Russia has a bank borrowing base facility agreement with a \$60.0 million limit (Arawak share – \$30.0 million). The facility is repayable via quarterly repayments of \$3.45 million (Arawak share - \$1.7 million). The balance outstanding as at March 31, 2008 is \$29.9 million (Arawak share – \$14.9 million) and at December 31, 2007 was \$33.3 million (Arawak share – \$16.7 million). There are no penalties for early repayment and in certain circumstances accelerated repayments are required. The borrowing is secured by Russian export crude oil sales and by proportionate partner guarantees.

The Company continues to seek additional business opportunities in Kazakhstan, Russia, Azerbaijan and potentially elsewhere in the Former Soviet Union. Funding of any such further transactions will be considered on a case-by-case basis, depending on materiality and the expected cash flow profile of the opportunity.

SUMMARY OF QUARTERLY RESULTS

The following financial data is derived from the Company's consolidated financial statements for each of the eight most recently completed quarters.

| Quarter ended | | Crude oil sales | Net income (loss) | Net income (loss) per share | |
|---------------|--------------|-----------------|-------------------|-----------------------------|---------|
| | | | | Basic | Diluted |
| 2008 | March 31 | 66,580 | 8,473 | 0.049 | 0.049 |
| 2007 | December 31 | 79,580 | 21,924 | 0.126 | 0.125 |
| | September 30 | 56,619 | 7,761 | 0.045 | 0.044 |
| | June 30 | 30,650 | 308 | 0.002 | 0.002 |
| | March 31 | 35,804 | 1,268 | 0.007 | 0.007 |
| 2006 | December 31 | 29,123 | (3,720) | (0.021) | (0.021) |
| | September 30 | 39,638 | 5,841 | 0.034 | 0.034 |
| | June 30 | 33,975 | 5,026 | 0.029 | 0.029 |

RELATED PARTY TRANSACTIONS

All of the transactions below are recorded according to the terms of the related party contracts, which are on terms which management believes are no more and no less favourable than those with unrelated parties. Rosco S.A., a member of the Vitol group of companies, owns 38.7% of the Company's outstanding shares.

Crude oil sales

Revenues from Russian and Kazakhstan export crude oil sales during the three months ended March 31, 2008 received from Vitol S.A. (an affiliate of Rosco S.A.) were \$52.0 million (three months ended March 31, 2007 – \$29.6 million). Accounts receivable at March 31, 2008 include revenues from export crude oil sales to Vitol S.A. of \$39.5 million (December 31, 2007 – \$15.0 million).

Crude oil sales prepayment facility

The balance of the crude oil sales prepayment facility provided by Vitol S.A. at March 31, 2008 is \$47.5 million (December 31, 2007 – \$45.0 million) with related interest expense for the three months ended March 31, 2008 of \$0.7 million (three months ended March 31, 2007 – \$1.0 million).

Transportation and selling costs

Transportation and selling costs include \$0.2 million charged by Vitol S.A. associated with export oil sales and related accounts payable and accrued liabilities outstanding at March 31, 2008 are \$0.1 million (December 31, 2007 – \$0.2 million).

Other transactions with shareholder

General and administrative expenses during the three months of 2008 include \$0.3 million of costs reimbursed to the Vitol group, of which Rosco S.A. is an affiliate. These amounts were charged at cost. The balance owed to the Vitol group at March 31, 2008 was zero (December 31, 2007 – \$0.5 million).

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Principles of consolidation

Arawak is an international oil and gas exploration, development and production company with activities in Kazakhstan, Russia and Azerbaijan. The consolidated financial statements have been prepared in US dollars following Canadian GAAP and include the financial statements of Arawak and its wholly-owned subsidiaries, which are registered under the laws of Jersey, Anguilla (British West Indies), The Netherlands, Russia, Kazakhstan, Alberta (Canada), Cyprus and England & Wales. The Company's shares are listed on the Toronto Stock Exchange (TSX Venture Exchange until October 30, 2006) under the symbol "ABG". The Company announced that following a special meeting of the Company's shareholders held on April 2, 2008, the Company has continued its jurisdiction of incorporation from Anguilla, British West Indies to Jersey, Channel Islands. The Company's registered office is now Whiteley Chambers, Don Street, St. Helier, Jersey, JE4 9WG. The Company is now incorporated under the laws of Jersey. As a consequence of the continuation and to comply with Jersey law, the Company has also changed its name to Arawak Energy Limited. Arawak's common shares will continue trading on the Toronto Stock Exchange (the "TSX") but under the new name with the same trading symbol of "ABG".

Substantially all of the Company's operations in Russia and Azerbaijan are conducted through joint ventures and accordingly these financial statements reflect only the Company's proportionate interest.

Foreign currency translation

In Kazakhstan and Azerbaijan, operations are financially and operationally integrated and the functional currency is the US dollar. Arawak translates foreign currency denominated transactions using the temporal method whereby monetary assets and liabilities are translated at year end rates; non-monetary assets and liabilities are translated at rates in effect on the date of the transactions; revenue and expenses are translated at rates in effect on the date of the transaction with the exception of depreciation and amortisation, which are translated at historic rates. Foreign exchange gains and losses are included in earnings.

The functional currency of the Russian operations is the Russian rouble as it reflects the economic substance of the underlying events and circumstances of the self sufficient Russian activities. Transactions and amounts are translated using the current rate method whereby assets and liabilities are translated at the rate in effect on the balance sheet date; revenues and expenses are translated at the rate in effect on the transaction date. Foreign exchange gains or losses are recorded as other cumulative comprehensive translation adjustments and are recorded in accumulated other comprehensive income which is a separate component in shareholders' equity.

Oil and gas properties

Arawak follows the full cost method of accounting, whereby all costs incurred in exploring for and developing oil and gas reserves are capitalised. Such costs include land acquisition, geological and geophysical, drilling of both productive and unproductive wells, plant and equipment and administration costs that are reasonably allocated to these activities. Proceeds from disposals are recorded as a reduction of the related expenditure without recognition of a gain or loss unless the disposal would result in a change of 20% or more in the depletion rate.

Capitalised costs are accumulated on a country by country basis and are depreciated and depleted using the unit of production method based upon estimated proved reserves. The carrying values of unproved properties are excluded from the depreciation and depletion calculation.

The Company applies a ceiling test to capitalised costs to ensure that such costs do not exceed estimated future net revenues from production of proved reserves using forecasted sales prices less expected future capital, production, royalties and asset retirement obligation, together with the cost of unproved properties. An impairment loss is recognised when the carrying amount is not recoverable and exceeds its fair value.

Asset retirement obligation

The Company recognises a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period incurred with a corresponding increase in the carrying amount of the related asset, which is depleted as a component of oil and gas properties. The liability is adjusted each reporting period to reflect revisions to the estimated future cash flows and for the passage of time. The liability accretes until the date of expected settlement of the retirement obligations. The related accretion expense is charged to earnings. Actual expenditure incurred for site reclamation and abandonment is charged against the liability to the extent it exists on the balance sheet with the difference recognised as a gain or loss in the period in which settlement occurs.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of commitments and contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting periods. Amounts recorded for the depletion of oil and gas properties and asset retirement obligations are based on estimates of proved reserves and future development costs. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

Income tax

The Company follows the liability method of accounting for future income taxes. Under this method, income tax assets and liabilities are recognised based on the estimated tax effects of temporary differences in the carrying values of assets and liabilities in the financial statements and their respective tax bases, using income tax rates enacted on the balance sheet date. The effect of a change in income tax rates on the future income tax assets and liabilities is recognised in income or loss in the period of the change.

Stock-based compensation costs

The Company has a stock-based compensation plan. Compensation expense is based on the fair value at the grant date and recognised over the vesting periods of the respective options with a corresponding increase to contributed surplus. Any consideration received upon exercise of the options, together with the amount previously recognised in contributed surplus, is recorded as an increase to share capital.

ADOPTION OF NEW ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING PRONOUNCEMENTS

Effective April 1, 2007 the operations in Azerbaijan reached commercial production and accordingly the Company's proportionate share of revenues and expenses have been recognised in the statement of income and retained earnings from that date onwards. In prior periods, all revenues and expenses were capitalised as oil and gas properties reflected in the carrying value of the Azerbaijan asset.

Effective January 1, 2007 the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 1530 "Comprehensive income", Section 3251 "Equity", Section 3865 "Hedges" and Section 3855 "Financial instruments – recognition and measurement". As required by the new standards, prior periods have not been restated, except to reclassify the foreign currency translation balance as described under "comprehensive income". The adoption of these Handbook sections had no impact on opening retained earnings or accumulated other comprehensive income.

Comprehensive income

This standard introduces a new "Statement of comprehensive income" and establishes accumulated other comprehensive income as a separate component of shareholders' equity. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognised in comprehensive income but excluded from net income. Amounts included in accumulated other comprehensive income are reclassified to net income when realised. Upon adoption of Section 1530, cumulative translation adjustments relating to

self-sustaining foreign operations were reclassified to accumulated other comprehensive income and comparative amounts have been restated.

Equity

The equity section establishes standards for the presentation of equity and changes in equity during the reporting period.

Hedges

This section prescribes new hedge accounting standards. Hedge accounting continues to be optional. At the inception of the hedge, the Company must formally document the designation of the hedge, the risk management objectives, the hedging relationships between the hedged items and the hedging instruments and the methods for testing the hedge's effectiveness. The Company assesses at inception and throughout its term whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

Financial instruments

The accounting standard on financial instruments establishes the recognition and measurement criteria for financial assets, liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition while measurement in subsequent periods depends on their classification as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities" as defined by the standard.

Financial instruments "held-for-trading" are measured at fair value with changes to fair value recognised in net income, "available-for-sale" are measured at fair value with changes to fair value recognised in other comprehensive income and "held-to-maturity", "loans and receivables" and "other financial liabilities" are measured at amortised cost using the effective interest rate method of amortisation.

Cash and cash equivalents are classified as "held-for-trading" and are measured at carrying value, which approximates fair value due to their short-term nature. Accounts receivable and other current assets are classified as "loans and receivables". Accounts payable and accrued liabilities, corporate income taxes payable, crude oil sales prepayment facility, long-term debt and other long-term liabilities are classified as "other liabilities".

Upon adoption of this standard and its transition provisions, with respect to the amortised cost using the effective interest rate method of long-term debt, deferred financing costs of \$0.9 million previously included in deferred charges have been reclassified as unamortised debt issue costs which reduce the carrying value of the long-term debt.

Capital Disclosures and Financial Instruments – Presentation and Disclosure

The CICA issued three new accounting standards: section 1535, Capital Disclosures, section 3862, Financial Instruments-Disclosures, and section 3863, Financial Instruments-Presentation. Section 1535 establishes disclosure requirements about an entity's capital and how it is managed. The purpose will be to enable users of the financial statements to evaluate objectives, policies and processes for managing capital. Sections 3862 and 3863 will replace section 3861, Financial Instruments –Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim periods in fiscal years beginning on or after October 1, 2007. The Company began application of these sections effective January 1, 2008.

Inventory

In June 2007, the CICA issued Section 3031 – Inventories, which supersedes Section 3030 – Inventories. The purpose of this section was to prescribe the accounting treatment for inventories. A primary issue in accounting for inventories is the amount of cost to be recognised as an asset and carried forward until the related revenues are recognised. This Section provides guidance on the realisable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. In addition, the changes affected the classification of certain amounts currently recorded as inventory. These recommendations are effective for the Corporation beginning January 1, 2008.

The main impact on the Corporation's financial statements of adopting this standard is that virtually all the material and supplies balance will be classified as property, plant and equipment.

BUSINESS RISKS

As a junior oil and gas exploration, development and production company, Arawak is subject to risks and uncertainties inherent in the oil and gas industry and to risks inherent to a company of its size and stage of development. Due to the international nature of the Company's operations, it is subject to additional risks, including currency fluctuations, political risk, price controls and varying forms of fiscal regimes.

Oil and gas industry risks

Risks in the oil and gas industry include price fluctuations for commodity prices, operational risks and environmental concerns. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors. Arawak manages its operations in order to keep exposure to these risks to reasonable levels, including the use of hedging instruments and forward sale, fixed price contracts to hedge its exposure.

Operational risks in the oil and gas industry include exploration and reserve estimate risks, costs and availability of services and materials, premature reservoir declines, blowouts, well bore collapse, equipment failure and other accidents and adverse weather conditions. Arawak attempts to mitigate these risks by employing experienced field personnel, consultants and contractors.

The oil and gas industry is subject to extensive environmental and other regulation imposed by governmental authorities. Arawak has existing policies and practices that ensure its operations conform to the standards and government regulations required for each jurisdiction in which it operates.

Foreign currency exchange risk

Due to our operations in Kazakhstan, Russia and Azerbaijan, the Company is exposed to foreign currency fluctuations as domestic oil sales in Kazakhstan and Russia and a large portion of local expenses are denominated in local currencies.

Credit risk

A substantial portion of accounts receivable is related to export oil sales from Russia and Kazakhstan with one major customer. This customer also provides a crude oil prepayment facility allowing the Company to draw prepayments on future oil sales and diminishing the risk of collection. The Company's credit risk is mitigated on domestic sales by receiving full or majority payment in advance of each sale.

Interest rate risk

The Company is exposed to interest rate cash flow risk related to the variable interest rates on the crude oil sales prepayment facility, long-term debt and interest-bearing other long-term liabilities.

Political and economic conditions in Kazakhstan, Russia and Azerbaijan

Whilst there have been improvements in the economic situation in Kazakhstan, Russia and Azerbaijan in recent years, their economies continue to display some characteristics of emerging markets. These characteristics include, but are not limited to, the existence of currencies that are not freely convertible outside of the respective countries, a low level of liquidity of debt and equity securities in the markets and relatively high inflation.

Additionally, the oil and gas sectors in Kazakhstan, Russia and Azerbaijan are impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability are largely dependent upon the effectiveness of economic measures undertaken by the respective Governments, together with legal, regulatory and political developments, which are beyond the Company's control.

The financial condition and future operations of the Company may be adversely affected by continued uncertainties in the business environment of Kazakhstan, Russia and Azerbaijan. Management is unable to predict the extent and duration of these uncertainties, nor quantify the impact, if any, on the financial statements.

Tax legislation and practice in Kazakhstan, Russia and Azerbaijan are in the developmental stage and are therefore subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be charged additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for three to five years, however under certain circumstances a tax year may remain open longer.

Need for capital

Arawak must rely on access to debt and capital markets to supplement internally generated cash flow to fund its capital commitments and to finance its growth plans. There can be no assurance that Arawak will be successful in obtaining the funds required to meet its capital needs on a timely basis or, if successful, that the terms will be advantageous to Arawak.