MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and six months ended June 30, 2007

This report is dated August 14, 2007

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 Corporation ("Arawak" or the "Company") and Notes relating thereto as at and for the three and six months ended June 30, 2007 (unaudited) and for the year ended December 31, 2006. Our financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are 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 Corporation ("Arawak" or the "Company") enjoyed an increase in production of 25% to 9,404 barrels of oil equivalent per day ("boepd") on average in the second quarter of 2007 compared with the corresponding quarter of 2006, and up 4% over the first quarter of 2007. This figure includes, for the first time, production of 293 boepd from Azerbaijan, where commercial operations have now commenced.

Sales volumes however fell 14% from 826,973 barrels of oil ("bbls") in the first quarter of 2007 to 712,296 barrels of oil equivalent ("boe") in the second quarter. This was mostly due to a large export sale from Kazakhstan of approximately 159,000 barrels being in transit at the quarter end, with the sale being booked in early July.

The extraordinary weather conditions in Kazakhstan that were reported in the first quarter of 2007 persisted until mid May, and continued to impede production until that time. By the end of June however, production had recovered to 9,848 boepd and at the date of this report, was in excess of 11,000 boepd. The weather conditions also necessitated additional ex-field domestic sales in Kazakhstan during the period because road conditions were too poor to truck oil to the export pipeline entry point, some 75 kilometres from Arawak's biggest producing field in Kazakhstan. Domestic sales are at significantly lower prices than export sales and are consequently less profitable.

Together these factors had a negative effect on profitability and cashflow in the second quarter of 2007. Sales were $30.7 million in the second quarter of 2007 (compared with $34.0 million in the corresponding quarter of 2006 and $35.8 million in the first quarter of 2007), while net income was $0.3 million (compared with $5.0 million in the second quarter of 2006 and $1.3 million in the first quarter of 2007). Funds from operations were $7.2 million in the second quarter of 2007 and capital expenditure was $9.9 million.

Now that commercial operations in Azerbaijan have commenced, Arawak has begun to recognise its share of the income and expenditure of the Azerbaijani operations in Arawak's own consolidated income and expenditure statement. In the second quarter of 2007, the Azerbaijani operations contributed a loss of $0.3 million to the consolidated result of Arawak for the period. Up until now, Arawak has reflected the result of its Azerbaijani operations through their carrying value in Arawak's consolidated balance sheet.

Production would have risen further had it not been for extraordinary weather conditions in both Kazakhstan and Russia. In Kazakhstan, throughout the first six weeks of the quarter, operations in both the Akzhar and Besbolek fields suffered from weather-related downtime, with the melting of a record winter snowfall. By mid-May, trucking and oil transportation services were normalised. However, Russia recorded the "wettest" May on record, with both rain and snow storms, which significantly disrupted operations there. While production in the Sotchemyu-Talyu fields was quite stable due to the existing closed intra-field pipeline network, production at the North Irael field, acquired in 2006 suffered curtailment due to reliance on trucking to the Central Processing Facility ("CPF) located at the neighbouring Sotcheymu - Talyu fields.

In the second quarter, Arawak has significantly ramped up its drilling campaign both in Kazakhstan and Russia. Presently, there are eight active rigs, a record, with four in each country.

In Kazakhstan, two rigs are now active at Akzhar and to date seven wells have been drilled in the northern structure. The program has been successful in expanding the lateral extent of the field and also establishing commercial production in the Upper Barem interval. With interpreted 3D seismic mapping completed over the full expanded 71.5 km^2 block area now available, Arawak plans to drill an additional nine wells at Akzhar this year, some of which are largely exploratory in nature,

At Besbolek, where 3D seismic mapping over half the block was completed at the end of 2006, a two-rig drilling program is underway with permits received to drill eighteen wells. Arawak is targeting four entirely new leads, two possible extensions to existing structures, as well as numerous new drilling locations in this block. To date, six wells have been drilled and completed at Besbolek of which five were successful. One of the exploratory successes was well no. 50 which has discovered oil in a previously untested structure in the down-faulted southern Besbolek block. Open hole logs have

established three hydrocarbon-bearing intervals. The primary oil accumulation was encountered in the upper Triassic sediments within the lower interval of 347 - 379 metres with gross sand thickness of 33 metres and effective net pay of approximately 30 metres. On July 19, the well was perforated in the Upper Triassic interval and initially tested 90 bopd on a 3 millimetre choke. Extended flow testing indicates that the optimal producing regime is a natural flow of 225 bopd on a 5 millimetre choke and no water cut. The well produces crude oil 30° API and is the only naturally flowing well in our stock. This discovery, which in the Company's preliminary assessment adds between 3 and 6 million barrels to the proved and probable reserves in the Besbolek block, was confirmed by a successful follow up well no. 51.

The four-rig program will continue in Kazakhstan through the third and fourth quarter where the Company remains on target to drill approximately 37 wells in 2007.

Prospects for increased production in Kazakhstan were also boosted by the completion of a new CPF at Arawak's second biggest producing field in Kazakhstan, Besbolek. At a cost of around $700,000 and with a planned capacity to handle up to 5,000 bopd, the CPF came online to produce sales quality crude oil in the first quarter of 2007 and is currently able to process 3,000 bopd. Meanwhile, to alleviate a potential bottleneck in access to the main KazTransOil export pipeline system for Besbolek and Karakaityz, the construction of a Company-owned custody point at the KazTransOil station is underway and scheduled for completion in the fourth quarter of 2007.

In Russia, Arawak continued drilling at the Sotchemyu-Talyu fields in the second quarter following the re-interpretation in 2006 of existing seismic data. Three new wells were successfully drilled there in the second quarter of this year and have been put on production.

In the second quarter of 2007, Arawak announced that it has entered into an agreement with Vitol BV, subject to certain conditions, under which the Company is expected to acquire a 40% interest in the Saigak field in Western Kazakhstan. The Saigak field is located approximately 120 km from Arawak's existing Akzhar field in the Aktyubinsk region of Western Kazakhstan and is operated by Maersk Oil Kazakhstan GmbH, which owns the remaining 60% interest.

Arawak expects to issue to Vitol BV 8,352,587 common shares in consideration for this transaction at a price of C$2.9517 per share determined by the 10-day volume weighted average price of Arawak shares prior to the date of the agreement. The effective date of the transaction will be January 1, 2007 and the final number of common shares to be issued will be subject to an adjustment based on net working capital.

The Saigak field is currently producing around 3,500 bopd gross and has original recoverable reserves of 14.6 million barrels according to the operator's current development plan. On the same basis, net to Arawak, the remaining recoverable reserves are estimated at 2.4 million barrels as at December 31, 2006. The cashflow resulting from the 40% interest is estimated at approximately $9 million net to Arawak in 2007, based on a US$65 Brent price. Upon completion, this will represent the Company's fifth significant acquisition in Russian and Kazakhstan since entry to those countries in January 2005.

FINANCIAL HIGHLIGHTS

(In thousands, except per share amounts)

For the three months ended June 30	2007	2006
Crude oil sales	$30,650	$33,975
Net income	$308	$5,026
Per share - basic	$0.002	$0.029
Per share - diluted	$0.002	$0.029
Funds from operations*	$7,245	$11,171
Per share - basic	$0.042	$0.064
Per share - diluted	$0.041	$0.064
Capital expenditure	$9,850	$21,553
Shareholders' equity	$132,039	$122,211
Shares outstanding - basic	173,592	173,283
Shares outstanding - diluted	174,988	174,758
Weighted average shares - basic	173,568	173,280
Weighted average shares - diluted	174,964	174,755

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

OPERATIONAL HIGHLIGHTS

For the three months ended June 30	2007	2006
Production - boe	855,743	686,525
Average daily production - boe	9,404	7,544
Sales - boe	712,296	660,651
Revenue and expenses per boe sold		
Crude oil and gas sales	$43.03	$51.43
Interest and other income	$0.69	$0.31
Royalties and taxes	($11.86)	($11.41)
Production costs	($4.84)	($3.70)
Transportation and selling expenses	($5.02)	($4.99)
Net operating income	$22.00	$31.64

NETBACK TABLE

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

For the period ended June 30

Per boe	Three months 2007	Three months 2006	Six months 2007	Six months 2006
Crude oil and gas sales	43.03	51.43	43.17	47.73
Interest and other income	0.69	0.31	0.52	0.28
Total revenue	43.72	51.74	43.69	48.01
Royalties and taxes	(11.86)	(11.41)	(11.02)	(9.63)
Production costs	(4.84)	(3.70)	(4.85)	(3.28)
Transportation and selling expenses	(5.02)	(4.99)	(5.00)	(4.89)
Net operating income	22.00	31.64	22.82	30.21
General and administrative expenses	(6.55)	(5.76)	(5.06)	(4.81)
Realised foreign exchange gain	0.34	0.73	0.17	1.06
Interest expense	(2.45)	(1.03)	(2.33)	(0.99)
Current income tax expense	(3.18)	(8.67)	(5.28)	(8.33)
Funds from operations	10.16	16.91	10.32	17.14
Depletion, depreciation and amortisation	(9.21)	(8.69)	(9.42)	(8.55)
Stock option compensation	(1.38)	(1.68)	(1.19)	(1.34)
Accretion expense	(0.11)	(0.09)	(0.10)	(0.09)
Unrealised foreign exchange gain	(0.48)	(0.57)	(0.14)	(0.59)
Future income tax recovery	1.45	1.73	1.55	1.42
Net income	0.43	7.61	1.02	7.99

PRODUCTION

For the period ended June 30

	Three months 2007	Three months 2006	Six months 2007	Six months 2006
Production - boe				
Kazakhstan	450,470	368,829	879,513	638,135
Russia	378,647	317,696	767,586	621,613
Azerbaijan	26,626	-	26,626	-
Total	855,743	686,525	1,673,725	1,259,748
Average daily production - boe				
Kazakhstan	4,950	4,053	4,859	3,526
Russia	4,161	3,491	4,241	3,434
Azerbaijan	293	-	147	-
Total	9,404	7,544	9,247	6,960

Overall, the Company's production increased 25% to 855,743 boe in the second quarter of 2007 versus the second quarter of 2006 or the equivalent of 9,404 boepd from 686,525 boe or 7,544 boepd.

Production from our Kazakhstan operations increased 22% to 450,470 bbls or the equivalent of 4,950 bopd in the second quarter of 2007 versus 368,829 bbls or 4,053 bopd for the same period in 2006.

In Russia, production increased 19% to 378,647 bbls in the second quarter of 2007 or the equivalent of 4,161 bopd versus 317,696 bbls or 3,491 bopd for the second quarter of 2006.

Commercial production in Azerbaijan commenced in the quarter ended June 30, 2007 with production for the quarter of 26,626 boe or 293 boepd.

SALES

For the period ended June 30

	Three months 2007	Three months 2006	Six months 2007	Six months 2006
Sales - boe				
Kazakhstan	303,478	349,083	760,673	682,329
Russia	383,454	311,568	753,231	610,127
Azerbaijan	25,364	-	25,364	-
Total	712,296	660,651	1,539,268	1,292,456
Average sales price per boe				
Kazakhstan	$44.77	$58.14	$46.51	$55.06
Russia	$43.64	$43.91	$40.81	$39.54
Azerbaijan	$13.00	-	$13.00	-
Total	$43.03	$51.43	$43.17	$47.73

Sales volume increased 8% to 712,296 boe in the three months ended June 30, 2007 from 660,651 boe in the same period in 2006 reflecting our production growth. However, the average sales price received in the second quarter decreased 16% to $43.03 per boe in 2007 from $51.43 in the second quarter of 2006. The average selling price per barrel is dependent upon world benchmark and domestic prices, and is impacted by the sales mix between export and domestic, crude oil and gas, as well as between Kazakhstan, Russia and Azerbaijan as detailed in the marketing section below.

For the three months ended June 30

Sales composition by volume	2007	2006
Kazakhstan export	26%	48%
Russian domestic	33%	28%
Russian export	20%	20%
Kazakhstan domestic	17%	4%
Azerbaijan (including gas)	4%	-
Total	100%	100%

MARKETING

The majority of Kazakhstan 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 as Brent Export Blend, 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. Azerbaijan oil is exported FOB Novorossiysk while gas and condensate are sold ex-field.

For the three months ended June 30, 2007

Export oil sales	Kazakhstan	Russia	Azerbaijan	Total
Volume - bbls	181,661	145,321	1,746	328,728
Percentage of total sales by country	60%	38%	7%	46%
Revenue (thousands)	$10,573	$9,353	$106	$20,032
Average export price per bbl	$58.20	$64.36	$60.71	$60.94
Domestic oil and gas sales				
Volume - boe	121,817	238,133	23,618	383,568
Percentage of total sales by country	40%	62%	93%	54%
Revenue (thousands)	$3,013	$7,381	$224	$10,618
Average domestic price per boe	$24.73	$31.00	$9.48	$27.68

For the three months ended June 30, 2006

Export oil sales	Kazakhstan	Russia	Azerbaijan	Total
Volume - bbls	320,470	129,564	-	450,034
Percentage of total sales by country	92%	42%	-	68%
Revenue (thousands)	$19,724	$8,079	-	$27,803
Average export price per bbl	$61.55	$62.36	-	$61.78
Domestic oil sales				
Volume - bbls	28,613	182,004	-	210,617
Percentage of total sales by country	8%	58%	-	32%
Revenue (thousands)	$572	$5,600	-	$6,172
Average domestic price per bbl	$19.99	$30.77	-	$29.30

Kazakhstan

Total sales volume in Kazakhstan decreased 13% in the second quarter of 2007 versus the same period in 2006 despite a 22% production increase due mainly to the June sale of 159,000 bbls being delivered in early July and therefore in oil inventory at quarter end.

Revenues from Kazakhstan export sales decreased 46% to $10.6 million from $19.7 million due to a 43% decrease in the export volume to 181,661 bbls from 320,470 bbls and a 5% decrease in the average export price per bbl to $58.20 from $61.55.

Domestic sales revenues in Kazakhstan increased 427% to $3.0 million from $0.6 million due to a 326% increase in sales volume to 121,817 bbls from 28,613 bbls and a 24% increase in the average domestic price per bbl to $24.73 from $19.99.

Russia

Total sales volume in Russia increased 23% in the three months ended June 30, 2007 versus the same period in 2006 as a result of a 19% increase in production. The sales mix in Russia during the second quarter of 2007 was 62% domestic and 38% export versus 58% domestic and 42% export in the second quarter of 2006.

Revenues from Russian export sales increased 16% to $9.4 million from $8.1 million due to a 12% sales volume increase to 145,321 bbls from 129,564 bbls and an increase in the average export price per barrel of 3% to $64.36 from $62.36.

Domestic sales revenues in Russia increased 32% to $7.4 million from $5.6 million due to 31% increase in sales volume to 238,133 bbls from 182,004 bbls while the domestic sales price increased slightly to $31.00 from $30.77.

Azerbaijan
Sales in Azerbaijan consist of domestic gas sales of 22,385 boe at $1.34 per m cf, equivalent to $8.04 per boe, domestic condensate sales of 1,233 bbls at $36.00 per barrel and export oil sales of 1,746 bbls at $60.71 per barrel.

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 June 30

In barrels	2007	2006
Crude oil inventory - beginning	81,643	35,864
Production	855,743	686,525
Sales	(712,296)	(660,651)
Field usage and shipping losses	(13,453)	(7,461)
Crude oil inventory - ending	211,637	54,277

ROYALTIES AND TAXES

For the period ended June 30

In thousands of US dollars	Three months 2007	Three months 2006	Six months 2007	Six months 2006
Mineral resource extraction tax	4,676	3,752	8,408	6,974
Export duties	3,411	3,352	7,656	4,663
Royalties	362	434	895	805
Total	8,449	7,538	16,959	12,442

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 25% to $4.7 million in the second quarter of 2007 from $3.6 million in the same period of the prior year due mainly to a 23% increase in the sales volume while the cost per barrel sold increased slightly to $12.19 from $12.04.

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 decreased 5% to $23.47 per barrel of Russian export sales in the second quarter of 2007 compared to $25.87 in the second quarter of 2006.

Royalties
For our producing fields in Kazakhstan, Arawak pays royalties monthly to the Government using stabilised rates that are graduated and increase with cumulative annual production. The Company was also paying over-riding royalties on two of its properties in Kazakhstan at fixed rates per barrel sold until the Company acquired the over-riding royalty interests in December 2006 and the elimination of this royalty resulted in the decrease in royalties expense in the quarter ended June 30, 2007 versus the same period of the prior year. However, royalties increased to 2.7% of Kazakhstan sales revenues for the current quarter versus 2.1% for the prior year's quarter due mainly to production increases at the Besbolek field resulting in higher royalty rates as the Company moved from the 2% royalty tier to the 4% royalty tier in April of 2007 compared to September in 2006. The Company expects to reach the next tier of 6% in July of 2007.

PRODUCTION COSTS

Production costs increased to $4.84 per boe sold in the quarter ended June 30, 2007 compared to $3.70 in second quarter of 2006. This increase in production costs on a per boe basis was due to a

combination of factors including the inclusion of higher cost production from Recher, 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 and gas to markets. On a per boe basis, these costs increased slightly to $5.02 in the second quarter of 2007 from $4.99 in the second quarter of 2006 due to a combination of higher tariffs and the devaluation of the US dollar as a significant portion of these costs are denominated in local currency. These increases were offset by the change in the sales mix during the current period to a higher proportion of sales to domestic markets which have much lower associated transportation costs.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased to $4.7 million in the second quarter of 2007 from $3.8 million in the second quarter of 2006 due primarily to the recognition of the Company's proportion of Azerbaijan costs and to the devaluation of the US dollar as a portion of these costs are denominated in local currency.

INTEREST EXPENSE

Interest expense increased to $1.7 million in the second quarter of 2007 from $0.7 million in the same period in 2006 due mainly to the increases in the crude oil sales prepayment facility.

CURRENT INCOME TAX EXPENSE

Current income tax expense for the first six months of 2007 decreased to $5.28 per boe versus $7.15 for 2006 year reflecting higher costs and lower profitability in the current period.

Arawak is subject to Excess Profit Tax ("EPT") on the Akzhar, Besbolek and Karataikyz 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%.

DEPLETION, DEPRECIATION AND AMORTISATION

Depletion, depreciation and amortisation expense increased to $9.21 per boe in the second quarter of 2007 from $8.69 in the same period of 2006 and down slightly compared to $9.59 in the first quarter of 2007. The depletion rate per barrel in a given period varies with the sales mix since Kazakhstan sales have a slightly higher associated depletion cost compared to Russian or Azerbaijan sales.

CAPITAL EXPENDITURE

In the second quarter of 2007 a total of $9.9 million was spent on capital expenditure compared to $13.1 million in the previous year, excluding acquisitions. Capital expenditure included purchases of property, plant and equipment of $6.0 million in Kazakhstan, $2.7 million in Russia and $1.2 million in Azerbaijan.

OUTSTANDING SHARE DATA

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

As at:	August 14, 2007	June 30, 2007	December 31, 2006
Common Shares	173,380,907	173,380,907	171,181,702
Exchangeable Shares	210,958	210,958	2,210,163
Total outstanding	173,591,865	173,591,865	173,391,865
Stock Options	13,477,500	13,627,500	10,785,000

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	**June 30, 2007**	**December 31, 2006**
Cash and cash equivalents	14,150	9,663
Current assets	37,233	33,595
Current liabilities	(64,075)	(57,063)
Net current assets	(26,842)	(23,468)

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 $45.0 million. The amount drawn as at June 30, 2007 was $41.0 million and at December 31, 2006 was $30.0 million.

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 carries interest at LIBOR plus 4.4% and is repayable via quarterly repayments of $3.5 million. The balance outstanding as at June 30, 2007 is $40.0 million (Arawak share – $20.0 million) and at December 31, 2006 was $47.1 million (Arawak share – $23.55 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.

(In thousands of US dollars except for per share amounts)

Quarter ended		Crude oil sales	Net income (loss)	Net income (loss) per share	
				Basic	Diluted
2007	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
	March 31	27,719	5,292	0.031	0.030
2005	December 31	20,323	(317)	(0.002)	(0.002)
	September 30	27,575	7,355	0.043	0.041

RELATED PARTY TRANSACTIONS

Crude oil sales

Export crude oil sales from Russia and Kazakhstan to Vitol S.A. during the three months ended June 30, 2007 were $22.3 million (three months ended June 30, 2006 – $27.8 million). Related accounts receivable at June 30, 2007 include $2.4 million and at December 31, 2006 include $6.7 million.

Crude oil sales prepayment facility

The balance of the crude oil sales prepayment facility provided by Vitol S.A. at June 30, 2007 is $41.0 million (December 31, 2006 – $30.0 million) with related interest expense for the three months ended June 30, 2007 of $0.9 million (three months ended June 30, 2006 – $0.1 million).

These transactions were, to the knowledge of management, at terms and rates no more and no less favourable than those with unrelated parties.

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 Anguilla (British West Indies), Netherlands, 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".

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 cumulative translation adjustments which are 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 recognized in the statement of operations commencing for the quarter ended June 30, 2007. In prior periods, all revenues and expenses were capitalized 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 its 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.

COMMITMENTS AND CONTINGENT LIABILITIES

Work commitments

Pursuant to its contracts, Arawak has minimum spending commitments for each oilfield in Kazakhstan. For the contract years ended in 2006, cumulative spending commitments were $41.7 million comprising $34.7 million for Akzhar, $2.9 million for Besbolek, $3.5 for Karataikyz and $0.6 million for Alimbai. As of December 31, 2006 the Company believes these commitments have been satisfied. Non-fulfilment of contractual work commitments could result in punitive actions by the Government, including suspending or revoking the licenses for which the work commitment was not fulfilled.

The work commitments for each of the next five years and in total are as follows (in thousands of US dollars):

	2007	2008	2009	2010	2011	Thereafter	Total
Akzhar	1,351	934	-	-	-	-	2,285
Besbolek	1,864	95	-	-	-	-	1,959
Karataikyz	700	700	-	-	-	-	1,400
Alimbai	928	1,163	980	643	643	7,900	12,257
East Zharkamys III	1,616	9,039	15,605	36,865	-	-	63,125
Total	6,459	11,931	16,585	37,508	643	7,900	81,026

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 Russia, Kazakhstan and Azerbaijan, the Company is exposed to foreign currency fluctuations as domestic oil sales in Russia and Kazakhstan 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 Russia, Kazakhstan and Azerbaijan
While there have been improvements in the economic situation in Russia, Kazakhstan 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 Russia, Kazakhstan 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 Russia, Kazakhstan 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 Russia, Kazakhstan and Azerbaijan are in the developmental stage and therefore are 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.