



**A&B Geoscience Corporation**  
**2002 Annual Report**

# **A+B GEOSCIENCE CORPORATION** **2002 ANNUAL REPORT**

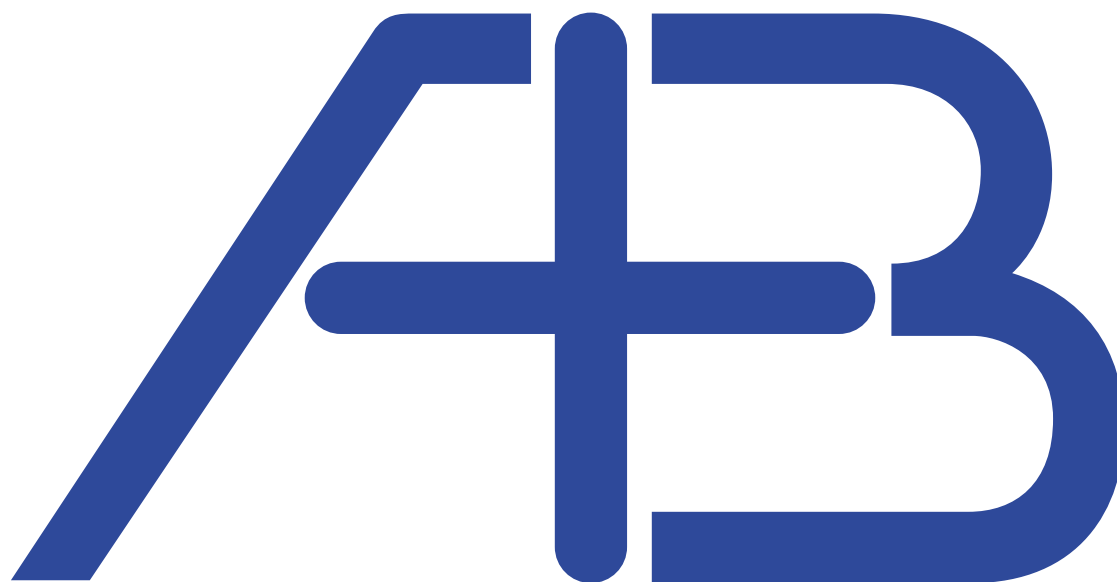
*DIRECTORS' REPORT TO SHAREHOLDERS • 1*

*AUDITORS' REPORT • 3*

*FINANCIAL STATEMENTS • 4*

*NOTES TO THE FINANCIAL STATEMENTS • 7*

*CORPORATE DATA • INSIDE BACK COVER*



Front cover: Mud volcanoes, producing oil and gas, are common natural features in the Gobustan fields.

# A COMPANY IN TRANSITION

**YOUR DIRECTORS** are pleased to report 2002 as a year of successful restructuring which has resulted in the Company being debt free and working with a major partner providing the resources to allow the re-commencement of operations in the South-West Gobustan oil and gas fields in Azerbaijan.

Under the restructuring, Rosco S.A. ('Rosco'), a wholly owned subsidiary of the Vitol Group of Companies, a leading independent oil trading and marketing group with an annual turnover in excess of US\$30bln, acquired a 62.83% interest in the Company's subsidiary Commonwealth Gobustan Limited ('CGL'), and undertook to provide CGL with a loan facility of US\$20million on a non recourse basis to allow the completion of the Minimum Obligatory Work Program ('MOWP') as required under the Exploration, Development and Production Sharing Agreement ('EDPSA') for the South West Gobustan fields.

In January 2002, the MOWP was extended for two years until 27<sup>th</sup> November, 2003, following discussions between the Company and the State Oil Company of the Azerbaijan Republic ('SOCAR'). The MOWP initially comprised the drilling of seven new wells, the workover of seven existing wells and the shooting of 150km of new seismic data.

In July 2002, John M. Scott was appointed as President of CGL. Mr Scott, a Canadian, has 29 years experience in the oil industry and has worked extensively in Russia and Egypt as well as Canada. Prior to joining CGL, he had been Executive Vice President and Chief Operating Officer of Bitech Petroleum.

By year end, four workovers had been completed, the location of the first new well had been determined and contracts were being finalised for the shooting, processing and interpretation of 150km of new seismic data.

## **The Company's Interest in the SW Gobustan EDPSA**

On 14<sup>th</sup> February, 2002, CGL acquired a 12.75% share in the EDPSA previously held by Sooner Gobustan Petroleum Ltd., thereby increasing its interest in the EDPSA to 80%.

On 28<sup>th</sup> March, 2002, CGL issued new common shares to Rosco which resulted in Rosco obtaining a 62.83% interest in CGL.

As a result, the Company's interest in CGL was reduced to 37.17%.

As CGL's interest in the EDPSA is 80%, and the Company's interest is carried during the MOWP phase through the Rosco financing, the Company has a 29.74% carried interest in the EDPSA.

## **Private Placements during 2002**

In a series of private placements during 2002, the Company issued to Rosco a total of 13,000,000 units at CDN\$0.16 per unit, each unit comprising one common share and one warrant to acquire one additional common share of the Company for two years. All of the warrants arising from these private placements were exercised by Rosco during 2002, resulting in the issue of a further 13,000,000 shares to Rosco at CDN\$0.20 per share.

On 28<sup>th</sup> June, 2002, the Company issued 4,300,000 common shares at CDN\$0.16 per share and made a cash payment of US\$50,000 as a finders fee / fiscal agency fee to the Company's fiscal advisor as consideration for its efforts in assisting the Company in obtaining financing from Rosco for development of the Company.

As a result, Rosco now owns approximately 42% of the issued shares in the Company.

### Events subsequent to the year end

CGL spudded the first development well, in the Dashgil field, with oil as its primary objective, on 12<sup>th</sup> March, 2003. It also commenced the shooting of a 150 km 2D seismic survey in the northernmost of the three blocks which comprise the South West Gobustan concession area, where no previous seismic data is available although numerous old oil and gas discovery wells are in existence.

In January 2003, Smart Achieve Development Limited, a 100% subsidiary of CNPC (Hong Kong) Limited, entered into an agreement with Rosco whereby it will acquire approximately 31.3% in CGL from Rosco. CNPC International Limited entered into an agreement to acquire Rosco's remaining approximate 31.3% in CGL. The Company's interest in CGL and the EDPSA remain unchanged.

Both CNPC International and CNPC (Hong Kong) are members of the CNPC Group, China's largest oil group with an annual oil production of 2.3 million barrels per day, of which 160,000 barrels per day was produced outside China.

These companies have agreed to assume all the obligations previously held by Rosco, including financing of the MOWP. The directors welcome the involvement of CNPC and look forward to further investment and the commencement of oil and gas production.

### Subsidiary and Associated Companies

At the start of 2002, the company had three active wholly owned subsidiaries, Commonwealth, CGL, and Addison and Baxter Limited (which provides services to group companies). At the end of 2002, Commonwealth and Addison and Baxter Limited were still wholly owned subsidiaries.

With effect from 28<sup>th</sup> March, 2002, following the sale to Rosco, Commonwealth owned 37.17% of CGL which in turn has an 80% interest in the

EDPSA (the balance is held by SOCAR) and owns 100% of Gobustan Operating Company Limited, the Operating Company for the EDPSA.

### Directors and Officers

On 12<sup>th</sup> April, 2002, the Company announced the appointment of Roland J. Favre of Geneva, Switzerland and Alastair D. McBain of London, England as directors.

On 10<sup>th</sup> September 2002, following the completion of the transactions with Rosco, Jeremy C.A. Little resigned as President and Chief Executive Officer and Nicholas W. Baxter resigned as Chief Operating Officer, with both remaining as directors. The board would like to record its thanks to them for their efforts and commitment to the Company over many years, including some difficult periods.

On the same date, Alastair D. McBain was appointed President and Chief Executive Officer and John K. Martin was appointed Chief Financial Officer.

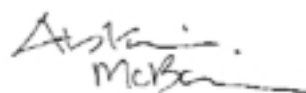
### Annual and Special General Meeting

The Annual General Meeting is to be held at 9.30 am on 5<sup>th</sup> May 2003 at The Hansa Bank Building, Landsome Road, The Valley, Anguilla, British West Indies.

### Name Change

As a result of the repositioning of the Company, it will be proposed that the Company change its name to Arawak Energy Corporation at the Annual General Meeting, signaling a new phase in the Company's development.

On behalf of the Board of Directors



**Alastair D McBain**

*President and Chief Executive Officer.*

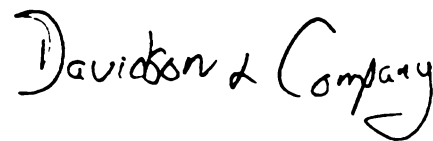
## AUDITORS' REPORT

To the Shareholders of  
A&B Geoscience Corporation

We have audited the consolidated balance sheets of A&B Geoscience Corporation as at 31<sup>st</sup> December, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements, expressed in U.S. dollars, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at 31<sup>st</sup> December, 2002 and 2001 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, these principles have been applied on a consistent basis.

A handwritten signature in black ink that reads "Davidson & Company". The signature is written in a cursive, flowing style.

Vancouver, Canada  
25<sup>th</sup> March, 2003

Chartered Accountants

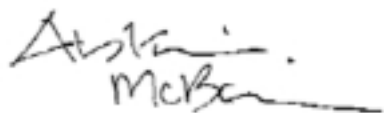
## CONSOLIDATED BALANCE SHEETS (Expressed in U.S.Dollars)

	31 <sup>st</sup> Dec, 2002	31 <sup>st</sup> Dec, 2001
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 1,479,702	\$ 90,129
Accounts receivable	2,281,110	393,722
	3,760,812	483,851
<b>Investments</b> (Note 3)	525,063	—
<b>Capital assets</b> (Note 4)	—	34,740
<b>Oil and gas properties</b> (Note 5)	—	5,294,227
	\$ 4,285,875	\$ 5,812,818
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 380,813	\$ 1,247,267
<b>Long-term debt</b> (Note 5)	—	2,650,000
	380,813	3,897,267
<b>Shareholders' equity</b>		
Capital stock (Note 6)	16,660,006	13,244,138
Share subscriptions received in advance	—	305,557
Deficit	(12,754,944)	(11,634,144)
	3,905,062	1,915,551
	\$ 4,285,875	\$ 5,812,818

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 13)

**On behalf of the Board:**



**Alastair D. McBain**  
Director



**Roland J. Favre**  
Director

*The accompanying notes are an integral part of these consolidated financial statements.*

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT (Expressed in U.S. Dollars)

	Year ended 31 <sup>st</sup> Dec, 2002	Year ended 31 <sup>st</sup> Dec, 2001
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortisation	\$ 15,316	\$ 1,028
Office and miscellaneous	35,960	30,944
Professional fees	320,972	171,530
Rent	24,056	10,797
Transfer agent and filing fees	10,533	6,737
Travel	101,778	1,151
Wages	579,229	282,456
	(1,087,844)	(504,643)
<b>Gain on deemed disposal of interest in subsidiaries</b>	24,963	—
<b>Foreign exchange loss</b>	(1,759)	(22,253)
<b>Interest and other income</b>	47,091	24,007
	(1,017,549)	(502,889)
<b>(Loss) Gain from discontinued operations (Note 8)</b>	(103,251)	111,277
	(1,120,800)	(391,612)
<b>Loss for the period</b>	(1,120,800)	(391,612)
<b>Deficit, beginning of period</b>	(11,634,144)	(11,242,532)
<b>Deficit, end of period</b>	\$ (12,754,944)	\$ (11,634,144)
<b>Basic and diluted loss per share from continuing operations</b>	\$ (0.02)	\$ (0.01)
<b>Gain (loss) per share from discontinued operations</b>	—	—
<b>Basic and diluted loss per share</b>	\$ (0.02)	\$ (0.01)
<b>Weighted average number of shares outstanding</b>	60,076,702	40,150,152

*The accompanying notes are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS** (Expressed in U.S. Dollars)

	Year ended 31 <sup>st</sup> Dec, 2002	Year ended 31 <sup>st</sup> Dec, 2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from continuing operations	\$ (1,017,549)	\$ (502,889)
Items not affecting cash		
Amortisation	15,316	1,028
Gain on deemed disposal of interest in subsidiaries	(24,963)	—
Changes in non-cash working capital items		
Decrease (Increase) in accounts receivable	622,334	(349,724)
Increase in accounts payable	886,334	656,768
Cash generated from/(used in) operating activities	481,472	(194,817)
Cash used in discontinued operations	(103,251)	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital stock issued	3,138,139	145,867
Share subscriptions received in advance	—	305,557
Cash provided by financing activities	3,138,139	451,424
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Treasury shares received	(27,829)	—
Acquisition of capital assets	(4,224)	(2,810)
Disposal of interest in subsidiaries	(543,535)	—
Oil and gas property costs	(1,551,199)	(1,150,379)
Cash used in investing activities	(2,126,787)	(1,153,189)
<b>Net change in cash and equivalents during period</b>	<b>1,389,573</b>	<b>(896,582)</b>
<b>Cash and equivalents, beginning of period</b>	<b>90,129</b>	<b>986,711</b>
<b>Cash and equivalents, end of period</b>	<b>\$ 1,479,702</b>	<b>\$ 90,129</b>

**Supplemental disclosures with respect to the statements of cash flows** (Note 11)

*The accompanying notes are an integral part of these consolidated financial statements.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

### 1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is in the business of acquiring and developing oil and gas properties.

The Company is incorporated in Anguilla, British West Indies, and is a reporting company in the Provinces of British Columbia, Alberta, and Ontario, Canada.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realise its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to receive continued financial support, complete public equity financing, or generate profitable operations in the future.

	2002	2001
Deficit	\$ (12,754,944)	\$ (11,634,144)
Working capital surplus/(deficiency)	3,379,999	(763,416)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

#### Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Commonwealth Oil & Gas Company Limited and Commonwealth Gobustan Limited (all incorporated under the laws of Anguilla, British West Indies) and Addison & Baxter Limited (incorporated under the laws of the United Kingdom), and its 84.0625% owned subsidiary Gobustan Operating Company Ltd. (incorporated under the laws of Anguilla). Significant inter-company balances and transactions are eliminated on consolidation.

On 28<sup>th</sup> March, 2002, Commonwealth Gobustan Limited issued common shares totalling 62.83% of its issued and outstanding capital stock for gross proceeds of \$1,412,500. The Company's interests in

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

Commonwealth Gobustan Limited and Gobustan Operating Company Ltd. were diluted so that the Company now has a 37.17% interest in Commonwealth Gobustan Limited and an indirect 37.17% interest in Gobustan Operating Company Ltd. As a result of the share issue Commonwealth Gobustan Limited and its 100% owned subsidiary undertaking Gobustan Operating Company Limited have been deconsolidated and are now treated as associated companies in these financial statements. As a result the carrying value of oil and gas property costs as at 28<sup>th</sup> March 2002 have been deconsolidated (see Note 5).

The comparative figures consolidate all of the results, assets and liabilities of Commonwealth Gobustan Limited and 84.0625% of the results, assets and liabilities of Gobustan Operating Company Ltd, reflecting the status of those companies as subsidiaries during the period reported.

The consolidated statement of cash flows includes the movements in cash of Commonwealth Gobustan Limited and Gobustan Operating Company Limited during the period from 1<sup>st</sup> January 2002 to 28<sup>th</sup> March 2002. After deconsolidation of both of these companies' assets and liabilities, all group cash movements relate specifically to A & B Geoscience Corporation, Commonwealth Oil & Gas Company Limited and Addison & Baxter Limited.

### Reporting currency

The Company is contractually required to account for its oil and gas project in the Azerbaijan Republic (Note 5) in U.S. dollars. As this is the Company's only business activity, the Company's reporting currency is the U.S. dollar.

### Cash and equivalents

Cash and equivalents include highly liquid investments with original maturities of three months or less.

### Capital assets and amortisation

Capital assets are recorded at cost and are being amortised over the estimated useful life of the assets using the straight line method as follows:

Equipment	3 years
Motor vehicles	4 years
Office furniture	5 years

### Oil and gas properties

The Company follows the full cost method of accounting for oil and gas properties whereby all costs relating to the exploration for and development of oil and gas reserves are capitalised in cost centres on a country-by-country basis. Costs capitalised include land acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties and costs of drilling both productive and non-productive wells. Proceeds from the disposal of oil and gas properties are applied against capitalised

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

costs, unless such a disposal would alter the rate of depletion and depreciation by 20% or more, in which case a gain or loss is recognised in income.

Total capitalised costs plus a provision for future development costs are depleted and depreciated, on a country-by-country cost centre basis, using the unit-of-production method based upon estimated gross proven reserves as determined by independent and company engineers with oil converted to gas on a relative energy equivalent basis. Costs of unproven properties excluded from the depletion calculation are evaluated periodically for impairment.

The Company will annually apply a “ceiling test” to capitalised costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company’s year end. Future net revenues are calculated after deducting general and administrative costs, financing costs, income taxes and future site restoration and abandonment costs.

Capitalised costs to acquire significant proven reserves are excluded from the ceiling test for a period of 24 months following acquisition, provided any excess of costs over future net revenues is not considered to represent a permanent impairment of the ultimate recoverable amount.

### **Future removal and site restoration costs**

Estimated future removal and site restoration costs are provided for using the unit-of-production method. These costs are based on year end engineering estimates of the anticipated costs of site restoration in accordance with current legislation and industry practices. The annual charge is recorded as additional depletion and amortisation.

### **Foreign currency translation**

Monetary items are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Non-monetary items and amortisation of capital assets are translated at the exchange rate in effect on the date of the transactions. Revenues and expenses are translated at the average exchange rate for the period. Foreign currency gains and losses are included in determining the loss for the period.

### **Stock-based compensation**

With effect from 1<sup>st</sup> January, 2002, the company has adopted the intrinsic value-based method of accounting which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted. Any consideration paid by the option holders to purchase shares is credited to share capital. There is no effect on the financial statements of either the current period or prior period presented.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

### Investments

Investments in shares of associated companies, over which the Company has significant influence, are accounted for by the equity method, whereby the investment is initially recorded at cost and adjusted to recognise the Company's share of earnings or loss in the investment.

### Income taxes

The Company has adopted the asset/liability method of accounting for income taxes, in compliance with standards adopted by the Canadian Institute of Chartered Accountants. Under these standards, future income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and those reported in the financial statements. The future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Future tax assets are recognised to the extent that they are considered more likely than not to be realised.

### Earnings (loss) per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognised on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For loss per share the dilutive effect has not been computed as it proved to be anti-dilutive.

Loss per share is calculated using the weighted-average number of shares outstanding during the period.

### 3. ASSOCIATED COMPANIES

Commonwealth Oil & Gas Company Limited held a 37.17% interest in Commonwealth Gobustan Limited ('CGL') with effect from 28<sup>th</sup> March, 2002. CGL held a 100% interest in Gobustan Operating Company Ltd. ('GOCL') with effect from 28<sup>th</sup> March, 2002.

The summarised operating results of these associated companies during the year ended 31st December, 2002 were as follows:

	CGL	GOCL
Sales	\$—	\$—
Profit for the period	—	—

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

The summarised balance sheets as at 31<sup>st</sup> December, 2002 were as follows:

	CGL	GOCL
Capital assets, investments and oil and gas properties	\$ 3,849,388	\$ 2,270,076
Current assets	2,527,273	330,443
	<b>6,376,661</b>	<b>2,600,519</b>
Current liabilities	\$ 4,964,061	\$ 2,592,519
Shareholders' equity	1,412,600	8,000
	<b>6,376,661</b>	<b>2,600,519</b>

### 4. CAPITAL ASSETS

	2002	2001
Motor vehicles	\$ —	\$ 20,101
Office furniture and equipment	—	23,902
	—	44,003
Less: accumulated amortisation	—	(9,263)
	<b>\$ —</b>	<b>\$ 34,740</b>

Capital assets held by Commonwealth Gobustan Limited have been eliminated on deconsolidation.

The amortisation charge arising on capital assets attributable to the group amounted to US\$6025 in the year ended 31<sup>st</sup> December, 2002.

### 5. OIL AND GAS PROPERTIES

The Company, pursuant to an Exploration, Development and Production Sharing Agreement ('EDPSA') with the State Oil Company of the Azerbaijan Republic ('SOCAR') acquired the right to explore and develop certain oil and gas fields in the Azerbaijan Republic. A subsidiary company, Commonwealth Gobustan Limited, held a 67.25% working interest in the EDPSA. During the year, the Company acquired a further 12.75% working interest. The remaining carried working interest of 20% is held by SOCAR. CGL then issued common shares totalling 62.83% of its enlarged issued and outstanding capital stock to Rosco S.A. ('Rosco') for gross proceeds of US\$1,412,500. Rosco has also paid US\$2,650,000 to retire the long term debt of the Company. As a result of the share issue CGL and its 100% owned subsidiary undertaking Gobustan Operating Company Ltd have been deconsolidated and are now treated as associated companies in these financial statements. A&B Geoscience Corporation now holds a 37.17% interest in CGL and through it a 29.74% interest in the EDPSA.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

	2002	2001
<b>Oil and gas property costs to date</b>		
Balance, beginning of period	\$ 5,294,227	\$ 4,135,613
Communications	5,653	28,095
Field operating expenses	21,505	229,948
General	3,253	46,416
Professional fees	72,185	356,924
Travel	9,546	43,385
Wages and benefits	116,114	453,846
	228,256	1,158,614
Amortisation	(9,291)	—
Equalization and other payments received	(1,325,000)	—
	(1,106,035)	1,158,614
Balance transferred on deconsolidation	(4,188,192)	—
Balance, end of period	\$ —	\$ 5,294,227

**6. CAPITAL STOCK**

	2002		2001	
	No. of Shares	Amount	No. of Shares	Amount
<b>Authorized</b>				
100,000,000 common shares, without par value				
<b>Issued</b>				
Balance, beginning of period	41,934,408	\$13,527,509	37,905,908	\$12,880,442
For cash	30,557,500	3,443,697	4,028,500	647,067
Balance, end of period	72,491,908	16,971,206	41,934,408	13,527,509
<b>Treasury shares issued</b>				
	(545,350)	(311,200)	(310,350)	(283,371)
Issued and outstanding	71,946,558	\$16,660,006	41,624,058	\$13,244,138

**Stock options**

The Company, in accordance with the policies of the TSX Venture Exchange, is authorised to grant options to directors, officers, employees and consultants to acquire up to 10% of issued and outstanding common stock. The exercise price of each option equals the average market price of the Company's stock as calculated over the ten trading days preceding the date of grant. The options can be granted for a maximum term of 5 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

As at 31<sup>st</sup> December, 2002, incentive stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
1,080,000	CDN\$ 0.16	21 <sup>st</sup> June, 2004

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, 31 <sup>st</sup> December, 2001	1,137,500	CDN\$ 0.16
Granted	—	—
Exercised	(7,500)	0.16
Expired/cancelled	(50,000)	0.16
Outstanding, 31 <sup>st</sup> December, 2002	1,080,000	0.16
Number of options currently exercisable	1,080,000	CDN\$ 0.16

### Warrants

During the year 13,250,000 warrants were exercised at CDN\$0.20 per share. As at 31<sup>st</sup> December, 2002, 1,296,050 share purchase warrants were outstanding and exercisable as follows:

- i) at CDN\$0.40 per share to 12<sup>th</sup> April, 2003;
- ii) at CDN\$0.50 per share to 12<sup>th</sup> October, 2003;

### 7. RELATED PARTY TRANSACTIONS

During the current year, the Company, pursuant to the terms of various management and services agreements, paid or made provision in the accounts for the payment of the following amounts to directors or private companies associated with common directors.

	Year ended 31 <sup>st</sup> Dec, 2002	Year ended 31 <sup>st</sup> Dec, 2001
Travel	\$ 48,773	\$ 357
Directors' wages	598,092	457,159

### 8. DISCONTINUED OPERATIONS

(Loss)/Gain from discontinued operations includes the following:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

	Year ended 31 <sup>st</sup> Dec, 2002	Year ended 31 <sup>st</sup> Dec, 2001
Costs of discontinued operations	\$ (103,251)	\$ —
Gain on disposal of discontinued operations	—	111,277
	\$ (103,251)	\$ 111,277

In the two years ended December 31<sup>st</sup>, 2000, the Company discontinued its geological analysis & seismic data acquisition and data processing operations. In the year ended December 31<sup>st</sup>, 2002, the Company incurred costs relating to the winding up of the companies involved in those operations. These costs were borne by A&B Geoscience Corporation.

### 9. INCOME TAXES

Most of the Company's assets and operating losses relate to operations in jurisdictions without income tax or to abandoned operations. The Company has incurred operating losses in the United Kingdom which are available for offset against future trading profits of a subsidiary company registered in the United Kingdom. Future tax benefits which may arise as a result of these losses have not been recognised in these consolidated financial statements as their realisation is unlikely. A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2002	2001
Loss for the period	\$ (1,120,800)	\$ (391,612)
Income taxes at statutory rate of 3.9%(2001:7.0%)	\$ (44,111)	\$ (27,389)
Unrecognized benefit of non-capital losses	44,111	27,389
Total income taxes	\$ —	\$ —
Future income tax assets not recognised:		
Non-capital loss carry forwards	\$ 224,109	\$ 163,310

### 10. SEGMENTED INFORMATION

The Company's interests are concentrated in oil and gas exploration and development in Azerbaijan. No other operating or geographic segment is significant.

### 11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO THE STATEMENTS OF CASH FLOWS

	Year ended 31 <sup>st</sup> Dec, 2002	Year ended 31 <sup>st</sup> Dec, 2001
Cash paid during the period for interest	\$ —	\$ —
Cash paid during the period for income taxes	\$ —	\$ —

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. Dollars) 31<sup>st</sup> December, 2002.

There were no significant non-cash transactions during the years ended 31<sup>st</sup> December, 2002 and 2001.

### 12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, accounts receivable, accounts payable and long-term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.

### 13. SUBSEQUENT EVENTS

Subsequent to 31<sup>st</sup> December, 2002:

- a) On 21<sup>st</sup> January, 2003, options to acquire an aggregate of 1,800,000 common shares at CDN\$0.22 per share were granted to directors, officers and consultants.
- b) On 28<sup>th</sup> January, 2003, it was announced that Rosco sold its 62.83% interest in Commonwealth Gobustan Limited to two affiliates of China National Petroleum Corporation ("CNPC"). CNPC will also take over Rosco's commitment to provide a US\$20 million non-recourse development loan and continue the obligation to carry the Company through to the completion of the MOWP.
- c) In the first quarter of 2003, the Company's UK administration office was moved from Milton Keynes to Bowater House East, Fourth Floor, 68 Knightsbridge, London SW1X 7LT.

**Notes**

# CORPORATE DATA

## BOARD OF DIRECTORS

Alastair D. McBain  
London, United Kingdom

Nicholas W. Baxter  
Milton Keynes, United Kingdom

Graham Crabtree\*  
Anguilla, British West Indies

Donald R. Curtis\*  
Anguilla, British West Indies

Roland J. Favre  
Geneva, Switzerland

Malcolm C. Hope-Ross\*  
Anguilla, British West Indies

Jeremy C.A. Little\*  
Milton Keynes, United Kingdom

\* member of the Audit Committee

## OFFICERS

Alastair D. McBain  
President and Chief Executive Officer  
A&B Geoscience Corporation

John K. Martin  
Chief Financial Officer  
A&B Geoscience Corporation

Graham Crabtree  
Corporate Secretary

## ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of the Company will be held at:

The Hansa Bank Building  
First Floor  
Landsome Road  
The Valley  
Anguilla  
British West Indies

at 9.30 a.m. on Monday, 5<sup>th</sup> May, 2003

## SHARE INFORMATION

Trading Symbol "ABG" on the TSX Venture Exchange  
SEC 12G No. 82-4254

## CORPORATE INFORMATION

### Auditors

Davidson & Company      Smith Dove  
Vancouver, B.C., Canada      Northampton, U.K.

### Solicitors

Macleod Dixon  
Calgary, Alberta, Canada

### Transfer Agent

CIBC Mellon Trust Company  
Vancouver, B.C., Canada

### Investor Contact

Website:                      www.abgexp.com  
E-mail:                         alastair.mc Bain@abgexp.com  
Phone:                         +44-20-7584-7498

## CORPORATE OFFICES

### Head Office

P.O. Box 294  
Heywood House  
Anguilla  
British West Indies  
Phone:                         +1-264-498-2645  
Fax:                             +1-264-497-6080  
E-mail:                         abg@ceg.ai  
                                       commonwealth@ceg.ai

### United Kingdom Office

Bowater House East  
Fourth Floor  
68 Knightsbridge  
London  
SW1X 7LT  
United Kingdom  
Phone:                         +44-20-7584-7498  
E-mail:                         info@abgexp.com

### Baku, Azerbaijan Office

10 Nizami Street  
Baku 370001  
Azerbaijan Republic  
Phone:                         +994-1297-4813  
Fax:                             +994-1297-4814

