



ARAWAK ENERGY CORPORATION
(FORMERLY KNOWN AS A&B GEOSCIENCE CORPORATION)

MANAGEMENT'S DISCUSSION AND ANALYSIS

For three months ended March 31st, 2004

This report is dated May 25th, 2004

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FOR THE THREE MONTHS ENDED MARCH 31st, 2004

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The following Management's Discussion and Analysis of the financial condition and results of our operations should be read in conjunction with the unaudited interim consolidated financial statements of Arawak Energy Corporation ("Arawak" or the "Company") and Notes relating thereto for the three months ended March 31st, 2004 and the Management's Discussion and Analysis and audited consolidated financial statements of the Company for the year ended December 31st, 2003. This discussion and analysis is incremental to that included in the Management's Discussion and Analysis in respect of the Company's audited consolidated financial statements for the year ended December 31st, 2003. Our financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

This discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in such statements.

In our Management's Discussion and Analysis we use 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, references in this Management's Discussion and Analysis to "our", "we" or "us" refer to the combined business of Arawak and all of its subsidiaries.

All dollar amounts referred to in this report are in U.S. dollars unless otherwise indicated.

Additional information relating to the Company is available on SEDAR at www.sedar.com

Corporate Structure

The Company is continued under the laws of Anguilla, British West Indies, and its shares are listed for trading on the TSX Venture Exchange in Canada.

The Company's wholly-owned subsidiary Commonwealth Oil & Gas Company Limited ("COGCL") owns 37.17% of the share capital of Commonwealth Gobustan Limited ("CGL"). The remaining 62.83% of CGL is held by affiliates of China National Petroleum Corporation ("CNPC").

CGL holds an 80% interest in the Exploration, Development and Production Sharing Agreement for the South West Gobustan oil and gas fields in the Azerbaijan Republic. An affiliate of the State Oil Company of the Azerbaijan Republic holds the remaining 20% interest.

Gobustan Operating Company Ltd. ("GOCL") is a 100% subsidiary of CGL, and is the Operating Company for the EDPSA. For financial reporting purposes, both CGL and GOCL are associates of the Company.

COGCL, CGL and GOCL are registered in Anguilla, British West Indies. The Company also has a wholly-owned subsidiary registered in the United Kingdom called Addison & Baxter Limited.

OVERALL PERFORMANCE AND OPERATIONS REVIEW

On January 26th, 2004 the State Oil Company of the Azerbaijan Republic ("SOCAR"), acting as the agent of the State, accepted the completion of the Minimum Obligatory Work Programme ("MOWP") required under the South West Gobustan Exploration, Development and Production Sharing Agreement ("EDPSA"). As a result, the Company's interest in the EDPSA, which has a remaining 20 year term, has been secured.

At the same time, the 2004 work programme was also approved. The key features of the 2004 work programme are: completion of the Field Development Plan ("FDP"), acquisition, processing and interpretation of new 2D seismic over the entire Coastal block, drilling of 5 new exploration and development wells, workover of eight existing wells and, contingent on the successful completion of a gas contract, the drilling of additional gas wells.

Subsequent to the end of the first quarter of 2004, in April 2004, SOCAR, acting as the agent of the State, approved the FDP, a conceptual long range field development program completed by the TUHA Petroleum Exploration and Development Corporation of China with additional input from Ryder Scott Company ("Ryder Scott").

2D new seismic acquisition covering the entire Coastal block was completed in early March 2004, with a total survey line length of 385 km, which will result in high-density data coverage. Data processing and interpretation is currently underway and is expected to be completed in the early part of the third quarter.

It is expected that the results of the survey will provide locations for further development or exploration wells to be drilled in the Coastal block.

During the first quarter of 2004, CGL produced approximately 5,000 barrels of oil. Production continues from the first development well, Dashgil 91, and small amounts are also being produced from the Adzhiveli wells in the Central block and Donguzdyg 101 in the Northern block. In February 2004, the second sale of crude oil was pumped via SOCAR's pipeline for export to Novorossiysk. Under the South West Gobustan EDPSA, CGL is entitled to export 100% of its production. After pipeline transportation charges the net average per barrel price realized for the February sale was \$24.37 per barrel. Three gas wells in the Coastal block, capable of producing over 2 million cubic feet of gas per day, remain shut in and will commence production following the conclusion of a gas sales contract.

Subsequent to the end of the first quarter, on April 29th, 2004, the Company announced the summary results of an independent reserves evaluation of the EDPSA area completed by Ryder Scott under the new guidelines of National Instrument 51-101, Standards of Disclosure for Oil & Gas Activities of the Canadian Securities Administrators.

The Company provided the independent reserves evaluation based on an evaluation completed by Ryder Scott and prepared in accordance with NI 51-101, using the deterministic method of reserves estimation and effective December 31st, 2003.

According to this evaluation, gross reserves attributable to the South West Gobustan EDPSA area are as presented in the table below:

	Ryder Scott Gross Estimates of the South West Gobustan EDPSA					
	Oil		Gas		Oil & Gas	
	Proved MMSTB	Proved plus Probable MMSTB	Proved BCF	Proved plus Probable BCF	Proved MMBOE	Proved plus Probable MMBOE
Coastal Block	14.7	63.9	214.0	412.0	50.3	132.6
Central Block	1.1	2.3	0.4	1.0	1.2	2.5
Northern Block	0.1	0.4	-	-	0.1	0.4
Total	15.9	66.6	214.4	412.9	51.6	135.5

The Company's future net income attributable to proved and probable reserves assuming constant prices and costs and discounted at 10% is estimated at US \$145.9 million. This value has been calculated as a before tax figure for the purposes of comparability, although under the EDPSA terms the state levies taxes in oil and gas rather than cash.

The net interest to Arawak is 35.7 million boe proved and probable reserves.

A complete reserves report as mandated by National Instrument 51-101 Standards of Disclosure for Oil & Gas Activities, for the year ended December 31st, 2003 is available on the web-site for the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com

ANALYSIS OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis and the unaudited interim consolidated 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.

The Company's 37.17% associate, CGL, is contractually required to account for its oil and gas project in the Azerbaijan Republic in U.S. dollars. As this is the Company's most significant business activity, the Company's reporting currency is the U.S. dollar. Foreign currency gains and losses are included in determining loss for the period.

Figures derived from the unaudited interim consolidated financial statements of the Company for the three months ended March 31st, 2004 include the accounts of the Company and its wholly-owned subsidiaries COGCL and Addison & Baxter Limited. Inter-company balances and transactions are eliminated on consolidation. The summarised consolidated balance sheets of CGL can be found in Note 3 to the consolidated financial statements.

GENERAL AND ADMINISTRATIVE

General and administrative costs mostly comprise personnel costs, office overheads and professional fees.

General and administrative expenditure in the first quarter of 2004 was incurred in support of field operations. The costs for the same period in 2003 were lower but were prior to the commencement of field operations. Savings have been made on consultancy and legal advice by extending internal resources.

During the three months ended March 31st, 2004 and March 31st, 2003, the following amounts were paid by the Company in remuneration:

Three months to:	March 31st, 2004	March 31st, 2003
Directors' fees	\$43,750	\$28,750
Officers' salaries	76,576	35,550
Other salaries	33,154	15,118

During the three months ended March 31st, 2004 and March 31st, 2003, the following was paid by the Company as professional fees:

Three months to:	March 31st, 2004	March 31st, 2003
Audit	\$16,250	\$15,475
Legal	2,340	21,536
Consultancy	12,500	62,500
Reserves report	46,090	-
Geological and geophysical	20,867	-
Other	7,058	1,479

Professional fees with the description "reserves report" relate to the preparation of the reserves disclosure required under the new National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities.

Creditors and accruals have reduced to \$445,961 as at March 31st, 2004 from \$577,617 as at December 31st, 2003. The reduction was due largely to the accrual of officers' fees and salaries at the end of 2003, which were paid in the first quarter of 2004. The reduction in the cash balance during the first quarter of 2004 also reflects the payment of debts accrued as at December 31st, 2003. The loan to CGL had a balance due to the Company at March 31st, 2004 of \$2,287,255, and as at December 31st, 2003 of \$2,259,087. Interest accrues on this loan at a rate of LIBOR plus 3.75%. The loan is unsecured and is repayable in instalments when commercial production begins under the South West Gobustan EDPSA.

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:		Income/(loss) before extraordinary items	Net income/(loss)	Net Income/(loss) Per Common Share	
				Basic	Fully Diluted
2004	March 31 st	(362,668)	(362,668)	(0.004)	(0.004)
2003	December 31 st	666,538	666,538	0.007	0.007
	September 30 th	(472,216)	(472,216)	(0.006)	(0.006)
	June 30 th	(331,239)	(331,239)	(0.005)	(0.004)
	March 31 st	(218,622)	(218,622)	(0.003)	(0.003)
2002	December 31 st	(234,276)	(287,962)	(0.004)	(0.004)
	September 30 th	(425,827)	(467,315)	(0.006)	(0.006)
	June 30 th	(137,661)	(144,758)	(0.002)	(0.002)

The profit attributable to the fourth quarter of 2003 includes \$804,841 in respect of the Company's interest in associated companies, \$86,954 in respect of interest on the loan to CGL, and \$171,015 in respect of rights offering expenses reclassified from the previous quarter. The loss attributable to the third quarter of 2002 includes severance payments made to executive officers.

OIL AND GAS PROPERTIES

Pursuant to the EDPSA the Company's 37.17% associate, CGL, acquired the right to explore and develop certain oil and gas fields in the Azerbaijan Republic. CGL holds an 80% working interest in the EDPSA, the remaining interest of 20% is held by SOCAR Oil Affiliate.

CGL and its wholly-owned subsidiary, Gobustan Operating Company Ltd. ("GOCL"), follow 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, and costs of drilling both productive and non-productive wells.

Production revenue is offset against accumulated operating costs incurred by CGL and GOCL, as set out in the terms of the EDPSA. After recovery of operating costs in full, surplus production revenue is then equally divided between the recovery of accumulated capital costs incurred by CGL and GOCL and profit.

Profit is divided between SOCAR (acting on behalf of the Azerbaijan Republic) and the Contractor Parties, CGL and SOCAR Oil Affiliate, in accordance with coefficients laid down in the EDPSA which start at 50/50 profit share and gradually move in favour of the state as more costs are recovered and profit taken. The Contractor Parties' share is divided in the ratio of 80% to CGL and 20% to SOCAR Oil Affiliate, in accordance with their relative interests in the EDPSA.

Until all accumulated operating costs have been recovered, production revenue is used by CGL to repay both the loan from COGCL, which appears as a long term debtor on the balance sheet of the Company, and the \$20 million non-recourse development loan provided by the CNPC group. These two loans are repaid by CGL from production revenue in the agreed proportion of 20% to COGCL and 80% to CNPC, until such time as both loans are repaid in full. While the loans are being repaid, CGL's continuing activities are funded by its shareholders, COGCL and CNPC group.

During the three months ended March 31st, 2004 and March 31st, 2003, the following was capitalised by the Company's associate, CGL as deferred exploration costs:

For the three months to	March 31st, 2004	March 31st, 2003
Balance, beginning of period	\$25,650,625	\$6,111,464
General & administrative	572,970	824,783
Geological & geophysical	1,726,099	106,302
Field operating expenses:		
Workovers	9,368	257,229
Production	178,416	253,809
Capital expenditure		
Drilling	131,489	1,203,773
Fixed assets	0	422,626
	<u>2,618,342</u>	<u>3,068,522</u>
Costs recovered from production	(179,605)	0
	<u>2,438,737</u>	<u>3,068,522</u>
Balance, end of period	<u>\$28,089,362</u>	<u>\$9,179,986</u>

SHARE CAPITAL

There were no share capital movements during the first quarter of 2004.

As at March 31st, 2004 and as at the date of this report, the Company had outstanding 91,556,447 common shares.

A total of 2,557,800 share options were outstanding as at March 31st, 2004, of which 1,657,800 were vested and fully exercisable. As at the date of this report, there were also 2,557,800 share options outstanding, of which 1,882,800 were vested and exercisable. There were no share warrants outstanding as at March 31st, 2004 or as at the date of this report.

LIQUIDITY AND CAPITAL RESOURCES

The levels of cash, current assets and current liabilities as at March 31st, 2004 and December 31st, 2003 are as set out below:

As at:	March 31st, 2004	December 31st, 2003
Cash and cash equivalents	\$6,671,156	\$7,202,816
Total current assets	6,711,434	7,232,433
Total current liabilities	445,961	577,617

The Company's cash deposits are held in US dollars and are managed centrally; surplus funds are placed on time deposits. Limited funds are kept in banks in the Azerbaijan Republic.

As a result of the major financing in 2002 and the rights offering in 2003, the Company has retired all long-term debts and as at March 31st, 2004 had working capital of approximately \$6.2 million. Working capital as at December 31st, 2003 was approximately \$6.6 million. The proceeds of the rights offering as well as the revenue stream from the Company's share of oil and gas sales will fund the Company's share of the 2004 working program for the development activities in the South West Gobustan fields under the EDPSA as well as general corporate overheads.

CGL's approved budget for the first half of 2004 is US \$5.2 million. Arawak's share of the budget for that period will be approximately US \$1.6 million, of which \$929,553 has already been paid. The full year budget will be approved once the Coastal Block seismic data interpretation is available and may also include gas supply related expenditure.

Under the terms of the South West Gobustan EDPSA, SOCAR Oil Affiliate is expected to contribute its 20% share of future cash calls in 2004.

The Company continues to review new business opportunities in the Azerbaijan Republic and the Caspian region. Should an attractive opportunity be found, a certain amount of funding may come from the current cash reserves, but the Company is also reviewing alternative means of financing which should be used for a value enhancing broadening of the Company's business.