



ARAWAK ENERGY CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS AND NOTES
(UNAUDITED – PREPARED BY MANAGEMENT)**

For the three months ended March 31, 2006

ARAWAK ENERGY CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of U.S. dollars)
Unaudited – prepared by management

As at		March 31, 2006	December 31, 2005
ASSETS			
	Note		
Cash and cash equivalents		11,177	14,285
Accounts receivable		15,257	7,525
Inventory		2,781	3,040
Other current assets		5,688	5,879
		<u>34,903</u>	<u>30,729</u>
Property and equipment		144,730	140,279
Deferred charges		1,026	1,086
Future income tax assets		2,977	2,977
		<u>183,636</u>	<u>175,071</u>
LIABILITIES			
Accounts payable and accrued liabilities		8,457	8,883
Corporate income taxes payable		2,487	255
Crude oil sales prepayment facility	2	2,500	-
Current portion of long term debt	3	6,000	4,500
Current portion of other long term liabilities		341	336
		<u>19,785</u>	<u>13,974</u>
Future income tax liabilities		19,224	19,915
Long term debt	3	18,000	21,000
Other long term liabilities		8,864	8,870
Asset retirement obligation		2,220	2,090
		<u>68,093</u>	<u>65,849</u>
SHAREHOLDERS' EQUITY			
Share capital	4	114,070	114,042
Contributed surplus	4	2,438	1,818
Cumulative translation adjustment		(159)	(540)
Deficit		(806)	(6,098)
		<u>115,543</u>	<u>109,222</u>
		<u>183,636</u>	<u>175,071</u>

See accompanying notes to the interim consolidated financial statements.

ARAWAK ENERGY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in thousands of U.S. dollars)
Unaudited – prepared by management

For the three months ended March 31	2006	2005
<u>Revenue</u>		
Crude oil sales	27,719	13,419
Interest and other income	155	220
	<u>27,874</u>	<u>13,639</u>
<u>Expenses</u>		
Royalties and taxes	4,904	3,053
Production costs	1,795	1,488
Transportation and selling costs	3,027	1,645
General and administrative expenses	2,413	1,902
Stock option compensation	620	25
Depletion, depreciation and amortization	5,310	2,915
Accretion expense	56	49
Interest expense	602	846
Foreign exchange loss (gain)	(504)	115
	<u>18,223</u>	<u>12,038</u>
Income before income taxes	<u>9,651</u>	<u>1,601</u>
Current income tax	5,047	1,347
Future income tax recovery	(688)	(640)
	<u>4,359</u>	<u>707</u>
Income for the period	5,292	894
Deficit beginning of the period	(6,098)	(14,596)
Deficit end of the period	(806)	(13,702)
Basic income per share	0.031	0.006
Diluted income per share	0.030	0.006

See accompanying notes to the interim consolidated financial statements.

ARAWAK ENERGY CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOW
(Expressed in thousands of U.S. dollars)
Unaudited – prepared by management

For the three months ended March 31	2006	2005
<u>Operating Activities</u>		
Income for the period	5,292	894
Items not affecting cash		
Stock option compensation	620	25
Depletion, depreciation and amortization	5,310	2,915
Accretion expense	56	49
Foreign exchange loss (gain)	381	(12)
Future income tax recovery	(688)	(640)
Funds from operations	10,971	3,231
Changes in non-cash working capital	(5,479)	(398)
	5,492	2,833
<u>Financing Activities</u>		
Repayment of standby facility	-	(3,603)
Changes in crude oil sales prepayment facility	2,500	(6,000)
Long term debt repayments	(1,500)	(21,500)
Proceeds from long term debt	-	41,500
Change in other long term liabilities	(1)	(2,836)
Proceeds from issue of common shares	28	45,810
	1,027	53,371
<u>Investing Activities</u>		
Acquisition of RF Energy	-	(39,713)
Acquisition of Altius (cash component)	-	(2,589)
Purchase of property and equipment	(9,627)	(5,825)
	(9,627)	(48,127)
<u>Acquisitions</u>		
Net cash acquired with subsidiaries	-	8,846
Net change in cash and cash equivalents during period	(3,108)	16,923
Cash and cash equivalents, beginning of period	14,285	2,755
Cash and cash equivalents, end of period	11,177	19,678

See accompanying notes to the interim consolidated financial statements.

ARAWAK ENERGY CORPORATION
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2006
UNAUDITED – prepared by management

All amounts are in thousands of US dollars unless otherwise stated except per share amounts and number of shares.

1. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The interim consolidated financial statements of Arawak Energy Corporation (“Arawak” or the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles following the same accounting principles and methods of application as the audited consolidated financial statements for the year ended December 31, 2005. The disclosures provided herein are incremental to those included in the annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in the Company’s annual report for the year ended December 31, 2005.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

2. CRUDE OIL SALES PREPAYMENT FACILITY

Subject to certain conditions, Vitol S.A., which is a significant Arawak shareholder, is the exclusive buyer of crude oil exported from the Company’s subsidiary in Kazakhstan until May, 2008 and provides a crude oil prepayment facility allowing the Company to draw prepayments on future oil sales. The amount available for prepayment is up to 90% of the expected value of the next nine months crude oil export sales, subject to a maximum of \$8.0 million. A financing charge of LIBOR plus 3.5% is charged on the outstanding prepayment balance and paid monthly. There is an outstanding balance of \$2.5 million at March 31, 2006 and a nil balance at December 31, 2005.

3. LONG TERM DEBT

The Company's 50% owned operating company in Russia has a bank borrowing base facility agreement carrying interest at LIBOR plus 4.4 per cent. The facility is repayable in equal \$1.5 million quarterly payments. Interest is paid monthly. The borrowing is secured against Russian export crude oil sales and proportionate shareholder guarantees.

	March 31, 2006	December 31, 2005
Bank loan	24,000	25,500
Short term portion	6,000	4,500
Long term debt	18,000	21,000

4. SHARE CAPITAL

Authorized:
Unlimited common shares, without par value

As at:	March 31, 2006		December 31, 2005	
	Number of shares	Amount	Number of shares	Amount
Issued:				
Balance, beginning of period	170,184,729	111,565	92,945,497	23,570
Issued for cash	-	-	28,000,000	45,778
Exercise of options	150,000	28	831,250	154
Issued for Altius shares	-	-	37,374,480	32,587
Exchanged during period	630,306	550	11,033,502	9,620
Share issue costs	-	-	-	(144)
Issued and outstanding	170,965,035	112,143	170,184,729	111,565
Exchangeable shares				
Issued	13,873,971	12,097	13,873,971	12,097
Exchanged	(11,663,808)	(10,170)	(11,033,502)	(9,620)
Balance	2,210,163	1,927	2,840,469	2,477
Issued and outstanding shares	170,965,035	112,143	170,184,729	111,565
Exchangeable shares outstanding	2,210,163	1,927	2,840,469	2,477
Balance, end of period	173,175,198	114,070	173,025,198	114,042

Earnings per share

For the purposes of calculating the weighted average number of shares, the exchangeable shares have been treated as common shares issued. The granted stock options are the reconciling items between the weighted average basic and diluted number of common shares.

Per share amounts are calculated using the weighted average number of common shares outstanding during the period as follows:

For the three months ended March 31	2006	2005
Basic	173,038,531	140,879,676
Diluted	178,775,198	147,254,676

Stock options

The Company has a stock option plan under which the board of directors may grant options for the purchase of common shares to directors, officers, consultants and employees of the Company. The exercise price of each option shall not be lower than the closing price of common shares on the TSX Venture Exchange on the last trading day immediately prior to the date the stock option is granted. The options are granted for a maximum term of five years and are fully vested after eighteen months from the date of grant.

	Number of options	Weighted average exercise price
Outstanding December 31, 2004	1,131,250	CAD 0.22
Granted	5,675,000	CAD 2.10
Exercised	(831,250)	CAD 0.22
Cancelled	(275,000)	CAD 1.93
Outstanding December 31, 2005	5,700,000	CAD 2.01
Granted	300,000	CAD 2.10
Exercised	(150,000)	CAD 0.22
Cancelled	-	-
Outstanding March 31, 2006	5,850,000	CAD 2.08

The number of stock options outstanding and exercisable at March 31, 2006, is as follows:

Options outstanding		Options exercisable	
Number outstanding	Average remaining life in years	Number outstanding	Average remaining life in years
5,850,000	4.0	3,658,333	3.9

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes options pricing model with the following weighted average assumptions:

	2006	2005
Fair value of options granted (\$ per share)	CAD 0.81	CAD 0.81
Expected life (years)	2.0	2.0
Risk-free interest rate (%)	5.0%	4.9%
Expected volatility (%)	120.7%	122.8%
Expected dividend yield (%)	0.0%	0.0%

5. SEGMENTED INFORMATION

The commercial activities of the Company are concentrated in Kazakhstan, Russia and Azerbaijan and are considered separate business segments for operational and presentation purposes. The table below sets out key financial data for the Company by geographical segment.

	Kazakhstan	Russia	Azerbaijan	Other	Total
<u>For the three months ended March 31, 2006</u>					
Revenue:					
Crude oil sales	17,274	10,445	-	-	27,719
Interest and other income	22	52	-	81	155
Expenses:					
Royalties and taxes	371	4,533	-	-	4,904
Production costs	817	978	-	-	1,795
Transportation and selling costs	2,852	175	-	-	3,027
General and administrative	740	431	-	1,242	2,413
Depletion, depreciation and amortization	3,616	1,637	-	57	5,310
Interest expense	34	568	-	-	602
<u>As at March 31, 2006</u>					
Property and equipment	74,426	46,492	23,802	10	144,730
Total assets	98,347	55,630	26,456	3,203	183,636
Total liabilities	24,880	34,014	8,116	1,083	68,093

	Kazakhstan	Russia	Azerbaijan	Other	Total
<u>For the three months ended March 31, 2005</u>					
Revenue:					
Crude oil sales	6,798	6,621	-	-	13,419
Interest and other income	9	99	-	112	220
Expenses:					
Royalties and taxes	146	2,907	-	-	3,053
Production costs	714	774	-	-	1,488
Transportation and selling costs	1,293	352	-	-	1,645
General and administrative	659	452	-	791	1,902
Depletion, depreciation and amortization	1,581	1,332	-	2	2,915
Interest expense	111	6	-	729	846
<u>As at December 31, 2005</u>					
Property and equipment	72,591	45,470	22,206	12	140,279
Total assets	88,269	55,186	23,490	8,126	175,071
Total liabilities	20,148	35,714	9,082	905	65,849