

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2006

This report is dated May 24, 2006

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 unaudited consolidated financial statements of Arawak Energy Corporation ("Arawak" or the "Company") and Notes relating thereto as at and for the three months ended March 31, 2006 and the audited consolidated financial statements of Arawak as at and for the year ended December 31, 2005. Our financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in US dollars.

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 expenditures, 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 expenditures; 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.

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 of its subsidiaries.

All dollar amounts in this report are in US dollars unless otherwise indicated.

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

OVERALL PERFORMANCE AND OPERATIONS REVIEW

The Company is pleased to announce a strong start to the year with robust financial and operational results for the first quarter of 2006, both in absolute terms and also relative to the first quarter of 2005.

Excluding pilot production of oil and gas in Azerbaijan, daily production averaged 6,369 barrels of oil per day ("bopd") for the three months ended March 31, 2006 compared to 4,795 bopd in the first quarter of 2005 and 5,878 bopd in the fourth quarter of 2005. Average daily production has increased to a current level of approximately 7,800 bopd on the back of production increases in both Russia and Kazakhstan including the restoration of full production in April at the Besbolek field in Kazakhstan following the positive resolution of regulatory issues.

Crude oil sales of 631,805 barrels in Kazakhstan and Russia for the three months ended March 31, 2006 generated revenues of \$27.7 million, up 107% from the corresponding quarter in 2005, with net income and funds from operations increasing even more dramatically. Net income for the quarter was up over 490% at \$5.3 million (equivalent to 3.0 cents per share on a fully diluted basis) and funds from operations were up 240% at \$11.0 million (equivalent to 6.1 cents per share on a fully diluted basis).

Arawak continues to invest in developing its properties in Kazakhstan, Russia and Azerbaijan with over \$9.6 million being spent on property and equipment in the first quarter of 2006. This rate of investment is expected to continue throughout 2006 as the Company continues to develop its portfolio of properties.

In Kazakhstan, the Company has started the processing of the new 3D seismic acquired in 2006 over a 21 sq km area of the Besbolek block. Interpreted results will be available in the next couple of months and will allow the identification of new prospects for appraisal drilling within the block. We are also starting up 3D seismic over the entire Akzhar block, which was recently expanded from 3.8 sq km to 71.5 sq km in December 2005. We are very excited about this development and the seismic survey is the first stage in determining the extent of the additional potential available as a result of the territory expansion.

Also in Kazakhstan, the Company is mobilising to drill a number of wells in the Karataikyz field to determine the extent of any additional potential prior to moving into the production stage of the contract.

In Russia, three new wells were drilled in the first quarter of 2006, two of which were horizontal. These wells are now all on production, with the two horizontals producing over 1,000 bopd in total. In the second quarter, three further horizontals and a sidetrack are expected, with four drilling rigs currently active.

In May, the Company announced the signing of an agreement to acquire a 50% interest in the North Israel field, which is located in close proximity to the Company's existing Sotcheymu - Talyu fields in the Komi Republic in Russia. Under the agreement, RF Energy Investments Ltd., which is owned 50% by Arawak and 50% by Valkyries Petroleum Corp., will acquire 100% of the shares in LLC NC Recher-Komi ("Recher"), which in turn has a 100% interest in North Israel, for \$18 million. The deal is subject to various regulatory approvals. RF Energy Investments Ltd. is also the holder of 100% of ZAO PechoraNefteGas, which holds the licenses for the Company's other Komi assets.

Through the Recher acquisition, the Company adds 0.75 million of proven and 2.4 million of proven plus probable reserves net to Arawak, as well as immediate production which we feel can be built to 1,200 bopd (600 bopd net to Arawak) with minimal additional investment.

In Azerbaijan, the gas plant was commissioned in February 2006, and gas sales have commenced. However, the higher capacity wells, Duvanny 102 and 108, have yet to be tied in as higher than expected pressure was encountered while attempting to tie in Duvanny 102. Work has continued on the Kyanisadag 101 exploration well, and it is hoped that the promising exploration section of the well will be logged and tested in the next two months.

Also in Azerbaijan, seismic tenders have been received and it is expected that contracts will be awarded shortly for 3D seismic over key areas of the coastal block and 2D over a significant portion of the remaining contract areas with mobilisation in the next two months.

NETBACKS

The following table presents the operations and earnings netbacks as calculated by dividing total revenues and costs by total Company sales volumes.

For the three months ended March 31	2006		2005	
	US Dollars (thousands)	Per Barrel	US Dollars (thousands)	Per Barrel
Crude oil sales	27,719	43.87	13,419	31.08
Interest and other income	155	0.25	220	0.51
Total revenue	27,874	44.12	13,639	31.59
Royalties and taxes	(4,904)	(7.76)	(3,053)	(7.07)
Production costs	(1,795)	(2.84)	(1,488)	(3.45)
Transportation and selling expenses	(3,027)	(4.79)	(1,645)	(3.81)
Net operating income	18,148	28.73	7,453	17.26
General and administrative expenses	(2,413)	(3.82)	(1,902)	(4.41)
Realized foreign exchange gain (loss)	885	1.40	(127)	(0.29)
Interest expense	(602)	(0.95)	(846)	(1.96)
Current income tax expense	(5,047)	(7.99)	(1,347)	(3.12)
Funds from operations	10,971	17.37	3,231	7.48
Depletion, depreciation and amortization	(5,310)	(8.41)	(2,915)	(6.75)
Stock based compensation costs	(620)	(0.98)	(25)	(0.06)
Accretion expense	(56)	(0.09)	(49)	(0.11)
Unrealized foreign exchange (loss) gain	(381)	(0.60)	12	0.03
Future income tax recovery	688	1.09	640	1.48
Net income	5,292	8.38	894	2.07

PRODUCTION

Overall, the Company's production increased 33% in the first quarter of 2006 versus the first quarter of 2005 to 573,223 barrels or the equivalent of 6,369 bopd from 431,502 barrels or 4,795 bopd.

Production from our Kazakhstan operations increased 50% to 269,306 barrels or the equivalent of 2,992 bopd in the first three months of 2006 versus 179,944 barrels or 2,000 bopd for the same period in 2005.

In Russia, production increased 21% in the first quarter of 2006 to 303,918 barrels or the equivalent of 3,377 bopd versus 251,558 barrels or 2,795 bopd for the first quarter of 2005.

For the three months ended March 31, 2006

	Kazakhstan	Russia	Total 2006
Production - barrels	269,306	303,918	573,223
Average daily production - barrels	2,992	3,377	6,369

For the three months ended March 31, 2005

	Kazakhstan	Russia	Total 2005
Production - barrels	179,944	251,558	431,502
Average daily production - barrels	2,000	2,795	4,795

SALES

Sales volume in the first quarter of 2006 increased 46% to 631,805 barrels or the equivalent of 7,020 bopd from 431,840 barrels or 4,798 bopd in the same period in 2005. The increase results mainly from a 33% increase in production levels in the current year but also from the crude oil inventory reduction in the first quarter of 2006.

The average overall price received increased 41% to \$43.87 per barrel in the three months ended March 31, 2006 as compared to \$31.07 per barrel in the same period of 2005. The average selling price per barrel is dependent upon world benchmark and domestic prices, but is also impacted by the mix between export sales and domestic sales.

For the three months ended March 31, 2006

	Kazakhstan	Russia	Total 2006
Sales – barrels	333,246	298,559	631,805
Average daily sales – barrels	3,703	3,317	7,020
Average sales price per barrel	\$51.84	\$34.98	\$43.87

For the three months ended March 31, 2005

	Kazakhstan	Russia	Total 2005
Sales – barrels	191,352	240,488	431,840
Average daily sales – barrels	2,126	2,672	4,798
Average sales price per barrel	\$35.53	\$27.53	\$31.08

MARKETING

Kazakhstan crude is exported by pipeline and sold as Urals Export Blend, free on board (“FOB”) Odessa, Ukraine or Butinge, Lithuania. Russian crude is exported by pipeline and sold as Urals Export Blend FOB Butinge, Lithuania. Russian crude may also be exported to near-abroad markets, such as Belarus, which have favourable customs arrangements with Russia resulting in export duty and VAT exemptions. Domestic sales in Kazakhstan are either ex-field or delivered to the local refinery and in Russia are ex-field. The results for the first quarter are presented below.

For the three months ended March 31, 2006

Export oil sales	Kazakhstan	Russia	Total 2006
Volume – barrels	305,351	59,805	365,156
Percentage of total sales	92%	20%	58%
Revenue (thousands)	\$16,726	\$3,577	\$20,303
Average export price per barrel	\$54.78	\$59.81	\$55.60

Domestic oil sales

Volume – barrels	27,895	238,754	266,649
Percentage of total sales	8%	80%	42%
Revenue (thousands)	\$548	\$6,868	\$7,416
Average domestic price per barrel	\$19.65	\$28.77	\$27.81

For the three months ended March 31, 2005

Export oil sales	Kazakhstan	Russia	Total 2005
Volume – barrels	156,686	94,086	250,772
Percentage of total sales	82%	39%	58%
Revenue (thousands)	\$6,309	\$4,092	\$10,401
Average export price per barrel	\$40.26	\$43.50	\$41.48

Domestic oil sales	Kazakhstan	Russia	Total 2005
Volume – barrels	34,666	114,278	148,944
Percentage of total sales	18%	48%	35%
Revenue (thousands)	\$489	\$1,875	\$2,364
Average domestic price per barrel	\$14.11	\$16.40	\$15.87
Near-abroad oil sales			
Volume – barrels	-	32,124	32,124
Percentage of total sales	-	13%	7%
Revenue (thousands)	-	\$654	\$654
Average near-abroad price per barrel	-	\$20.35	\$20.35

Kazakhstan

Total sales volume in Kazakhstan increased 74% as a result of a 50% production increase and a reduction of inventory levels, which led to sales exceeding production by 63,940 barrels in the first quarter of 2006. Export sales volume increased 95% while domestic sales volume decreased 20% reflecting the Company's higher proportion of export sales in the first quarter of 2006.

Revenues from Kazakhstan export sales increased 165% to \$16.7 million from \$6.3 million due to a 95% sales volume increase to 305,351 barrels from 156,686 barrels and to a 36% increase in the average export price per barrel to \$54.78 from \$40.26.

Domestic sales revenues in Kazakhstan increased 12% due to a 39% increase in the average domestic price per barrel to \$19.65 from \$14.11 despite a 20% decrease in sales volume from 34,666 barrels to 27,895 barrels.

Russia

Total sales volume in Russia increased 24% as a result of increased production levels. The sales mix in Russia during the first quarter of 2006 was 80% domestic and 20% export versus 48% domestic, 39% export and 13% near-abroad in the first quarter of 2005. At the end of 2005 the port of Butinge in Lithuania was shut down due to operational reasons and remained closed at the beginning of 2006 which led the Company to increase sales to domestic markets as other Russian export routes were at capacity.

Revenues from Russian export sales decreased 13% to \$3.6 million from \$4.1 million due to a 36% sales volume decrease to 59,806 barrels from 94,086 barrels. The average export price per barrel increased 38% to \$59.81 from \$43.50.

Domestic sales revenues in Russia increased 266% to \$6.9 million from \$1.9 million due to a 75% increase in the average domestic price per barrel to \$28.77 from \$16.40 and a 109% increase in sales volume to 238,754 barrels from 114,278 barrels.

There have been not been any near-abroad sales to date in 2006 due to capacity issues in the Belarusian markets.

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 realizable value. The table below summarizes the current period oil movement and inventory balances.

For the three months ended March 31

In barrels	2006	2005
Crude oil inventory – beginning	101,309	37,730
Production	573,223	431,502
Sales	(631,805)	(431,840)
Losses and field usage	(6,863)	(6,891)
Crude oil inventory – ending	35,864	30,501

ROYALTIES AND TAXES

The table below sets out the components of royalties and taxes.

For the three months ended March 31

In thousands of US dollars	2006	2005
Unified extraction tax	3,223	1,732
Export duties	1,310	1,175
Royalties	371	146
	4,904	3,053

Unified extraction tax

The Company is subject to production royalties in Russia with rates established monthly by the state based on current world oil prices. The cost per barrel increased 17% in the first quarter of 2006 to \$10.80 per barrel from \$9.22 per barrel for the full year 2005 due to higher world oil prices in the first quarter of 2006 versus 2005.

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 or near-abroad sales. The export duties increased 19% to \$21.90 per barrel of export sales for the first quarter of 2006 from \$18.33 for the full year 2005 reflecting the higher prevailing oil prices.

Royalties

Arawak pays royalties monthly in Kazakhstan to the state using stabilized rates that are graduated and increase with cumulative annual production. The Company also pays over-riding royalties on two of its properties in Kazakhstan at fixed rates per barrel sold. The increase in royalties in the three months ended March 31, 2006 reflects the increased sales volumes and prices received versus the same period for 2005. Royalties in the first quarter of 2006 are 2.1% of Kazakhstan crude oil sales revenues as compared to 2.2% in the same period of the previous year.

PRODUCTION COSTS

Production costs decreased 18% to \$2.84 per barrel sold in the first quarter compared to \$3.45 per barrel in the same period of the previous year due mainly to the increased production volumes and cost control over the fixed component of production costs.

TRANSPORTATION AND SELLING COSTS

Transportation and selling expenses include pipeline, trucking and other selling costs associated with marketing and delivering crude oil to markets. On a per barrel basis, these costs increased from \$3.81 in the first quarter of 2005 to \$4.79 in the same period in 2006 due primarily to the increased proportionate level of Kazakhstan export sales which carry higher transportation costs than other types of crude oil sales.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased from \$1.9 million in the first three months of 2005 to \$2.4 million in the first three months of 2006, reflecting the increased Company activity, but decreased on a per barrel basis from \$4.41 in 2005 to \$3.82 in 2006 as a result of increased production.

INTEREST EXPENSE

Interest expense decreased from \$0.8 million in the first quarter of 2005 to \$0.6 during the same period in 2006 due primarily to a \$0.2 arrangement fee recognized in 2005 related to the financing for the Russian operations acquisition in the first quarter of 2005 and the decrease in the average balance of overall interest-bearing debt.

CURRENT INCOME TAX EXPENSE

Current income tax expense increased to \$5.0 million in the first quarter of 2006 from \$1.3 million in the same period of the previous year reflecting the significant increases in sales revenue, prices and net income before taxes.

Arawak is subject to excess profit tax on each hydrocarbon contract in Kazakhstan at incremental tiered rates based on each contract's cumulative internal rate of return in excess of 20%. The excess profit tax rates range from 0 to 30%. To date, Arawak has not accrued any related amounts but may be subject to excess profit tax in future years.

DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion, depreciation and amortization expense increased to \$5.3 million for the three months ended March 31, 2006 from \$2.9 million for the same period in 2005 as a result of the 46% increase in sales volume in 2006. The expense per barrel increased 25% to \$8.41 in the first quarter of 2006 from \$6.75 in the first quarter of 2005 as a result of the increased future development cost estimates as per the Company's December 31, 2005 reserve reports. The cost per barrel for the first quarter of 2006 is a 7% increase versus the fourth quarter of 2005 and is due to a higher proportion of sales from Kazakhstan in 2006 versus 2005 which carry higher per barrel depletion costs than Russian sales.

CAPITAL EXPENDITURES

In the first quarter of 2005, the Company spent \$42.3 million in cash and issued \$44.7 million in common shares for the acquisitions in Russia and Kazakhstan. In the first quarter of 2006, a total of \$9.6 million was spent on capital additions compared to \$5.8 million in the first quarter of the previous year after the acquisitions. The increase reflects the escalation of the drilling programs in Russia, Kazakhstan and Azerbaijan, the seismic program, central processing facility and other infrastructure construction in Kazakhstan.

OPERATIONS IN AZERBAIJAN

Pilot oil production continued in the South West Gobustan fields in 2006 from the first development well, Dashgil 91, with small amounts also produced from the Adzhiveli wells in the Central block and Donguzdyg 101 in the Northern block. Goss production in the first quarter of 2006 was 4,773 barrels of oil and 666 mcf of gas versus 6,485 barrels of oil and no gas in the first quarter of 2005.

Sales from pilot production of 1,366 barrels for \$0.07 million during the quarter ended March 31, 2006 have been offset against capitalized costs and not recognized as revenue compared to sales of 1,677 barrels for \$0.06 million for the same period of the previous year.

OUTSTANDING SHARE DATA

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

As at	May 24, 2006	March 31, 2006	December 31, 2005
Common shares	171,073,035	170,965,035	170,184,729
Exchangeable shares	2,210,163	2,210,163	2,840,469
Total outstanding	173,283,198	173,175,198	173,025,198
Stock options	11,067,000	5,850,000	5,700,000

LIQUIDITY AND CAPITAL RESOURCES

The levels of cash, current assets and current liabilities are as set out below.

(In thousands of US dollars)

As at	March 31, 2006	December 31, 2005
Cash and cash equivalents	11,177	14,285
Current assets	34,903	30,729
Current liabilities	19,785	13,974
Net current assets	15,118	16,755

The Company's cash deposits are held principally in US dollars and are managed centrally. Surplus funds are placed on time deposit. Limited 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 \$8.0 million. The amount drawn as at March 31, 2006 was \$2.5 million.

Arawak's Russian joint venture, PNG, which is owned via the Company's 50% interest in RF Energy, established in 2005 a \$51.0 million bank borrowing base facility agreement. The facility carries interest at LIBOR plus 4.4% and is repayable by September 1, 2010, with the first repayment of \$3 million originally due on July 1, 2006. PNG voluntarily prepaid an amount of \$3.0 million in the first quarter of 2006 and the balance outstanding as at March 31, 2006 was \$48.0 million. There are no penalties for early repayment and in certain circumstances PNG is required to accelerate repayment. The borrowing is secured by PNG export crude oil sales and by a guarantee of 50% of PNG obligations by Arawak. This loan facility provides a financing blueprint which may be replicated by the Company elsewhere in the FSU in due course and in particular, for Altius in Kazakhstan.

The Company continues to seek additional business opportunities in Kazakhstan, Russia and Azerbaijan and potentially elsewhere in the FSU. 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
2006 March 31 st	27,719	5,292	0.031	0.030
2005 December 31 st	20,323	(317)	(0.002)	(0.002)
September 30 th	27,575	7,355	0.043	0.041
June 30 th	13,756	566	0.003	0.003
March 31 st	13,419	894	0.006	0.006
2004 December 31 st	-	(198)	(0.002)	(0.002)
September 30 th	-	(596)	(0.006)	(0.006)
June 30 th	-	(328)	(0.004)	(0.004)

RELATED PARTY TRANSACTIONS

Crude oil sales

Revenues from Russian and Kazakhstan export crude oil sales during the three months ended March 31, 2006 of \$20 million (three months ended March 31, 2005 - \$10.4 million) were received from Vitol S.A. Related accounts receivable at March 31, 2006 of \$13.6 million includes revenues from export crude oil sales to Vitol S.A. (March 31, 2005 - \$5.1 million).

Crude oil sales prepayment facility

The crude oil sales prepayment facility provided by Vitol S.A. had an outstanding balance at March 31, 2006 of \$2.5 million (March 31, 2005 - \$0.5 million). Related interest expense for the three months ended March 31, 2006 is \$0.035 million (three months ended March 31, 2005 - \$0.111 million) and the related accounts payable and accrued liabilities outstanding at March 31, 2006 was \$0.035 million (nil at March 31, 2005).

BUSINESS RISKS

As a junior oil and gas exploration, development and production company, Arawak is subject to risks and uncertainties inherent to 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.

Political and economic conditions in Russia, Kazakhstan and Azerbaijan

Whilst 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 these financial statements.

Russian, Kazakhstan and Azerbaijani tax legislation and practice 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.