ARAWAK ENERGY CORPORATION

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

For the three and six months ended June 30th, 2004

Arawak Energy Corporation's auditors have not audited these consolidated financial statements.

ARAWAK ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)
Unaudited – prepared by management

	As at June 30th, 2004	As at Dec 31st, 2003
ASSETS		
Current		
Cash and cash equivalents	$ 5,451,691	$ 7,202,816
Accounts receivable	55,400	29,617
	$ 5,507,091	$ 7,232,433
Investments (Note 3)	1,329,904	1,329,904
Capital assets (Note 4)	19,142	19,055
	$ 6,856,137	$ 8,581,392
Long term debtor (Note 5)	3,175,676	2,259,087
	$ 10,031,813	$ 10,840,479
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 372,482	$ 577,617
	$ 372,482	$ 577,617
Shareholders' equity		
Capital stock (Note 6)	23,460,717	23,373,345
Deficit	(13,801,386)	(13,110,483)
	$ 9,659,331	$ 10,262,862
	$ 10,031,813	$ 10,840,479

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

ARAWAK ENERGY CORPORATION
CONSOLIDATED INCOME STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30th, 2004
(Expressed in U.S. Dollars)
Unaudited – prepared by management

	Three months ended June 30th, 2004	Three months ended June 30th, 2003	Six months ended June 30th, 2004	Six months ended June 30th, 2003
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortisation	$ 1,673	$ 498	$ 3,166	$ 498
Office and miscellaneous	26,522	24,920	58,881	35,721
Professional fees	140,850	176,048	245,954	277,038
Rent	8,098	8,550	17,098	23,718
Transfer agent and filing fees	5,384	8,593	10,913	12,767
Donations	5,357	1,644	5,357	1,644
Travel	45,063	39,347	116,562	43,232
Wages	140,624	101,385	294,104	180,803
	$ (373,571)	$ (360,985)	$ (752,035)	$ (575,421)
Foreign exchange gain (loss)	3,047	2,256	(27,281)	(4,377)
Interest and other income	42,289	27,490	88,413	29,937
Loss before income taxes	$ (328,235)	$ (331,239)	$ (690,903)	$ (549,861)
Income taxes	-	-	-	-
Loss for the period	$ (328,235)	$ (331,239)	$ (690,903)	$ (549,861)
Deficit, beginning of period	(13,473,151)	(12,973,566)	(13,110,483)	(12,754,944)
Deficit, end of period	$ (13,801,386)	$ (13,304,805)	$ (13,801,386)	$ (13,304,805)
Basic loss per share	**$** (0.004)	**$** (0.005)	**$** (0.007)	**$** (0.008)
Basic and diluted loss per share	**$** (0.004)	**$** (0.004)	**$** (0.007)	**$** (0.007)
Weighted average number of shares outstanding	91,778,062	71,951,393	91,667,255	71,948,989

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

ARAWAK ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30th, 2004
(Expressed in U.S. Dollars)
Unaudited – prepared by management

	Three months ended June 30th, 2004	Three months ended June 30th, 2003	Six months ended June 30th, 2004	Six months ended June 30th, 2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss from continuing operations	$ (328,235)	$ (331,239)	$ (690,903)	$ (549,861)
Items not affecting cash				
Amortisation	1,673	498	3,166	498
Changes in non-cash working capital items				
(Increase) decrease in accounts receivable	(15,122)	(6,016)	(25,783)	85,812
(Decrease) increase in accounts payable	(73,479)	18,663	(205,135)	68,187
Cash used in operating activities	$ (415,163)	$ (318,094)	$ (918,655)	$ (395,364)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital stock issued	87,372	2,109	87,372	2,109
Cash provided by financing activities	$ 87,372	$ 2,109	$ 87,372	$ 2,109
CASH FLOWS FROM INVESTING ACTIVITIES				
Increase in loans to associate	$ (888,421)	$ -	$ (916,589)	$ -
Acquisition of capital assets	(3,253)	(22,539)	(3,253)	(22,539)
Cash used in investing activities	$ (891,674)	$ (22,539)	$ (919,842)	$ (22,539)
Net change in cash and cash equivalents during period	**$** (1,219,465)	**$** (338,524)	**$** (1,751,125)	**$** (415,794)
Cash and cash equivalents, beginning of period	**$** 6,671,156	**$** 1,402,432	**$** 7,202,816	**$** 1,479,702
Cash and cash equivalents, end of period	**$** 5,451,691	**$** 1,063,908	**$** 5,451,691	**$** 1,063,908

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Arawak Energy Corporation ("Arawak" or the "Company") conducts its business in one industry segment, the exploration and development of oil and gas properties.

The Company is continued under the laws of Anguilla, British West Indies, and is a reporting issuer in the Provinces of British Columbia, Alberta and Ontario, Canada. The Company's shares are listed on the TSX Venture Exchange under the symbol 'ABG'.

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.

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 for the year then ended. 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 ("COGCL") and Addison & Baxter Limited. Inter-company balances and transactions are eliminated on consolidation.

Reporting currency

The Company's 37.17% associate, Commonwealth Gobustan Limited ("CGL"), is contractually required to account for its oil and gas project in the Azerbaijan Republic in U.S. Dollars. Consequently, the Company's reporting currency is the U.S. Dollar.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and a long-term loan to the Company's associate company, CGL, which is repayable through hydrocarbon production from the South West Gobustan Exploration, Development and Production Sharing Agreement ("EDPSA") at the rate of 20% of revenue as received. 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 values of these financial instruments approximate their carrying values, unless otherwise noted.

Cash and cash equivalents

Cash and cash 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

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 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 taken to the income statement.

Stock-based compensation

The Company grants stock options as described in Note 6. No compensation expense is recognised when stock options are granted. Consideration paid on exercise of stock options is credited to capital stock.

Income taxes

The Company has adopted the liability method of accounting for income taxes. 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 basic loss per share has been calculated using the number of shares issued and outstanding at the balance sheet date. The diluted loss per share has been calculated using the number of shares issued and outstanding plus the number of shares over which options, warrants and similar instruments have been granted at the balance sheet date. Should the Company in future have earnings per share, it will calculate diluted earnings per share using 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.

3. INVESTMENTS IN ASSOCIATED COMPANIES

The group accounts include the accounts of the Company and its subsidiary undertakings, together with the Company's share of the results and net assets of its associate undertakings, CGL and GOCL. Following the completion of the Minimum Obligatory Work Program, CGL's continuing activities are funded by its shareholders, COGCL and China National Petroleum Corporation ("CNPC") group. The Company provided $929,553 for CGL's continuing activities in April 2004 by means of a second loan, the terms of which are under negotiation.

The summarised consolidated operating results of CGL during the three and six month periods ended June 30th, 2004 and June 30th, 2003 were as follows:

	Three months ended June 30th,		Six months ended June 30th,	
	2004	2003	2004	2003
Turnover	-	-	-	-
Profit/(loss) for the period	-	-	-	-

Revenue from test production ($177,491 for the three month period and $179,605 for the six month period ended June 30th, 2004) has been offset against capitalised recoverable costs, and has not been shown as turnover.

The summarised consolidated balance sheets of CGL as at June 30th, 2004 and December 31st, 2003 were as follows:

As at:	June 30th, 2004	Dec. 31st, 2003
Capital assets, investments and oil and gas properties	$ 28,747,094	$ 25,673,674
Current assets	426,806	601,095
	29,173,900	26,274,769
Current liabilities	25,596,004	22,696,873
Shareholders' equity	3,577,896	3,577,896
	$ 29,173,900	$ 26,274,769

4. CAPITAL ASSETS

As at:	June 30th, 2004	Dec. 31st, 2003
Motor vehicles	$ 18,500	$ 18,500
Office furniture and equipment	4,038	4,038
	22,538	22,538
Additions: computer equipment	3,253	-
Less: accumulated amortisation	(6,649)	(3,483)
	$ 19,142	$ 19,055

5. LONG TERM DEBTOR

As at:	June 30th, 2004	Dec. 31st, 2003
Original loan to CGL ("Loan One")	$ 2,246,123	$ 2,259,087
Second loan to CGL ("Loan Two")	$ 929,553	-
Total long term debtor	$ 3,175,676	$ 2,259,087

Interest accrues at a rate of LIBOR plus 3.75% on Loan One. The loan is unsecured and repayable in instalments from commercial production through the EDPSA in which CGL holds an interest.

The Company provided $929,553 for CGL's continuing activities in April 2004 by means of a second loan, the terms of which are under negotiation.

6. CAPITAL STOCK

Authorized:

Unlimited number of common shares, without par value.

As at:	June 30th, 2004 Number of Shares	Amount	December 31st, 2003 Number of Shares	Amount
Issued:				
Balance, beginning of period	91,556,447	$ 23,373,345	71,946,558	$16,660,006
For cash	757,800	87,372	1,618,250	513,396
For cash as part of rights offering	-	-	17,991,639	6,199,943
Issued and outstanding	92,314,247	$23,460, 717	91,556,447	$23,373,345

Stock options

At the Company's annual and special shareholders' meeting held on May 5th, 2003, shareholders of the Company approved a new incentive stock option plan (the "2003 Plan") which superseded the Company's previous incentive stock option plan (the "1998 Plan"). Under the 2003 Plan, the Company is authorized to grant options to directors, officers and consultants to acquire up to 11,370,000 common shares. The exercise price of each option shall not be lower than the closing price of the common shares on the TSX Venture Exchange on the last trading day immediately prior to the date the stock option is granted. Options granted under the 2003 Plan shall vest as to 33.3% six months from the date of the grant, 33.3% twelve months from the date of the grant and the remainder eighteen months from the date of the grant. As at June 30th, 2004 all stock options outstanding were granted under the 1998 Plan prior to implementation of the 2003 Plan.

As at June 30th, 2004, incentive stock options were outstanding as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	1,800,000	Cdn. $ 0.22	January 21st, 2008

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

	Number of Options	Exercise Price
Outstanding, December 31st, 2003:	757,800	Cdn. $ 0.16
	1,800,000	0.22
Exercised	757,800	0.16
Outstanding, June 30th, 2004	1,800,000	0.22
Number of options exercisable as at June 30th, 2004	1,181,250	Cdn. $ 0.22

Warrants

As at June 30th, 2004, no share purchase warrants were outstanding. No share purchase warrants were exercised during either the three or six month periods ended June 30th, 2004.

7. RELATED PARTY TRANSACTIONS

During the three and six month periods ended June 30th, 2004, the Company entered into the related party transactions described below:

a) Legal fees
The Company incurred during the first quarter of 2004 legal fees of $6,920 payable to Macleod Dixon LLP, a firm in which a director of the Company is a partner. There were no fees incurred by the Company payable to Macleod Dixon LLP during the second quarter of 2004.

b) Consultancy fees
The Company incurred consultancy fees of $12,500 during each of the first and second quarters of 2004, payable to individuals who are or have been directors of the Company.

c) Loan One to associate
Interest accrues monthly on the Loan Agreement between COGCL and CGL at a rate of LIBOR plus 3.75%. The loan is unsecured and repayable in instalments when commercial production begins through the EDPSA in which CGL holds an interest. The first such repayment in the amount of $73,609 was made during the second quarter of 2004.

d) Loan Two to associate
Following the completion of the MOWP, CGL's continuing activities are funded by its shareholders, COGCL and CNPC group. The Company provided $929,553 for CGL's continuing activities in April 2004 by means of a second loan, the terms of which are under negotiation.

e) Transactions with shareholder
During the second quarter of 2004 the Company reimbursed the Vitol Group, of which Rosco S.A. (the Company's largest shareholder) is an affiliate, for transactions to the value of $74,511, and $80,604 in the first quarter of 2004, which were all charged at cost.

8. INCOME TAXES

Most of the Company's assets and operating losses relate to operations in jurisdictions where they are not subject to income taxes. The Company has incurred operating losses in the United Kingdom which, if unutilised, may expire in future years. 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.

9. SEGMENTED INFORMATION

The Company conducts its business in one industry segment, the exploration and development of oil and gas properties.

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO THE STATEMENTS OF CASH FLOWS

	Three months ended June 30th,		Six months ended June 30th,	
	2004	2003	2004	2003
Cash paid during the period for interest	-	-	-	-
Cash paid during the period for income taxes	-	-	-	-

There were no significant non-cash transactions during the three and six month periods ended June 30th, 2004 and 2003.

11. SUBSEQUENT EVENTS

On July 12th, 2004 the Company announced two proposed acquisitions which, when completed, will transform Arawak to become a diversified developer and producer with operations in three countries and current production of approximately 5,000 barrels of oil per day. In the first of these transactions, the Company has signed an agreement to acquire a 50% interest in ZAO PechoraNefteGas, a Russian company producing oil in the Komi Republic in Russia. In the second transaction, which is expected to close concurrently with the first transaction, Arawak has signed a letter of intent with Altius Energy Corporation, a Canadian company with operations in Kazakhstan, to acquire 100% of its shares.

Additional details of both proposed acquisitions can be found in the subsequent events section in the Management's Discussion and Analysis relating to the consolidated financial statements for the three and six months ended June 30th, 2004.