



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This report is dated August 26th, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30th, 2004

This report is dated August 26th, 2004.

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 as at and for the three and six months ended June 30th, 2004 and the Management's Discussion and Analysis and audited consolidated financial statements of Arawak as at and 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 includes "forward looking statements" based upon current expectations, estimates and projections of recoverable reserves, future production, future net income and anticipated sources of financing, that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company. These risks and uncertainties include, but are not limited to, changes in market conditions, law or government policy, operating conditions and costs, operating performance, demand for oil, gas and related products, price and exchange rate fluctuations, commercial negotiations or other technical and economic factors.

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.

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 ("EDPSA"). An affiliate of the State Oil Company of the Azerbaijan Republic ("SOCAR") 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 has a wholly owned subsidiary registered in the United Kingdom called Addison & Baxter Limited.

OVERALL PERFORMANCE AND OPERATIONS REVIEW

The highlight of the second quarter of 2004 was in Azerbaijan where Arawak Energy Corporation's ("Arawak" or the "Company") associate Gobustan Operating Company Ltd. ("GOCL"), the operating company for the Exploration Development and Production Sharing Agreement for the South West Gobustan oil and gas fields ("EDPSA") in the Azerbaijan Republic, has entered into an agreement for the Sale and Purchase of Natural Gas (the "Agreement") with the State Oil Company of the Azerbaijan Republic ("SOCAR").

Under the terms of this Agreement, GOCL will sell gas produced from the South West Gobustan fields to SOCAR at a price of \$1.29 per million British thermal units ("MMBtu"), delivered to SOCAR's gas pipeline

system which is located in close proximity to the South West Gobustan fields. The price achieved under the contract is reasonably consistent with current input parity pricing in Azerbaijan.

The contract is very flexible, allowing GOCL to nominate any annual sales quantity between 100 million and 600 million cubic meters of natural gas per year (approximately 3.5 to 21 billion cubic feet of gas per year) commencing from the second year of the Agreement. Other amounts could be accommodated, subject to SOCAR's prior approval.

There is also considerable flexibility in the contractual commencement date which may be any date between December 1st, 2004 and September 30th, 2005 at GOCL's option. The gas sale and purchase agreement has been signed for the entire duration of the South West Gobustan EDPSA with pricing subject to review by mutual agreement.

During the second quarter of 2004 the seismic data from the 2D seismic shot covering the entire Coastal block was sent for processing and interpretation by China National Petroleum Corporation's ("CNPC") seismic group in Beijing. In parallel with this work, SOCAR's offshore geophysical group that carried out the shoot was also processing the data. The results of the interpretation will provide locations for further development or exploration wells to be drilled in the Coastal block with drilling to commence in the third quarter.

During the second quarter of 2004, oil production continued from the first development well, Dashgil 91, and small amounts were also being produced from the Adzhiveli wells in the Central block and Donguzdyg 101 in the Northern block. The second quarter production amounts to approximately 8,500 barrels of oil. Also in the second quarter of 2004, the third 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 May sale was \$30.57 per barrel.

Subsequent to the quarter end, 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 ("bopd").

In the first of these transactions, the Company has signed an agreement to acquire a 50% interest in ZAO PechoraNefteGas ("PNG"), 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.

Since the announcement, PNG has completed drilling of an exploration well in the Kadzherom field, approximately 10 km from the fields currently producing. The exploration well discovered oil, and is being completed in order to undertake a long term production test to establish commercial viability of this well. The remaining 50% interest in PNG is held by Valkyries Petroleum Corporation, a Canadian upstream oil and gas company listed on the TSX Venture Exchange under the symbol "VPC".

Both transactions are subject to receipt of all necessary approvals including TSX Venture Exchange and shareholder approvals and satisfaction of other conditions customary in transactions of this nature. It is expected that the special shareholders' meeting will be held in the 4th quarter with both transactions closing shortly afterwards.

Additional details of both proposed acquisitions can be found in the subsequent events section of this Management's Discussion and Analysis.

ANALYSIS OF THE FINANCIAL STATEMENTS

This Management's Discussion and Analysis and the related 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, Commonwealth Gobustan Limited ("CGL"), is contractually required to account for its oil and gas project in the Azerbaijan Republic in U.S. Dollars. As this is presently 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 interim consolidated financial statements of the Company for the three and six months ended June 30th, 2004 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. The summarised consolidated balance sheets of CGL can be found in Note 3 to the interim 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 half of 2004 were 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 during the first half of 2004 on consultancy and legal advice by extending internal resources.

During the three and six months ended June 30th, 2004 and June 30th, 2003, the following amounts were paid by the Company in remuneration:

	Three months ended June 30 th ,		Six months ended June 30 th ,	
	2004	2003	2004	2003
Directors' fees	\$36,863	\$31,093	\$80,613	\$59,843
Officers' salaries	76,832	43,984	153,408	79,534
Other salaries	26,929	26,308	60,083	41,426

During the three and six months ended June 30th, 2004 and June 30th, 2003, the following amounts were paid by the Company as professional fees:

	Three months ended June 30 th ,		Six months ended June 30 th ,	
	2004	2003	2004	2003
Audit	\$26,331	\$12,627	\$42,581	\$28,102
Legal	8,059	81,605	10,398	103,141
Consultancy	12,500	62,500	25,000	125,000
Reserves report	36,874	-	82,964	-
Geological and geophysical	19,777	-	40,644	-
Other	37,309	19,316	44,367	20,795

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

Accounts payable and accrued liabilities have reduced to \$372,482 as at June 30th, 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. Accounts receivable include prepayments, recoverable GST and VAT, and amounts rebilled at cost to associate companies. Accounts receivable at December 31st, 2003 was \$29,617 and \$55,400 at 30th June, 2004.

The loan to CGL had a balance due to the Company at June 30th, 2004 of \$2,246,123, 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 sets out certain financial data, which 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	June 30 th	(338,135)	(338,135)	(0.004)	(0.004)
	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)

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 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.

Under the terms of the EDPSA, 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 CGL and SOCAR Oil Affiliate (the "Contractor Parties") and the State Oil Company of the Azerbaijan Republic ("SOCAR") (acting on behalf of the Azerbaijan Republic), 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 CNPC. 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. The Company increased its investment in CGL during the three month period to June 30th, 2004 by \$929,553.

During the three and six months ended June 30th, 2004 and June 30th, 2003, the following was capitalised by the Company's associate CGL as deferred exploration costs:

	For three months ended June 30 th		For six months ended June 30 th	
	2004	2003	2004	2003
Balance, beginning of period	\$28,089,362	\$9,179,986	\$25,650,625	\$6,111,464
General & administrative	581,926	1,309,287	1,154,896	2,134,070
Geological & geophysical	378,685	211,675	2,104,784	317,977
Field operating expenses				
Workovers	18,684	530,739	28,052	787,968
Production	95,572	(19,584)	273,988	234,225
Capital expenditure				
Drilling	(262,692)	1,030,398	(131,203)	2,234,171
Fixed assets	0	30,335	0	452,961
	812,175	3,092,850	3,430,517	6,161,372
Costs recovered from production	(177,491)	0	(357,096)	0
	634,684	3,092,850	3,073,421	6,161,372
Balance, end of period	\$28,724,046	\$12,272,836	\$28,724,046	\$12,272,836

SHARE CAPITAL

During the three months ended June 30th, 2004, 757,800 share options were exercised for an aggregate of Cdn \$ 121,248 (US\$ 87,371). There were no share capital movements during the first quarter of 2004.

As at June 30th, 2004 and as at the date of this report, the Company had outstanding 92,314,247 common shares.

A total of 1,800,000 share options were outstanding as at June 30th, 2004, of which 1,181,250 were vested and fully exercisable. As at the date of this report, 1,387,500 of the said 1,800,000 share options were vested and fully exercisable. There were no share warrants outstanding as at June 30th, 2004 or as at the date of this report.

LIQUIDITY AND CAPITAL RESOURCES

The levels of cash, current assets and current liabilities as at June 30th, 2004 and December 31st, 2003 are as set out below:

As at:	June 30 th , 2004	December 31 st , 2003
Cash and cash equivalents	\$5,451,691	\$7,202,816
Total current assets	5,507,091	7,232,433
Total current liabilities	372,482	577,617

The Company's cash deposits are held in U.S. 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 June 30th, 2004 had working capital of approximately \$5.1 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.

The Company continues to review new business opportunities in the Azerbaijan Republic and the Caspian region. Should an attractive opportunity be found, this could be funded partly from the current cash

reserves, but the Company is also reviewing other sources of finance which could be used to allow larger business opportunities to be considered.

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 Minimum Obligatory Work Program, 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.

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.

ZAO PechoraNefteGas ("PNG")

The principal assets of PNG include the Sotchemyu-Talyu field and two exploration licences on the Kadzherom block and the 6,000 km² Mutnomateric block, located in the Komi Republic of the Russian Federation. The Sotchemyu-Talyu field produces at a current rate of approximately 5,600 bopd. The field has a direct tie-in to the main Transneft (crude oil export) pipeline and has modern field facilities with storage capacity of over 150,000 barrels of oil. Under current rules, PNG exports approximately 35% of its production by pipeline, with the balance being sold on the domestic market.

An independent reserves report, completed by Ryder Scott Company on behalf of Valkyries Petroleum Corporation in June 2004 in accordance with the requirements of National Instrument 51-101, indicated remaining proved recoverable reserves attributable to the Sotchemyu-Talyu field of 24.1 million barrels of oil.

Under the terms of the share purchase agreement entered into, Arawak will acquire 50% of the shares of the Cypriot holding company of PNG from Vitol Russia B.V. ("Vitol") for a total consideration of \$39.5 million cash plus a working capital adjustment estimated at approximately \$3 million. Rosco S.A., which holds 41.28% of the outstanding shares of Arawak, is an affiliate of Vitol. The remaining 50% interest in PNG is

held by Valkyries Petroleum Corporation, a Canadian upstream oil and gas company listed on the TSX Venture Exchange under the symbol "VPC".

It is the intention of the Company to finance the acquisition of the 50% interest in PNG primarily by way of a reserve-based debt financing.

Altius Energy Corporation ("Altius")

Altius is a Canadian oil company focused on the acquisition, development and production of crude oil in the Republic of Kazakhstan. Altius's operations are located in the Pre-Caspian basin of Western Kazakhstan where it has interests in the Akzhar, Besbolek and Karataiky fields with combined production which increased from approximately 760 bopd in 2003 to approximately 2,100 bopd in June 2004. As Altius continues development of the three fields further strong production growth is expected through the remainder of the year and 2005. An independent reserves report completed in June 2004 by McDaniel & Associates Consultants Ltd. in accordance with the requirements of National Instrument 51-101 estimates Altius's gross proved reserves at 12.1 million barrels of oil, and gross probable additional reserves at 13.0 million barrels of oil. In addition, seismic and geological evaluation have identified exploration upside in Altius's current licence areas.

Pursuant to the letter of intent entered into by Arawak and Altius, Arawak would acquire all of the common shares of Altius on the basis of 2.1 common shares of Arawak plus \$0.25 cash for each Altius share. On a fully diluted basis, Altius has 29.2 million common shares outstanding. The acquisition of Altius therefore would result in the issuance by Arawak of up to 61.4 million common shares and the payment by Arawak of up to \$7.3 million. Altius directors, officers and significant shareholders, including Rosco S.A. which is the principal shareholder of Altius, have expressed their intention to tender all of their Altius shares to Arawak, representing 86.6% of the outstanding common shares of Altius on a fully diluted basis, conditional upon the completion of the PNG transaction.

Both transactions are subject to receipt of all necessary approvals including TSX Venture Exchange and shareholder approvals and satisfaction of other conditions customary in transactions of this nature.