



Arawak Energy Corporation
(formerly A&B Geoscience Corporation)

Quarterly Report to Shareholders
for the Nine Months ended 30th September, 2003

BC FORM 51-901F (previously Form 61)

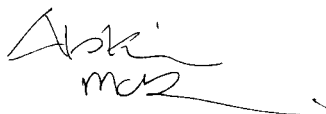
Quarterly Report

ISSUER DETAILS

NAME OF ISSUER	Arawak Energy Corporation (formerly A&B Geoscience Corporation)
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CONTACT PERSON	Alastair D. McBain
CONTACT'S POSITION	President and Chief Executive Officer
DATE OF REPORT	31st October, 2003
FOR QUARTER ENDED	30th September, 2003
CURRENCY	U.S. Dollars

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.



Alastair D. McBain
31st October, 2003



Roland J. Favre
31st October, 2003

SCHEDULE 'A' – FINANCIAL STATEMENTS CONSOLIDATED BALANCE SHEETS

(Expressed in U.S. Dollars)

Unaudited – prepared by management

	30th Sept, 2003	31st Dec, 2002
ASSETS		
Current		
Cash and equivalents	7,549,119	1,479,702
Accounts receivable and prepayments	2,192,868	2,281,110
	<u>9,741,987</u>	<u>3,760,812</u>
Fixed		
Fixed assets	20,548	
Investments	525,063	525,063
	<u>10,287,598</u>	<u>4,285,875</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	707,394	380,813
	<u>707,394</u>	<u>380,813</u>
Shareholders' equity		
Capital stock	23,357,225	16,660,006
Deficit	(13,777,021)	(12,754,944)
	<u>9,580,204</u>	<u>3,905,062</u>
	<u>10,287,598</u>	<u>4,285,875</u>

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

SCHEDULE 'A' – FINANCIAL STATEMENTS (continued)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

THREE AND NINE MONTHS ENDED 30th SEPTEMBER, 2003 AND 30th SEPTEMBER, 2002

(Expressed in U.S. Dollars)

Unaudited – prepared by management

	3 Months to 30th Sept, 2003	9 Months to 30th Sept, 2003	3 Months to 30th Sept, 2002	9 Months to 30th Sept, 2002
GENERAL AND ADMINISTRATIVE EXPENSES				
Amortisation	1,492	1,990	9,408	11,209
Office and miscellaneous	27,235	62,956	10,385	30,666
Professional fees	262,769	539,807	86,616	231,615
Rent	12,825	36,543	13,785	24,331
Transfer agent and filing fees	16,004	28,771	1,280	9,555
Donations	1,000	2,644	-	-
Software rental	13,225	13,225	-	-
Travel	42,613	85,845	17,582	62,226
Wages	102,477	283,280	317,072	473,723
	(479,640)	(1,055,061)	(456,128)	(843,325)
Gain on deemed disposal of interest in subsidiary	-	-	-	24,963
Foreign exchange gain (loss)	638	(3,739)	(825)	5,244
Net interest and other income	6,786	36,723	31,126	29,845
Loss from continuing operations	(472,216)	(1,022,077)	(425,827)	(783,273)
Loss from discontinued operations	-	-	(41,488)	(49,565)
Loss for the period	(472,216)	(1,022,077)	(467,315)	(832,838)
Deficit, beginning of period	(13,304,805)	(12,754,944)	(11,999,667)	(11,634,144)
Deficit, end of period	(13,777,021)	(13,777,021)	(12,466,982)	(12,466,982)
Loss per share from continuing operations	(0.006)	(0.014)	(0.006)	(0.014)
Loss per share from discontinued operations	(0.000)	(0.000)	(0.001)	(0.001)
Loss per share	(0.006)	(0.014)	(0.007)	(0.015)
Weighted average number of shares outstanding	80,552,011	74,848,176	68,460,797	56,125,505

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

SCHEDULE 'A' – FINANCIAL STATEMENTS (continued)**CONSOLIDATED STATEMENTS OF CASH FLOWS**

THREE AND NINE MONTHS ENDED 30th SEPTEMBER, 2003 AND 30th SEPTEMBER, 2002

(Expressed in U.S. Dollars)

Unaudited – prepared by management

	3 Months to 30th Sept, 2003	9 Months to 30th Sept, 2003	3 Months to 30th Sept, 2002	9 Months to 30th Sept, 2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss from continuing operations	(472,216)	(1,022,077)	(425,827)	(783,273)
Items not affecting cash				
Amortisation	1,492	1,990	9,408	11,209
Treasury shares received	-	-	-	(27,829)
Gain on deemed disposal of interest in subsidiary	-	-	-	(24,963)
Changes in non-cash working capital items				
(Increase) decrease in accounts receivable	2,431	88,243	(187,159)	628,679
Increase (decrease) in accounts payable	258,394	326,581	156,512	1,060,185
Cash (used in) provided by operating activities	(209,899)	(605,263)	(447,066)	864,008
Cash used in discontinued operations	-	-	(41,488)	(49,565)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital stock issued and subscriptions received	6,695,110	6,697,219	1,258,811	3,137,377
Cash provided by financing activities	6,695,110	6,697,219	1,258,811	3,137,377
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of capital assets	-	(22,539)	(4,224)	(4,224)
Disposal of interest in subsidiaries	-	-	-	(543,535)
Oil and gas property costs	-	-	-	(1,551,199)
Cash used in investing activities	-	(22,539)	(4,224)	(2,098,958)
Net change in cash and equivalents during period	6,485,211	6,069,417	766,033	1,852,862
Cash and equivalents, beginning of period	1,063,908	1,479,702	1,176,958	90,129
Cash and equivalents, end of period	7,549,119	7,549,119	1,942,991	1,942,991

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

SCHEDULE 'A' – FINANCIAL STATEMENTS (continued)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED 30th SEPTEMBER, 2003

(Expressed in U.S. Dollars)

Unaudited – prepared by management

1 BASIS OF PRESENTATION

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Commonwealth Oil & Gas Company Limited (also incorporated under the laws of Anguilla, British West Indies) and Addison & Baxter Limited (incorporated under the laws of the United Kingdom). Significant inter-company balances and transactions are eliminated on consolidation.

On 28th March, 2002, Commonwealth Gobustan Limited ("CGL") issued common shares totaling 62.83% of its issued and outstanding capital stock to Rosco S.A.. The Company's interest in CGL was diluted so that the Company now has a 37.17% interest in CGL and an indirect 37.17% interest in Gobustan Operating Company Ltd. ("GOCL"). An affiliate of the State Oil Company of the Azerbaijan Republic ("SOCAR") holds a 20% carried interest in the Exploration, Development and Production Sharing Agreement for the Southwest Gobustan oil and gas fields in the Azerbaijan Republic ("EDPSA"). CGL holds the remaining 80% interest, which means the Company's interest in the EDPSA is now 29.74%. Subsequent to the share issue CGL and GOCL have been deconsolidated and are now treated as associated companies in these financial statements. As a result the carrying value of oil and gas property costs as at 28th March, 2002 have been deconsolidated.

The consolidated statement of cash flows in the comparative period includes the movements in cash of CGL and GOCL during the period from 1st January, 2002 to 28th March, 2002. After deconsolidation of both of these companies' assets and liabilities, all group cash movements relate specifically to Arawak Energy Corporation, Commonwealth Oil & Gas Company Limited and Addison & Baxter Limited.

The interim period consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual consolidated financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to represent a fair statement of the results of the interim periods presented.

2 NATURE OF OPERATIONS

The Company's principal business activity is exploring and developing oil and gas properties.

3 SEGMENTED INFORMATION

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

SCHEDULE 'B' – SUPPLEMENTARY INFORMATION

(Expressed in U.S. Dollars)

1 Oil and Gas Properties

During the three and nine months ended 30th September, 2003, and as at 31st December, 2002, the Company capitalised no exploration and development costs.

2 Associated Companies

Commonwealth Oil & Gas Company Limited held a 37.17% interest in Commonwealth Gobustan Limited ("CGL") with effect from 28th March, 2002. CGL held a 100% interest in Gobustan Operating Company Ltd. ("GOCL") with effect from 28th March, 2002.

The summarised operating results of these associated companies during the three months ended 30th September, 2003 were as follows:

	CGL	GOCL
Turnover	-	-
Profit for the period	-	-

The summarised balance sheets as at 30th September, 2003 were as follows:

	CGL	GOCL
Capital assets, investments and oil and gas properties	3,928,259	14,556,661
Current assets	15,528,273	3,163,446
	19,456,532	17,720,107
Current liabilities	18,043,932	15,546,811
Shareholders' equity	1,412,600	2,173,296
	19,456,532	17,720,107

3 Professional Fees

During the three and nine months ended 30th September, 2003, the following was paid as professional fees:

	3 Months to 30th Sept, 2003	9 Months to 30th Sept, 2003
Audit	6,511	34,613
Legal	2,549	105,690
Directors' consultancy	55,617	180,617
Rights Offering fees	176,491	176,491
Other	21,601	42,396

SCHEDULE 'B' – SUPPLEMENTARY INFORMATION (continued)

(Expressed in U.S. Dollars)

4 Expenditures to Parties not at Arm's Length

During the three and nine months ended 30th September, 2003, the following was paid or accrued in respect of salaries and travel expenses to directors and senior officers:

	3 Months to 30th Sept, 2003	9 Months to 30th Sept, 2003
Salaries	149,822	374,962
Travel expenses	19,057	40,218

5 Securities Issued and Options Granted

- (a) On 21st January, 2003, options to acquire an aggregate of 1,800,000 common shares at CDN\$0.22 per share were granted to directors, officers, and consultants.
- (b) On 13th May, 2003, the treasury shares held by the Company were cancelled.
- (c) On 9th June, 2003, 20,000 new common shares were issued for a total cash consideration of CDN\$3,200 (equivalent to US\$2,109), as a result of a share option exercise.
- (d) On 12th August, 2003, 20,000 new common shares were issued for a total cash consideration of CDN\$3,200 (equivalent to US\$2,243), as a result of a share option exercise.
- (e) On 12th August, 2003, 25,000 new common shares were issued for a total cash consideration of CDN\$4,000 (equivalent to US\$2,803), as a result of a share option exercise.
- (f) As a result of the Rights Offering, on 18th August, 2003, 17,991,639 new common shares were issued for a total cash consideration CDN\$8,995,819 (equivalent to US\$6,370,958).
- (g) On 28th August, 2003, 257,200 new common shares were issued for a total cash consideration of CDN\$41,152 (equivalent to US\$29,255), as a result of a share option exercise.
- (h) On 18th September, 2003, 100,000 new common shares were issued for a total cash consideration of CDN\$50,000 (equivalent to US\$36,340), as a result of a share warrant exercise.
- (i) On 23rd September, 2003, 140,550 new common shares were issued for a total cash consideration of CDN\$70,275 (equivalent to US\$51,661), as a result of a share warrant exercise.
- (j) On 23rd September, 2003, 250,000 new common shares were issued for a total cash consideration of CDN\$125,000 (equivalent to US\$92,488), as a result of a share warrant exercise.

SCHEDULE 'B' – SUPPLEMENTARY INFORMATION (continued)

(Expressed in U.S. Dollars)

- (k) On 25th September, 2003, 100,000 new common shares were issued for a total cash consideration of CDN\$50,000 (equivalent to US\$35,806), as a result of a share warrant exercise.
- (l) On 26th September, 2003, 202,000 new common shares were issued for a total cash consideration of CDN\$101,000 (equivalent to US\$73,555), as a result of a share warrant exercise.

6 Authorised and Issued Share Capital

As at 30th September, 2003, the share capital consisted of the following:

Authorised	Unlimited common shares, without par value
Issued and Outstanding	91,052,947
Amount	US\$ 23,357,225

7 Options, Warrants and Convertible Securities

On 5th May, 2003, a new incentive stock option plan as described in the information circular issued with the Notice of Annual and Special Meeting of Shareholders was adopted, with such modifications as the President and Chief Financial Officer may deem appropriate.

As at 30th September, 2003, options were outstanding to purchase an aggregate of 757,800 common shares at an exercise price of CDN\$0.16 each at any time up to 21st June, 2004, and an aggregate of 1,800,000 common shares at an exercise price of CDN\$0.22. These options were still outstanding as at the date of this report.

As at 30th September, 2003, 503,500 share purchase warrants were outstanding and exercisable at CDN\$0.50 per share to 12th October, 2003. These warrants were all exercised subsequent to the period end and before the expiry date for an aggregate of CDN\$251,750 (US\$187,135).

8 Shares in Escrow or Subject to a Pooling Agreement

As at 30th September, 2003, there were no shares in escrow or subject to a pooling agreement.

9 Directors

As at 30th September, 2003, the following were directors:

James H. Coleman
Donald R. Curtis
Roland J. Favre
Malcolm C. Hope-Ross
Jeremy C.A. Little
Alastair D. McBain

SCHEDULE 'C' – MANAGEMENT DISCUSSION AND ANALYSIS

(Expressed in U.S. Dollars)

1 Description of Business

Arawak Energy Corporation (the "Company") explores and develops oil and gas properties. The Company's shares are listed for trading on the TSX Venture Exchange under the symbol "ABG".

The Company and its active subsidiaries are incorporated in Anguilla, British West Indies, except for Addison & Baxter Limited, which is incorporated in the United Kingdom. The Company also has eight inactive subsidiaries, the businesses of which were discontinued in past fiscal years. As detailed in the Company's last four Annual Reports, the assets and liabilities of these subsidiaries are not consolidated in the Company's financial statements. Since the last annual report, three of these subsidiaries have been dissolved, and three have ceased trading and are in the process of being dissolved. The remaining two are in various stages of being wound up or liquidated.

2 Discussion of Operations and Financial Condition

The Company's cash reserves are held in US Dollars and on deposit.

Accounts receivable decreased from \$2,281,110 as at 31st December, 2002 to \$2,192,868 as at 30th September, 2003 as a result of the repayment of an intercompany loan by Gobustan Operating Company Ltd.

Investments of \$525,063 represent the Company's share of the net assets of its associated companies Commonwealth Gobustan Limited ("CGL") and Gobustan Operating Company Ltd. ("GOCL").

Accounts payable and accrued liabilities increased from \$380,813 as at 31st December, 2002 to \$653,016 as at 30th September, 2003 due to an accrued amount for officers' salaries as yet unpaid.

An analysis of professional fees is set out in Note 3 to Schedule "B".

An analysis of transactions with related parties is set out in Note 4 to Schedule "B".

The Company is not party to any legal proceedings. The Company is not in default under any debt or other contractual obligations. The Company is not in breach of any corporate, securities or other laws or of its listings agreement with the TSX Venture Exchange.

The Company has no pending material transactions which would require regulatory approval.

In the nine months ended 30th September, 2003, there was a change in executive directors. At the Annual and Special Meeting on 5th May, 2003, Mr James H. Coleman was appointed as director and Company Secretary. Nicholas Baxter and Graham Crabtree were not re-appointed as directors, although Mr Baxter remains a director of Addison & Baxter Limited, CGL, and GOCL.

SCHEDULE 'C' – MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(Expressed in U.S. Dollars)

On 23rd April, 2003, the appointment of Mr Xin Junhe as President of CGL was announced. Mr John Scott, the previous President, has joined the Board of Directors of CGL and will remain actively involved in Baku, Azerbaijan Republic as General Manager of Commonwealth Oil & Gas Company Limited.

Investor relations is currently managed internally. Shareholders and prospective investors who wish to receive news releases and corporate information from the Company should e-mail their contact details to info@arawakenergy.com for inclusion in the Company's investor relations database. News releases and corporate information are also available via the Company's website at www.arawakenergy.com.

At the Annual and Special Meeting on 5th May, 2003, shareholders approved a special resolution to increase the authorised capital of the company from 100,000,000 common shares to an unlimited number of common shares.

Also at the Annual and Special Meeting on 5th May, 2003, shareholders approved a special resolution enabling the name of the Company to be changed to Arawak Energy Corporation or such other name as the Board of Directors may approve.

3 Material Events since the Latest Fiscal Year End

(a) Events in First Quarter 2003

On 21st January, 2003, options to acquire an aggregate of 1,800,000 common shares at CDN\$0.22 per share were granted to directors, officers and consultants.

On 28th January, 2003, it was announced that Rosco S.A. ("Rosco") sold its 62.83% interest in Commonwealth Gobustan Limited to two affiliates of China National Petroleum Corporation ("CNPC"). CNPC will also take over Rosco's commitment to provide a \$20 million non-recourse development loan and continue the obligation to carry the Company through to the completion of the Minimum Obligatory Work Program ("MOWP").

In the first quarter of 2003, the Company's UK administration office was moved from Milton Keynes to Bowater House East, Fourth Floor, 68 Knightsbridge, London, SW1X 7LT, United Kingdom.

On 18th March, 2003, CGL announced the spudding of its first development well in connection with the Exploration, Development and Production Sharing Agreement ("EDPSA"). The new well, which is being drilled in the Dashgil field and has oil as its primary objective, was started on 12th March, 2003. This represented a significant milestone as it marked the commencement of development drilling operations under the EDPSA. The location of the second well, which was also being drilled in the Dashgil field, had already been determined and work related to obtaining permits had begun. Under the terms of the MOWP in the EDPSA, CGL is obliged to complete 6 development wells and an exploration well by 27th November, 2003.

SCHEDULE 'C' – MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(Expressed in U.S. Dollars)

CGL also announced that three workovers had been completed in the Duvanny field, three in the Solokhay field and one in the Dashgil field. A fourth workover in the Duvanny field was then under way. This was to be followed by a second workover in the Dashgil field which would then result in completion of the MOWP obligation with respect to workovers.

At the time of CGL's announcement, the remaining MOWP obligation, being the shooting of new 2D seismic, was already under way. The 2D seismic survey was taking place in the northernmost of the three blocks which comprise the South-West Gobustan contract area, where no previous seismic data was available despite the existence of numerous old oil and gas discovery wells. It was expected that the result of the survey would reveal locations for new development and exploration wells.

(b) Events in Second Quarter 2003

On 23rd April, 2003, the appointment of Mr Xin Junhe as President of CGL was announced. Mr Xin's appointment followed the acquisition of an aggregate of 62.83% interest in CGL by members of CNPC group of companies. Mr John Scott, the previous President, has joined the board of directors of CGL and will remain actively involved in Baku, Azerbaijan Republic as General Manager of Commonwealth Oil & Gas Company Limited.

The Company's Annual and Special Meeting was held on 5th May, 2003 in Anguilla, British West Indies, which is the Company's jurisdiction of incorporation. Six shareholders were present in person and a further twenty shareholders were present by proxy together holding an aggregate of 41,612,988 common shares of the Company. This represents 57.4% of the 72,491,908 issued and outstanding common shares at the record date, 5th April, 2003. No request was made for a count of proxies and all resolutions were passed by a show of hands. The following resolutions were approved by shareholders:

- (1) The report of the directors as set out in the 2002 Annual Report was approved as presented;
- (2) The audited financial statements of the Company for the year ended 31st December, 2002 and the auditors' report thereon were approved;
- (3) The board of directors was decreased from seven to six;
- (4) James H. Coleman, Donald R. Curtis, Roland J. Favre, Malcolm C. Hope-Ross, Jeremy C.A. Little and Alastair D. McBain were elected as directors;
- (5) Ernst & Young LLP were appointed auditors of the Company at a remuneration to be determined by the board of directors;
- (6) A new incentive stock option plan was adopted with such modifications as the President and Chief Financial Officer may deem appropriate;

SCHEDULE 'C' – MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(Expressed in U.S. Dollars)

- (7) A special resolution was passed to increase the authorised capital of the Company from 100,000,000 common shares to an unlimited number of common shares; and
- (8) A special resolution was passed enabling the name of the Company to be changed to Arawak Energy Corporation or such other name as the Board of Directors may approve.

On 8th May, 2003, results were disclosed of the workover well Duvanny 77, which has been completed as a gas producer. Tests have confirmed stable production of 15,000 cubic metres of natural gas per day. Together with Duvanny 70, a nearby well which was worked over earlier and which has also been retested, this provides a natural gas deliverability of close to 30,000 cubic metres (one million cubic feet) per day. CGL will seek natural gas sales contracts. The Azerbaijan Republic is a net importer of natural gas and it is expected that the gas will therefore be sold domestically. The service rig has been relocated to perform a workover in Dashgil field.

On 13th May, 2003 the 545,350 treasury shares held by the Company were cancelled, after which there were 71,946,558 common shares issued and outstanding.

On 16th May, 2003, GOCL awarded tenders for a 2,500m drilling rig and an advanced technology service rig. Eight companies were invited to participate in the tender and the tender was awarded to the China based drilling company, Great Wall Drilling.

The new drilling rig will supplement the existing rig, enabling the Company to undertake a two rig program to facilitate timely completion of the MOWP. The Company's first development well, Dashgil 91, is close to completion and the rig will then move on to drill the second development well, Dashgil 92.

The new service rig will supplement the existing service rig for deep and more complicated completion and workover activities. The new service rig is also equipped to drill shallow wells (less than 1,000m) and will be used for re-entering and side tracking existing infield wells. The service rig was then working over Dashgil well 71, which was the last well required to complete the MOWP.

On 16th June, 2003, the Company announced a change of name to Arawak Energy Corporation, with immediate effect, reflecting a change of focus of the Company's activities to the oil and gas business. The stock ticker symbol 'ABG' remains unchanged for the quotation of the Company's shares, which are listed on the TSX Venture Exchange in Canada.

SCHEDULE 'C' – MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(Expressed in U.S. Dollars)

On 19th June, 2003, the Company announced that GOCL had completed its first development well. The well was drilled in Dashgil field and was perforated on 14th June, 2003. Following clean up, a stable oil flow of 300 barrels per day had been established through a 4mm choke over a 24 hour period, with no water and a small amount of associated gas (a gas to oil ratio of 970 cu. ft per barrel). The well was to undergo further testing prior to being put on production.

The acquisition phase of the 2D seismic program over the northernmost block of the three blocks which comprise the Southwest Gobustan concession area was also completed that week, thereby fulfilling the MOWP obligation with respect to seismic. GOCL had also completed its MOWP obligations with respect to workovers.

(c) Events in Third Quarter 2003

On 16th July, 2003, it was announced that the Company had finalised the terms of the proposed rights offering ("Offering") and engaged Peters & Co. Limited to act as soliciting dealer in connection with the offering.

The Company offered to eligible holders of its outstanding common shares of record at close of business on 24th July, 2003 (the "Record Date") rights ("Rights") to subscribe for additional common shares on the terms set forth in a rights offering circular ("Circular") mailed by the Company to shareholders. The Circular was also made available on SEDAR. Each such holder received one Right for each common share held on the Record Date. Four Rights entitled the holder to purchase one common share of the Company at a price of CDN\$0.50. The TSX Venture Exchange approved the Rights for trading effective at the opening of the market on 22nd July, 2003 and listed the common shares issuable on exercise of the Rights. The Rights expired on 18th August, 2003. Shareholders who exercised all of their Rights were also entitled to acquire additional shares pursuant to an additional subscription privilege provided for under the Offering, the terms of which were described in the Circular.

Rosco S.A., the Company's largest shareholder, made a stand-by commitment pursuant to which it agreed to acquire all common shares issuable on the exercise of Rights not acquired by other Rights holders.

Gross proceeds of the Offering were approximately CDN\$9 million. The Company intends to use the proceeds of the Offering (after payment of the expenses of the Offering) to fund oil and gas exploration and development activities in the Azerbaijan Republic and other regions, as well as to pursue other opportunities.

Under the offering, an aggregate of 17,991,639 common shares were issued. Rosco S.A., the Company's largest shareholder, purchased 7,813,626 of the common shares issued under the offering. Rosco S.A. now owns a total of 38,113,626 common shares representing approximately 42% of the issued and outstanding common shares of the Company.

SCHEDULE 'C' – MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(Expressed in U.S. Dollars)

On 30th July, 2003, Gobustan Operating Company Ltd. announced it had spudded its third development well, Duvanny 101, which was being drilled with natural gas as its primary target.

The first development well, Dashgil 91, continued to flow on test through various choke sizes. The drilling of Dashgil 92, the second development well, was proceeding and intermediate casing had been set at 1,580 metres.

On 16th September, 2003, Gobustan Operating Company Ltd., announced that it had drilled a further three of the six new development wells required to fulfil the MOWP under the EDPSA. This is in addition to the first development well, Dashgil 91, which was completed in June of this year.

Two of the new wells, Duvanny 101 and 103, had been drilled with gas as their primary objective in the coastal block of the three block EDPSA area. These wells, which had been drilled to approximately 900m, logged and cased, but not yet completed, showed gas potential on logs. The wells were to be completed and tested in conjunction with on-going gas marketing exercises.

The third new well, Dashgil 92, also in the coastal block, had been drilled to 2,500m, logged and cased but not completed. This well showed hydrocarbon potential on logs which were thought to reflect the presence of gas and condensate. Completion and testing of this well was pending the arrival of specialist equipment to deal with the high formation pressure, which was estimated to be over 7,000 psi. It was anticipated that this equipment would be on site within one month, and completion and testing would follow immediately after the installation of the equipment.

The service rig contracted from Great Wall Drilling was then to be readied for drilling operations and was expected to spud a new development well in the relatively shallow Donguzdyg field in the northern block. A September spud date for this 900 metre well was also expected. An exploration well of similar depth in the Donguzdyg field was then to follow.

At the conclusion of this drilling program, all the requirements of the MOWP should have been fulfilled. These requirements are the rehabilitation of seven wells (workovers), the acquisition and processing of 150km of new 2D seismic and the drilling of six new development wells and one exploration well. It is an EDPSA requirement that the MOWP be fulfilled by November 27th, 2003.

As at the date of the announcement, the first development well, Dashgil 91, continued to flow on an extended production test and was producing approximately 100 barrels per day of oil and flowing with an approximate 75% water cut. A first oil sale of approximately 8,000 bbls was expected to be concluded within the following two weeks and exported via the Black Sea port of Novorossiysk.

SCHEDULE 'C' – MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(Expressed in U.S. Dollars)

During the third quarter, an aggregate of 302,200 new common shares were issued for a total cash consideration of CDN\$48,352 (equivalent to US\$34,301), as a result of share option exercises. This left 2,557,800 share options outstanding at the end of the period, which were still outstanding as at the date of this report.

Also during the third quarter, an aggregate of 792,550 new common shares were issued for a total cash consideration of CDN\$396,275 (equivalent to US\$289,838), as a result of share warrant exercises. This left 503,500 share warrants outstanding at the end of the period, which were exercised prior to the date of this report (see note (d)).

(d) Subsequent events

Subsequent to the period end, and prior to the expiry date of 12th October, 2003, the remaining 503,500 share warrants were exercised at a price of CDN\$ 0.50 per share for a total consideration of CDN\$251,750 (equivalent to US\$ 187,135).

4 Financings, Principal Purposes and Milestones

Following the 2002 Company restructuring, all the Company's debts and long term liabilities were retired, and coupled with the Rosco US\$20 million non-recourse loan facility which was to fund CGL through to completion of the MOWP, the Company was effectively debt free and carried through the MOWP phase. The Rosco loan facility was novated by CNPC group companies on 27th March, 2003.

The Company successfully completed a rights issue on 18th August, 2003, raising US\$6.35 million, to be used to fund the Company's subsidiary's share of post MOWP CGL development costs, and possible new projects.

5 Liquidity and Solvency

The Company is in a position to meet its ongoing obligations as they become due.