ARAWAK ENERGY CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30th, 2004

This report is dated November 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 its subsidiary companies and Notes relating thereto as at and for the three and nine months ended September 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. The 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.

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.

OVERALL PERFORMANCE AND OPERATIONS REVIEW

During the third quarter of 2004 Arawak Energy Corporation ("Arawak" or the "Company") announced two proposed acquisitions which 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").

On July 12th, 2004, the Company 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, Arawak signed a letter of intent with Altius Energy Corporation, a Canadian company with operations in Kazakhstan, to acquire 100% of its shares.

1. ZAO PechoraNefteGas ("PNG")

The principal assets of PNG include the Sotchemyu-Talyu field and two exploration licences on the Kadzherom block, and the giant Mutnomateric block of approximately 10,000 km^2, located in the Komi Republic of the Russian Federation. The Sotchemyu-Talyu field produces at a current rate of approximately 5,600 bopd. An independent reserves report, completed by Ryder Scott Company, L.P. in accordance with the requirements of National Instrument 51-101 and effective December 31st, 2003, indicated remaining proved recoverable reserves attributable to a 100% interest in 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. for a total cash consideration of $39.5 million plus a working capital adjustment estimated at approximately $3 million. Rosco S.A., which holds 41.15% of the outstanding shares of Arawak, is an affiliate of the Vitol group of companies. 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.

In the second quarter of 2004, PNG completed a 3D seismic survey covering approximately 45 km^2 of the Sotchemyu-Talyu field. The results of the 3D seismic will serve to delineate further drilling locations for infill drilling and further development. Two new wells are currently being drilled in the Sotchemyu-Talyu fields. Additionally, the first exploration well on the Kadzherom licence area was drilled in the summer of 2004. The well encountered oil at around 2,000 metres and is currently awaiting pump installation prior to a long term production test.

2. 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 Karataikyz fields with combined production which increased from approximately 760 bopd in 2003 to approximately 2,200 bopd in September 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 by McDaniel & Associates Consultants Ltd. in accordance with the requirements of National Instrument 51-101 as of May 31, 2004, 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 has identified exploration upside in Altius's current licence areas.

Pursuant to the letter of intent entered into by Arawak and Altius on July 12th, 2004, 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. Following detailed due diligence and analysis of relative values of assets in the enlarged Arawak group, Arawak and Altius agreed to adjust the number of new Arawak shares to be issued for each Altius share to 1.75 with no cash element to be paid. Subsequent to quarter-end Arawak and Altius signed a pre-acquisition agreement, and lock-up agreements were received from certain Altius directors, officers and significant shareholders (including Rosco S.A. which is the principal shareholder of Altius) representing 86.8% of the outstanding shares in Altius, conditional upon the completion of the PNG transaction.

During the second quarter of 2004, Altius commenced drilling a 22 well program at its Besbolek and Karataikyz fields. New reserves and production have been added with the completion of the first four of these wells at Besbolek. Production averaged about 2,200 bopd in September, although this may decrease due to transportation difficulties normally experienced during the autumn season.

Transaction Status

Subject to the receipt of necessary approvals, a shareholder meeting has been scheduled to be held on January 5th, 2005 to approve the two transactions. Subject to the satisfaction of all conditions precedent, closing is expected shortly thereafter.

Additional information regarding both the PNG and Altius transactions, as well as the operations of PNG and Altius, will be included in the information circular to be mailed to Arawak shareholders in connection with the shareholders' meeting scheduled to be held on January 5th, 2005. Certain information relating to the proposed transactions is included in a corporate presentation dated November 29th, 2004 and filed on the Company's web-site at www.arawakenergy.com.

Peters & Co. Limited has advised the board of directors of Arawak that, subject to review of the final form of the documents affecting the PNG and Altius transactions, it will provide opinions that the consideration offered pursuant to each transaction is fair, from a financial point of view, to the holders of Arawak common shares.

Operations in Azerbaijan

Operations continued in the third quarter on the development of the South West Gobustan fields. Following the interpretation and processing of the data from the seismic shot covering the entire Coastal block, drilling has recommenced in the third quarter. A new well, Duvanny 104, has been drilled in a previously unexplored area of the field. Following perforation of the 828.5 to 833.5 metres interval, previous positive indications on logs were confirmed through a series of flow tests, which Gobustan Operating Company Limited ("GOCL") believes mean that a stable gas flow of approximately 1.2 million cubic feet per day is sustainable. Liquid recovery was insignificant. Independent studies of the test results by Arawak indicate that a flow rate of at least this level will be achievable on production.

Together with the wells worked over in 2001, Duvanny 70 and 77, and the new wells drilled in 2003, Duvanny 101 and 103, total shut in production is now approximately 3.7 million cubic feet per day and is sufficient to justify the investment in gas processing facilities and tie-ins to allow gas deliveries to commence. GOCL is now studying the design work required, and it is anticipated that gas sales will start in the first half of 2005.

A further exploration well, Duvanny 102 is currently being drilled in the east part of the Duvanny field. The target depth is considerably deeper at 2,800 metres. Drilling continues on schedule, with results expected to be available by the middle of December 2004. Further wells are planned in the Kyanizadag and Duvanny fields, with spud dates early in 2005.

Production of oil continued in the third quarter 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. A further sale of crude oil was pumped via SOCAR's pipeline for export to Novorossiysk in the third quarter achieving, after deduction of pipeline transportation charges, a net average per barrel price of $34.07.

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 GAAP 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 nine months ended September 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 is incurred in support of field operations which commenced in the latter half of 2003. Savings have been made during 2004 on legal advice by extending internal resources.

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

	Three months ended Sept 30th,		Nine months ended Sept 30th,	
	2004	2003	2004	2003
Directors' fees	$3,710	$26,438	$47,460	$86,281
Officers' salaries	76,335	56,529	229,743	136,063
Other salaries	27,765	19,508	87,848	60,934

Certain directors of COGCL are also directors of its associate CGL. For these services CGL directors receive directors fees which are paid to COGCL, and are offset against the directors fees of the Company. Directors fees for the three months ended September 30th, 2004 include credits relating to CGL directors fees.

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

	Three months ended Sept 30th,		Nine months ended Sept 30th,	
	2004	2003	2004	2003
Audit	$16,251	$6,511	$58,832	$34,613
Legal	24,391	2,549	34,789	105,690
Consultancy	12,500	55,617	37,500	180,617
Reserves report	63,470	-	146,434	-
Geological and geophysical	15,660	-	56,304	-
Business transaction costs	299,373	-	299,373	-
Rights offering fees	-	176,491	-	176,491
Other	8,796	21,601	53,163	42,396

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.

Business transaction costs refer to professional costs incurred by Arawak in connection with the proposed business transactions with Altius and PNG. On completion professional fees incurred in respect of these proposed business transactions will be capitalised.

Professional fees relating to the rights offering which took place in the third quarter of 2003 were re-classified after completion and offset against share capital in the fourth quarter of 2003.

Accounts payable and accrued liabilities have increased to $730,118 as at September 30th, 2004 from $577,617 as at December 31st, 2003. The increase was due largely to the accrual of professional fees in respect of the proposed business transactions. Accounts receivable include prepayments, recoverable GST and VAT, and amounts recharged at cost to associate companies. Accounts receivable at December 31st, 2003 were $29,617 and $36,642 at September 30th, 2004.

The loan to CGL had a balance due to the Company at September 30th, 2004 of $2,237,846, 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 Exploration, Development and Production Sharing Agreement (“EDPSA”).

Following the completion of the Minimum Obligatory Work Program (“MOWP”), CGL’s continuing activities are funded by its shareholders, COGCL and two affiliates of China National Petroleum Corporation (“CNPC”). The Company provided $929,553 for CGL’s continuing activities in April 2004 and $836,250 in July 2004 by means of a second loan, the terms of which are under negotiation.

SUMMARY OF QUARTERLY RESULTS

The following sets out certain financial data, which are 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	Net Income/(loss) Per Common Share Fully Diluted
2004	September 30th	(596,050)	(596,050)	(0.006)	(0.006)
	June 30th	(338,135)	(338,135)	(0.004)	(0.004)
	March 31st	(362,668)	(362,668)	(0.004)	(0.004)
2003	December 31st	666,538	666,538	0.007	0.007
	September 30th	(472,216)	(472,216)	(0.006)	(0.006)
	June 30th	(331,239)	(331,239)	(0.005)	(0.004)
	March 31st	(218,622)	(218,622)	(0.003)	(0.003)
2002	December 31st	(234,276)	(287,962)	(0.004)	(0.004)

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.

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.

The Company follows 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 two affiliates of CNPC. The Company increased its investment in CGL during the three month period to September 30th, 2004 by $836,250.

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

	For three months ended Sept 30th, 2004	2003	For nine months ended Sept 30th, 2004	2003
Balance, beginning of period	$28,724,046	$12,272,836	$25,650,625	$6,111,464
General & administrative	1,879,282	1,077,336	3,034,178	3,211,406
Geological & geophysical	263,656	394,817	2,368,440	712,794
Field operating expenses				
Workovers	798,307	260,456	826,359	1,048,424
Production	109,478	137,459	383,466	371,684
Capital expenditure				
Drilling	58,426	1,966,155	(72,777)	4,200,326
Fixed assets	(57,726)	179,515	(57,726)	632,476
	3,051,423	4,015,738	6,481,940	10,177,110
Costs recovered from production	(166,128)	0	(523,224)	0
	2,885,295	4,015,738	5,958,716	10,177,110
Balance, end of period	$31,609,341	$16,288,574	$31,609,341	$16,288,574

SHARE CAPITAL

During the three months ended September 30th, 2004, 310,000 stock options were exercised for an aggregate of Cdn $68,200 (US$ 51,528). During the three months ended June 30th, 2004, 757,800 stock 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 September 30th, 2004 and as at the date of this report, the Company had issued and outstanding 92,624,247 common shares.

A total of 1,490,000 stock options were outstanding as at September 30th, 2004, of which 1,077,500 were vested and fully exercisable. Subsequent to the period end, on November 9th, 2004, 58,750 stock options were exercised for a cash consideration of Cdn$ 12,925 (US$ 10,617). As at the date of this report, there were 1,431,250 share options outstanding, of which 1,225,000 were vested and fully exercisable. There were no share warrants outstanding as at September 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 September 30th, 2004 and December 31st, 2003 are as set out below:

As at:	Sept 30th, 2004	December 31st, 2003
Cash and cash equivalents	$4,454,527	$7,202,816
Total current assets	4,491,169	7,232,433
Total current liabilities	730,118	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 September 30th, 2004 had working capital of approximately \$3.8 million. Working capital as at December 31st, 2003 was approximately \$6.6 million.

RELATED PARTY TRANSACTIONS

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

a) Legal fees
The Company incurred legal fees of \$257,117 during the third quarter of 2004, 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, and \$6,920 were incurred during the first quarter.

b) Consultancy fees
The Company incurred consultancy fees of \$12,500 during each of the first, second and third 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 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, and a second payment of \$68,460 was made in the third 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 two affiliates of CNPC. The Company provided \$929,553 for CGL's continuing activities in April 2004 and \$836,250 in July 2004 by means of a second loan, the terms of which are under negotiation.

e) Transactions with shareholder
During the third quarter of 2004 the Company reimbursed the Vitol group of companies, of which Rosco S.A. (the Company's largest shareholder) is an affiliate, for transactions incurred during the normal course of business to the value of \$102,359. The Company reimbursed the Vitol group of companies for transactions to the value of \$80,604 and \$74,511 in the first and second quarters of 2004 respectively. These transactions were all charged at cost.

SUBSEQUENT EVENTS

Subsequent to quarter end the Company announced that Arawak and Altius had agreed to adjust the consideration to be paid by Arawak with respect to Arawak's proposed acquisition of all of the outstanding common shares of Altius originally announced by Arawak on July 12th, 2004.

Following detailed due diligence and analysis of relative values of assets in the enlarged Arawak group, Arawak and Altius agreed to adjust the number of new Arawak shares to be issued for each Altius share to 1.75 with no cash element to be paid. The earlier proposal required the issue of 2.1 Arawak shares as well as the payment of a cash element of \$0.25 for each Altius share.

On October 19th, 2004, a pre–acquisition agreement was signed with Altius and lock-up agreements were received from certain Altius shareholders accounting for 86.8% of the outstanding shares in Altius.

Additional information regarding the PNG and Altius transactions, as well as the operations of PNG and Altius, will be included in the information circular to be mailed to Arawak shareholders in connection with the shareholders' meeting scheduled to be held on January 5th, 2005 with closing expected shortly thereafter.