

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and nine months ended September 30, 2006

This report is dated November 15, 2006

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of our operations should be read in conjunction with the unaudited consolidated financial statements of Arawak Energy Corporation ("Arawak" or the "Company") and Notes relating thereto as at and for the three and nine months ended September 30, 2006 and the audited consolidated financial statements of Arawak as at and for the year ended December 31, 2005. Our financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in US dollars.

This MD&A contains certain "forward-looking statements". Forward-looking statements are not based on historical facts but rather on management's expectations regarding the Company's future growth, results of operations, production, future capital and other expenditures, competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. Forward-looking statements are based on the opinions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, but are not limited to, risks associated with the oil and gas industry (for example operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections in relation to production, costs and expenses and health, safety and environmental risks), the risk of commodity price and foreign exchange rate fluctuations, the uncertainty associated with negotiating with foreign governments and risk associated with international activity. Due to the risks, uncertainties and assumptions inherent in forward-looking statements, prospective investors in the Company's securities should not place undue reliance on these forward-looking statements.

This MD&A uses certain terms which are specific to the oil and gas industry. These are non-GAAP terms and are defined within our document. Except as otherwise required by the context, reference in this MD&A to "our", "we" or "us" refer to the combined business of Arawak and all of its subsidiaries.

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

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

OVERALL PERFORMANCE AND OPERATIONS REVIEW

Arawak Energy Corporation (the "Company" or "Arawak") is pleased to report continued growth in the third quarter, with production, profits and cashflow for the year to date all significantly ahead of the prior year.

Production for the third quarter averaged 8,791 barrels of oil per day ("bopd"), up 17% from the second quarter average of 7,544 bopd, driven by increases at the Kazakh fields of Akzhar and Besbolek and at our newly acquired asset in Russia, Recher-Komi.

Revenue for the quarter reached \$39.6 million and generated net income of \$5.8 million (3.4 cents per share on a fully diluted basis), an increase of 16% over the previous quarter. Funds from operations were \$14.0 million for the quarter, up from \$11.2 million in the second quarter, bringing the year to date total to \$36.1 million.

Revenue and income for the third quarter of 2005 were positively impacted by a sale of second quarter crude oil production that occurred early in the third quarter of 2005. For this reason, certain comparisons between the third quarter of 2006 and the third quarter of 2005 are not meaningful and do not reflect the underlying trend in the Company's results.

Capital investment for the quarter was \$13.9 million, in line with that for the second quarter and reflecting a continued high level of investment in drilling operations, the acquisition and interpretation of seismic data and infrastructure upgrades, in particular the new Central Processing Facility ("CPF") at Akzhar. Total capital investment for the year to date was \$36.6 million.

At Akzhar, the Company is currently processing data from the 3D seismic shot over the full 71.5 sq km of the expanded contract area of the field and expects results in the first quarter of 2007. The field is now tied into a "closed system" with all wells flowing into the gathering system and new CPF, commissioned in September 2006 at a cost of US \$6 million and designed to handle 15,000 barrels of fluid per day. In October 2006, a six well drilling program at Akzhar was initiated.

In Besbolek, three slant holes were drilled in the third quarter which each encountered approximately 100 metres of net pay. Once sand control screens are in place, these wells are expected to produce 400-500 bopd each.

In Russia, following the re-processing of seismic data for the Sotchemyu-Talyu fields, drilling operations recommenced in September 2006 and two new wells were spudded. The main source of increased production in Russia comes from the North Israel field acquired through the purchase of Recher-Komi in June 2006. Production from the field was 200 bopd net to Arawak at the date of acquisition, a rate which has been increased by Arawak to a current level of approximately 800 bopd by the work-over of six existing wells.

In addition, a new exploration well, Recher-Komi 61, drilled in the third quarter, was subsequently completed, tested at a rate of 1,250 bopd gross on a seven millimetre choke and put on production. This proved up a new pool in the North Israel field where another well, Recher-Komi 67, has been spudded and is currently being drilled at 1,140 metres, with the expectation that it will be completed and put on line in December 2006.

In Azerbaijan, the acquisition of 3D seismic is underway in the Coastal Block of the South West Gobustan Exploration Development and Production Sharing Agreement area. This will be followed by a 200 km seismic acquisition campaign over the remaining Central and Northern Blocks.

On November 1, 2006, Arawak's common shares graduated from the Toronto Venture Exchange and commenced trading on the main board of the TSX.

NETBACKS

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

For the period ended September 30

Per barrel	Three months 2006	Three months 2005	Nine months 2006	Nine months 2005
Crude oil sales	49.28	44.32	48.32	37.63
Interest and other income	2.16	0.52	1.00	0.60
Total revenue	51.44	44.84	49.32	38.23
Royalties and taxes	(11.80)	(8.52)	(10.46)	(8.55)
Production costs	(3.60)	(2.79)	(3.40)	(2.87)
Transportation and selling expenses	(5.37)	(4.08)	(5.07)	(3.77)
Net operating income	30.67	29.45	30.39	23.04
General and administrative expenses	(4.25)	(3.62)	(4.60)	(4.63)
Realized foreign exchange gain (loss)	0.22	0.07	0.74	(0.23)
Interest expense	(1.57)	(0.53)	(1.21)	(1.01)
Current income tax expense	(7.72)	(8.10)	(8.10)	(5.44)
Funds from operations	17.35	17.27	17.22	11.73
Depletion, depreciation and amortization	(9.26)	(6.10)	(8.82)	(6.56)
Stock based compensation costs	(1.74)	(1.50)	(1.49)	(0.96)
Accretion expense	(0.08)	0.15	(0.09)	(0.10)
Unrealized foreign exchange (loss) gain	(0.19)	(0.04)	(0.43)	0.05
Future income tax recovery	1.17	2.03	1.32	1.91
Net income	7.25	11.81	7.71	6.07

PRODUCTION

For the period ended September 30

	Three months 2006	Three months 2005	Nine months 2006	Nine months 2005
<u>Production - barrels</u>				
Kazakhstan	469,896	297,368	1,108,668	721,811
Russia	338,851	278,933	960,465	807,464
	808,747	576,301	2,069,132	1,529,275
<u>Average daily production - barrels</u>				
Kazakhstan	5,108	3,233	4,061	2,644
Russia	3,683	3,032	3,518	2,958
	8,791	6,265	7,579	5,602

The Company's overall production increased 40% in the third quarter of 2006 to 808,747 barrels or the equivalent of 8,791 bopd, from 576,301 barrels or 6,265 bopd in the same period of 2005, and increased 17% from 7,544 bopd in the second quarter of 2006.

Production from our Kazakhstan operations increased 58% to 5,108 bopd in the third quarter of 2006 versus 3,233 bopd for the same period in 2005 and increased 26% from 4,053 bopd in the second quarter of 2006.

In Russia, production increased 21% in the third quarter of 2006 to 3,683 bopd versus 3,032 bopd for the third quarter of 2005 and increased 6% from 3,491 in the second quarter of 2006.

SALES

For the period ended September 30

	Three months 2006	Three months 2005	Nine months 2006	Nine months 2005
Sales - barrels				
Kazakhstan	457,036	357,538	1,139,883	684,858
Russia	347,265	264,669	957,392	770,173
	804,301	622,207	2,097,275	1,455,031
Average sales price per barrel				
Kazakhstan	\$52.16	\$47.64	\$53.87	\$42.38
Russia	\$45.49	\$39.83	\$41.70	\$33.41
Total Arawak	\$49.28	\$44.32	\$48.32	\$37.63

Sales volume in the third quarter of 2006 increased 30% to 804,301 barrels from 622,207 barrels in the same period in 2005 reflecting production growth.

The average sales price received increased 11% to \$49.28 per barrel in the third quarter of 2006 from \$44.32 per barrel in the same period of 2005. The average selling price per barrel is dependent upon world benchmark and domestic prices, but is also impacted by the mix between export and domestic sales as well as between Kazakhstan and Russia as detailed in the marketing section below.

MARKETING

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

For the three months ended September 30, 2006

Export oil sales	Kazakhstan	Russia	Total
Volume - barrels	368,978	154,618	523,596
Percentage of total sales	81%	45%	65%
Revenue (thousands)	\$21,953	\$9,256	\$31,209
Average export price per barrel	\$59.50	\$59.86	\$59.61
Domestic oil sales			
Volume - barrels	88,058	192,647	280,705
Percentage of total sales	19%	55%	35%
Revenue (thousands)	\$1,886	\$6,543	\$8,429
Average domestic price per barrel	\$21.42	\$33.96	\$30.03

For the three months ended September 30, 2005

Export oil sales	Kazakhstan	Russia	Total
Volume - barrels	285,840	115,356	401,196
Percentage of total sales	80%	44%	64%
Revenue (thousands)	\$15,714	\$6,018	\$21,732
Average export price per barrel	\$54.97	\$52.17	\$54.17

Near-abroad oil sales			
Volume - barrels	-	23,042	23,042
Percentage of total sales	-	9%	4%
Revenue (thousands)	-	\$801	\$801
Average near-abroad price per barrel	-	\$34.75	\$34.75

Domestic oil sales			
Volume - barrels	71,697	126,272	197,969
Percentage of total sales	20%	47%	32%
Revenue (thousands)	\$1,320	\$3,722	\$5,042
Average domestic price per barrel	\$18.42	\$29.48	\$25.47

Kazakhstan

Total sales volume in the third quarter of 2006 in Kazakhstan increased 28% compared with the same period in 2005 due to production increases. Export sales volume increased 29% while domestic sales volume increased 23%.

Revenues from Kazakhstan export sales increased 40% to \$22.0 million from \$15.7 million. This was due to the 29% sales volume increase and to an 8% increase in the average export price per barrel to \$59.50 from \$54.97.

Domestic sales revenues in Kazakhstan increased 43% due to a 16% increase in the average domestic price per barrel to \$21.42 from \$18.42 and a 23% increase in the sales volume.

Russia

Total sales volume in Russia increased 31% as a result of the 21% production increase and the draw down of Russian inventory volumes in the third quarter of 2006. The sales mix in Russia during the third quarter of 2006 was 55% domestic and 45% export versus 47% domestic, 44% export and 9% near-abroad in the same period in 2005.

Revenues from Russian export sales increased 54% to \$9.3 million from \$6.0 million due to a 34% increase in sales volume to 154,618 barrels from 115,356 barrels and a 15% increase in the average export price per barrel to \$59.86 from \$52.17.

There have not been any near-abroad sales to date in 2006.

Domestic sales revenues in Russia increased 76% to \$6.5 million from \$3.7 million due to a 15% increase in the average domestic price per barrel to \$33.96 from \$29.48 and a 53% increase in sales volume to 192,647 barrels from 126,272 barrels.

CRUDE OIL INVENTORY

Crude oil inventory consists of amounts produced and in storage tanks at the end of each period and is recorded at the lower of cost, determined on a weighted average basis, and net realizable value. The table below summarizes the current period oil movement and inventory balances.

For the three months ended September 30

In barrels	2006	2005
Crude oil inventory - beginning	54,277	144,477
Production	808,747	574,477
Sales	(804,301)	(620,989)
Losses and field usage	(4,756)	(6,594)
Crude oil inventory - ending	53,968	91,371

ROYALTIES AND TAXES**For the period ended September 30**

In thousands of US dollars	Three months 2006	Three months 2005	Nine months 2006	Nine months 2005
Mineral resource extraction tax	4,334	2,797	11,310	6,846
Export duties	4,613	2,127	9,275	4,950
Royalties	543	376	1,347	643
	9,490	5,300	21,932	12,439

Mineral resource extraction tax

The Company is subject to production taxes in Russia at a rate established monthly by the state based on current world oil prices. The tax increased 18% to \$12.48 per barrel in the third quarter of 2006 from \$10.57 per barrel for the same period of 2005 and increased 4% from \$12.04 in the second quarter of 2006.

Export duties

Export sales in Russia are subject to export duties with rates established by the state two months in advance based on prevailing world oil prices. Export duties are not levied on domestic or near-abroad sales. The export duties increased 15% to \$29.83 per barrel in the third quarter of 2006 as compared to \$25.87 in the previous quarter.

Royalties

Arawak pays royalties monthly to the Government in Kazakhstan using stabilized rates that are graduated and increase with cumulative annual production. The Company also pays over-riding royalties on two of its properties in Kazakhstan at fixed rates per barrel sold. The increase in royalties in the three months ended September 30, 2006 reflects the increased sales volumes and prices received versus the same period for 2005. Royalties in the third quarter of 2006 are 2.3% of Kazakhstan crude oil sales revenues as compared to 2.2% in the same period of the previous year.

PRODUCTION COSTS

Production costs increased 29% to \$3.60 per barrel sold for the three months ended September 30, 2006 compared to \$2.79 per barrel in the same period of the previous year due to higher fuel, materials and repair costs, particularly in Kazakhstan.

TRANSPORTATION AND SELLING COSTS

Transportation and selling expenses include pipeline, trucking and other selling costs associated with marketing and delivering crude oil to markets. On a per barrel basis, these costs increased from \$4.08 in the third quarter of 2005 to \$5.37 in the same period in 2006 due primarily to the increased proportion of Kazakhstan export sales which carry higher transportation costs than other types of crude oil sales.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased from \$2.3 million in the third quarter of 2005 to \$3.4 million in the third quarter of 2006, reflecting the Company's increased activity level.

INTEREST EXPENSE

Interest expense increased to \$1.3 million in the third quarter of 2006 from \$0.3 million during the same period in 2005 due to the increases in long term debt and the crude oil prepayment facility.

CURRENT INCOME TAX EXPENSE

Current income tax expense decreased to \$7.72 per barrel in the third quarter of 2006 versus \$8.10 per barrel in the same period of the previous year.

Arawak is subject to excess profit tax on each hydrocarbon contract in Kazakhstan at incremental tiered rates based on each contract's cumulative internal rate of return in excess of 20%. The excess profit tax rates range from 0 to 30%. In the current quarter, \$0.6 million has been accrued and the Company may be subject to excess profit tax in future periods.

DEPLETION, DEPRECIATION AND AMORTIZATION

Depletion, depreciation and amortization expense increased to \$7.4 million for the quarter ended September 30, 2006 from \$3.8 million for the same period in 2005 reflecting the increased sales volumes in 2006 and the increased future development cost estimates as per the Company's December 31, 2005 reserve reports.

CAPITAL EXPENDITURES

In the third quarter of 2006, a total of \$13.9 million was spent on capital expenditures compared to \$5.8 million in the third quarter of the previous year. This growth in capital expenditures reflects the Company's expanded drilling and seismic programs in Russia and Kazakhstan and construction of the central processing facilities and other infrastructure in Kazakhstan.

OPERATIONS IN AZERBAIJAN

Pilot oil production continued in the South West Gobustan fields in 2006 from the first development well, Dashgil 91, with small amounts also produced from the Adzhiveli wells in the Central block and Donguzdyg 101 in the Northern block. Production in the third quarter of 2006 was 1,877 barrels of oil and 37 million scf of gas net to Arawak, versus 2,943 barrels of oil and no gas for the same period of 2005.

Sales from pilot production of 1,472 barrels of oil net to Arawak for \$0.09 million during the quarter ended September 30, 2006 have been offset against capitalized costs and not recognized as revenue compared to sales of 1,940 barrels for \$0.09 million for the same period of the previous year.

OUTSTANDING SHARE DATA

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

<u>As at:</u>	<u>November 15, 2006</u>	<u>September 30, 2006</u>	<u>December 31, 2005</u>
Common Shares	171,139,702	171,139,702	170,184,729
Exchangeable Shares	2,210,163	2,210,163	2,840,469
Total outstanding	173,349,865	173,349,865	173,025,198
Stock Options	10,877,000	10,877,000	5,700,000

LIQUIDITY AND CAPITAL RESOURCES

The levels of cash, current assets and current liabilities are as set out below and expressed in thousands of US dollars.

As at	September 30, 2006	December 31, 2005
Cash and cash equivalents	13,188	14,285
Current assets	44,142	30,729
Current liabilities	(37,596)	(13,974)
Net current assets	6,546	16,755

The Company's cash deposits are held principally in US dollars and are managed centrally. Surplus funds are placed on time deposit. Operational funds are kept in Azerbaijan, Russia and Kazakhstan.

The Company has a crude oil sales prepayment facility which allows Arawak to draw prepayments on future oil sales up to a maximum of \$15.0 million. The amount drawn as at September 30, 2006 was \$12.5 million.

As a result of the Recher acquisition, Arawak's Russian joint venture, which is owned via the Company's 50% interest in RF Energy Investments Limited ("RF Energy"), has increased its bank borrowing base facility agreement to \$60 million from the previous limit of \$51 million. The facility carries interest at LIBOR plus 4.4% and is repayable by September 1, 2010 via quarterly repayments of \$3.5 million. In July, the Company drew \$9 million on the facility upon completion of the Recher acquisition. The balance outstanding as at September 30, 2006 is \$51 million. There are no penalties for early repayment and in certain circumstances accelerated repayment is required. The borrowing is secured by Russian export crude oil sales and by a guarantee of 50% of RFE's obligations by Arawak. The Company continues to seek additional business opportunities in Kazakhstan, Russia, Azerbaijan and potentially elsewhere in the FSU. Funding of any such further transactions will be considered on a case-by-case basis, depending on materiality and the expected cash flow profile of the opportunity.

SUMMARY OF QUARTERLY RESULTS

The following financial data is derived from the Company's consolidated financial statements for each of the eight most recently completed quarters.

(In thousands of US dollars except for per share amounts)			Net income (loss) per share	
Quarter ended	Crude oil sales	Net income (loss)	Basic	Diluted
2006 September 30 th	39,638	5,841	0.034	0.034
June 30 th	33,975	5,026	0.029	0.029
March 31 st	27,719	5,292	0.031	0.030
2005 December 31 st	20,323	(317)	(0.002)	(0.002)
September 30 th	27,575	7,355	0.043	0.041
June 30 th	13,756	566	0.003	0.003
March 31 st	13,419	894	0.006	0.006
2004 December 31 st	-	(198)	(0.002)	(0.002)

RELATED PARTY TRANSACTIONS

Crude oil sales

Revenues from Russian and Kazakhstan export crude oil sales during the three months ended September 30, 2006 of \$31.4 million (three months ended September 30, 2005 - \$21.7 million) were received from Vitol S.A (an affiliate of Rosco S.A, the Company's largest shareholder). Related accounts receivable at September 30, 2006 are \$15.9 million (September 30, 2005 - \$4.3 million).

Crude oil sales prepayment facility

The crude oil sales prepayment facility provided by Vitol S.A. had an outstanding balance at September 30, 2006 of \$12.5 million (September 30, 2005 - nil). Related interest expense for the current quarter of 2006 is \$0.3 million (third quarter of 2005 - nil) and the related accounts payable and accrued liabilities outstanding at September 30, 2006 are \$0.3 million (September 30, 2005 - nil).

BUSINESS RISKS

As a junior oil and gas exploration, development and production company, Arawak is subject to risks and uncertainties inherent to the oil and gas industry and to risks inherent to a company of its size and stage of development. Due to the international nature of the Company's operations, it is subject to additional risks, including currency fluctuations, political risk, price controls and varying forms of fiscal regimes.

Oil and gas industry risks

Risks in the oil and gas industry include price fluctuations for commodity prices, operational risks and environmental concerns. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors. Arawak manages its operations in order to keep exposure to these risks to reasonable levels, including the use of hedging instruments and forward sale, fixed price contracts to hedge its exposure.

Operational risks in the oil and gas industry include exploration and reserve estimate risks, costs and availability of services and materials, premature reservoir declines, blowouts, well bore collapse, equipment failure and other accidents and adverse weather conditions. Arawak attempts to mitigate these risks by employing experienced field personnel, consultants and contractors.

The oil and gas industry is subject to extensive environmental and other regulation imposed by governmental authorities. Arawak has existing policies and practices that ensure its operations conform to the standards and government regulations required for each jurisdiction in which it operates.

Political and economic conditions in Russia, Kazakhstan and Azerbaijan

Whilst there have been improvements in the economic situation in Russia, Kazakhstan and Azerbaijan in recent years, their economies continue to display some characteristics of emerging markets. These characteristics include, but are not limited to, the existence of currencies that are not freely convertible outside of the respective countries, a low level of liquidity of debt and equity securities in the markets and relatively high inflation.

Additionally, the oil and gas sectors in Russia, Kazakhstan and Azerbaijan are impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability are largely dependent upon the effectiveness of economic measures undertaken by the respective Governments, together with legal, regulatory and political developments, which are beyond the Company's control.

The financial condition and future operations of the Company may be adversely affected by continued uncertainties in the business environment of Russia, Kazakhstan and Azerbaijan. Management is unable to predict the extent and duration of these uncertainties, nor quantify the impact, if any, on these financial statements.

Russian, Kazakhstan and Azerbaijani tax legislation and practice are in the developmental stage and therefore are subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be charged additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for three to five years; however under certain circumstances a tax year may remain open longer

Need for capital

Arawak must rely on access to debt and capital markets to supplement internally generated cash flow to fund its capital commitments and to finance its growth plans. There can be no assurance that Arawak will be successful in obtaining the funds required to meet its capital needs on a timely basis or, if successful, that the terms will be advantageous to Arawak.