

Consolidated Financial Statements of

**AROWAY ENERGY INC.**

For the first quarter ended September 30, 2014 and 2013

Expressed in Canadian Dollars

The accompanying unaudited interim Consolidated Financial Statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these Consolidated Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim Consolidated Financial Statements by an entity's auditor.

# AROWAY ENERGY INC.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

As at September 30, 2014 and June 30, 2014

(In Canadian Dollars)

(unaudited)

	September 30, 2014	June 30, 2014
<b>Assets</b>		
Current assets:		
Cash	\$ 217,388	\$ 240,973
Amounts receivable	654,852	648,952
Prepaid expenses	16,181	14,140
Available-for-sale investments	20,000	20,000
	908,421	924,065
Property and equipment (note 5)	4,491,952	4,673,563
Exploration and evaluation costs (note 6)	3,576,704	3,307,480
	\$ 8,977,077	\$ 8,905,108
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Trade payables and accrued liabilities (note 10)	\$ 7,694,548	\$ 6,999,818
Finance lease obligation (note 8)	920,135	1,224,954
Term loan (note 7)	915,291	1,141,028
Short-term debt (note 9)	832,731	805,599
	10,362,705	10,171,399
Decommissioning liabilities	616,727	613,414
Provisions (note 14)	197,500	197,500
	11,176,932	10,982,313
Shareholders' equity (deficiency):		
Share capital (note 11(b))	31,903,777	31,903,777
Contributed surplus	2,506,586	2,506,586
Warrants (note 11(c))	363,833	363,833
Deficit, accumulated during the exploration stage	(36,974,051)	(36,851,401)
	(2,199,855)	(2,077,205)
	\$ 8,977,077	\$ 8,905,108

Nature and continuance of operations (note 1)

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

# AROWAY ENERGY INC.

(An Exploration Stage Company)

Consolidated Statements of Operations and Comprehensive Loss

For the three months ended September 30, 2014 and 2013

(In Canadian Dollars)

(unaudited)

	2014	2013
Revenue:		
Petroleum and natural gas sales	\$ 2,312,210	\$ 2,839,953
Royalties	(942,522)	(753,471)
	1,369,688	2,086,482
Expenses:		
Transportation costs	38,377	92,154
Production costs	553,522	681,076
General and administrative	26,958	106,423
Office and rent	23,600	25,506
Salaries and benefits	52,500	52,500
Professional fees (note 10)	24,338	29,472
Share-based payments (note 11(d))	-	18,641
Transfer and regulatory fees	5,515	2,027
Consulting fees	113,224	144,927
Insurance	2,185	2,001
Depletion and depreciation (note 5)	491,555	517,690
	1,331,774	1,672,417
Income before the following items	37,914	414,065
Interest income	371	121
Finance expense (note 12)	(160,935)	(47,436)
	(160,564)	(47,315)
Income (loss) from continuing operations	(122,650)	366,750
Loss from discontinued operations (note 4)	-	(47,151)
Net loss and comprehensive loss for the period	\$ (122,650)	\$ 319,599
Loss and comprehensive loss per share		
Basic and diluted		
Continuing operations	\$ (0.00)	\$ 0.01
Discontinued operations	\$ -	\$ (0.00)
Total income (loss) per share	\$ (0.00)	\$ 0.01

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

# AROWAY ENERGY INC.

(An Exploration Stage Company)

Consolidated Statements of Changes in Shareholders' Equity

For the periods ended September 30, 2014 and 2013

(In Canadian Dollars)

(unaudited)

	Share capital	Contributed surplus	Warrants	Deficit	Total
Balance, July 1, 2013	\$ 31,903,777	\$ 2,385,624	\$ 422,740	\$ (32,694,583)	\$ 2,017,558
Share based payments		18,641	-	-	18,641
Normal course issuer bid			-		
Net income for the period	-	-	-	319,599	319,599
Balance, September 30, 2013	31,903,777	2,404,265	422,740	(32,374,984)	2,355,798
Expired broker warrants		58,907	(58,907)	-	-
Share-based payments	-	43,414	-	-	43,414
Net loss for the period	-	-	-	(4,476,417)	(4,476,417)
Balance, June 30, 2014	31,903,777	2,506,586	363,833	(36,851,401)	(2,077,205)
Net loss for the period	-	-	-	(122,650)	(122,650)
Balance, September 30, 2014	\$ 31,903,777	\$ 2,506,586	\$ 363,833	\$ (36,974,051)	\$ (2,199,855)

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

# AROWAY ENERGY INC.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

For the three months ended September 30, 2014 and 2013

(In Canadian Dollars)

(unaudited)

	2014	2013
Cash provided by (used in):		
Operations		
Net income (loss) from continuing operations	\$ (122,650)	\$ 366,750
Items not involving cash:		
Depletion and depreciation	491,555	517,690
Share based payments	-	18,641
Accretion expense	3,311	1,463
	372,216	904,544
Changes in non-cash working capital (note 13)	686,790	(342,463)
Cash flows provided by operations	1,059,006	562,081
Financing:		
Proceeds (repayments) on credit facility	-	(1,000,000)
Proceeds on short-term debt	27,132	50,000
Repayments on finance lease	(304,819)	-
Repayments on term loan	(225,737)	-
Cash flows provided by (used in) financing	(503,424)	(950,000)
Investing:		
Purchases of property and equipment	(135,631)	(1,092)
Exploration and evaluation expenditures (note 6)	(443,536)	(257,994)
Cash flows used in investing	(579,167)	(259,086)
Increase (decrease) in cash from continuing operations	(23,585)	(647,005)
Increase (decrease) in cash from discontinued operations	-	13,177
Increase (decrease) in cash	(23,585)	(660,182)
Cash, beginning of period	240,973	715,678
Cash, end of period	\$ 217,388	\$ 55,496

Supplementary cash flow information (note 13)

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

# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)

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### 1. Nature of Operations and Continuance of Operations

Aroway Energy Inc. (the "Company") was incorporated in British Columbia on March 27, 1980 under the name "Action Minerals Inc." On February 5, 2009, the Company changed its name to "Aroway Minerals Inc." On February 4, 2011, the Company changed its name to "Aroway Energy Inc." Its principal business activities include the exploration and development of oil and gas properties, and it is considered to be in the exploration stage. The Company's shares are publicly traded on the TSX Venture Exchange ("TSX"), the OTCQX in the United States and on the electronic trading system, XETRA, in Frankfurt, Germany.

The registered office of the Company is Suite 1100, 888 Dunsmuir Street Vancouver BC, V6C 3K4.

The Company's consolidated financial statements as at September 30, 2014 and for the period then ended have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities and commitments in the normal course of business. The Company has a net loss of \$122,650 for the three month period ended September 30, 2014 (2013 – net income of \$319,599) and has a working capital deficiency of \$9,454,284 at September 30, 2014 (June 30, 2014 – \$9,247,334).

Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. Management believes that the Company's capital resources should be adequate to continue operating and maintaining its business strategy during the period ending June 30, 2015. However, if the Company is unable to raise additional capital in the near future, management expects that the Company may need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. These consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

For the three months ended September 30, 2014, the Company has realized net loss of \$122,650, however since inception suffered losses from exploration stage activities to date. Management is currently implementing its business plan, and with the current assets, management believes it will be able to cover its working capital deficiency. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 2. Basis of Preparation and Statement of Compliance

Aroway prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as set out in Part 1 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook").

# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)  
(unaudited)

### 2. Basis of Preparation and Statement of Compliance

These condensed consolidated financial statements for the three month period ended September 30, 2014, are prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). The condensed consolidated financial statements do not include all the information required for annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with Aroway's June 30, 2014 annual audited consolidated financial statements.

Aroway's Board of Directors approved these condensed interim consolidated financial statements on November 28, 2014.

### 3. Significant Accounting Policies, Judgments and Estimates

The significant accounting policies used in the preparation of these condensed consolidated financial statements has been applied consistently for all periods presented and are unchanged from the policies disclosed in the notes to the consolidated financial statements for the year ended June 30, 2014.

The use of judgments and estimates used in the preparation of these condensed consolidated financial statements has been applied consistently for all periods presented and are unchanged from the judgments and estimates disclosed in the notes to the consolidated financial statements for the year ended June 30, 2014.

### 4. Discontinued Operations

On May 31, 2014, the Company disposed of its 50% working interest in the Worsley area to a third party for net proceeds of \$390,000. The loss on sale and the corresponding result of the operations have been presented as discontinued operations on the consolidated statements of operations and comprehensive loss.

	2014	2013
Petroleum and natural gas sales	\$ -	\$ 342,006
Royalties	-	(71,760)
	-	270,246
Production costs	-	283,423
Depletion	-	29,423
Accretion expense	-	4,551
	-	317,397
Loss from discontinued operations	-	(47,151)
	2014	2013
Net cash inflows (outflows) from discontinued operations:		
Operating activities	\$ -	\$ 13,177
Investing activities	-	-
	\$ -	13,177



# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)  
(unaudited)

### 5. Property and Equipment

	Oil and Gas Properties	Office Equipment	Total
<b>Cost</b>			
Balance, July 1, 2014	\$ 11,146,695	\$ 27,093	\$ 11,173,788
Additions	135,632	-	135,632
Transfer from exploration and evaluation (note 6)	174,312	-	174,312
Balance, September 30, 2014	\$ 11,456,639	\$ 27,093	\$ 11,483,732
<b>Accumulated Depreciation</b>			
Balance, July 1, 2014	\$ 6,479,404	\$ 20,821	\$ 6,500,225
Depletion and depreciation	491,085	470	491,555
Balance, September 30, 2014	\$ 6,970,489	\$ 21,291	\$ 6,991,780
Net Book Value September 30, 2014	\$ 4,486,150	\$ 5,802	\$ 4,491,952

	Oil and Gas Properties	Office Equipment	Total
<b>Cost</b>			
Balance, July 1, 2013	\$ 19,014,746	\$ 26,001	\$ 19,040,747
Additions	218,681	1,092	219,773
Disposition of oil and gas properties	(12,120,625)	-	(12,120,625)
Additions for decommissioning costs	120,390	-	120,390
Transfer from exploration and evaluation	3,913,503	-	3,913,503
Balance, June 30, 2014	\$ 11,146,695	\$ 27,093	\$ 11,173,788
<b>Accumulated Depreciation</b>			
Balance, July 1, 2013	\$ 15,452,677	\$ 18,361	\$ 15,471,038
Disposition of oil and gas properties	(11,085,083)	-	(11,085,083)
Depletion and depreciation	2,111,810	2,460	2,114,270
Balance, June 30, 2014	\$ 6,479,404	\$ 20,821	\$ 6,500,225
Net Book Value June 30, 2014	\$ 4,667,291	\$ 6,272	\$ 4,673,563

# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)  
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### 6. Exploration and Evaluation Costs

<b>Cost</b>	
Balance, July 1, 2014	\$ 3,307,480
Additions	443,536
Transfer to property and equipment (note 5)	(174,312)
Balance, September 30, 2014	\$ 3,576,704

  

<b>Cost</b>	
Balance, July 1, 2013	\$ 5,230,695
Additions	5,721,755
Abandonment of properties	(1,249,643)
Disposition of exploration and evaluation assets	(2,481,824)
Transfer to property and equipment (note 5)	(3,913,503)
Balance, June 30, 2014	\$ 3,307,480

### 7. Term Loan

The term loan in the amount of \$1,600,000 was granted to assist with the purchase of a credit facility and for general corporate purposes. The principal amount of the loan and interest is repayable monthly with a stated interest rate of 16% per annum and matures on March 31, 2015.

At September 30, 2014 the company current portion of this loan is \$915,291 (June 30, 2014 - \$1,141,028) and the deferred financing fee related to the term loan is \$30,840 (June 30, 2014 - \$58,973).

The Company has granted security, which contains a \$25,000,000 debenture with a first floating charge, over all assets of the Company with an undertaking to provide fixed charges on the Company's properties and a general assignment of all amounts receivable by the Company.

### 8. Finance Lease

The finance lease arrangement obligation at September 30, 2014 was \$920,135 (June 30, 2014 - \$1,224,954) and the carrying value related to the leased facility was \$1,403,751 (June 30, 2014 - \$1,453,159) recorded as an asset under property and equipment. The interest rate used for the lease was the stated rate of interest of 16%.

Under the arrangement the Company leased a production facility over a period of 11 months and is to make fixed monthly payments of \$184,450 for 9 months. Prior to the payout, the Company has an ownership interest of 1% in the facility. After the 9 payments are made, the Company will have an ownership interest of 95% in the facility.

Once the total payout costs have been satisfied, the Company is to pay to the minority owner an amount of \$6,250 each month for 12 months, at which time the payments then cease.

Under the finance lease arrangement, in the event that the Company fails to make the required monthly payment by the due date, the lessors may in their sole discretion immediately take and sell an amount of oil produced by the Company, with such amount of oil to be valued equal to any outstanding amounts.

# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)  
(unaudited)

### 9. Short-Term Debt

The Company entered into a short-term demand loans with third parties for principal amounts totaling \$832,731 (2013 - \$580,000), which bears interest at 1.00% (2013 – 1.00%) per month, are unsecured and are payable on demand. As at September 30, 2014, the Company had a balance of \$129,119 (June 30, 2014 – \$108,517) and \$832,731 (June 30, 2014 - \$805,599) related to interest payable and principal drawn on these loans, respectively.

### 10. Related Party Transactions

During the three months ended September 30, 2014, the Company expensed \$67,500 (2013 - \$45,000) to directors, officers, former officers or companies controlled by directors or officers for accounting services and legal services.

As at September 30, 2014, amounts due to related parties of \$369,332 (June 30, 2014 - \$324,178) are included in accounts payable and accrued liabilities. The amounts are non-interest bearing, unsecured and have no fixed terms of repayment.

These transactions are in the normal course of operations and are measured at the exchange amount established and agreed to by the related parties.

### 11. Share Capital and Reserves

(a) Authorized:

Unlimited number of common shares without nominal or par value

(b) Issued:

Share capital:

	Number	Amount
Common shares		
Balance, June 30, 2013	61,769,160	\$ 31,903,77
Balance, June 30, 2014 and September 30, 2013		
September 30, 2014	61,769,160	\$ 31,903,77

(c) Warrants:

	Number	Amount
Warrants		
Balance, June 30, 2013	5,106,564	\$ 422,740
Expiry of broker warrants	(521,823)	(58,907)
Balance, June 30, 2014 and September 30, 2013 and September 30, 2014	4,584,741	\$ 363,833

During the year ended June 30, 2014, the Company had received TSX Venture Approval to re-price and extend the term of 4,584,741 share purchase warrants (the "Warrants") originally granted in November 2012. The original expiry date of December 4, 2013 was extended to June 12, 2014. The Warrants that are the subject of the re-pricing and extension application consist of 3,212,741 Warrants with an exercise price of \$0.65 per Warrant and 1,372,000

# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)  
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### 11. Share Capital and Reserves (*continued*)

Warrants with an exercise price of \$0.60 per Warrant, which were issued in connection with the Company's private placement that closed in tranches on December 4, 2012 and December 21, 2012, respectively. On June 9, 2014, the Company again modified the term of the Warrants and re-priced the Warrants. The foregoing Warrants are now set to expire on December 12, 2014 with the new exercise price for each full Warrant set at \$0.30. The Warrants also carry a forced exercise provision under TSX Venture policy 4.1, section 4.3(b), if the closing price for the Company's shares is \$0.375 or greater for a period of 10 consecutive trading days, then the Warrant holders will have 30 days to exercise their Warrants; otherwise the Warrants will expire on the 31<sup>st</sup> day.

During the year ended June 30, 2013, in conjunction with the brokered private placement of Units and FT Units described in note 18(b), the Company issued a total of 4,584,741 share purchase warrants and 521,823 agent compensation warrants. During the year ended June 30, 2014, the 521,823 agent compensation warrants expired.

At the time of the issuance, the average fair value of the broker warrants was estimated to be \$58,907 and has been recognized as share issuance costs.

During the year ended June 30, 2013, in conjunction with the brokered private placement of Units and FT Units described in note 9(b), the Company issued a total of 4,584,741 share purchase warrants and 521,823 agent compensation warrants.

At the time of the issuance, the average fair value of the broker warrants was estimated to be \$58,907 and has been recognized as share issuance costs.

Details of the warrants outstanding at September 30, 2014 are as follows:

Exercise Prices	Number of Warrants Outstanding	Remaining Life
\$0.30	4,584,741	0.45
Total	4,584,741	0.45

#### d) Stock Options

The Company has an employee stock option plan under which employees, directors and key consultants are eligible to receive grants of options. Under the stock option plan, the granted stock options are exercisable over periods of up to five years as determined by the Company's Board of Directors. The maximum number of outstanding stock options under the plan is limited to 10% of the number of issued common shares outstanding. The number of stock options and the exercise price is set by the Company's Board of Directors based on the market value at the time of granting. Stock options issued and outstanding are as follows

# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)  
(unaudited)

### 11. Share Capital and Reserves (*continued*)

	September 2014		June 2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, opening	4,182,000	\$ 0.57	3,932,000	\$ 0.60
Granted	-	-	250,000	0.30
Balance, ending	4,182,000	\$ 0.57	4,182,000	\$ 0.57

Details of the stock options outstanding at September 30, 2014 are as follows:

Range of Exercise Prices	Number of Options Outstanding	Number of Options Vested	Number of Options Unvested	Weighted Average Remaining Life
\$0.30 to \$0.39	1,072,000	1,072,000	-	2.06
\$0.40 to \$0.49	530,000	530,000	-	2.13
\$0.50 to \$0.59	350,000	350,000	-	1.39
\$0.70 to \$0.79	2,230,000	2,230,000	-	2.50
Total	4,182,000	4,182,000	-	2.25

The Company accounts for its stock option plan using the Black-Scholes Option Pricing Model. Under this method, the Company recorded non-cash share-based payments of \$ nil (2013 - \$18,641) for the three months ended September 30, 2014 as an expense for the options granted.

The fair value of each option granted is estimated at the date of grant using the Black-Scholes Option Pricing Model with weighted average assumptions for grants during the year as follows:

	2014	2013
Risk free interest rate (%)	2.01%	1.38%
Time to expiration (years)	5.0	5.0
Volatility (%)	140.87%	77.69%
Expected dividends	-	-

#### (e) Income (loss) per share

The weighted average number of shares outstanding for purposes of calculating basic income (loss) per share at September 30, 2014 was 61,769,160 (2013 – 61,769,160).

For the fully diluted income (loss) per share calculation as of September 30, 2014, nil (2013 – nil) shares were added to the weighted average number of common shares outstanding during the year for the dilutive effects of exercisable stock options and warrants, as they were determined to be anti-dilutive.

# AROWAY ENERGY INC.

## Notes to Consolidated Financial Statements

For the three months ended September 30, 2014 and 2013  
(all amounts are expressed in Canadian dollars)  
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### 12. Finance Expense

Finance expense consists of the following:

	2014	2013
Interest expense	\$ 157,624	\$ 45,973
Accretion expense	3,311	1,463
	<u>\$ 160,935</u>	<u>\$ 47,436</u>

### 13. Changes in Non-Cash Working Capital

	2014	2013
Operations:		
Amounts receivable	\$ (5,900)	\$ (316,778)
Advances and prepaid expenses	(2,041)	41,492
Trades payable and accrued liabilities	694,731	(67,177)
	<u>\$ 686,790</u>	<u>\$ (342,463)</u>

The following cash payments have been made for the years ended June 30, 2014 and 2013:

	2014	2013
Interest	\$ 157,624	\$ 45,973

### 14. Contingencies

- (a) The Company is involved in various legal claims and actions arising in the course of the Company's discontinued operations related to the Worsley property. Although the outcome of these claims cannot be predicted with certainty, the Company has recorded a provision related to these claims where a loss is probable and the amount can be reliably estimated.

Balance, July 1, 2014	\$ -
Provisions for litigations arising during the year	197,500
Amounts charged against provision	-
Balance, September 30, 2014	<u>\$ 197,500</u>

- (b) The Company has derecognized decommissioning liabilities associated with the discontinued operations. Management does not consider that the amounts are payable although there is no assurance that a formal claim will not be made against the Company for some or all of these balances in the future.