

Terra Nova Energy Ltd.

Condensed Interim Consolidated Financial Statements

Six months ended January 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

Notice of no Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed 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 financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Terra Nova Energy Ltd.Condensed Interim Consolidated Statements of Financial Position
(Unaudited - Expressed in Canadian Dollars)

	Notes	January 31, 2015 \$	July 31, 2014 \$
Assets			
Current assets			
Cash and cash held-in-trust		274,751	152,143
Receivables	6	24,570	216,436
Prepaid expenses		45,522	15,387
		<u>344,843</u>	<u>383,966</u>
Equipment		19,302	22,708
Exploration and evaluation interests	7	6,012,620	5,892,481
		<u>6,376,765</u>	<u>6,299,155</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8,11	336,447	223,523
Convertible notes	9	-	1,500,000
Decommissioning obligation		34,545	35,448
		<u>370,992</u>	<u>1,758,971</u>
Equity Attributable to Shareholders			
Share capital	10	26,686,351	24,724,372
Contributed surplus		7,224,197	6,687,583
Accumulated other comprehensive loss (%AOC _L +) (%OCL+)		(202,545)	(42,289)
Deficit		<u>(27,702,230)</u>	<u>(26,829,482)</u>
		<u>6,005,773</u>	<u>4,540,184</u>
		<u>6,376,765</u>	<u>6,299,155</u>

Nature of operations - Note 1
Going concern - Note 2
Commitments and contingencies - Notes 7, 9 and 10
Subsequent events . Notes 8 and 14

Approved by the Board of Directors on March 27, 2015

Henry Aldorf+ DirectorRobert McMorran+ Director

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and six months ended January 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

	Notes	Three months ended January 31,		Six months ended January 31,	
		2015 \$	2014 \$	2015 \$	2014 \$
Audit and accounting	11	22,655	62,272	67,694	108,754
Filing and transfer agent		11,668	9,977	23,341	41,793
Depreciation		1,703	2,433	3,406	4,866
Legal	11	9,820	9,355	22,768	30,313
Management	11	50,394	67,508	102,308	107,508
Office and miscellaneous		28,774	10,930	57,880	20,875
Overhead charged to exploration		-	(1,321)	-	(38,916)
Shareholder communications		3,286	2,161	28,373	2,702
Share-based payments	10(c)	-	(3,785)	486,345	32,512
Travel and related		(19)	5,223	6,027	16,525
Loss before other items		(128,281)	(164,753)	(798,142)	(326,932)
Interest income		94	1,888	394	5,688
Write-off of exploration and evaluation interests		-	(5,794)	-	(1,084,305)
Interest, accretion and loan placement expense	9	(37,500)	(106,316)	(75,000)	(212,074)
Loss for the period		(165,687)	(274,975)	(872,748)	(1,617,623)
Other comprehensive (loss) income					
Exchange (loss) gain on translation of foreign accounts	7(e)	(23,837)	(100,556)	(160,256)	365,989
Comprehensive loss for the period		(189,524)	(375,531)	(1,033,004)	(1,251,634)
Loss per share . basic and diluted	10(f)	(0.00)	(0.00)	(0.01)	(0.02)
Weighted average number of shares outstanding . basic and diluted		77,200,608	66,322,197	74,241,263	65,886,871

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

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Cash Flows

For the six months ended January 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

	2015	2014
	\$	\$
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Cash Provided From (Used In)		
Operating Activities		
Loss for the period	(872,748)	(1,617,623)
Items not affecting cash:		
Depreciation	3,406	4,866
Share-based payments . options	486,345	32,512
Write-off of exploration and evaluation interests	-	1,084,305
Accretion and loan placement expense	-	116,824
	<hr/>	<hr/>
	(382,997)	(379,116)
Net change in non-cash working capital items		
Receivables	35,934	534,081
Prepaid expenses	(30,135)	(39,439)
Accounts payable and accrued liabilities	(55,351)	64,503
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	(432,549)	180,029
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Investing Activity		
Exploration and evaluation interests	44,266	(2,135,602)
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	44,266	(2,135,602)
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Financing Activity		
Proceeds from securities issued	512,248	97,900
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	512,248	97,900
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Foreign exchange (loss) gain on cash held in foreign currencies	(1,357)	19,464
Increase (decrease) in cash and cash held-in-trust	122,608	(1,838,209)
Cash and cash held-in-trust . beginning of the period	152,143	2,267,231
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Cash and cash held-in-trust . end of the period	274,751	429,022
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Cash paid for interest	-	-
Cash paid for income taxes	-	-
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Supplemental cash flow information - Note 12

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

For the six months ended January 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

	Common Shares #	Share Capital \$	Contributed Surplus \$	Equity Component of Convertible Notes \$	AOCL \$	Deficit \$	Total \$
Balance . July 31, 2013	65,432,197	24,032,436	6,581,604	129,153	(666,181)	(24,659,311)	5,417,701
Issued during the period:							
For cash pursuant to exercise of options	890,000	97,900	-	-	-	-	97,900
Transfer on exercise of options	-	28,228	(28,228)	-	-	-	-
Share-based payments	-	-	32,512	-	-	-	32,512
Comprehensive loss for the period	-	-	-	-	365,989	(1,617,623)	(1,251,634)
Balance . January 31, 2014	66,322,197	24,158,564	6,585,888	129,153	(300,192)	(26,276,934)	4,296,479
Issued during the period:							
Pursuant to conversion of convertible loan	3,681,816	432,458	-	(27,458)	-	-	405,000
Pursuant to interest on convertible loan	1,269,999	133,350	-	-	-	-	133,350
Transfer on maturity of convertible notes	-	-	101,695	(101,695)	-	-	-
Comprehensive loss for the period	-	-	-	-	257,903	(552,548)	(294,645)
Balance . July 31, 2014	71,274,012	24,724,372	6,687,583	-	(42,289)	(26,829,482)	4,540,184
Issued during the period:							
Pursuant to private placement of units	2,532,500	445,872	60,628	-	-	-	506,500
Less: cash issue costs	-	(4,252)	-	-	-	-	(4,252)
Pursuant to conversion of convertible loan	13,636,364	1,500,000	-	-	-	-	1,500,000
Pursuant to exercise of warrants	90,909	10,000	-	-	-	-	10,000
Transfer on exercise of warrants	-	10,359	(10,359)	-	-	-	-
Share-based payments	-	-	486,345	-	-	-	486,345
Comprehensive loss for the period	-	-	-	-	(160,256)	(872,748)	(1,033,004)
Balance . January 31, 2015	87,533,785	26,686,351	7,224,197	-	(202,545)	(27,702,230)	6,005,773

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

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

1. Nature of operations

Terra Nova Energy Ltd. (the "Company" or "Terra Nova") was incorporated under the British Columbia Business Corporations Act. The Company's principal business is the acquisition and exploration of petroleum and natural gas properties. The Company's shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol "TGC", the Frankfurt Stock Exchange under the symbol "GLTN" and the OTCQX marketplace under the symbol "NVMF". The Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

2. Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for at least the next twelve months. Carrying values as shown in these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

At January 31, 2015, the Company had not yet achieved profitable operations, had a working capital deficiency of \$26,149 and expects to incur further losses in the development of its business. The Company requires significant further funding to continue to develop its oil and gas exploration and evaluation interests and to continue its operations. These factors may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Management believes that the use of the going concern assumption is appropriate for these financial statements. Management believes that the Company will be able to obtain additional financing, through the issuance of either shares or debt to fund continuing operations and exploration and development activities. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Subsequent to January 31, 2015, the Company received \$3,000,000 from the sale of a minority working interest in each of PEL 112 and PEL 444 (Note 14).

3. Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 - Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended July 31, 2014 which have been prepared in accordance with IFRS as issued by the IASB.

In the preparation of these interim condensed consolidated financial statements, the Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended July 31, 2014 except as outlined in Note 4.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Unless otherwise stated, all dollar amounts are in Canadian dollars. The notation "A\$" represents Australian dollars and "US\$" represents US dollars.

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

4. Changes in accounting policies including initial adoption

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on January 1, 2014.

The following new standards, amendments and interpretations that have been adopted for the Company's current fiscal year have not had a material impact on the Company:

- IAS 32 Financial instruments, Presentation+
- IAS 36 Impairment of Assets+
- IFRIC 21 Levies+

5. Accounting standards issued but not yet effective

The following new standard has been issued but not yet applied.

IFRS 9 . Financial Instruments: Classification and Measurement. IFRS 9 introduces new requirements for the classification and measurement of financial instruments and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact on its consolidated financial statements.

6. Receivables

	January 31, 2015 \$	July 31, 2013 \$
Recoverable taxes	24,570	5,228
Receivable from farmers for seismic and overhead	399,056	620,695
Allowance for doubtful accounts	(399,056)	(409,487)
Total receivables	24,570	216,436

7. Exploration and evaluation interests

Exploration and evaluation interests consist of the following:

	January 31, 2015 \$	July 31, 2014 \$
Holloman Farm-in Agreement acquisition costs	835,582	835,582
Seismic expenditures . PEL 112	3,854,935	3,846,295
Seismic expenditures . PEL 444	3,429,400	3,365,125
Drilling expenditures . PEL 112	3,818,124	3,818,124
Other expenditures	421,478	202,316
Restoration obligations	34,941	34,941
Contributions from farmers	(711,437)	(522,369)
Recoverable from farmers	(43,752)	(209,113)
Write-downs	(5,445,266)	(5,445,266)
Effects of translation of foreign accounts	(181,385)	(33,154)
	6,012,620	5,892,481

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

a) Farm-in Agreement

On May 11, 2012, as amended on May 29, 2013, the Company entered into an oil and gas farm-in agreement to secure the right to earn up to a 55% working interest in petroleum and natural gas rights on certain on-shore Australian Petroleum Exploration Licenses (PELs), known as PELs 112 and 444 (the Farm-in Agreement). The purchase price paid for the exploration and evaluation (E&E) rights included cash payments that totaled \$351,165 (US\$350,000), 1,000,000 common shares having a market value of \$250,000 and transaction costs including directly attributable due diligence and legal fees of \$235,448.

The salient terms of the Farm-in Agreement require staged payments into trust against earn-in obligations as follows:

Earn-in Obligation stage	Due date	Trust account payment A\$	Working interest earned on completion
Seismic	Paid	4,700,000	20%
Initial 3 . Well Program	Paid	4,500,000	5.8333% per well
Option 3 . Well Program	45 days after completion of the initial 3 . Well Program	4,500,000	5.8333% per well
Total		13,700,000	Up to 55%

The above referenced working interests cover interests earned in both PEL 112 and 444.

The above referenced trust account payments with respect to each of the Initial and Option Well Programs are to cover estimated total dry-hole costs for each Program. The Company is liable for any dry hole cost overruns incurred pursuant to the Initial 3 - Well Program and up to a maximum of the first A\$4,500,000 and 55% thereafter in dry-hole costs incurred pursuant to the Option 3 - Well Program. Completion, equipping and costs to tie into a hydrocarbon gathering system (if available) shall be borne by Terra Nova as to 50% and by the Farmers as to 50%. Under the terms of the Farm-in Agreement, Terra Nova shall be entitled to 80% of the revenues earned from each of the wells drilled under the Initial Well Program and the Option Well Program until such time as it shall have recovered 100% of costs associated with the drilling and completion of each respective well, otherwise known as "payout".

Any trust funds remaining on account at the end of each of the above three phases shall be applied first as to the funding of any succeeding trust obligation and in the event that Terra Nova elects not to proceed with any of the succeeding phases, any unspent trust funds shall be for the account of the Company. Notwithstanding anything in the joint operating agreement, Terra Nova shall act as operator of the PEL's and shall have the exclusive right to propose to carry out all exploration and development work on these properties, including without limitation seismic work area clearance, Seismic Earn-in Obligation, the Initial Well Program, the Option Well Program and the completion and subsequent operation of any wells.

The Farm-in Agreement also contains various provisions in clauses for such matters as site restoration and non-participation that are typical in the oil and gas exploration industry.

b) Seismic Projects

On May 11, 2012, the Company paid the initial A\$4,700,000 into trust to cover initial seismic acquisition requirements for each of PEL 112 and 444 and the interpretation of the acquired data. Any amounts incurred pursuant to the Seismic Earn-in Obligation in excess of A\$4,700,000 shall be borne by Terra Nova as to 55% and by the Farmers as to 45%.

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

At July 31, 2013, the Company had completed the seismic acquisition requirements for PEL 112 and accordingly, the Company earned a 20% interest in PEL 112. During the year ended July 31, 2014, the Company earned a 20% interest in PEL 444 on completion of the seismic acquisition requirements.

At January 31, 2015, the Company had incurred A\$7,176,139 (\$7,284,335) of the Seismic Earn-in Obligation. The Farmers are obligated to pay for 45% of Seismic Earn-in Obligation in excess of A\$4,700,000. In July 2013, the Company received contributions of A\$523,259 from one of the Farmers. In October 2014, the Company received contributions of A\$193,844 from another one of the Farmers. At January 31, 2015, the Company has recorded a receivable of A\$404,312 (\$399,056) from the Farmers. At January 31, 2015, the Company recognized an allowance for doubtful accounts of A\$404,312 (\$399,056).

c) Initial 3 - Well Program Earn-in Obligation

On October 31, 2012, the Company had made the A\$4,500,000 payment due pursuant to the Initial 3 Well Program Earn-in Obligation. On May 29, 2013, pursuant to an amending agreement, A\$500,000 was advanced to the seismic trust account.

During the year ended July 31, 2014, the Company completed one well at PEL 112 and accordingly, the Company earned an additional 5.8333% interest in PEL 112 and PEL 444. Subsequent to January 31, 2015, the Company sold a 5.1666% interest in PEL 112 and PEL 444 for \$3,000,000. At the date these financial statements were approved by the Board, March 31, 2015, the Company had a 20.6667% interest in PEL 112 and PEL 444.

d) Exchange Gain (Loss) on Translation of E&E Interests

As all of the Company's E&E interests are held in Australia by Terra Nova Energy (Australia) Pty Ltd. whose functional currency is the Australian dollar, in accordance with IFRS relating to the translation of foreign operations, the E&E interests were translated to Canadian dollars at the balance sheet date. The impact of such foreign translation has been included in other comprehensive income.

8. Accounts payable and accrued liabilities

	January 31, 2015 \$	July 31, 2014 \$
Trade payables	200,854	89,804
Amounts due to related parties (Note 11)	48,093	121,219
Interest payable on convertible notes (Note 9)	⁽¹⁾ 87,500	12,500
Total accounts payable and accrued liabilities	336,447	223,523

⁽¹⁾ Subsequent to January 31, 2015, the Company paid the interest in cash.

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

9. Convertible notes

	Liability Component \$	Equity Component \$
Balance . July 31, 2013	1,689,012	129,153
Amortization of loan placement expenses	97,306	-
Accretion	118,682	-
Conversion of \$405,000	(405,000)	(27,458)
Expiry of conversion feature of \$1,500,000	-	(101,695)
Balance . July 31, 2014	1,500,000	-
Conversion of \$1,500,000	(1,500,000)	-
Balance . January 31, 2015	-	-

On June 28, 2013, the Company issued convertible notes for the principal sum of \$1,905,000. The convertible notes bore interest at 10% per annum and were originally scheduled to be repaid on June 28, 2014. The convertible notes were convertible at the option of the holder into common shares of the Company at a conversion price of \$0.11 per share.

For accounting purposes, the convertible notes were separated into its liability and equity components. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the convertible notes assuming an 18% effective interest rate which was the estimated rate for convertible notes without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible notes and the fair value of the liability component.

In connection with the convertible notes, the Company incurred \$12,922 in legal and filing fees. In addition, the Company issued an aggregate of 818,181 finder's warrants entitling the holder thereof the right to purchase a common share at a price of \$0.11 per share up to June 28, 2015. The warrants expired unexercised. The Company valued the finder's warrants at \$93,229 using the Black-Scholes option pricing model. The assumptions used in the Black-Scholes option pricing model was as follows: share price of \$0.20; exercise price of \$0.11; expected volatility of 100%; expected life of 1 year; a risk-free interest rate of 0.78%; and an expected dividend rate of nil. The aggregate loan placement expenses of \$106,151 were recorded against the liability component and were amortized to the statements of comprehensive loss over the original contractual term of the convertible notes.

During the six months ended January 31, 2015, the Company recorded interest expense of \$75,000 (2014 - \$95,250).

On July 2, 2014, \$405,000 of the convertible notes were converted into 3,681,816 common shares of the Company. On June 28, 2014, \$1,500,000 convertible notes matured and the convertible notes became due on demand. On October 6, 2014, the term of the convertible notes was extended to December 28, 2014 with all other terms of the original convertible notes remaining the same. On December 24, 2014, \$1,500,000 of the convertible notes were converted into 13,636,364 common shares of the Company.

On July 24, 2014, the Company issued 1,269,999 common shares of the Company at the fair value of \$133,350 as settlement of \$190,500 of interest on the convertible notes. The Company recorded a gain on debt settlement of \$57,150.

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

10. Share capital

a) Authorized:

An unlimited number of common shares without par value.

b) Financings:

During the six months ended January 31, 2015, the Company completed the following financing:

- i) On January 30, 2015, the Company completed a private placement offering of 2,532,500 units at a price of \$0.20 per unit for gross proceeds of \$506,500. Each unit is comprised of one common share and one-half of one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at \$0.25 per share up to January 30, 2016. The Company allocated \$60,628 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of \$0.17; exercise price of \$0.25; expected volatility of 100%; expected life of 1 year; a risk-free interest rate of 1.0%; and an expected dividend rate of nil. In connection with the private placement, the Company incurred \$4,252 of legal and filing fees.

c) Options:

The Company has established a stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant share purchase options up to 10% of its outstanding shares. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Market Price (as that term is defined in the policies of the TSX Venture Exchange). The options are for a maximum term of ten years and vest as determined by the board of directors. All options granted have vested on the grant date.

A summary of the status of the Company's stock option plan as at January 31, 2015 and July 31, 2014 and the changes during the periods then ended is presented below:

	Number of options	Weighted average exercise price \$
Balance outstanding . July 31, 2013	3,800,000	0.26
Granted	890,000	0.11
Exercised	(890,000)	0.11
Expired	(400,000)	0.30
Forfeited	(300,000)	0.26
Balance outstanding . July 31, 2014	3,100,000	0.25
Granted	4,325,000	0.18
Expired	(500,000)	0.30
Balance outstanding and exercisable . January 31, 2015	6,925,000	0.20

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

At January 31, 2015, stock options outstanding that entitled the holder thereof to acquire one share for each option held are as follows:

Expiry Date	Exercise Price \$	Number of Options
May 16, 2015	0.30	600,000
July 18, 2018	0.18	1,300,000
October 31, 2019	0.18	4,325,000
May 16, 2022	0.30	700,000
		<u>6,925,000</u>

During the six months ended January 31, 2015, the Company recorded share-based payments expense of \$486,345 (2014 - \$32,512). The weighted average fair value of stock options granted during the six months ended January 31, 2015 of \$0.112 per option (2014 - \$0.032 per option) was estimated using the Black-Scholes option pricing model with the following assumptions:

	2015	2014
Average stock price	0.17	0.06
Average exercise price	0.18	0.11
Average risk-free interest rate	2.00%	1.63%
Expected life	4.0 years	4.0 years
Expected volatility	100%	100%
Expected dividends	\$nil	\$nil

The expected volatility was calculated in comparison to similar TSX Venture Exchange companies and the historical stock price of the Company since being listed.

d) Warrants:

A summary of warrants outstanding as of January 31, 2015 and July 31, 2014 and changes during the periods then ended is presented below:

	Number of warrants	Weighted average exercise price \$
Balance outstanding . July 31, 2013	53,607,645	0.29
Expired	(46,016,964)	0.30
Balance outstanding . July 31, 2014	7,590,681	0.28
Issued	1,266,250	0.25
Exercised	(90,909)	0.11
Expired	(6,772,500)	0.30
Balance outstanding . January 31, 2015	<u>1,993,522</u>	<u>0.20</u>

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

At January 31, 2015, warrants outstanding that entitled the holder thereof to acquire one share for each warrant held are as follows:

Expiry Date	Exercise Price \$	Number of Warrants
June 28, 2015	0.11	727,272
January 30, 2016	0.25	1,266,250
		<u>1,993,522</u>

e) Convertible notes:

The Company had outstanding convertible notes (Note 9) which were convertible into 17,318,180 common shares of the Company. On July 3, 2014, a portion of the outstanding convertible notes were converted into 3,681,816 common shares of the Company. On December 24, 2014, the remaining \$1,500,000 of convertible notes were converted into 13,636,364 common shares of the Company.

f) Basic and diluted loss per share:

During the six months ended January 31, 2015, potentially dilutive common shares totaling 8,918,522 (2014 - 74,425,826) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

11. Related party transactions

During the three and six months ended January 31, 2015 and 2014, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or were significant shareholders of:

	Three months ended January 31,		Six months ended January 31,	
	2015	2014	2015	2014
	\$	\$	\$	\$
Non-audit accounting fees	13,120	15,027	23,273	32,040
Legal fees (corporate secretary)	2,715	1,243	7,555	3,597
Management fees	37,500	67,561	76,500	107,561
Office and miscellaneous fees	9,000	-	24,000	-
Exploration and evaluation interests . management and consulting fees	21,368	15,963	41,529	59,244
	<u>83,703</u>	<u>99,794</u>	<u>172,857</u>	<u>202,442</u>

At January 31, 2015, accounts payable and accrued liabilities included \$48,093 (July 31, 2014 - \$121,219) of amounts owing to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the Chief Executive Officer, the Chief Financial Officer, the VP of Exploration, the VP of Finance and the directors of the Company. The compensation paid or payable to key management for services during the three and six months ended January 31, 2015 and 2014 is identical to the table above other than share-based payments expense. During the six months ended January 31, 2015, key management received share-based payments of \$323,293 (2014 - \$32,512).

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

An additional related party transaction is disclosed in Note 14.

12. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the six months ended January 31, 2015 the following transactions were excluded from the statement of cash flows:

- a) exploration and evaluation interest expenditures of \$168,409 included in accounts payable and accrued liabilities at January 31, 2015, less expenditures included in accounts payable at July 31, 2014 of \$134 (net exclusion of \$168,275);
- b) exploration and evaluation interest of \$nil included in receivables at January 31, 2015, less amounts included in receivables at July 31, 2014 of \$155,932 (net exclusion of \$155,932); and,
- c) the issuance by the Company of 13,636,364 common shares on the conversion of \$1,500,000 of convertible notes.

During the six months ended January 31, 2014 the following transactions were excluded from the statement of cash flows:

- a) exploration and evaluation interest expenditures of \$7,290 included in accounts payable and accrued liabilities at January 31, 2014, less expenditures included in accounts payable at July 31, 2013 of \$903,489 (net inclusion of \$896,199); and,
- b) exploration and evaluation interest of \$577,605 included in receivables at January 31, 2014, less amounts included in receivables at July 31, 2013 of \$455,130 (net inclusion of \$122,475).

13. Geographic Information

Management has presented segmented information on a geographical basis. Geographic segment information of the Company's assets is as follows:

	January 31, 2015 \$	July 31, 2014 \$
Canada	324,185	41,474
Australia	6,052,580	6,257,681
Total assets	6,376,765	6,299,155

Geographic segmentation of the Company's loss during the six months ended January 31, 2015 and 2014 is as follows:

	2015 \$	2014 \$
Canada	(847,431)	(492,706)
Australia	(25,317)	(1,124,917)
Loss	(872,748)	(1,617,623)

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended January 31, 2015

(Unaudited - Expressed in Canadian Dollars)

Geographic segmentation of the Company's capital recoveries (expenditures) during the six months ended January 31, 2015 and 2014 is as follows:

	2015 \$	2014 \$
Australia	44,266	(2,135,602)
Total capital recoveries (expenditures)	44,266	(2,135,602)

14. Subsequent events

An additional subsequent event is disclosed in Note 8.

Sale of Minority Interest

On February 23, 2015, the Company announced that it has sold a 5.1666% working interest in each of PEL 112 and PEL 444 to Perseville Investing Inc. (Perseville) for a total of \$3,000,000 (the Transaction).

Prior to closing of the Transaction, Perseville owned a 25.6664% working interest in each of PEL 112 and PEL 444. Accordingly, Perseville has increased its working interest in PEL 112 and PEL 444 to 30.8330% and Terra Nova now owns a 20.6667% working interest in each of PEL 112 and PEL 444.

Under the terms of the Farm-In Agreement, Holloman Energy Corporation (Holloman) and Perseville are required to transfer to Terra Nova an aggregate of 5.8333% working interest in both PEL 112 and PEL 444 (the Earning Contributions) for each of the next five wells drilled as set forth below:

	Current working interest (%)	Well 1 (%)	Well 2 (%)	Well 3 (%)	Well 4 (%)	Well 5 (%)
Holloman	48.5003	(4.8333)	(3.8889)	(3.8889)	(3.8889)	(3.8889)
Perseville	30.8330	(1.0000)	(1.9444)	(1.9444)	(1.9444)	(1.9444)
Terra Nova	20.6667	5.8333	5.8333	5.8333	5.8333	5.8333

In accordance with the Transaction, Perseville will not be required to transfer its Earning Contributions to the Company in the event that it pays its proportionate share of the drill costs in connection with drilling a well.

Perseville is a related party of Terra Nova as it is a private company controlled by a family member of a Director of Terra Nova.