

Claren Energy Corp.

(Formerly Terra Nova Energy Ltd.)

Management's Discussion and Analysis (MD&A)

For the year ended July 31, 2016

The following information, prepared as of November 17, 2016, should be read in conjunction with the consolidated financial statements of Claren Energy Corp. (formerly Terra Nova Energy Ltd.) (the "Company" or "Claren") for the year ended July 31, 2016. The referenced consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts are expressed in Canadian dollars (\$) or Australian dollars (A\$) unless otherwise indicated.

Forward-looking Statements

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Forward-looking statements may include words such as "plans", "intends", "anticipates", "should", "estimates", "expects", "believes", "indicates", "suggests" and similar expressions.

This MD&A, and in particular, the "Outlook" section contains forward-looking statements. These forward-looking statements include without limitation: statements about the Company's exploration plans and outlook; interpretations and discussion of seismic, drilling and well testing results and financing obligations with regard to future exploration of the petroleum exploration licences or properties owned by, or, under option to the Company. As such, all forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors. Information concerning the interpretation of seismic, drilling or well testing results may also be considered a forward-looking statement as such information constitutes a prediction of what hydrocarbons might be found to be present if and when hydrocarbons are discovered and recovered in economic quantity.

It is important to note that unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of November 17, 2016. Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Such risks and other factors include, among others, risks related to the integration of acquisitions or new discoveries, if any; risks related to operations; actual results of current exploration activities; actual results of current reclamation activities, if any; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of hydrocarbons; accidents, labour disputes and other risks of the oil and gas exploration industry; delays in obtaining governmental approvals or financing or in the completion of wells or integration with hydrocarbon collection infrastructure, as well as those factors discussed in the section entitled "Risk Factors" appearing elsewhere herein. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize; and subject to applicable laws, the Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see **Risks and Uncertainties**.

General

Claren Energy Corp. (formerly "Terra Nova Energy Ltd.") was incorporated under the Canada Business Corporations Act and continued under the laws of Alberta effective August 20, 2012. Effective October 31, 2016, the Company was continued under the laws of British Columbia. On October 28, 2016, shareholders of the Company approved the change of the Company's name from Terra Nova Energy Ltd. to Claren Energy Corp. Effective November 14, 2016, the Company consolidated its common shares on the basis of one new common share for every four old common shares issued and outstanding at that time. All references to share and per share amounts in this document have been retroactively restated to reflect the share consolidation. 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 "CEN" and the OTCQX marketplace under the symbol "NVMF". The

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Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

Highlights

1. On September 9, 2015, the Company announced that an agreement had been reached with its Joint Venture co-venturers, Perseville Investing Inc. (Perseville) and Holloman Energy Corporation (Holloman), to drill one well before the end of 2015 on PEL 444. Pursuant to the Joint Operating Agreement, all parties agreed to drill a commitment well to test the Baikal 1 target. The Baikal 1 target was selected by Claren's technical team for drilling based on their extensive interpretation work on the reprocessed data from the Wingman 3D seismic survey, using the latest AVO and inversion techniques to further de-risk the prospects.
2. On October 6, 2015, the Company granted 325,000 stock options to certain consultants and a director of Claren's Australian subsidiary. Each stock option will allow the holder to purchase a common share of Claren at an exercise price of \$0.72 per share. Of the 325,000 options granted, 50,000 options were granted for a period of one year from the date of grant and 275,000 options were granted for a period of five years from the date of grant.
3. On October 27, 2015, the Company announced that Senex Energy Ltd. (Senex) was selected to drill the Baikal 1 well on PEL 444 on behalf of the Joint Venture. The drilling program commenced on November 23, 2015 and the Baikal 1 well was spudded on December 3, 2015. On December 9, 2015, the Company announced that Baikal 1 reached target depth at 2,176 metres (7,138 feet) on time and under budget. No hydrocarbons were found to be present and therefore the well was plugged and abandoned.
4. On May 31, 2016, the Company announced that it completed a 3D seismic data exchange with Senex Energy Limited and Bridgeport Energy Australia. The data exchange with Senex resulted in the Company securing a copy of the 26 km² 3D seismic data volume from the Senex Jasmine survey, which runs adjacent to the Company's Wingman 3D seismic acquisition on PEL 444. As part of the transaction, Claren will receive well data from the first Senex well drilled using the Jasmine 3D seismic survey in exchange for well data from the recent Claren Baikal 1 well.
5. On September 1, 2016, the Company announced that it had entered into a Farmout Agreement with Zeta Petroleum (Romania) S.R.L. (Zeta) to acquire up to an eighty percent (80%) participating interest in the Bobocu License, onshore Romania.
6. On September 28, 2016, the Company announced that it had entered into an agreement with Perseville Investing Inc. to acquire a 30.8330% Working Interest in PELs 112 and 444, and a 1.47% gross overriding royalty interest on the PELs. In consideration for the purchased interest, Claren agree to issue to Perseville 10,000,000 common shares (post share consolidation) of the Company. The transaction closed on November 10, 2016 and the common shares were issued to Perseville. Perseville is controlled by Carlo Civelli. Mr. Civelli is the father of Nico Civelli, who is a member of Claren's board of directors. The issuance of the Shares to Perseville is considered to be a related party transaction subject to TSX Venture Exchange Policy 5.9 and Multilateral Instrument 61-101. On October 28, 2016, the transaction was approved by the shareholders at the annual general and special meeting.
7. Effective November 14, 2016, the Company changed its name from Terra Nova Energy Ltd. to Claren Energy Corp. and consolidated its common shares on the basis of one new common share for every four old common shares issued and outstanding at that time. As of the date of consolidation, the Company had 127,533,785 pre-consolidation common shares issued and outstanding. After the share consolidation, the Company had 31,883,476 post-consolidation common shares issued and outstanding. All references to share and per share amounts have been retroactively restated to reflect the share consolidation.

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Management Changes

On September 7, 2016, Mr. Mark Lawson was appointed to the Company's Board of Directors. Mr. Lawson was recently the President and a director of a private, emerging markets focused upstream oil and gas company that acquired an indirect interest in the Aje Field, offshore Nigeria. This field was a former Chevron oil, gas and condensate discovery which has subsequently achieved production of first oil as of May, 2016.

Mr. Lawson previously worked as an investment banker with Morgan Stanley in New York where he was involved in the execution of over \$6 billion worth of mergers and acquisitions, \$8 billion worth of debt offerings and \$500 million of equity financings. Mr. Lawson was also previously a Director of selected listed companies in the energy and mining sectors.

He received his Bachelor of Arts in Statistical Sciences from The University of Western Ontario, and his MBA from The Richard Ivey School of Business, The University of Western Ontario.

Exploration and Evaluation Interests

Romania

On September 1, 2016, the Company announced that it had entered into a Farmout Agreement (the Bobocu Agreement) with Zeta Petroleum (Romania) S.R.L. (Zeta) to acquire up to an eighty percent (80%) participating interest in the Bobocu License, onshore Romania.

Claren is entitled to acquire an initial forty percent (40%) participating interest in the Bobocu Production License upon: (1) the drilling of one commitment side-track entering of an existing well on the License; and (2) cash payments total US\$1,040,000, of which 40% of the cash payment will be paid on certain milestone events and 60% of the cash payments will be paid out of Claren's entitlement to future production.

Claren may acquire an additional forty percent (40%) participating interest in the Bobocu Production License by drilling one additional exploration well to a total depth of 2,800 meters and making an additional cash payment total US\$1,040,000, of which 50% of the cash payment will be paid on certain milestone events and 50% of the cash payments will be paid out of Claren's entitlement to future production.

The Bobocu gas field is located in the foreland basin of the Carpathians 150 km NE of Bucharest, Romania. The field was discovered by Romgaz in 1966, and produced from 1977 to June 1995, and again from December 2000 until November 2001.

A total of 31 wells have been drilled in the area and gas has been produced from 14 Upper Miocene sandstone reservoirs located from 2,500 meters to 2,700 meters in depth.

Key Bobocu Highlights:

- Total production to date has been 33 Bcf (9.3 Bcm) from 15 wells.
- The field was discovered and developed solely on 2D seismic data. Claren's partner has acquired 75 km² of 3D over the field, which has been reprocessed and reinterpreted by Claren.
- Robust Project Economics: Gas prices for gas produced in Romania are regulated by the Regulatory Authority for Energy (ANRE). The current average monthly regulated price for domestically produced gas is RON 60 per MWh or approximately US\$ 4.00 to US\$ 4.50 per mcf.
- Proximity to Key Infrastructure: The Bobocu Gas Field has a 10 inch pipeline connecting to the high-pressure national grid.
- Near term monetization of potential gas reserves as early as 2017.

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Australia

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). During the term of the Farm-In Agreement, the Company acquired a 25.8333% interest in each of PEL 112 and 444.

PEL's 112 and 444 comprise approximately 1,086 km² and 1,166 km² respectively. These properties are located on the Western flank of the Cooper-Eromanga Basin in the northeastern sector of the state of South Australia (the "Exploration and Evaluation Interests" or "E&E Interests").

On February 23, 2015, the Company sold a 5.1666% working interest in each of PEL 112 and PEL 444 to Perseville Investing Inc. for a total of \$3,000,000 (the Transaction), including payment of A\$191,226 (\$188,011) of amounts owing to the Company. The net amount of \$2,811,989 was applied to the sale of the 5.1666% working interest in the PELs.

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

Perseville is a related party of Claren as it is a private company controlled by Carlo Civelli, the father of Nico Civelli, a Director and Officer of the Company. Carlos Civelli is also a shareholder of Claren.

On May 19, 2015, the Company announced that it had terminated its Farm-In Agreement with Holloman. The Company plans to fund all of the exploration of PELs 112 and 444 on a pro-rata basis to the respective working interests of Perseville, Holloman and the Company. Claren reviewed the terms of the Farm-In Agreement in light of the oil environment and concluded there is potential to generate higher returns for its shareholders by funding a proportional share in exploration costs, than under the Farm-in Agreement.

Following termination of the Farm-In Agreement, Claren, Holloman and Perseville, being the working interest holders of PEL 112 and 444, are now subject to the 2006 Joint Operating Agreement (the JOA) which governs the PEL 112 and PEL 444 joint ventures (the JOVs). Claren, being appointed as operator pursuant to the Farm-In Agreement and Deeds of Assignment, will continue to serve as operator. As at July 31, 2015 and 2016, the working interest in PELs 444 and 112 was 48.5003% for Holloman, 30.8330% for Perseville and 20.6667% for Claren.

In July 2015, the Company received a notice of dispute from Holloman relating to the Company's 5.8333% interest in PEL 444. After receiving external advice, the Company believes the dispute has no merit and the Company will be defending its position. The outcome of the dispute is not determinable and therefore no liability or provision has been recorded in the consolidated financial statements.

On November 10, 2016, the Company acquired the additional 30.8330% interest in PELs 444 and 112 from Perseville, and a 1.47% gross overriding royalty interest on the PELs. In consideration for the purchased interest, the Company issued to Perseville 10,000,000 common shares. The common shares closed at a price of \$0.14 per share on the date the shares were issued. After closing of the transaction, the working interest in PELs 444 and 112 is 48.5003% for Holloman and 51.4997% for Claren.

After closing the transaction with Perseville, Carlo Civelli owned, directly and indirectly, 11,136,364 common shares of Claren, representing 34.93% of the then issued and outstanding common shares of Claren.

PEL 112 is in good standing until January 10, 2019. The PEL 444 license is in good standing until January 11, 2021.

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Claren now has a majority working interest in two licenses proximal to established hydrocarbon systems, with minimal holding costs. This also affords the Company the flexibility to evaluate strategic alternatives to share its financial and technical risks with potential partners on the exploration of these assets, while focusing our near term resources on the lower risk redevelopment of the Bobocu field, onshore Romania.

Exploration Activities

Romania

The terms of the Bobocu Agreement call for the Company to drill one commitment side-track entering of an existing well on the Bobocu License, onshore Romania. The drilling of this well is scheduled for December 2016.

Australia

Seismic Surveys

As initially conceived, the Farm-in Agreement contemplated 2D seismic work on both PEL 112 and PEL 444. In the course of planning this work, management determined that the recent discoveries in the area had effectively utilized 3D seismic survey data. In this light, and given the geological environment under consideration, management determined that the potential for a successful discovery increased significantly with reliance on the more expensive 3D seismic data.

In the period since May 11, 2012 the Company initiated, planned and completed a 3D seismic survey, including interpretation, on approximately 127 km² located on PEL 112 (the "Mulka 3D PEL 112 Seismic Program") representing approximately 6% of the total acreage within the PEL. On January 24, 2013, the Company announced that it had processed and interpreted the PEL 112 seismic data. The Company identified four drillable exploration prospects from the survey. These prospects bore technical similarity to producing structures observed in the existing oil pools to the north, including the Butlers, Perlubie and Parsons fields.

On June 10, 2013, the Company announced that seismic crews set camp and began line preparation of PEL 444. The Wingman 3D seismic survey was designed to enable acquisition of 80 km² of 3D seismic data in the southeast corner of PEL 444's lower panhandle. Acquisition of seismic data on PEL 444's Wingman 3D Seismic Survey was completed on July 1, 2013. A final processed volume was received in early December 2013 and interpretation was completed in January 2014. Various anomalies were identified from the seismic interpretation that may support hydrocarbon trapping, effectively encouraging further analysis.

In December 2013, the Company completed the initial processing of the Wingman Survey on PEL 444 and the Claren team identified as many as nine prospects and leads. The targets are all associated with the Birkhead Formation (Birkhead) which is the main producer in the Charo-Snatcher field located approximately 21 km South-East of the Wingman Survey. When the Company began the process of integrating the Charo-Snatcher field data with the Wingman survey, it became evident that producing wells in Birkhead have subtle stratigraphic features including channel sands and crevasse splays. These stratigraphic features have very distinct amplitude signatures on the seismic data further emphasizing the importance of amplitude-friendly processing. The Charo-Snatcher field is predominantly associated with light oil production but also has dissolved gas. It is believed that a portion of the amplitude response is influenced by the gas and techniques such as Amplitude Versus Offset (AVO) can be utilized to determine the presence of hydrocarbon bearing Birkhead sand. In order to further de-risk the already mapped prospects and leads the Company decided to re-process the data with the primary objective of relative amplitude preservation with the broadest possible bandwidth necessary for AVO mapping techniques.

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On August 6, 2014, the Company announced that it had begun the reprocessing of the Wingman 3D seismic survey that was acquired on PEL 444. The reprocessing of Wingman and integration with Charo-Snatcher was completed on September 3, 2014 and the Company began the process of interpreting the data. On November 21, 2014, the Company announced that interpretation of the data has been completed and the Company identified six prospective targets that appear suitable for drilling exploratory wells. The geological prospects were recognized using advanced geophysical techniques and are interpreted to have analogous characteristics to those of the adjacent producing Charo-Snatcher field.

The Company has commenced the reprocessing of PEL 112's Mulka 3D seismic survey by employing similar techniques that were used in the seismic reprocessing of PEL 444.

On May 31, 2016, the Company announced that it completed a 3D seismic data exchange with Senex Energy Limited and Bridgeport Energy Australia. The data exchange with Senex resulted in the Company securing a copy of the 26 km² 3D seismic data volume from the Senex Jasmine survey, which runs adjacent to the Company's Wingman 3D seismic acquisition on PEL 444. As part of the transaction, Claren will also receive well data from the first Senex well drilled using the Jasmine 3D seismic survey in exchange for well data from the recent Claren Baikal 1 well.

Drilling

With the completion of the PEL 112 Mulka 3D seismic survey, the Company was in the position to drill the first exploration well on PEL 112, Wolfman #1, which constituted a commitment well for PEL 112. On August 7, 2013, the Company announced the results of the Wolfman #1 exploration well completed on PEL 112. No oil shows were observed while drilling in its primary and secondary oil objectives. The well encountered its primary objective, the Namur Sandstone, at approximately 1,197 metres (3,927 feet), and drilled ahead to its secondary targets in the Birkhead Formation and Hutton sandstones. Wolfman #1 reached a total depth of 1,703 metres (5,587 feet) and was plugged and abandoned.

On September 9, 2015, the Company announced that an agreement had been reached with its Joint Venture co-venturers, Perseville and Holloman, to drill one well before the end of 2015 on PEL 444. Pursuant to the Joint Operating Agreement, all parties agreed to drill a commitment well to test the Baikal 1 target.

The JVs had a budget of A\$3,000,000 to drill a well (Baikal 1) at PEL 444, A\$493,500 for seismic reprocessing at PELs 112 and 444 and additional amounts for license administration on PELs 112 and 444. The JV co-venturers were cash called and, during the year ended July 31, 2016, the JVs received an aggregate of A\$2,694,688 from Perseville and Holloman. Subsequent to July 31, 2016, the JVs refunded A\$287,611 to Perseville and Holloman as the final drilling cost was A\$2,158,838.

On October 27, 2015, the Company announced that Senex Energy Ltd. had been selected to drill the Baikal 1 well on PEL 444 on behalf of the joint venture. The Company, as operator, obtained a competitive rate by leveraging Senex's current drilling program in the region. Senex operates a large acreage position in the Cooper-Eromanga Basins and has completed several successful drilling programs that have led to new oil discoveries within those basins.

The drilling program commenced on November 23, 2015 and the Baikal 1 well was spudded on December 3, 2015. On December 9, 2015, the Company announced that Baikal 1 reached target depth at 2,176 metres (7,138 feet) on time and under budget. No hydrocarbons were found to be present and therefore the well was plugged and abandoned.

Although there were no hydrocarbon shows, the Baikal 1 well proved the existence of the Mid-Birkhead channel system in PEL 444. These results will be included to improve the Company's exploration model. The experience in the Cooper-Eromanga basin has shown both wet and Hydrocarbon filled channels can exist in close proximity to each other. Once this model is updated, the Company plans to review other

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targets in the existing 3D covered area, which is only a fraction of PEL 444. Claren has the necessary finances to continue to fund its share of a future exploration program. With this well, the Company has fulfilled its obligations with the Government of Australia on PEL 444 and enters a new five year license period.

Selected Annual Information

The following is a summary of certain selected audited consolidated financial information of the Company for the years ended July 31, 2016, 2015 and 2014:

| | 2016 \$ | 2015 \$ | 2014 \$ |
|---|-------------|-------------|-------------|
| Total Revenues | - | - | - |
| Loss | (3,118,808) | (1,392,627) | (2,170,171) |
| Loss Per Share (basic and diluted) ⁽¹⁾ | (0.14) | (0.07) | (0.13) |
| Total Assets | 2,669,004 | 5,686,322 | 6,299,155 |
| Convertible notes - debt component | - | - | 1,500,000 |
| Dividends declared | - | - | - |

⁽¹⁾ The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

The increase in loss during the years ended July 31, 2016 and July 31, 2014 was due to recognizing write-downs of \$2,641,425 and \$1,268,989, respectively. The Company did not record any write-down during the year ended July 31, 2015.

Quarterly Information

The following is selected financial data from the Company's unaudited quarterly financial statements for the last eight quarters ending with the most recently completed quarter, being July 31, 2016.

| | Three Months Ended (\$) | | | |
|--|-------------------------|-------------------|---------------------|---------------------|
| | July 31, 2016 | April 30, 2016 | January 31, 2016 | October 31, 2015 |
| Total Revenues | - | - | - | - |
| (Loss) Income | (2,214,873) | 3,711 | (740,514) | (167,132) |
| (Loss) Income Per Share (basic and diluted) ⁽¹⁾ | (0.10) | 0.00 | (0.03) | (0.01) |
| Exploration and evaluation interest expenditures | (126,789) | (51,903) | 456,967 | 15,344 |
| Working capital | 1,607,421 | 1,536,644 | 1,620,401 | 2,149,726 |
| Total Assets | 2,669,004 | 4,705,449 | 4,873,322 | 5,424,006 |

| | Three Months Ended (\$) | | | |
|---|-------------------------|-------------------|---------------------|---------------------|
| | July 31, 2015 | April 30, 2015 | January 31, 2015 | October 31, 2014 |
| Total Revenues | - | - | - | - |
| Loss | (385,350) | (134,529) | (165,687) | (707,061) |
| Loss Per Share (basic and diluted) ⁽¹⁾ | (0.02) | (0.01) | (0.00) | (0.04) |
| Exploration and evaluation interest expenditures | 52,828 | 185,085 | 165,823 | 126,254 |
| Working capital (deficiency) | 2,313,400 | 2,650,896 | (26,149) | (1,695,390) |
| Total Assets | 5,686,322 | 6,045,551 | 6,376,765 | 6,219,571 |

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- (1) The basic and diluted loss per share calculations result in the same amount due to the anti-dilutive effect of outstanding stock options and warrants.

During the three months ended July 31, 2016, the Company wrote-down E&E assets and recorded an impairment charge of \$2,130,759. During the three months ended April 30, 2016, the Company received a credit from Senex as the Baikal 1 drilling costs came in under budget. This resulted in a reversal of a previously recorded write-down of E&E assets of \$114,981. The increase in loss recorded during the three months ended January 31, 2016 was due to recording a write-down of E&E assets of \$625,647 representing the Company's share of the Baikal 1 drilling costs. The increase in loss recorded during the three months ended July 31, 2015 was primarily due to the costs relating to the Annual General Shareholders Meeting (the AGM). The increase in loss recorded during the three months ended October 31, 2014 was due to recording share-based payments expense of \$486,345.

Results of Operations

Year ended July 31, 2016

The Company recorded a loss of \$3,118,808 (\$0.14 per share) for the year ended July 31, 2016 as compared to a loss of \$1,392,627 (\$0.07 per share) for the year ended July 31, 2015. The table below details certain non-cash or unusual transactions that for the purposes of this discussion have been adjusted out of the reported loss to produce an adjusted loss that forms a better basis for comparing the year-over-year operating results of the Company.

| | 2016 \$ | 2015 \$ |
|--|-------------|-------------|
| Loss for the year as reported | (3,118,808) | (1,392,627) |
| Share-based payments | 34,518 | 486,345 |
| Interest, accretion and loan placement expense | - | 62,500 |
| Write-down of E&E assets | 2,641,425 | - |
| Adjusted loss for the year ⁽¹⁾ | (442,865) | (843,782) |

- (1) Adjusted loss for the year is not a term recognized under IFRS. Non-IFRS measures do not have standardized meaning. Accordingly, non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Comments regarding certain of these items are as follows:

- Share-based payments represents the fair value of stock options granted during the periods. During the year ended July 31, 2016, the Company granted 325,000 stock options (2015 - 1,081,000 options);
- Interest, accretion and loan placement expense is a result of the convertible notes issued on June 28, 2013. On December 24, 2014, the convertible notes were converted into 3,409,091 common shares;
- The write-down of E&E assets represents the Company's share of the costs to drill Baikal 1 and an impairment charge for PEL 112 and PEL 444.

The comments below relate to the results of operations excluding the items (primarily non-cash) discussed above:

The approximate \$401,000 decrease in the adjusted loss for the year ended July 31, 2016 as compared to the year ended July 31, 2015 is due primarily due to an increase in overhead charged to exploration and a decrease in shareholder communications expense and office and miscellaneous expenses.

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Details of changes in certain expense items over the years are as follows:

Audit and accounting fees of \$103,093 (2015 - \$132,769) include fees for general accounting services and accruals for audit fees.

Filing and transfer agent fees of \$43,284 (2015 - \$57,005) include fees paid to the Company's transfer agent and fees paid to the TSX Venture Exchange and the OTCQX marketplace.

Legal fees of \$95,378 (2015 - \$82,639) in the current year are for general business matters. The increase in the current year was due to a detailed review of the contractual terms of the oil and gas agreements.

Management fees of \$196,778 (2015 - \$210,723) include fees paid to the CEO, Henry Aldorf, the VP of Finance, Nico Civelli and certain consultants.

Office and miscellaneous expenses of \$68,892 (2015 - \$93,911) includes expenses such as rent, insurance, bank fees, interest, and office management. The decrease is primarily due to decreased rent and office management.

Overhead charged to exploration of \$83,011 (2015 - \$8,263) are overhead expenses charged to the joint ventures in accordance with the terms of the JOA.

Shareholder communications of \$6,611 (2015 - \$195,096) includes costs associated with marketing and promoting the Company to current and potential shareholders. The increase in expense during the prior year was due to the costs of the AGM. In the prior year, a group of dissident shareholder's submitted nominees for election to the board of directors. All of the Company's directors were re-elected and none of the dissident shareholder's nominees were elected.

Travel and related expenses of \$5,073 (2015 - \$73,603) includes executive travel to and from Australia and other incidental travel.

Financing Activities and Capital Expenditures

The Company did not complete any financing activities during the year ended July 31, 2016. During the year, the JVs received A\$2,758,037 from Perseville and Holloman pursuant to cash calls. A substantial portion of these funds were used in December 2015 to drill Baikal 1. Subsequent to July 31, 2016, the JVs refunded A\$287,611 to Perseville and Holloman.

During the year ended July 31, 2015, the Company completed the following financing activities:

- i) On January 30, 2015, the Company completed a private placement offering of 633,125 units at a price of \$0.80 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 \$1.00 per share up to January 30, 2016. In connection with the private placement, the Company incurred \$4,252 of legal and filing fees.
- ii) On February 23, 2015, the Company sold a 5.1666% working interest in each of PEL 112 and PEL 444 to Perseville for a total of \$3,000,000, including payment of A\$191,226 (\$188,011) of amounts owing to the Company.
- iii) The Company extended the term of \$1,500,000 of convertible notes from June 28, 2014 to December 28, 2014 with all other terms remaining unchanged. On December 24, 2014, the remaining \$1,500,000 of convertible notes were converted into 3,409,091 common shares of the Company.

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The capital expenditures of the Company during the year ended July 31, 2016 amounted to cash spent of \$200,307. This represents the Company's share of PEL 112 and PEL 444 JV expenditures.

Liquidity and Capital Resources

The Company's operations consumed approximately \$436,000 of cash (before working capital items) for the year ended July 31, 2016. An additional approximate \$200,000 of expenditures were spent on the oil and gas interests. The cash requirement was fulfilled from cash on hand at the beginning of the year.

The Company's aggregate operating, investing and financing activities during the year ended July 31, 2016 resulted in a net decrease of \$587,264 in its cash balance of \$2,409,469 at July 31, 2015 to \$1,822,205 at July 31, 2016.

The Company is well capitalized to fund its share of a future exploration program but may have to resort to additional financing if the partners decide to deepen the side track well to intercept an additional gas bearing sand. The Company will also require additional funds in order to acquire an 80% percent interest in the Bobocu License.

The 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. At July 31, 2016, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. At July 31, 2016, the Company had working capital of \$1,607,421. The Company will need additional financing to continue to develop its oil and gas exploration and evaluation assets 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 the 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.

Transactions with Related Parties

During the years ended July 31, 2016 and 2015, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or were significant shareholders of:

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$ | \$ |
| Non-audit accounting fees ⁽¹⁾ | 53,422 | 46,894 |
| Legal fees (corporate secretary) ⁽²⁾ | 2,473 | 12,098 |
| Management fees ⁽³⁾ | 132,500 | 161,830 |
| Office and miscellaneous fees | 15,794 | 36,000 |
| Exploration and evaluation interests - consulting fees ⁽⁴⁾ | 26,528 | 89,712 |
| Exploration and evaluation interests - consulting fees ⁽⁵⁾ | 122,074 | 248,339 |
| | <hr/> 352,791 | <hr/> 594,873 |

⁽¹⁾ Includes fees billed by a company owned by a director, Rob McMorran.

⁽²⁾ Includes corporate secretary fees billed by a company owned by a director, Rob McMorran.

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- (3) Includes fees billed by the CEO, Henry Aldorf, and fees billed by a company controlled by the VP of Finance, Nico Civelli.
- (4) Includes the Company's share of fees billed by a company owned by the VP of Exploration, Chas Lane.
- (5) Includes the Company's share of fees billed by Pacific LNG Operations Pte Ltd. and Pacific Hunt Energy Pte Ltd., companies where Henry Aldorf serves as a director. The fees are for consulting fees provided by the Exploration Manager, Istvan Gyorfı. Mr. Gyorfı is a geophysicist and reservoir engineer with extensive exploration experience and track record in discovering hydrocarbons.

At July 31, 2016, accounts payable and accrued liabilities included \$153,524 (2015 - \$106,653) 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. Compensation paid or payable to key management for services during the year amounted to \$194,417 (2015 - \$346,534). In addition, key management received share-based payments of \$6,034 (2015 - \$359,839).

Perseville is a related party of Claren as it is a private company controlled by a shareholder of Claren, who is also a family member of a Director and Officer of the Company. Certain transactions with Perseville are disclosed elsewhere in this MD&A.

Financial Instruments

Classification of Financial Instruments

The Company's financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. The Company designated its cash and receivables as loans and receivables, which are measured at amortized cost. The accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

Discussions of risks associated with financial assets and liabilities are detailed below:

Foreign Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. A portion of the Company's financial assets and liabilities are denominated in Australian dollars. The Company monitors this exposure, but has no hedge positions.

As at July 31, 2016 and 2015, the Company had exposure to Australian dollars as follows:

| | 2016 A\$ | 2015 A\$ |
|---|----------------|----------------|
| Cash | 751,620 | 108,408 |
| Receivable from JV co-venturers | - | 158,960 |
| Accounts payable and accrued liabilities | (5,978) | (59,134) |
| Net exposure to Australian dollars | 745,642 | 208,234 |

At July 31, 2016, a 1% change in the value to the Australian dollar as compared to the Canadian dollar would result in a change in other comprehensive loss and equity attributable to shareholders of approximately A\$7,000.

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Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises from cash held with banks and financial institutions. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The Company's cash is primarily held with a financial institution.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Except to the extent that the balance of cash is earning interest, the Company has no financial instruments that could otherwise be exposed to interest rate risk.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by maintaining sufficient cash to enable settlement of transactions on the due date. Management monitors the Company's contractual obligations and other expenses to ensure adequate liquidity is maintained.

Outstanding Share Data

a) Authorized Capital:

Unlimited common shares, without par value

b) Issued and outstanding:

31,883,476 common shares as at November 17, 2016

Effective November 14, 2016, the Company consolidated its common shares on the basis of one new common share for every four old common shares issued and outstanding at that time. All references to share and per share amounts have been retroactively restated to reflect the share consolidation.

c) Outstanding options and warrants as at November 17, 2016:

| Security | Number | Exercise Price (\$) | Expiry date |
|-----------------|---------------|----------------------------|--------------------|
| Stock Options | 325,000 | 0.72 | July 18, 2018 |
| Stock Options | 1,081,000 | 0.72 | October 31, 2019 |
| Stock Options | 175,000 | 0.72 | October 2, 2020 |
| Stock Options | 175,000 | 1.20 | May 16, 2022 |

Disclosure Controls and Procedures

In connection with National Instrument 52-109 (Certificate of Disclosure in Issuer's Annual and Interim Filings) (NI 52-109), the Chief Executive Officer and Chief Financial Officer of the Company have filed a Venture Issuer Basic Certificate with respect to the financial information contained in the consolidated financial statements for the year ended July 31, 2016 and this accompanying MD&A (together, the Annual Filings).

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In contrast to the full certificate under NI 52-109, the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109. For further information the reader should refer to the Venture Issuer Basic Certificates filed by the Company with the Annual Filings on SEDAR at www.sedar.com.

Risks and Uncertainties

Certain risks are faced by the Company which could affect its financial position. In general they relate to the availability of equity capital to finance the acquisition, exploration and development of existing and future exploration and development projects. The availability of equity capital to junior oil and gas companies is affected by commodity prices, global economic conditions and economic conditions and government policies in the countries of operation, among other things. These factors are beyond the control of the management of the Company and have a direct effect on the Company's ability to raise capital.

The Company's working capital and liquidity will fluctuate in proportion to its ongoing equity financing activities. The Company requires a certain amount of liquid capital in order to sustain its operations and in order to meet various obligations as specified under the its resource property acquisition agreements. Should the Company fail to obtain future equity financing due to reasons as described above, it will not be able to meet these obligations and may lose its interests in the properties covered by the agreements. Further, should the Company be unable to obtain sufficient equity financing for working capital, it may be unable to meet its ongoing operational commitments.

All of the Company's oil and gas properties are in the exploration stage and without known reserves. Exploration, development and production of oil and gas involves substantial expenditures and a high degree of risk. Few properties which are explored are ultimately developed into producing properties. Accordingly, the Company has no material revenue, writes off its oil and gas interests from time to time, and operates at a loss. Continued operations are dependent upon ongoing equity financing activities.

The Company has taken all reasonable steps to attempt to ensure that proper title to its oil and gas properties have been obtained and that all grants of such rights thereunder, if any, have been registered with the appropriate public offices. Despite the due diligence conducted by the Company, there is no guarantee that title to such oil and gas properties will not be challenged or impugned. The Company's oil and gas property interests may be subject to disputes, prior unregistered agreements or transfers or aboriginal land claims and title may be affected by undetected defects. In particular, Holloman has disputed the Company's ownership of a 5.8333% working interest in PEL 444 notwithstanding the fact that the Company was transferred such interest pursuant to a Deed of Assignment and Assumption dated February 15, 2014. Although the Company maintains that it is the legal and beneficial owner of such interest, there is no assurance that it will be successful in defending its title to such interest.

Outlook

The Company plans on commencing the drilling of one commitment side-track entering of an existing well on the Bobocu Production License. The drilling will commence in December 2016. The Company is looking forward to working with its partner Zeta Petroleum to develop the Bobocu License in Romania. The Company anticipates near term monetization of potential gas reserves as early as 2017.

In addition to the recent Farmin Agreement to acquire the Bobocu License, the Company has secured the rights to explore more than 2,250 km² of PEL 112 and PEL 444 located on the Western Flank of the Cooper-Eromanga Basin in South Australia. The Company has a 51.4997% interest in the PELs. PEL 112 is in good standing until January 10, 2019. The PEL 444 license is in good standing until January 11, 2021. The Company intends to use information gathered from the Baikal 1 dry hole and the recent seismic data exchange with Senex in order to update the exploration model prior to finalizing the next course of action. The Company has the necessary finances to continue to fund its share of a future exploration program.

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The Board of Directors has deferred the appointment of a Chief Executive Officer pending the outcome of the exploration activities. The Chairman of the Board of Directors will continue to serve as the interim Chief Executive Officer.

Other Information

Additional information related to the Company is available for viewing on SEDAR at www.sedar.com.