

Claren Energy Corp.

Condensed Interim Consolidated Financial Statements

Nine months ended April 30, 2017 and 2016

(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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Claren Energy Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

		Three months ended		Nine months ended	
		April 30,		April 30,	
		2017	2016	2017	2016
	Notes	\$	\$	\$	\$
Audit and accounting	9	25,518	41,272	93,580	111,888
Filing and transfer agent		9,012	9,399	63,764	33,234
Depreciation		834	1,703	2,503	5,109
Legal	9	4,838	4,004	152,102	94,391
Management	9	44,989	37,476	267,857	156,417
Office and miscellaneous	9	24,344	7,720	69,108	40,486
Overhead charged to exploration		-	8,616	(22,882)	(88,713)
Shareholder communications		9,653	1,080	30,615	5,939
Share-based payments – options	8(c)	-	-	-	34,518
Travel and related		6,443	-	64,890	-
Loss before other items		(125,631)	(111,270)	(721,537)	(393,269)
Write-down of E&E assets		-	114,981	-	(510,666)
(Loss) income for the period		(125,631)	3,711	(721,537)	(903,935)
Other comprehensive income (loss)					
Exchange gain (loss) on translation of foreign accounts		284,744	(155,908)	202,301	(10,945)
Comprehensive income (loss) for the period		159,113	(152,197)	(519,236)	(914,880)
Loss per share – basic and diluted*	8(e)(f)	(0.00)	0.00	(0.02)	(0.04)
Weighted average number of shares outstanding – basic and diluted*	8(f)	59,442,476	21,883,476	42,300,584	21,883,476

* Post 4:1 share consolidation (Note 8(f))

Claren Energy Corp.

Condensed Interim Consolidated Statements of Cash Flows

For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

	2017	2016
	\$	\$
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Cash Provided From (Used In)		
Operating Activities		
Loss for the period	(721,537)	(903,935)
Items not affecting cash:		
Depreciation	2,503	5,109
Share-based payments – options	-	34,518
Write-down E&E assets	-	510,666
Funds used in operations before working capital items	(719,034)	(353,642)
Net change in working capital items		
Receivables	(265,784)	25,562
Prepaid expenses	(14,022)	(16,189)
Accounts payable and accrued liabilities	228,123	(38,340)
	(770,717)	(382,609)
Investing Activities		
Exploration and evaluation assets	(2,730,875)	(354,292)
Cash acquired on acquisition of exploration and evaluation assets	12,981	-
	(2,717,894)	(354,292)
Financing Activity		
Proceeds from securities issued, net of issue costs	2,114,476	-
	2,114,476	-
Foreign exchange gain (loss) on cash held in foreign currencies	3,746	(8,971)
Decrease in cash	(1,370,389)	(745,872)
Cash – beginning of the period	1,822,205	2,409,469
Cash – end of the period	451,816	1,663,597
Cash paid for interest	-	-
Cash paid for income taxes	-	-

Supplemental cash flow information - Note 10

Claren Energy Corp.

(Formerly Terra Nova Energy Ltd.)

Condensed Interim Consolidated Statements of Changes in Equity

For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

	Common Shares* #	Share Capital \$	Contributed Surplus \$	AOCL \$	Deficit \$	Total \$
Balance – July 31, 2015	21,883,476	26,686,351	7,224,197	(314,666)	(28,222,109)	5,373,773
Share-based payments	-	-	34,518	-	-	34,518
Comprehensive loss for the period	-	-	-	(10,945)	(903,935)	(914,880)
Balance – April 30 2016	21,883,476	26,686,351	7,258,715	(325,611)	(29,126,044)	4,493,411
Comprehensive loss for the period	-	-	-	137,967	(2,214,873)	(2,076,906)
Balance – July 31, 2016	21,883,476	26,686,351	7,258,715	(187,644)	(31,340,917)	2,416,505
Issued during the period:						
Pursuant to acquisition of E&E assets (Note 6)	10,000,000	1,600,000	-	-	-	1,600,000
Pursuant to private placement of units	27,559,000	1,508,396	696,324	-	-	2,204,720
Less: cash issue costs	-	(90,244)	-	-	-	(90,244)
Less: finders' warrants	-	(46,049)	46,049	-	-	-
Comprehensive loss for the period	-	-	-	202,301	(721,537)	(519,236)
Balance – April 30, 2017	*59,442,476	29,658,454	8,001,088	14,657	(32,062,454)	5,611,745

* Post 4:1 share consolidation (Note 8(f))

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

1. Nature of operations

Claren Energy Corp. (the "Company" or "Claren") 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 these financial statements 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 OTCQB marketplace under the symbol "CNENF". 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 April 30, 2017, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. At April 30, 2017, the Company had working capital of \$244,771. 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 give rise to material uncertainties which 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.

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, 2016 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, 2016 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.

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

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

4. Accounting standards issued but not yet effective

The following new IFRSs have not been early adopted in these financial statements. Management does not intend to adopt these standards prior to the effective date and has not yet assessed the effect on the Company's future results and financial position of adopting these standards:

- (i) IFRS 9, *Financial Instruments* (New; to replace IAS 39, *Financial Instruments: Recognition and Measurement*, and IFRIC 9, *Reassessment of Embedded Derivatives*).
- (ii) IFRS 16, *Leases*.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable and/or are not expected to have a significant impact on the Company's financial statements.

5. Receivables

	April 30, 2017 \$	July 31, 2016 \$
Recoverable taxes	2,322	21,010
Receivable from Zeta (Note 6)	289,618	-
Total receivables	291,940	21,010

6. Exploration and evaluation assets

Exploration and evaluation ("E&E") assets consist of the following:

	April 30, 2017 \$	July 31, 2016 \$
Australian E&E assets	2,723,897	982,591
Romanian E&E assets	2,655,503	-
Effects of translation of foreign accounts	(19,007)	(182,591)
	5,360,393	800,000

Romania

On September 1, 2016, the Company 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 was entitled to acquire an initial forty percent (40%) participating interest in the Bobocu 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. In December 2016, the Company made the first milestone payment of US\$208,000 (\$281,965). As the remaining milestone events were not achieved and the Company spent over US\$850,000 towards the drilling, the Company earned the initial 40% participating interest in the Bobocu License.

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(Unaudited - Expressed in Canadian Dollars)

In accordance with the agreement, Claren was obligated to pay for the first US\$850,000 towards the drilling of a side-track well with Claren paying for 40% of costs in excess of that amount and Zeta paying for the remaining 60%. As the total well costs as at April 30, 2017 were €2,713,026 and Claren paid Zeta €1,761,671 to drill and test the well, Claren had a receivable of €198,540 (\$289,618) due from Zeta as at April 30, 2017.

On February 21, 2017, the Company announced that it had concluded its wellsite operations on the Bobocu 310 side-track well, onshore Romania. As predicted by the seismic data, gas sands were found at the anticipated depth, but gas saturations were below the Company's expectations. In accordance with the terms of the agreement, the Company now has a 40% participating interest in the Bobocu License.

Claren may acquire an additional forty percent (40%) participating interest in the Bobocu License by drilling one additional exploration well to a total depth of 2,800 meters and making an additional cash payments totaling 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.

Australia

The Company has an interest in petroleum and natural gas rights on certain on-shore Australian Petroleum Exploration Licenses ("PEL"), known as PEL's 112 and 444. As at July 31, 2016, the Company owned a 20.6667% working interest in PEL's 112 and 444. Perseville Investing Inc. ("Perseville") owned a 30.8330% working interest in the PEL's and Holloman Energy Corporation ("Holloman") had the remaining 48.5003% working interest. The joint venture co-venturers are subject to the 2006 Joint Operating Agreement (the "JOA") which governs the PEL 112 and PEL 444 joint ventures (the "JVs"). Claren serves as operator of the JVs.

On November 10, 2016, the Company acquired the 30.8330% interest in the PELs held by Perseville. The Company currently owns a 51.4997% working interest in each of PELs 112 and 444 and Holloman has the remaining 48.5003%.

The minimum one year work commitment under PEL 444 is to carry out geological and geophysical studies and the license term expires on January 11, 2021. The minimum one year work commitment under PEL 112 is to carry out geological and geophysical studies and the license term expires on January 10, 2019.

Acquisition of PEL 112 and PEL 444

On September 26, 2016, the Company entered into an Agreement with Perseville Investing Inc. to acquire an additional 30.8330% Working Interest in PELs 112 and 444, and a 1.47% gross overriding royalty interest on the PELs. On October 28, 2016, the transaction was approved by the shareholders at the annual general and special meeting.

The transaction was completed on November 10, 2016 when Claren issued to Perseville 10,000,000 common shares of the Company with a fair value of \$1,600,000, based on the closing share price on the date of issuance of \$0.16 per share. For purposes of the transaction, the consideration paid was allocated to net assets acquired as follows:

	\$
Fair value of 10,000,000 common shares issued at the fair value of \$0.16 per share	1,600,000
Amounts due to the JVs from Perseville	32,866
Aggregate fair value of consideration paid	<u>1,632,866</u>

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited - Expressed in Canadian Dollars)

Cash	12,981
Receivables	5,146
Exploration and evaluation assets	1,661,252
Accounts payable and accrued liabilities	(28,013)
Asset retirement obligations	(18,500)
	<hr/>
	1,632,866

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.

7. Accounts payable and accrued liabilities

	April 30, 2017	July 31, 2016
	\$	\$
Trade payables	42,673	52,011
Amounts due to related parties (Note 9)	419,749	153,524
	<hr/>	<hr/>
Total accounts payable and accrued liabilities	462,422	205,535

8. Share capital

a) Authorized:

An unlimited number of common shares without par value.

b) Financings:

During the nine months ended April 30, 2017, the Company completed the following financing:

- i) On December 6, 2016, the Company closed the first tranche of a non-brokered private placement by issuing 9,950,000 units at a price of \$0.08 per unit for gross proceeds of \$796,000. Each unit is comprised of one common share and one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at \$0.15 per share up to December 6, 2018. The Company allocated \$253,106 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of \$0.115; exercise price of \$0.15; expected volatility of 101%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

On December 16, 2016, the Company closed the second tranche of the non-brokered private placement by issuing 15,096,500 units at a price of \$0.08 per unit for gross proceeds of \$1,207,720. Each unit is comprised of one common share and one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at \$0.15 per share up to December 16, 2018. The Company allocated \$370,699 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of \$0.105; exercise price of \$0.15; expected volatility of 101%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

On December 22, 2016, the Company closed the third and final tranche of the non-brokered private placement by issuing 2,512,500 units at a price of \$0.08 per unit for gross proceeds of \$201,000. Each unit is comprised of one common share and one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at \$0.15 per share up to December 22, 2018. The Company allocated \$72,519 to the share purchase warrants using the relative

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

fair value method. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of \$0.175; exercise price of \$0.15; expected volatility of 100%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

The Company incurred finder's fees of \$79,220 and other cash issuance costs of \$11,024 in connection with the private placement. In addition, the Company issued 990,255 finders' warrants with each whole warrant entitling the holder thereof to purchase one additional common share at \$0.15 per share up to December 16, 2018. The fair value of \$46,049 for the finders' warrants was estimated using the Black-Scholes option pricing model and was charged to share issue costs and credited to contributed surplus. The assumptions used in the Black-Scholes Option Pricing Model were as follows: share price of \$0.105; exercise price of \$0.15; expected volatility of 101%; expected life of 2 year; a risk-free interest rate of 1.15%; and an expected dividend rate of nil.

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 April 30, 2017 and July 31, 2016 and the changes during the periods then ended is presented below:

	Number of options	Weighted average exercise price \$
Balance outstanding – July 31, 2015	1,581,250	0.76
Granted	325,000	0.72
Forfeited	(187,500)	0.72
Balance outstanding – July 31, 2016	1,718,750	0.76
Expired	(50,000)	0.72
Balance outstanding and exercisable – April 30, 2017	1,668,750	0.77

At April 30, 2017, 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
July 18, 2018	0.72	250,000
October 31, 2019	0.72	1,068,750
October 2, 2020	0.72	175,000
May 16, 2022	1.20	175,000
		<u>1,668,750</u>

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

During the nine months ended April 30, 2017, the Company recorded share-based payments expense of \$nil (2016 - \$34,518). The weighted average fair value of stock options granted during the nine months ended April 30, 2016 of \$0.108 per option was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2016
Average stock price (\$)	0.24
Average exercise price (\$)	0.72
Average risk-free interest rate (%)	1.38
Expected life (years)	3.5
Expected volatility (%)	100
Expected dividends (\$)	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 April 30, 2017 and July 31, 2016 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted average exercise price \$
Balance outstanding – July 31, 2015	316,563	1.00
Expired	(316,563)	1.00
Balance outstanding – July 31, 2016	-	-
Issued	28,549,255	0.15
Balance outstanding – April 30, 2017	28,549,255	0.15

At April 30, 2017, 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
December 6, 2018	0.15	9,950,000
December 16, 2018	0.15	16,086,755
December 22, 2018	0.15	2,512,500
		<u>28,549,255</u>

e) Basic and diluted loss per share:

During the nine months ended April 30, 2017, potentially dilutive common shares totaling 30,218,005 (2016 – 1,906,250) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

f) Share consolidation:

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 these financial statements have been retroactively restated to reflect the share consolidation.

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

9. Related party transactions

During the three and nine months ended April 30, 2017 and 2016, 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		Nine months ended	
	April 30,		April 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Non-audit accounting fees	13,806	12,790	45,978	45,652
Legal fees (corporate secretary)	-	-	9,660	1,840
Management fees	45,000	30,000	135,000	102,500
Office and miscellaneous fees	1,503	3,000	19,013	11,000
Exploration and evaluation assets – consulting fees	6,053	961	9,876	81,173
	<u>66,362</u>	<u>46,751</u>	<u>219,527</u>	<u>242,165</u>

At April 30, 2017, accounts payable and accrued liabilities included \$419,749 (July 31, 2016 - \$153,524) of amounts owing to directors and officers of the Company and/or companies they control, of which they were significant shareholders or of which they acted as management. 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 and the directors of the Company. Compensation paid or payable to key management for services during the period amounted to \$173,251 (2016 - \$173,337). In addition, key management received share-based payments with a fair value of \$nil (2016 - \$6,034).

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 in Note 6.

10. 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 nine months ended April 30, 2017 the following transactions were excluded from the statement of cash flows:

- E&E asset expenditures of \$2,432 included in accounts payable and accrued liabilities at April 30, 2017, less expenditures included in accounts payable at July 31, 2016 of \$1,681 (net exclusion of \$751);
- The issuance of 10,000,000 common shares at the fair value of \$1,600,000 pursuant to the acquisition of E&E assets; and,
- The issuance of 990,255 finders' warrants at the fair value of \$46,049 pursuant to private placements.

During the nine months ended April 30, 2016 the following transactions were excluded from the statement of cash flows:

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For the nine months ended April 30, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

- a) E&E asset expenditures of \$379 included in accounts payable and accrued liabilities at April 30, 2016, less expenditures included in accounts payable at July 31, 2015 of \$62,438 (net inclusion of \$62,059); and,
- b) E&E assets of \$13,340 included in receivables at April 30, 2016, less amounts included in receivables at July 31, 2015 of \$135,362 (net exclusion of \$122,022).

11. Segmented information

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

	April 30, 2017 \$	July 31, 2016 \$
Canada	365,318	1,093,950
Australia	2,681,152	1,575,054
Romania	3,094,987	-
Total assets	6,141,457	2,669,004

Geographic segmentation of the Company's loss during the nine months ended April 30, 2017 and 2016 is as follows:

	2017 \$	2016 \$
Canada	(709,368)	(381,671)
Australia	(5,507)	(522,264)
Romania	(6,662)	-
Loss	(721,537)	(903,935)

Geographic segmentation of the Company's capital expenditures during the nine months ended April 30, 2017 and 2016 is as follows:

	2017 \$	2016 \$
Australia	(80,054)	(354,292)
Romania	(2,650,821)	-
Total capital recoveries (expenditures)	(2,730,875)	(354,292)