

Terra Nova Energy Ltd.

Condensed Interim Consolidated Financial Statements

Three months ended October 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	October 31, 2015 \$	July 31, 2015 \$
Assets			
Current assets			
Cash		2,323,337	2,409,469
Receivables	5	45,346	199,431
Prepaid expenses		55,673	17,049
		<u>2,424,356</u>	<u>2,625,949</u>
Equipment		14,193	15,896
Exploration and evaluation assets	6	2,985,457	3,044,477
		<u>5,424,006</u>	<u>5,686,322</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7,9	241,968	279,071
Decommissioning obligation		32,662	33,478
		<u>274,630</u>	<u>312,549</u>
Equity Attributable to Shareholders			
Share capital	8	26,686,351	26,686,351
Contributed surplus		7,258,715	7,224,197
Accumulated other comprehensive loss (%AOCLO)		(406,449)	(314,666)
Deficit		<u>(28,389,241)</u>	<u>(28,222,109)</u>
		<u>5,149,376</u>	<u>5,373,773</u>
		<u>5,424,006</u>	<u>5,686,322</u>

Nature of operations . Note 1

Going concern . Note 2

Subsequent events . Note 6

Approved by the Board of Directors on December 22, 2015

Henry Aldorf DirectorStyler Davis Director

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

	Notes	2015 \$	2014 \$
Audit and accounting	9	42,711	45,039
Filing and transfer agent		11,172	11,673
Depreciation		1,703	1,703
Legal	9	12,588	12,948
Management	9	59,717	51,914
Office and miscellaneous	9	14,922	29,106
Overhead charged to exploration		(11,101)	-
Shareholder communications		902	25,087
Share-based payments . options	8(b)	34,518	486,345
Travel and related		-	6,046
Loss before other items		(167,132)	(669,861)
Interest income		-	300
Interest, accretion and loan placement expense		-	(37,500)
Loss for the period		(167,132)	(707,061)
Other comprehensive loss			
Exchange loss on translation of foreign accounts		(91,783)	(136,419)
Comprehensive loss for the period		(258,915)	(843,480)
Loss per share . basic and diluted	8(d)	(0.00)	(0.01)
Weighted average number of shares outstanding . basic and diluted		87,533,785	71,275,603

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 three months ended October 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	(167,132)	(707,061)
Items not affecting cash:		
Depreciation	1,703	1,703
Share-based payments . options	34,518	486,345
Funds used in operations	(130,911)	(219,013)
Net change in non-cash working capital items		
Receivables	31,840	38,979
Prepaid expenses	(38,624)	(39,589)
Accounts payable and accrued liabilities	14,634	149,709
	(123,061)	(69,914)
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Investing Activity		
Exploration and evaluation assets	81,772	136,743
	81,772	136,743
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Financing Activity		
Proceeds from securities issued, net of issue costs	-	10,000
	-	10,000
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Foreign exchange loss on cash held in foreign currencies	(44,843)	(2,171)
(Decrease) increase in cash	(86,132)	74,658
Cash . beginning of the period	2,409,469	152,143
Cash . end of the period	2,323,337	226,801
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Cash paid for interest	-	-
Cash paid for income taxes	-	-
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Supplemental cash flow information - Note 10

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

	Common Shares #	Share Capital \$	Contributed Surplus \$	AOCL \$	Deficit \$	Total \$
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 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	-	-	-	(136,419)	(707,061)	(843,480)
Balance . October 31, 2014	71,364,921	24,744,731	7,163,569	(178,708)	(27,536,543)	4,193,049
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
Comprehensive loss for the period	-	-	-	(135,958)	(685,566)	(821,524)
Balance . July 31, 2015	87,533,785	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	-	-	-	(91,783)	(167,132)	(258,915)
Balance . October 31, 2015	87,533,785	26,686,351	7,258,715	(406,449)	(28,389,241)	5,149,376

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 three months ended October 31, 2015 and 2014

(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 and continued under the laws of Alberta effective August 20, 2012. 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 "TLTN+" 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 October 31, 2015, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. At October 31, 2015, the Company had working capital of \$2,149,726. 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, 2015 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, 2015 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 three months ended October 31, 2015 and 2014
(Unaudited - Expressed in Canadian Dollars)

4. Accounting standards issued but not yet effective

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

IFRS 9, *Financial Instruments*, was issued in July 2014 and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 was developed in phases by the IASB. As a result there are a number of transition options and requirements in relation to earlier versions of IFRS 9 prior to the mandatory effective date of IFRS 9 in its entirety. IFRS 9 is mandatory for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for classification and measurement of financial assets and financial liabilities; impairment methodology for financial instruments; and general hedge accounting. IFRS 9 has specific requirements for whether debt instruments are accounted for at amortized cost, fair value through other comprehensive income or fair value through profit or loss. IFRS 9 requires equity instruments to be measured at fair value through profit or loss unless an irrevocable election for use of fair value through other comprehensive income which results in changes in fair value not being recycled to the income statement. The Company has not adopted IFRS 9 and has not completed its assessment of the impact of this standard.

5. Receivables

	October 31, 2015 \$	July 31, 2015 \$
Recoverable taxes	32,229	47,386
Receivable from JV co-venturers	-	135,362
Receivable from farmor	144,286	151,127
Allowance for doubtful accounts	(131,169)	(134,444)
Total receivables	45,346	199,431

6. Exploration and evaluation assets

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

	October 31, 2015 \$	July 31, 2015 \$
Farm-in Agreement, net of write-downs	6,106,523	6,106,523
Sale of interest to Perseville	(2,811,989)	(2,811,989)
PEL 112 Joint Venture costs	1,832	-
PEL 444 Joint Venture costs	49,375	35,863
Effects of translation of foreign accounts	(360,284)	(285,920)
	2,985,457	3,044,477

Terra Nova is the operator of the PEL 112 and PEL 444 Joint Venture. As at October 31, 2015 and July 31, 2015, the Company had a 20.6667% working interest in each of PEL 112 and PEL 444. Holloman Energy Corporation (Holloman) has a 48.5003% working interest and Perseville Investing Inc. (Perseville) has the remaining 30.8330% working interest.

Perseville is a related party of Terra Nova as it is a private company controlled by a shareholder of Terra Nova, who is also a family member of a Director and Officer of the Company.

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

The Company had a budget of A\$3,000,000 to drill a well (Baikal 1+) at PEL 444 and A\$62,896 as license administration on PELs 112 and 444. The JV co-venturers were cash called and, during the three months ended October 31, 2015, the JV received an aggregate of A\$2,575,057 from Perseville and Holloman. Subsequent to October 31, 2015, the JV received an aggregate of A\$237,623 from Perseville and Holloman.

On December 9, 2015, the Company announced that Baikal 1 reached a target depth 2,176 metres (7,138 feet) and no hydrocarbons were found to be present.

The minimum one year work commitment under PEL 444 was to drill a well by the end of the license term on January 11, 2016. With the drilling of Baikal 1, the Company has entered into a new five year lease period on PEL 444. 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.

7. Accounts payable and accrued liabilities

	October 31, 2015 \$	July 31, 2015 \$
Trade payables	102,836	172,418
Amounts due to related parties (Note 9)	139,132	106,653
Total accounts payable and accrued liabilities	241,968	279,071

8. Share capital

a) Authorized:

An unlimited number of common shares without par value.

b) 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.

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

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

	Number of options	Weighted average exercise price \$
Balance outstanding . July 31, 2014	3,100,000	0.25
Granted	4,325,000	0.18
Forfeited	(1,100,000)	0.30
Balance outstanding . July 31, 2015	6,325,000	0.19
Granted	1,300,000	0.18
Balance outstanding and exercisable . October 31, 2015	7,625,000	0.19

At October 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
October 2, 2016	0.18	200,000
July 18, 2018	0.18	1,300,000
October 31, 2019	0.18	4,325,000
October 2, 2020	0.18	1,100,000
May 16, 2022	0.30	700,000
		<u>7,625,000</u>

During the three months ended October 31, 2015, the Company recorded share-based payments expense of \$34,518 (2014 - \$486,345). The weighted average fair value of stock options granted during the three months ended October 31, 2015 of \$0.027 per option (2014 - \$0.112 per option) was estimated using the Black-Scholes option pricing model with the following assumptions:

	2015	2014
Average stock price (\$)	0.06	0.17
Average exercise price (\$)	0.18	0.18
Average risk-free interest rate (%)	1.38	2.00
Expected life (years)	3.5	4.0
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.

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2015 and 2014
(Unaudited - Expressed in Canadian Dollars)

c) Warrants:

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

	Number of warrants	Weighted average exercise price \$
Balance outstanding . July 31, 2014	7,590,681	0.28
Issued	1,266,250	0.25
Exercised	(90,909)	0.11
Expired	(7,499,772)	0.28
Balance outstanding . October 31 and July 31, 2015	1,266,250	0.25

At October 31, 2015, the Company had 1,266,250 warrants outstanding at an exercise price of \$0.25 per share expiring on January 30, 2016.

d) Basic and diluted loss per share:

During the three months ended October 31, 2015, potentially dilutive common shares totaling 8,891,250 (2014 . 25,061,136) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

9. Related party transactions

During the three months ended October 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:

	2015 \$	2014 \$
Non-audit accounting fees	19,200	10,153
Legal fees (corporate secretary)	1,438	4,840
Management fees	39,950	39,000
Office and miscellaneous fees	5,000	15,000
Exploration and evaluation assets . consulting fees	11,056	20,161
	76,644	89,154

At October 31, 2015, accounts payable and accrued liabilities included \$139,132 (July 31, 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 period amounted to \$67,756 (2014 - \$71,137). In addition, key management received share-based payments of \$6,034 (2014 - \$359,839).

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

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 three months ended October 31, 2015 the following transactions were excluded from the statement of cash flows:

- a) E&E asset expenditures of \$10,701 included in accounts payable and accrued liabilities at October 31, 2015, less expenditures included in accounts payable at July 31, 2015 of \$62,438 (net inclusion of \$51,737); and,
- b) E&E assets of \$13,117 included in receivables at October 31, 2015, less amounts included in receivables at July 31, 2015 of \$135,362 (net exclusion of \$122,245).

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

- a) E&E asset expenditures of \$118,739 included in accounts payable and accrued liabilities at October 31, 2014, less expenditures included in accounts payable at July 31, 2014 of \$134 (net exclusion of \$118,605); and,
- b) E&E assets of \$27,830 included in receivables at October 31, 2014, less amounts included in receivables at July 31, 2014 of \$155,932 (net exclusion of \$128,102).

11. Geographic Information

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

	October 31, 2015 \$	July 31, 2015 \$
Canada	1,746,601	2,336,146
Australia	3,677,405	3,350,176
Total assets	5,424,006	5,686,322

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

	2015 \$	2014 \$
Canada	(163,968)	(693,614)
Australia	(3,164)	(13,447)
Loss	(167,132)	(707,061)

Terra Nova Energy Ltd.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2015 and 2014

(Unaudited - Expressed in Canadian Dollars)

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

	2015 \$	2014 \$
Australia	81,772	136,743
Total capital recoveries (expenditures)	81,772	136,743

12. Subsequent events

Subsequent events are disclosed in Note 6.