

Claren Energy Corp.

Condensed Interim Consolidated Financial Statements

Three months ended October 31, 2016 and 2015

(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 Financial Position
(Unaudited - Expressed in Canadian Dollars)

	Notes	October 31, 2016	July 31, 2016
		\$	\$
Assets			
Current assets			
Cash		1,615,627	1,822,205
Receivables		31,137	21,010
Prepaid expenses		40,114	16,705
		<hr/>	<hr/>
		1,686,878	1,859,920
Equipment		8,250	9,084
Exploration and evaluation assets	5, 11	<hr/>	<hr/>
		827,819	800,000
		<hr/>	<hr/>
		2,522,947	2,669,004
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6, 8	218,741	205,535
Decommissioning obligation		<hr/>	<hr/>
		48,367	46,964
		<hr/>	<hr/>
		267,108	252,499
Equity Attributable to Shareholders			
Share capital	7	26,686,351	26,686,351
Contributed surplus		7,258,715	7,258,715
Accumulated other comprehensive loss ("AOCL")		(142,820)	(187,644)
Deficit		<hr/>	<hr/>
		(31,546,407)	(31,340,917)
		<hr/>	<hr/>
		2,255,839	2,416,505
		<hr/>	<hr/>
		2,522,947	2,669,004

Nature of operations – Note 1

Going concern – Note 2

Subsequent events – Notes 5 and 11

Approved by the Board of Directors on December 16, 2016

“Henry Aldorf” Director

“Lyle Davis” Director

Claren Energy Corp.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended October 31, 2016 and 2015

(Unaudited - Expressed in Canadian Dollars)

	Notes	2016 \$	2015 \$
Audit and accounting	8	39,818	42,711
Filing and transfer agent		21,357	11,172
Depreciation		834	1,703
Legal	8	26,759	12,588
Management	8	69,813	59,717
Office and miscellaneous	8	14,904	14,922
Overhead charged to exploration		-	(11,101)
Shareholder communications		3,451	902
Share-based payments – options	7(b)	-	34,518
Travel and related		28,554	-
 Loss for the period		 (205,490)	 (167,132)
 Other comprehensive income (loss)			
Exchange gain (loss) on translation of foreign accounts		44,824	(91,783)
 Comprehensive loss for the period		 (160,666)	 (258,915)
 Loss per share – basic and diluted*	7(d),11	 (0.01)	 (0.01)
 Weighted average number of shares outstanding – basic and diluted*	11	 21,883,446	 21,883,446

* Post 4:1 share consolidation (Note 11)

Claren Energy Corp.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended October 31, 2016 and 2015

(Unaudited - Expressed in Canadian Dollars)

	2016 \$	2015 \$
Cash Provided From (Used In)		
Operating Activities		
Loss for the period	(205,490)	(167,132)
Items not affecting cash:		
Depreciation	834	1,703
Share-based payments – options	-	34,518
Funds used in operations before working capital items	(204,656)	(130,911)
Net change in working capital items		
Receivables	(10,127)	31,840
Prepaid expenses	(23,409)	(38,624)
Accounts payable and accrued liabilities	14,307	14,634
	<u>(223,885)</u>	<u>(123,061)</u>
Investing Activity		
Exploration and evaluation assets	(4,628)	81,772
	<u>(4,628)</u>	<u>81,772</u>
Foreign exchange gain (loss) on cash held in foreign currencies	21,935	(44,843)
Decrease in cash	(206,578)	(86,132)
Cash – beginning of the period	<u>1,822,205</u>	<u>2,409,469</u>
Cash – end of the period	<u>1,615,627</u>	<u>2,323,337</u>
Cash paid for interest	-	-
Cash paid for income taxes	-	-

Supplemental cash flow information - Note 9

Claren Energy Corp.

(Formerly Terra Nova Energy Ltd.)

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended October 31, 2016 and 2015

(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	-	-	-	(91,783)	(167,132)	(258,915)
<u>Balance – October 31, 2015</u>	<u>21,883,476</u>	<u>26,686,351</u>	<u>7,258,715</u>	<u>(406,449)</u>	<u>(28,389,241)</u>	<u>5,149,376</u>
Comprehensive loss for the period	-	-	-	218,805	(2,951,676)	(2,732,871)
<u>Balance – July 31, 2016</u>	<u>21,883,476</u>	<u>26,686,351</u>	<u>7,258,715</u>	<u>(187,644)</u>	<u>(31,340,917)</u>	<u>2,416,505</u>
Comprehensive loss for the period	-	-	-	44,824	(205,490)	(160,666)
<u>Balance – October 31, 2016</u>	<u>*21,883,476</u>	<u>26,686,351</u>	<u>7,258,715</u>	<u>(142,820)</u>	<u>(31,546,407)</u>	<u>2,255,839</u>

* Post 4:1 share consolidation (Note 11)

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2016 and 2015
(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 (Note 11). 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 OTCQX 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 October 31, 2016, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. At October 31, 2016, the Company had working capital of \$1,419,770. 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. Subsequent to October 31, 2016, the Company completed two tranches of a non-brokered private placement by issuing 25,046,500 units at a price of \$0.08 per unit for gross proceeds of \$2,003,720 (Note 11).

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

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2016 and 2015
(Unaudited - Expressed in Canadian Dollars)

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.

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. Exploration and evaluation assets

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

	October 31, 2016	July 31, 2016
	\$	\$
Australian E&E assets	986,426	982,591
Romanian E&E assets	-	-
Effects of translation of foreign accounts	<u>(158,607)</u>	<u>(182,591)</u>
	827,819	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 is entitle 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.

Subsequent to October 31, 2016, the Company advanced \$457,710 to Zeta in order to commence drilling of the first side-track entering of an existing well on the License.

Australia

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2016 and 2015
(Unaudited - Expressed in Canadian Dollars)

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 October 31, 2016 and July 31, 2016, the Company owned a 30.8330% working interest in PEL's 112 and 444. Perseville Investing Inc. ("Perseville") owned a 25.6664% 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.

Subsequent to October 31, 2016, the Company acquired the 30.8330% interest in the PELs held by Perseville (Note 11). The Company currently owns a 51.4997% working interest in each of PELs 112 and 444 and Holloman has the remaining 48.5003%.

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.

There is no one year work commitment under PEL 444 and the license 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.

6. Accounts payable and accrued liabilities

	October 31, 2016	July 31, 2016
	\$	\$
Trade payables	89,499	52,011
Amounts due to related parties (Note 8)	129,242	153,524
Total accounts payable and accrued liabilities	218,741	205,535

7. 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.

A summary of the status of the Company's stock option plan as at October 31, 2016 and July 31, 2016 and the changes during the periods then ended is presented below:

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
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(Unaudited - Expressed in Canadian Dollars)

	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
<u>Expired</u>	<u>(50,000)</u>	<u>0.72</u>
Balance outstanding and exercisable – October 31, 2016	1,668,750	0.77

At October 31, 2016, 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
		1,668,750

During the three months ended October 31, 2016, the Company recorded share-based payments expense of \$nil (2015 - \$34,518). The weighted average fair value of stock options granted during the three months ended October 31, 2015 of \$0.108 per option was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2015
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.

c) Warrants:

A summary of warrants outstanding as of October 31, 2016 and July 31, 2016 and the changes during the periods then ended is presented below:

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
 For the three months ended October 31, 2016 and 2015
(Unaudited - Expressed in Canadian Dollars)

	Number of warrants	Weighted average exercise price \$
Balance outstanding – July 31, 2015	316,563	1.00
Expired	(316,563)	1.00
Balance outstanding – October 31, 2016 and July 31, 2016	-	-

d) Basic and diluted loss per share:

During the three months ended October 31, 2016, potentially dilutive common shares totaling 1,668,750 (2015 – 2,222,813) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

8. Related party transactions

During the three months ended October 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	16,301	19,200
Legal fees (corporate secretary)	2,990	1,438
Management fees	40,000	39,950
Office and miscellaneous fees	3,894	5,000
Exploration and evaluation assets – consulting fees	-	11,056
	63,185	76,644

At October 31, 2016, accounts payable and accrued liabilities included \$129,242 (July 31, 2016 - \$153,524) 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 and the directors of the Company. Compensation paid or payable to key management for services during the period amounted to \$51,400 (2015 - \$67,756). In addition, key management received share-based payments with a fair value of \$nil (2015 - \$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 Notes 5 and 11.

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2016 and 2015
(Unaudited - Expressed in Canadian Dollars)

9. 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, 2016 the following transactions were excluded from the statement of cash flows:

- a) E&E asset expenditures of \$580 included in accounts payable and accrued liabilities at October 31, 2016, less expenditures included in accounts payable at July 31, 2016 of \$1,681 (net inclusion of \$1,101).

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).

10. Segmented information

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

	October 31, 2016	July 31, 2016
	\$	\$
Canada	909,382	1,093,950
Australia	1,613,565	1,575,054
Total assets	2,522,947	2,669,004

Geographic segmentation of the Company's loss during the three months ended October 31, 2016 and 2015 is as follows:

	2016	2015
	\$	\$
Canada	(188,831)	(163,968)
Australia	(16,659)	(3,164)
Loss	(205,490)	(167,132)

Geographic segmentation of the Company's capital recoveries (expenditures) during the three months ended October 31, 2016 and 2015 is as follows:

	2016	2015
	\$	\$
Australia	(4,628)	81,772
Total capital recoveries (expenditures)	(4,628)	81,772

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended October 31, 2016 and 2015
(Unaudited - Expressed in Canadian Dollars)

11. Subsequent events

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.

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 9, 2016 when, in consideration for the purchased interest, Claren issued to Perseville 10,000,000 common shares of the Company with a fair value of \$1,400,000, based on the closing share price on the date of issuance of \$0.14 per share.

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.

Private Placement

On December 7, 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 warrant entitling the holder thereof to purchase one additional common share at \$0.15 per share for a period of two years from the date of closing. No finders' fees were payable under the first tranche of the offering.

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.

In connection with the private placement, the Company issued 990,255 finders' warrants on the same terms as the warrants included in the units. In addition, the Company paid cash finders' fees of \$79,220.

Romania Advances

Subsequent to October 31, 2016, the Company advanced \$457,710 to Zeta in order to commence drilling of the first side-track entering of an existing well on the License.