

Claren Energy Corp.

Condensed Interim Consolidated Financial Statements

Three months ended October 31, 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 months ended October 31, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

	Notes	2017 \$	2016 \$
Audit and accounting	9	25,585	39,818
Filing and transfer agent		6,061	21,357
Depreciation		584	834
Legal	9	15,357	26,759
Management and consulting	9	48,042	69,813
Office and miscellaneous	9	24,134	14,904
Shareholder communications		6,911	3,451
Travel and related		8,826	28,554
Loss for the period		(135,500)	(205,490)
Other comprehensive (loss) income			
Exchange (loss) gain on translation of foreign accounts		(1,811)	44,824
Comprehensive loss for the period		(137,311)	(160,666)
Loss per share – basic and diluted	8(d)	(0.00)	(0.01)
Weighted average number of shares outstanding – basic and diluted		59,442,476	21,883,446

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

Claren Energy Corp.

Condensed Interim Consolidated Statements of Cash Flows

For the three months ended October 31, 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	(135,500)	(205,490)
Items not affecting cash:		
Depreciation	584	834
Funds used in operations before working capital items	(134,916)	(204,656)
Net change in working capital items		
Receivables	(14,488)	(10,127)
Prepaid expenses	(8,598)	(23,409)
Accounts payable and accrued liabilities	59,668	14,307
	(98,334)	(223,885)
Investing Activities		
Exploration and evaluation recoveries (expenditures)	14,893	(4,628)
	14,893	(4,628)
Foreign exchange (loss) gain on cash held in foreign currencies	(1,455)	21,935
Decrease in cash	(84,896)	(206,578)
Cash – beginning of the period	410,803	1,822,205
Cash – end of the period	325,907	1,615,627
Cash paid for interest	-	-
Cash paid for income taxes	-	-

Supplemental cash flow information - Note 10

Claren Energy Corp.

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended October 31, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

	Common Shares #	Share Capital \$	Contributed Surplus \$	AOCL \$	Deficit \$	Total \$
Balance – July 31, 2016	21,883,476	26,686,351	7,258,715	(187,644)	(31,340,917)	2,416,505
Comprehensive loss for the period	-	-	-	44,824	(205,490)	(160,666)
Balance – October 31, 2016	21,883,476	26,686,351	7,258,715	(142,820)	(31,546,407)	2,255,839
Issued during the period:						
Pursuant to acquisition of E&E assets	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	-	-	-	(77,452)	(4,288,704)	(4,366,156)
Balance – July 31, 2017	59,442,476	29,658,454	8,001,088	(220,272)	(35,835,111)	1,604,159
Comprehensive loss for the period	-	-	-	(1,811)	(135,500)	(137,311)
Balance – October 31, 2017	59,442,476	29,658,454	8,001,088	(222,083)	(35,970,611)	1,466,848

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

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 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. 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 October 31, 2017, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. At October 31, 2017, the Company had a working capital deficiency of \$310,446. 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, 2017 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, 2017 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.

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(Unaudited - Expressed in Canadian 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. Receivables

	October 31, 2017 \$	July 31, 2017 \$
Recoverable taxes	18,869	4,381
Receivable from Zeta	292,231	292,231
Less: allowance for doubtful accounts	(292,231)	(292,231)
Total receivables	18,869	4,381

6. Exploration and evaluation assets

Exploration and evaluation assets consist of the following:

	Australia \$	Romania \$	Total \$
Balance, July 31, 2017	1,229,155	512,511	1,741,666
Exploration costs			
Geotechnical analysis	-	32,271	32,271
Share of JV expenditures	(746)	-	(746)
	(746)	32,271	31,525
Effects of translation of foreign accounts	(11,843)	10,784	(1,059)
Balance, October 31, 2017	1,216,566	555,566	1,772,132

a) 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 earned an initial forty percent (40%) participating interest in the Bobocu License by drilling one commitment side-track entering of an existing well on the License.

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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 were €2,713,026 (\$3,845,172) and Claren paid Zeta €1,761,671 (\$2,496,816) to drill and test the well, Claren had a receivable of €198,540 (\$292,231) due from Zeta as at October 31, 2017 and July 31, 2017. The Company wrote-off all costs related to drilling of the well.

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 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.

b) 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 October 31, 2017 and July 31, 2017, the Company owned a 51.4997% working interest in each of PELs 112 and 444 and Holloman Energy Corporation ("Holloman") has the remaining 48.5003%. 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.

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, 2020. In order to renew each license, a well must be drilled prior to the end of the license term.

c) Decommissioning Obligation

The Company recorded a current obligation of A\$35,000 (\$34,874) for the abandonment and restoration of the dry hole at PEL 112 and A\$60,000 (\$59,784) for PEL 444. The Company is obligated to pay 51.4997% of the decommissioning costs on PEL 112 and 444.

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

As all of the Company's E&E assets are held in subsidiaries whose functional currencies are the Australian dollar or the Euro, in accordance with IFRS relating to the translation of foreign operations, the E&E assets were translated to Canadian dollars at the balance sheet date. The impact of such foreign translation has been included in other comprehensive loss.

7. Accounts payable and accrued liabilities

	October 31, 2017 \$	July 31, 2017 \$
Trade payables	44,677	30,534
Amounts due to related parties (Note 9)	569,463	477,590
Total accounts payable and accrued liabilities	614,140	508,124

8. Share capital

a) Authorized:

An unlimited number of common shares without par value.

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b) Options:

The Company has established a stock option plan in accordance with the policies of the TSX-V 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-V). 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, 2017 and July 31, 2017 and the changes during the periods then ended is presented below:

	Number of options	Weighted average exercise price \$
Balance outstanding – July 31, 2016	1,718,750	0.76
Expired	(50,000)	0.72
Balance outstanding and exercisable – October 31, 2017 and July 31, 2017	1,668,750	0.77

At October 31, 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>

c) Warrants:

A summary of warrants outstanding as of October 31, 2017 and July 31, 2017 and the changes during the periods then ended is presented below:

	Number of warrants	Weighted average exercise price \$
Balance outstanding – July 31, 2016	-	-
Issued	28,549,255	0.15
Balance outstanding – October 31, 2017 and July 31, 2017	28,549,255	0.15

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(Unaudited - Expressed in Canadian Dollars)

At October 31, 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>

d) Basic and diluted loss per share:

During the three months ended October 31, 2017, potentially dilutive common shares totaling 30,218,005 (2016 – 1,668,750) 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, 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:

	2017 \$	2016 \$
Non-audit accounting fees	14,035	16,301
Legal fees (corporate secretary)	345	2,990
Management fees	46,101	40,000
Office and miscellaneous fees	-	3,894
Exploration and evaluation assets – consulting fees	6,047	-
	<u>66,528</u>	<u>63,185</u>

At October 31, 2017, accounts payable and accrued liabilities included \$569,463 (July 31, 2017 - \$477,590) 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 \$57,077 (2016 - \$51,400).

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, 2017 the following transactions were excluded from the statement of cash flows:

- E&E asset expenditures of \$268,994 included in accounts payable and accrued liabilities at October 31, 2017, less expenditures included in accounts payable at July 31, 2017 of \$222,646 (net exclusion of \$46,348).

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

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).

11. Segmented information

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

	October 31, 2017 \$	July 31, 2017 \$
Canada	205,609	267,243
Australia	1,384,242	1,397,603
Romania	556,167	513,100
Total assets	2,146,018	2,177,946

Geographic segmentation of the Company's loss during the three months ended October 31, 2017 and 2016 is as follows:

	2017 \$	2016 \$
Canada	(126,726)	(188,831)
Australia	(6,887)	(16,659)
Romania	(1,887)	-
Loss	(135,500)	(205,490)

Geographic segmentation of the Company's capital expenditures during the three months ended October 31, 2017 and 2016 is as follows:

	2017 \$	2016 \$
Australia	14,893	(4,628)
Romania	-	-
Total capital expenditures	14,893	(4,628)

Claren Energy Corp.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended October 31, 2017 and 2016

(Unaudited - Expressed in Canadian Dollars)

12. Subsequent event

Plan of Arrangement

On November 9, 2017, the Company entered into an Arrangement Agreement (the "Arrangement") with its wholly-owned subsidiary, Terra Nova Resources Inc. ("Terra Nova"), whereby Claren plans to pursue a spin-off of its working interests (51.49%) in PEL 112 and PEL 444, including a 1.47% overriding royalty interest in the PELs, located on the western flank of the Cooper Eromanga Basin in the State of South Australia, Australia. Terra Nova will be listed as a separate company on the Canadian Securities Exchange.

According to the terms of the Arrangement, each Claren shareholder will receive one (1) Terra Nova common share for every ten (10) Claren shares held by such Claren shareholder. Further, the warrant holders of Claren will receive one (1) Terra Nova warrant for every ten (10) Claren warrants held.

Closing of the Arrangement is subject to a number of customary conditions precedent including, but not limited to, regulatory approval of this transaction, the approval of shareholders, the Supreme Court of British Columbia, and subject to compliance with the requirements of either the Canadian Securities Exchange or the TSX-V.