Claren Energy Corp.

(Formerly Terra Nova Energy Ltd.)
Consolidated Financial Statements
July 31, 2016 and 2015
(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Claren Energy Corp. (Formerly Terra Nova Energy Ltd.)

We have audited the accompanying consolidated financial statements of Claren Energy Corp., which comprise the consolidated statement of financial position as at July 31, 2016, and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Claren Energy Corp. as at July 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of Claren Energy Corp. for the year ended July 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on November 17, 2015.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
November 15, 2016

An independent firm associated with Moore Stephens International Limited

MOORE STEPHENS

Claren Energy Corp.
(Formerly Terra Nova Energy Ltd.)
Consolidated Statements of Financial Position
As at July 31, 2016 and 2015
(Expressed in Canadian Dollars)

	Notes	2016 $	2015 $
Assets			
Current assets			
Cash		1,822,205	2,409,469
Receivables	6	21,010	199,431
Prepaid expenses		16,705	17,049
		1,859,920	2,625,949
Equipment		9,084	15,896
Exploration and evaluation assets	7, 16	800,000	3,044,477
		2,669,004	5,686,322
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8,12	205,535	279,071
Decommissioning obligation	7(d)	46,964	33,478
		252,499	312,549
Equity Attributable to Shareholders			
Share capital	10	26,686,351	26,686,351
Contributed surplus		7,258,715	7,224,197
Accumulated other comprehensive loss (%AOCL+)		(187,644)	(314,666)
Deficit		(31,340,917)	(28,222,109)
		2,416,505	5,373,773
		2,669,004	5,686,322

Nature of operations . Note 1
Going concern . Note 2
Subsequent events . Note 16

Approved by the Board of Directors on November 15, 2016

%Henry Aldorf+ Director   %Lyle Davis+ Director

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

Claren Energy Corp.
(Formerly Terra Nova Energy Ltd.)
Consolidated Statements of Loss and Comprehensive Loss
For the years ended July 31, 2016 and 2015
(Expressed in Canadian Dollars)

	Notes	2016 $	2015 $
Audit and accounting	12	103,093	132,769
Filing and transfer agent		43,284	57,005
Depreciation		6,812	6,812
Legal	12	95,378	82,639
Management	12	196,778	210,723
Office and miscellaneous	12	68,892	93,911
Overhead charged to exploration		(83,011)	(8,263)
Shareholder communications		6,611	195,096
Share-based payments . options	10(c)	34,518	486,345
Travel and related		5,073	73,603
		(477,428)	(1,330,640)
Interest income		45	513
Interest, accretion and loan placement expense	9	-	(62,500)
Write-down of E&E assets	7(c)	(2,641,425)	-
Loss for the year		(3,118,808)	(1,392,627)
Other comprehensive income (loss)			
Exchange gain (loss) on translation of foreign accounts	7(e)	127,022	(272,377)
Comprehensive loss for the year		(2,991,786)	(1,665,004)
Loss per share . basic and diluted*	10(f),16	(0.14)	(0.07)
Weighted average number of shares outstanding . basic and diluted*	16	21,883,446	20,208,224

* Post 4:1 share consolidation (Note 16)

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

Claren Energy Corp.
(Formerly Terra Nova Energy Ltd.)
Consolidated Statements of Cash Flows
For the years ended July 31, 2016 and 2015
(Expressed in Canadian Dollars)

	2016 $	2015 $
Cash Provided From (Used In)		
Operating Activities		
Loss for the year	(3,118,808)	(1,392,627)
Items not affecting cash:		
Depreciation	6,812	6,812
Share-based payments . options	34,518	486,345
Write-down E&E assets	2,641,425	-
Funds used in operations before working capital items	(436,053)	(899,470)
Net change in working capital items		
Receivables	43,059	(3,565)
Prepaid expenses	344	(1,662)
Accounts payable and accrued liabilities	(12,779)	(6,756)
	(405,429)	(911,453)
Investing Activities		
Exploration and evaluation assets	(200,307)	(149,355)
Proceeds on partial disposition of exploration and evaluation interests	-	2,811,989
	(200,307)	2,662,634
Financing Activity		
Proceeds from securities issued, net of issue costs	-	512,248
	-	512,248
Foreign exchange gain (loss) on cash held in foreign currencies	18,472	(6,103)
(Decrease) increase in cash	(587,264)	2,257,326
Cash . beginning of the year	2,409,469	152,143
Cash . end of the year	1,822,205	2,409,469
Cash paid for interest	-	75,000
Cash paid for income taxes	-	-

Supplemental cash flow information - Note 14

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

Claren Energy Corp.
(Formerly Terra Nova Energy Ltd.)
Consolidated Statements of Changes in Equity
For the years ended July 31, 2016 and 2015
(Expressed in Canadian Dollars)

	Common Shares* #	Share Capital $	Contributed Surplus $	AOCL $	Deficit $	Total $
Balance . July 31, 2014	17,818,533	24,724,372	6,687,583	(42,289)	(26,829,482)	4,540,184
Issued during the year:						
Pursuant to private placement of units	633,125	445,872	60,628	-	-	506,500
Less: cash issue costs	-	(4,252)	-	-	-	(4,252)
Pursuant to conversion of convertible loan	3,409,091	1,500,000	-	-	-	1,500,000
Pursuant to exercise of warrants	22,727	10,000	-	-	-	10,000
Transfer on exercise of warrants	-	10,359	(10,359)	-	-	-
Share-based payments	-	-	486,345	-	-	486,345
Comprehensive loss for the year	-	-	-	(272,377)	(1,392,627)	(1,665,004)
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 year	-	-	-	127,022	(3,118,808)	(2,991,786)
Balance . July 31, 2016	*21,883,476	26,686,351	7,258,715	(187,644)	(31,340,917)	2,416,505

* Post 4:1 share consolidation (Note 16)

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

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 Companyqs 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 16). All references to share and per share amounts in these financial statements have been retroactively restated to reflect the share consolidation. The Companyqs principal business is the acquisition and exploration of petroleum and natural gas properties. The Companyqs shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol %CEN+and the OTCQX marketplace under the symbol %TNVMF+. The Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

2. Going concern

These 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 July 31, 2016, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. At July 31, 2016, the Company had working capital of $1,607,421. The Company will need additional financing to continue to develop its oil and gas exploration and evaluation assets and to continue its operations. These factors 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 consolidated financial statements, including comparatives have been prepared using International Financial Reporting Standards (%IFRS+) as issued by the International Accounting Standards Board (%IASB+) and Interpretations issued by the International Financial Reporting Interpretations Committee (%IFRIC+). The consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

Unless otherwise stated, all dollar amounts are in Canadian dollars. The notation %A$+represents Australian dollars and %US$+represents US dollars.

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Basis of consolidation

(i) Subsidiaries

The consolidated financial statements include the results of the Company and its wholly-owned subsidiaries. The results of each subsidiary will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Details of subsidiaries are as follows:

		Percentage owned	
	Incorporated in	**July 31, 2016**	**July 31, 2015**
Terra Nova Resources Inc.	Canada	100%	100%
Terra Nova Holdings (Australia) Pty. Ltd.	Australia	100%	100%
Terra Nova Energy (Australia) Pty. Ltd.	Australia	100%	100%

Subsequent to July 31, 2016, the Company incorporated a wholly-owned Canadian subsidiary, Claren Operations Ltd.

(ii) Jointly controlled operations

The consolidated financial statements include the Company's share of assets, liabilities and expenses of jointly controlled operations.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Cash and cash equivalents

Cash and equivalents include cash on hand, deposits held with banks and short-term highly liquid investments with original maturities of less than 90 days.

Property, plant and equipment ("PP&E") and exploration and evaluation ("E&E") assets

(i) Recognition and measurement

E&E expenditures

Pre-license costs are recognized in the statement of loss as incurred. E&E costs, including the costs of acquiring licenses and directly attributable general and administrative costs, are capitalized initially as E&E assets. The costs are accumulated in cost centers by well, field or exploration area pending the determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a resource is generally considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, E&E expenditures attributable to those reserves are first tested for impairment and then reclassified from E&E assets to PP&E.

Development and production costs

Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. When significant parts of

an item of PP&E, including oil and natural gas assets, have different useful lives, they are accounted for as separate items (components).

Gains and losses on disposal of an item of PP&E, including oil and natural gas assets, are determined by comparing the proceeds from disposal with the carrying amount of PP&E and are recognized in profit or loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as incurred.

(iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs will be estimated taking into account the level of development required to produce the reserves. These estimates will be reviewed by independent reserve engineers at least annually.

Other corporate assets are recorded at cost on acquisition and depreciated on a declining-balance basis at rates of 20 percent to 50 percent per year.

Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Companyqs non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assetqs recoverable amount is estimated.

E&E assets are assessed for impairment when they are reclassified to PP&E and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purpose of impairment testing, assets are grouped together into cash-generating units (%CGU+). The recoverable

amount of an asset or a CGU is the greater of its value-in-use and its fair value less costs to sell.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value-in-use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved plus probable reserves. Any goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to related CGUs when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

An impairment loss in respect of PP&E and exploration and evaluation assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Decommissioning and restoration provisions

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the exploration or development of a property. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, along with a corresponding liability as soon as the legal or constructive obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the asset operates.

Discount rates using a pre-tax risk-free rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit of production method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates or changes in applicable discount rates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost.

Transaction costs associated with FVTPL financial assets are expensed as incurred while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives are also classified as FVTPL unless they are designated as effective hedging instruments. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income (loss).

De-recognition of financial assets and liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

Earnings per share

Basic earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period. Diluted earnings or loss per share represents the income or loss for the period, divided by the weighted average number of common shares outstanding during the period plus the weighted average number of dilutive shares resulting from the exercise of stock options, warrants and other similar instruments where the inclusion of these would not be anti-dilutive.

Foreign currencies

The financial statements for the Company and each of its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Company is Canadian dollars. The functional currency of Claren Energy Corp. and Terra Nova Resources Inc. is the Canadian dollar and the functional currency of Terra Nova Holdings (Australia) Pty. Ltd. and Terra Nova Energy (Australia) Pty Ltd. is the Australian dollar.

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. All gains and losses on translation of these foreign currency transactions are charged to the statement of (loss) income.

The balance sheet of each subsidiary is translated into Canadian dollars using the exchange rate at the balance sheet date and the income statement is translated into Canadian dollars using the average exchange rate for the period. All gains and losses on translation of a subsidiary from the functional currency to the presentation currency are charged to other comprehensive (loss) income.

Income tax

Income tax on the income or loss for the periods presented comprises current and deferred tax. Income tax is recognized in income or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The Company does not provide for temporary differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity.

For equity offerings of units consisting of a common share and another equity instrument, the Company uses the relative fair value method to allocate the value of the unit to the value of the components.

Share-based payments

The fair value of all stock options granted is recorded as a charge to operations or deferred exploration costs and a credit to contributed surplus under the graded attribution method. The fair value, as adjusted for the expected forfeiture rate, is recognized over the vesting period of the options. Stock options granted to non-employees are measured at the estimated value of services received. Warrants issued to brokers are measured at the estimated value of services received on the grant date and are recognized as a deduction from equity and credited to contributed surplus.

Any consideration received on the exercise of stock options together with the related portion of contributed surplus is credited to share capital. The fair value of stock options and warrants is estimated using the Black-Scholes Option Pricing Model.

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 15, *Revenue from Contracts with Customers.*
(iii) 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. Critical accounting estimates and judgements

The preparation of financial statements requires management to use judgement in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgements are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ materially from these estimates.

Significant judgements:

(i) The Company's assets are aggregated into cash generating units for the purpose of calculating impairment. Cash generating units ("CGU") are based on an assessment of the unit's ability to generate independent cash inflows. The determination of these CGUs was based on management's judgement in regards to geographical proximity, geology, production profile, shared infrastructure and similar exposure to market risk and materiality. Based on this assessment, the Company's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances.
(ii) The application of the Company's accounting policy for E&E assets requires management to make certain judgements as to future events and circumstances as to whether economic quantities of reserves have been found.
(iii) The functional currency of each entity is determined by management based on the currency that most impacts the business of the relevant entity. The factors considered by management include the volume of purchases in a particular currency and the currency that cash is held in.
(iv) The assumption that the Company is a going concern and will continue in operation for the foreseeable future and at least one year. The factors considered by management are disclosed in Note 2.
(v) Management assesses E&E assets for impairment when facts and circumstances suggest that the carrying amount of any such assets may exceed their recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the Company shall measure, present and disclose any resulting impairment.

6. Receivables

	July 31, 2016 $	July 31, 2015 $
Recoverable taxes	21,010	47,386
Receivable from JV co-venturers	-	135,362
Receivable from farmor (Note 7(a))	-	151,127
Allowance for doubtful accounts (Note 7(a))	-	(134,444)
Total receivables	21,010	199,431

7. Exploration and evaluation assets

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

	July 31, 2016 $	July 31, 2015 $
Farm-in Agreement, net of write-downs	5,825,324	6,106,523
Sale of interest to Perseville	(2,811,989)	(2,811,989)
PEL 112 Joint Venture costs	20,432	-
PEL 444 Joint Venture costs	590,249	35,863
Impairment	(2,641,425)	-
Effects of translation of foreign accounts	(182,591)	(285,920)
	800,000	3,044,477

a) Farm-in Agreement

On May 11, 2012, as amended on May 29, 2013, the Company entered into an oil and gas farm-in agreement to secure the right to earn up to a 55% working interest in petroleum and natural gas rights on certain on-shore Australian Petroleum Exploration Licenses (“PEL”), known as PEL’s 112 and 444 (the “Farm-in Agreement”). The purchase price paid for the E&E rights included cash payments that totaled $351,165 (US$350,000), 250,000 common shares having a market value of $250,000 and transaction costs including directly attributable due diligence and legal fees of $235,448.

To earn an initial 20% interest in each PEL, the Company completed initial seismic acquisition requirements as outlined in the Farm-in Agreement (the “Seismic Earn-in Obligation”). Any amounts incurred pursuant to the Seismic Earn-in Obligation in excess of A$4,700,000 were to be borne by Claren as to 55% and by the farmors as to 45%.

During the year ended July 31, 2013, the Company completed the seismic acquisition requirements for PEL 112 and accordingly, the Company earned a 20% interest in PEL 112. During the year ended July 31, 2014, the Company earned a 20% interest in PEL 444 on completion of the seismic acquisition requirements. The Company earned an additional 5.8333% interest in each PEL by drilling one well at PEL 112 during the year ended July 31, 2014. As at July 31, 2014, the Company had a 25.8333% interest in PEL 112 and PEL 444.

At July 31, 2015, the Company had incurred A$7,189,948 ($7,295,899) of the Seismic Earn-in Obligation. The farmors were obligated to pay for 45% of Seismic Earn-in Obligation in excess of A$4,700,000. As at July 31, 2015, the Company had received contributions of A$908,329 from the farmors. At July 31, 2015, the Company

had A$158,000 ($151,127) receivable from farmors and the Company had recognized an allowance of A$140,558 ($134,444) against the receivable. During the year ended July 31, 2016, the Company collected the receivable.

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

Prior to closing of the Transaction, Perseville owned a 25.6664% working interest in each of PEL 112 and PEL 444. Accordingly, Perseville increased its working interest in PEL 112 and PEL 444 to 30.8330% with Claren owning a 20.6667% working interest in each of PEL 112 and PEL 444. Holloman Energy Corporation (%Holloman+) has the remaining 48.5003% working interest. Subsequent to July 31, 2016, the Company acquired the 30.8330% interest in the PELs held by Perseville (Note 16). 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.

On May 19, 2015, the Company terminated the Farm-In Agreement and the joint venture co-venturers are now subject to the 2006 Joint Operating Agreement (the %JOA+) which governs the PEL 112 and PEL 444 joint ventures (the %JVs+).

b) Joint Operating Agreement

Claren, being appointed as operator pursuant to the Farm-In Agreement and Deeds of Assignment, continues to serve as operator.

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

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, with the license expiring 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.

c) Impairment

On December 9, 2015, the Company announced that Baikal 1 reached a target depth of 2,176 metres (7,138 feet) and no hydrocarbons were found to be present. The Company determined that there were indicators of impairment relating to the E&E assets. An assessment was performed and it was determined that the net recoverable value of the 20.6667% interest in PELs 112 and 444 was $800,000 as at July 31, 2016. Accordingly, the Company recorded a write-down of E&E assets of $2,641,425 during the year ended July 31, 2016 (2015 - $nil).

d) Decommissioning Obligation

The Company recorded a current obligation of A$35,000 for the abandonment and restoration of the dry hole at PEL 112 and A$60,000 for PEL 444. The Company is obligated to pay 20.6667% of the decommissioning costs on PEL 444.

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

As all of the Company's E&E assets are held in Australia by Terra Nova Energy (Australia) Pty Ltd. whose functional currency is the Australian dollar, in accordance with IFRS relating to the translation of foreign operations (see Note 3), 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.

8. Accounts payable and accrued liabilities

	July 31, 2016 $	July 31, 2015 $
Trade payables	52,011	172,418
Amounts due to related parties (Note 12)	153,524	106,653
Total accounts payable and accrued liabilities	205,535	279,071

9. Convertible notes

	$
Balance – July 31, 2014	1,500,000
Conversion of $1,500,000	(1,500,000)
Balance – July 31, 2016 and 2015	-

On June 28, 2013, the Company issued convertible notes for the principal sum of $1,905,000. The convertible notes bore interest at 10% per annum and were originally scheduled to be repaid on June 28, 2014. The convertible notes were convertible at the option of the holder into common shares of the Company at a conversion price of $0.44 per share.

On July 2, 2014, $405,000 of the convertible notes were converted into 920,454 common shares of the Company. On June 28, 2014, $1,500,000 convertible notes matured and the convertible notes became due on demand. On October 6, 2014, the term of the convertible notes was extended to December 28, 2014 with all other terms of the original convertible notes remaining the same. On December 24, 2014, $1,500,000 of the convertible notes were converted into 3,409,091 common shares of the Company.

During the year ended July 31, 2015, the Company recorded interest expense of $62,500 and the Company paid the final $75,000 of interest in cash. On July 24, 2014, the Company issued 317,500 common shares of the Company at the fair value of $133,350 as settlement of $190,500 of interest on the convertible notes.

10. Share capital

a) Authorized:

An unlimited number of common shares without par value.

b) Financings:

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

i) On January 30, 2015, the Company completed a private placement offering of 633,125 units at a price of $0.80 per unit for gross proceeds of $506,500. Each unit is comprised of one common share and one-half of one common share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share at $1.00 per share up to January 30, 2016. The Company allocated $60,628 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes Option Pricing Model was as follows: share price of $0.68; exercise price of $1.00; expected volatility of 100%; expected life of 1 year; a risk-free interest rate of 1.0%; and an expected dividend rate of nil. In connection with the private placement, the Company incurred $4,252 of legal and filing fees.

During the year ended July 31, 2016, the Company did not complete any equity financings.

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 July 31, 2016 and 2015 and the changes during the years then ended is presented below:

	Number of options	Weighted average exercise price $
Balance outstanding – July 31, 2014	775,000	1.00
Granted	1,081,250	0.72
Forfeited	(275,000)	1.20
Balance outstanding – July 31, 2015	1,581,250	0.76
Granted	325,000	0.72
Forfeited	(187,500)	0.72
Balance outstanding and exercisable – July 31, 2016	1,718,750	0.76

At July 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
October 2, 2016	0.72	(1)50,000
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
		1,718,750

(1) Subsequent to July 31, 2016, these stock options expired unexercised.

During the year ended July 31, 2016, the Company recorded share-based payments expense of $34,518 (2015 - $486,345). The weighted average fair value of stock options granted during the year ended July 31, 2016 of $0.108 per option (2015 - $0.448 per option) was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

	2016	2015
Average stock price ($)	0.24	0.68
Average exercise price ($)	0.72	0.72
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.

d) Warrants:

A summary of warrants outstanding as of July 31, 2016 and 2015 and the changes during the years then ended is presented below:

	Number of warrants	Weighted average exercise price $
Balance outstanding . July 31, 2014	1,897,670	1.12
Issued	316,563	1.00
Exercised	(22,727)	0.44
Expired	(1,874,943)	1.12
Balance outstanding . July 31, 2015	316,563	1.00
Expired	(316,563)	1.00
Balance outstanding . July 31, 2016	-	-

e) Convertible notes:

The Company had outstanding convertible notes (Note 9) which were convertible into 4,329,545 common shares of the Company. On July 3, 2014, a portion of the outstanding convertible notes were converted into 920,454 common shares of the Company. On December 24, 2014, the remaining $1,500,000 of convertible notes were converted into 3,409,091 common shares of the Company.

f) Basic and diluted loss per share:

During the year ended July 31, 2016, potentially dilutive common shares totaling 1,718,750 (2015 . 1,897,813) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

11. Income Taxes

A reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax expense (recovery) for the years ended July 31, 2016 and 2015 is as follows:

	2016	2015
Statutory tax rate	26.00%	26.00%
		$
Loss for the year before income taxes	(3,118,808)	(1,392,627)
Expected income tax recovery	(811,000)	(362,000)
Tax rate adjustments and foreign exchange differences	(623,000)	150,000
Non-deductible items and other	272,000	316,000
Unrecognized benefit of tax attributes	1,162,000	(104,000)
Income tax expense (recovery)	-	-

The significant components of the recognized deferred income tax assets (liabilities) as at July 31, 2016 and 2015 are as follows:

	2016 $	2015 $
Resource property costs	(464,000)	(1,688,000)
Tax loss carryforwards	464,000	1,688,000
Total	-	-

The significant components of deductible temporary differences for which no deferred income tax assets have been recognized as at July 31, 2016 and 2015 are as follows:

	2016 $	2015 $
Tax loss carryforwards	13,291,000	10,864,000
Share issue and financing costs	27,000	310,000
Resource property costs tax basis in excess of net book value	8,865,000	8,865,000
Other	475,000	578,000
Total unrecognized deferred income tax assets	22,658,000	20,617,000

All deferred tax assets and liabilities are estimated to be recovered after more than 12 months.

At July 31, 2016, the Company had non capital losses in Canada of approximately $6.5 million (2015 - $6.1 million) which may be available to offset future income for income tax purposes which expire in various years from 2016 to 2036. At July 31, 2016, the Company had tax losses in Australia of approximately $7.6 million (2015 - $7.6 million) which may be carried forward indefinitely and applied against future assessable income.

12. Related party transactions

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

	2016 $	2015 $
Non-audit accounting fees	53,422	46,894
Legal fees (corporate secretary)	2,473	12,098
Management fees	132,500	161,830
Office and miscellaneous fees	15,794	36,000
Exploration and evaluation assets . consulting fees	148,602	338,051
	352,791	594,873

At July 31, 2016, accounts payable and accrued liabilities included $153,524 (2015 - $106,653) of amounts owing to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.

Key management includes the Chief Executive Officer, the Chief Financial Officer, the VP of Exploration, the VP of Finance and the directors of the Company. Compensation paid or payable to key management for services during the year amounted to $194,417 (2015 - $346,534). In addition, key management received share-based payments with a fair value of $6,034 (2015 - $359,839).

Perseville is a related party of Claren as it is a private company controlled by a shareholder of Claren, who is also a family member of a Director and Officer of the Company. Certain transactions with Perseville are disclosed in Notes 7(a) and 16.

13. Financial instruments

Management of Capital

The Company’s objectives when managing capital are to safeguard its ability to continue as a going concern, to pursue the development of its assets and to maintain a flexible capital structure that optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of amounts attributable to shareholders, net of cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

The Company is dependent on the capital markets as its primary source of operating capital and the Company’s capital resources are largely determined by the strength of the junior resource markets and by the status of the Company’s project in relation to these markets, and its ability to compete for investor support of its project.

There were no changes in the Company’s approach to capital management during the year ended July 31, 2016. The Company is not subject to any capital requirements imposed by a regulator.

Classification of Financial Instruments

The Company's financial instruments consist of cash, receivables and accounts payable. The Company designated its cash and receivables as loans and receivables, which are measured at amortized cost. The accounts payable are classified as other financial liabilities, which are measured at amortized cost. Discussions of risks associated with financial assets and liabilities are detailed below:

Foreign Exchange Risk
Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. A portion of the Company's financial assets and liabilities are denominated in Australian dollars. The Company monitors this exposure, but has no hedge positions. As at July 31, 2016 and 2015, the Company had exposure to Australian dollars as follows:

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

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

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

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

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

14. 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 year ended July 31, 2016 the following transactions were excluded from the statement of cash flows:

a) E&E asset expenditures of $1,681 included in accounts payable and accrued liabilities at July 31, 2016, less expenditures included in accounts payable at July 31, 2015 of $62,438 (net inclusion of $60,757); and,

b) E&E assets of $nil included in receivables at July 31, 2016, less amounts included in receivables at July 31, 2015 of $135,362 (net inclusion of $135,362).

During the year ended July 31, 2015 the following transactions were excluded from the statement of cash flows:

a) E&E asset expenditures of $62,438 included in accounts payable and accrued liabilities at July 31, 2015, less expenditures included in accounts payable at July 31, 2014 of $134 (net exclusion of $62,304);

b) E&E assets of $135,362 included in receivables at July 31, 2015, less amounts included in receivables at July 31, 2014 of $155,932 (net inclusion of $20,570); and,

c) the issuance by the Company of 3,409,091 common shares on the conversion of $1,500,000 of convertible notes.

15. Segmented information

Management has presented segmented information on a geographical basis. Geographic segment information of the Company‚s assets as at July 31, 2016 and 2015 is as follows:

	2016 $	2015 $
Canada	1,093,950	2,336,146
Australia	1,575,054	3,350,176
Total assets	2,669,004	5,686,322

Geographic segmentation of the Company‚s loss during the years ended July 31, 2016 and 2015 is as follows:

	2016 $	2015 $
Canada	(425,049)	(1,352,710)
Australia	(2,693,759)	(39,917)
Loss	(3,118,808)	(1,392,627)

Geographic segmentation of the Company‚s capital recoveries (expenditures) during the years ended July 31, 2016 and 2015 is as follows:

	2016 $	2015 $
Australia	(200,307)	2,662,634
Total capital recoveries (expenditures)	(200,307)	2,662,634

16. 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.

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.

Bobocu Farmin Agreement

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 Clarenqs 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 Clarenqs entitlement to future production.