Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note	September 30, 2016	December 31, 2015
Assets			
Current Assets			
Cash and cash equivalents		$ 333	$ 343
Accounts receivable		4,135	2,668
Current portion of risk management contracts	10	-	1,032
Deposits and prepaid expenses		780	582
		5,248	4,625
Investments	3	605	632
Property, plant and equipment	4	88,437	87,547
Exploration and evaluation assets	5	49,643	47,917
Goodwill		2,346	2,346
Deferred tax assets		18,830	18,827
		$ 165,109	$ 161,894
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 7,589	$ 10,529
Current portion of unrealized risk management contracts	10	222	-
Flow-Through share obligation	7	919	-
Credit facilities	11	18,909	14,542
		27,639	25,071
Unrealized risk management contracts	10	244	618
Asset retirement obligation	6	9,331	8,752
		37,214	34,441
Shareholders' Equity			
Share capital	7	351,115	347,345
Contributed surplus		17,198	16,951
Accumulated other comprehensive income		139	209
Deficit		(240,557)	(237,052)
		127,895	127,453
		$ 165,109	$ 161,894

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

Condensed Consolidated Interim Statements of Net Loss and Comprehensive Loss *(unaudited)*

($ thousands, except per share amounts)	Note	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
			Revised See Note 1		*Revised See Note 1*
Revenue					
Petroleum and natural gas sales		**$ 4,095**	$ 6,528	**$ 12,546**	$ 16,704
Royalties		**(197)**	(472)	**(743)**	(967)
Petroleum and natural gas revenue, net of royalties		**3,898**	6,056	**11,803**	15,737
Expenses					
Direct operating		**2,071**	2,194	**5,984**	5,838
General and administrative		**656**	768	**1,954**	2,774
Depletion and depreciation	4	**2,193**	2,945	**6,923**	6,968
Impairment of assets	3,4,5	**2**	20,762	**88**	21,370
Loss (gain) on risk management contracts	10	**(356)**	31	**(402)**	(40)
Share based compensation		**43**	(19)	**96**	73
Accretion of asset retirement obligation	6	**23**	28	**75**	94
Interest expense		**230**	102	**582**	87
Other (income) expense		**20**	64	**(15)**	144
Loss before taxes		**(984)**	(20,819)	**(3,482)**	(21,571)
Deferred tax expense (recovery)		**23**	(2,650)	**23**	(4,079)
Net loss		**(1,007)**	(18,169)	**(3,505)**	(17,492)
Other comprehensive income (loss), net of tax					
Items that may be reclassified subsequently to net income (loss):					
Foreign currency translation adjustment		**5**	-	**(46)**	-
Gain (loss) on foreign exchange on investment	3	**4**	1,037	**(24)**	2,067
Reclass to net income (loss) on investment impairment		**-**	(1,940)	**-**	(2,067)
		9	(903)	**(70)**	-
Total comprehensive loss		**$ (998)**	$ (19,072)	**$ (3,575)**	$ (17,492)
Net loss per share					
Basic and diluted	7	**$ -**	$ (0.07)	**$ (0.01)**	$ (0.07)

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

Condensed Consolidated Interim Statements of Changes in Equity *(unaudited)*

($ thousands)	Note		*Nine months ended September 30,* 2016		2015
					Revised
					See Note 1
Share Capital					
Balance, beginning of period	7	$	347,345	$	347,345
Issue of common shares			2,956		
Issue of warrants			876		
Share issue costs (net of tax)	7		(62)		-
Balance, end of period			351,115		347,345
Contributed Surplus					
Balance, beginning of period			16,951		16,686
Share based compensation			247		-
Balance, end of period			17,198		16,686
Accumulated Other Comprehensive Income					
Balance, beginning of period			209		128
Other comprehensive loss			(70)		-
Balance, end of period			139		128
Deficit					
Balance, beginning of period			(237,052)		(163,516)
Net loss			(3,505)		(17,492)
Balance, end of period			(240,557)		(181,008)
Total Shareholders' Equity		$	127,895	$	183,151

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

Condensed Consolidated Interim Statements of Cash Flows *(unaudited)*

($ thousands)	Note	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
			Revised See Note 1		*Revised See Note 1*
Operating Activities					
Net income (loss)		**$ (1,007)**	$ (18,169)	**$ (3,505)**	$ (17,492)
Adjustments for:					
Depletion and depreciation	4	**2,193**	2,945	**6,923**	6,968
Impairment of assets	3,4,5	**2**	20,762	**88**	21,370
Unrealized loss on risk management contracts	10	**(63)**	228	**880**	539
Share based compensation		**43**	(19)	**96**	73
Accretion of asset retirement obligation	6	**23**	28	**75**	94
Deferred tax expense (recovery)		**23**	(2,650)	**23**	(4,079)
Interest expense		**230**	102	**582**	87
Other items not involving cash		**5**	-	**(47)**	-
Abandonment expenditures	6	**(2)**	(45)	**(13)**	(49)
Cash flow from operations		**1,447**	3,182	**5,102**	7,511
Interest paid		**(231)**	(100)	**(585)**	(93)
Change in non-cash working capital		**375**	280	**(499)**	(243)
Net cash from operating activities		**1,591**	3,362	**4,018**	7,175
Investing Activities					
Property, plant and equipment expenditures	4	**(1,288)**	(400)	**(1,519)**	(2,134)
Exploration and evaluation expenditures	5	**(2,770)**	(5,813)	**(7,438)**	(17,377)
Change in non-cash working capital		**1**	(1,089)	**(4,104)**	(9,792)
Net cash used in investing activities		**(4,057)**	(7,302)	**(13,061)**	(29,303)
Financing Activities					
Proceeds from issue of share capital	7	**4,751**	-	**4,751**	-
Share issue costs	7	**(85)**	-	**(85)**	-
Increase in credit facilities		**6,126**	11,261	**21,667**	23,571
Repayment of credit facilities		**(8,400)**	(7,102)	**(17,300)**	(12,212)
Net cash from financing activities		**2,392**	4,159	**9,033**	11,359
Change in cash and cash equivalents		**(74)**	219	**(10)**	(10,769)
Cash and cash equivalents, beginning of period		**407**	17	**343**	11,005
Cash and cash equivalents, end of period		**$ 333**	$ 236	**$ 333**	$ 236

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

1. Nature of Operations and Basis of Presentation

Questerre Energy Corporation ("Questerre" or the "Company") is actively engaged in the acquisition, exploration and development of oil and gas projects, in specific non-conventional projects such as tight oil, oil shale, shale oil and shale gas. These condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2016 and 2015, comprise the Company and its wholly-owned subsidiary in those periods owned.

Questerre is incorporated under the laws of the Province of Alberta and is domiciled in Canada. The address of its registered office is 1650, 801 – 6 Avenue SW, Calgary, Alberta.

These condensed consolidated interim 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 International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). These condensed consolidated interim financial statements have been prepared following the same accounting policies and method of computation as the annual consolidated financial statements for the year ended December 31, 2015, with the exception of deferred taxes. Taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual net income (loss). The disclosures provided below are incremental to those included with the annual consolidated financial statements. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with IFRS as issued by the IASB.

These condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on November 10, 2016.

Revision of prior period comparatives

The Company revised its December 31, 2014 financial statements to reflect an overstatement of its share based payment liability of $5.19 million and an overstatement of its share based compensation expense and capitalized share based payment of $3.3 million and $1.89 million, respectively. The Company assessed the materiality of this adjustment and concluded that it was not material to any of the previously issued consolidated financial statements. As a result, the Company revised these statements for these changes. The factors that it considered when assessing materiality were that there was no cash or credit facility impact to these changes and that there were no changes in amounts paid to employees upon exercise of options.

The following tables present the effect of this correction on individual line items within the Company's comprehensive loss, changes in equity and cash flow as at and for the three and nine months ended September 30, 2015. The Company also made certain presentation changes to the cash flow statement to better reflect its cash flow from operations, which are reflected below.

Income Statement - Three Months ended September 30, 2015

($ thousands)	As Previously Reported	Adjustment	As Revised
Share based compensation (recovery)	165	(184)	(19)
Deferred tax recovery	(2,650)	-	(2,650)
Net Loss	(18,353)	184	(18,169)
Total comprehensive income	(19,256)	184	(19,072)

Cash Flow - Three Months ended September 2015

($ thousands)	As Previously Reported	Presentation Change	Adjustment	As Revised
Net Loss	(18,353)	-	184	(18,169)
Share based compensation (recovery)	165	-	(184)	(19)
Deferred tax recovery	(2,650)	-	-	(2,650)
Interest (income) expense	-	102	-	102
Cash flow from operations	3,080	102	-	3,182
Interest (paid) received	-	(100)	-	(100)
Change in non-cash working capital	282	(2)	-	280
Net cash from operating activities	3,362	-	-	3,362

Income Statement - Nine Months ended September 30, 2015

($ thousands)	As Previously Reported	Adjustment	As Revised
Share based compensation	57	16	73
Deferred tax recovery	(4,079)	-	(4,079)
Net Loss	(17,476)	(16)	(17,492)
Total comprehensive income	(17,476)	(16)	(17,492)

Cash Flow - Nine Months ended September 2015

($ thousands)	As Previously Reported	Presentation Change	Adjustment	As Revised
Net Loss	(17,476)	-	(16)	(17,492)
Share based compensation	57	-	16	73
Deferred tax recovery	(4,079)	-	-	(4,079)
Interest (income) expense	-	87	-	87
Cash flow from operations	7,424	87	-	7,511
Interest (paid) received	-	(93)	-	(93)
Change in non-cash working capital	(249)	6	-	(243)
Net cash from operating activities	7,175	-	-	7,175

2. Accounting Policy Changes

Changes in Accounting Policies for 2016

There were no new or amended accounting standards or interpretations adopted during the nine months ended September 30, 2016.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the nine months ended September 30, 2016 that are applicable to the Company in future periods. A description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2015.

3. Investments

The investments balance is comprised of the following investments:

($ thousands)		September 30, 2016		December 31, 2015
Red Leaf Resources Inc.	$	474	$	500
Investment in private company		131		132
	$	605	$	632

The following table sets out the changes in investments:

($ thousands)		September 30, 2016		December 31, 2015
Balance, beginning of year	$	632	$	16,541
Gain (Loss) on foreign exchange		(27)		2,790
Impairment		-		(18,699)
Balance, end of period	$	605	$	632

For the nine months ended September 30, 2016, the loss on foreign exchange relating to investments was $0.03 million (September 30, 2015: $2.24 million gain), which was recorded in other comprehensive income (loss) net of deferred tax of $0.004 million (September 30, 2015: $0.12 million).

4. Property, Plant and Equipment

The following table provides a reconciliation of the Company's property, plant and equipment assets:

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Cost or deemed cost:			
Balance, December 31, 2014	$ 175,686	$ 1,334	$ 177,020
Additions	2,116	-	2,116
Transfer from exploration and evaluation assets	26,299	-	26,299
Balance, December 31, 2015	204,101	1,334	205,435
Additions	2,041	-	2,041
Transfer from exploration and evaluation assets	5,772	-	5,772
Balance, September 30, 2016	**$ 211,914**	**$ 1,334**	**$ 213,248**
Accumulated depletion, depreciation and impairment losses:			
Balance, December 31, 2014	$ 79,821	$ 1,192	$ 81,013
Depletion and depreciation	9,676	54	9,730
Impairment	27,145	-	27,145
Balance, December 31, 2015	116,642	1,246	117,888
Depletion and depreciation	6,895	28	6,923
Balance, September 30, 2016	**$ 123,537**	**$ 1,274**	**$ 124,811**

($ thousands)	Oil and Natural Gas Assets	Other Assets	Total
Net book value:			
At December 31, 2015	$ 87,459	$ 88	$ 87,547
At September 30, 2016	**$ 88,377**	**$ 60**	**$ 88,437**

During the period ended September 30, 2016, the Company capitalized administrative overhead charges related to development activities of $0.05 million including $0.004 million of stock based compensation expense. For the year ended December 31, 2015, the Company derecognized $0.03 million in capitalized stock based compensation expense directly related to these activities. Included in the September 30, 2016 depletion calculation are future development costs of $129.72 million (December 31, 2015: $134.74 million).

5. Exploration and Evaluation Assets

The following table provides a reconciliation of the Company's exploration and evaluation assets:

($ thousands)		September 30, 2016		December 31, 2015
Balance, beginning of year	$	47,917	$	81,900
Additions		7,586		18,943
Transfers to property, plant and equipment		(5,772)		(26,299)
Dispositions		-		-
Impairment (incl. undeveloped land expiries)		(88)		(26,627)
Balance, end of period	$	49,643	$	47,917

During the period ended September 30, 2016, the Company capitalized administrative overhead charges of $0.87 million (December 31, 2015: $1.38 million) including $0.15 million of stock based compensation expense (December 31, 2015: nil) directly related to exploration and evaluation activities.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $9.33 million as at September 30, 2016 (December 31, 2015: $8.75 million) based on an undiscounted total future liability of $11.36 million (December 31, 2015: $11.31 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 1.08% (December 31, 2015: 1.35%). An inflation rate of 2.2% (December 31, 2015: 2.2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

The following table provides a reconciliation of the Company's total asset retirement obligation:

($ thousands)		September 30, 2016		December 31, 2015
Balance, beginning of year	$	8,752	$	8,133
Liabilities disposed		-		(68)
Liabilities incurred		145		296
Liabilities settled		(13)		(60)
Revisions due to change in discount rates		372		(379)
Revisions due to change in estimates		-		715
Accretion		75		115
Balance, end of period	$	9,331	$	8,752

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" common voting shares and an unlimited number of preferred shares, issuable in one or more series. At September 30, 2016, there were no Class "B" common voting shares or preferred shares outstanding.

a) Issued and outstanding – Common Share Capital

	Number *(thousands)*		Amount *($ thousands)*
Balance, December 31, 2015	264,932		347,345
Issue of common shares	26,392		2,956
Warrants	-		876
Share issue costs (net of tax effect)	-		(62)
Balance September 30, 2016	**291,324**	**$**	**351,115**

In July 2016, the Company completed a private placement of 26.39 million flow-through units for gross proceeds of approximately $4.75 million (the "Flow-Through Placement"). Each flow-through unit consists of one Common Share issued on a "flow-through" basis and one-half of one non flow-through share purchase warrant. Each whole warrant will entitle the holder to purchase one additional non-flow-through Common Share at a price of $0.20 for a period of 18 months from closing. The warrants were valued using a Black-Scholes pricing model.

The gross proceeds of the Flow-Through Placement are expected to be used by the Company, pursuant to the provisions of the *Income Tax Act* (Canada), to incur eligible Canadian development expenses ("Qualifying Expenditures") after the closing date and prior to December 31, 2016 on Questerre's properties. The Company will renounce the Qualifying Expenditures to subscribers of the Flow-Through Units for the fiscal year ended December 31, 2016.

See Note 12 for Common Shares issued following quarter end.

b) Per share amounts

Basic and diluted net loss per share is calculated as follows:

	Three months ended September 30,				*Nine months ended September 30,*			
(thousands, except as noted)		**2016**		2015		**2016**		2015
Net loss ($thousands)	**$**	**(1,007)**	$	(18,169)	**$**	**(3,505)**	$	(17,492)
Issued Common Shares at beginning of period		**264,932**		264,932		**264,932**		264,932
Weighted average number of Common Shares outstanding (basic and diluted)		**283,494**		264,932		**271,097**		264,932
Basic and diluted net loss per share	**$**	**-**	$	(0.07)	**$**	**(0.01)**	$	(0.07)

Under the current stock option plan, options can be exchanged for Common Shares of the Company, or for cash at the Company's discretion. They are considered potentially dilutive and are included in the calculation of diluted net loss per share for the period. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. At September 30, 2016, all options and warrants (September 30, 2015: 17.41 million) were excluded from the diluted weighted average number of Common Shares outstanding calculation as their effect would have been anti-dilutive.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date or one year from the grant date. The grants generally expire five years from the grant date or five years from the commencement of vesting.

In December 31, 2015, the Company changed the accounting for its stock based compensation awards to assume that options will be equity-settled instead of cash-settled. The change was made to reflect the settlement history of the options.

The number and weighted average exercise prices of the stock options are as follows:

	September 30, 2016		December 31, 2015	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	19,982	$0.72	17,792	$1.96
Granted	4,100	0.18	10,532	0.29
Forfeited	(3,460)	0.49	(2,819)	1.10
Expired	(3,260)	1.85	(5,523)	3.68
Exercised	-	-	-	-
Outstanding, end of period	17,362	$0.42	19,982	$0.72
Exercisable, end of period	6,405	$0.59	6,808	$0.97

9. Capital Management

The Company believes with its current credit facility and positive expected cash flows from operations (an additional IFRS measure defined as net cash from operating activities before changes in non-cash working capital and interest paid or received) in the near future, that the Company will be able to meet its foreseeable obligations in the normal course of operations. On an ongoing basis, the Company reviews its commitment to incur capital expenditures to ensure that cash flow from operations or access to credit facilities and equity financings are available to fund these capital expenditures. Refer to Notes 11 and 12.

The volatility of commodity prices has a material impact on Questerre's cash flow from operations. Questerre attempts to mitigate the effect of lower prices by entering into risk management contracts, shutting in production in unusually low pricing environments, reallocating capital to more profitable areas and reducing capital spending based on results and other market considerations. To this end, in early 2016, the Company reported a reduced capital program for 2016 and subsequently completed equity placements for gross proceeds of $12.15 million.

The Company considers its capital structure to include shareholders' equity and any outstanding amounts under its credit facilities. The Company will adjust its capital structure to minimize its cost of capital through the issuance of shares, securing credit facilities and adjusting its capital spending. Questerre monitors its capital structure based on the current and projected cash flow from operations.

($ thousands)		**September 30, 2016**		December 31, 2015
Credit facilities	**$**	**18,909**	$	14,542
Shareholders' equity		**127,895**		127,453
	$	**146,804**	$	141,995

10. Financial Risk Management and Determination of Fair Values

a) Overview

The Company's activities expose it to a variety of financial risks that arise from its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

b) Fair value of financial instruments

The Company's financial instruments as at September 30, 2016 included cash and cash equivalents, accounts receivable, risk management contracts, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at September 30, 2016, the fair values of the Company's financial assets and liabilities approximate their carrying values due to the short-term maturity, except for the Company's investments and the risk management contracts, which are recorded at fair value.

Disclosures about the inputs to fair value measurements are required, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

Level 1 Fair Value Measurements

Level 1 fair value measurements are based on unadjusted quoted market prices.

The Company does not hold any Level 1 financial instruments.

Level 2 Fair Value Measurements

Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

The Company's risk management contracts are considered a Level 2 instrument. The Company's financial derivative instruments are carried at fair value as determined by reference to independent monthly forward settlement prices and currency rates.

Level 3 Fair Value Measurements

Level 3 fair value measurements are based on unobservable information.

The Company's investments are considered a Level 3 instrument. The fair values are determined using a discounted cash flow approach.

As at each reporting period, the Company will assess whether a financial asset is impaired, other than those classified as fair value through profit or loss. Any impairment loss will be included in net income (loss) for the period.

c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's profit or loss or the value of its financial instruments. The objective of the Company is to mitigate exposure to these risks while maximizing returns to the Company.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate with changes in commodity prices. Commodity prices for oil and natural gas are impacted both by the relationship between the Canadian and United States dollar and world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect, to the extent possible, its cash flows from future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

As at September 30, 2016, the Company had the following outstanding commodity risk management contracts:

The Company's risk management position is as follows:

($ thousands)	**September 30, 2016**	December 31, 2015
Risk Management (Assets) Liabilities		
Current portion	**$ 222**	$ (1,032)
Non-current portion	**244**	618
	$ 466	$ (414)

The Company recorded an unrealized loss of $0.88 million for the nine month period ended September 30, 2016 and an unrealized loss of $0.54 million for the same period in 2015. The Company also recorded a realized gain of $1.28 million for the nine month period ended September 30, 2016 and a realized gain of $0.58 million for the same period in 2015.

The value of Questerre's commodity price risk management contracts fluctuates with changes in the underlying market price of the relevant commodity. A summary of the impact to net income (loss) as a result of changes to commodity prices follows:

Risk Management Contract	Sensitivity Range	Increase ($ thousands)	Decrease
Crude oil swap	$1/bbl increase or decrease to WTI price	18,400	(18,400)
Natural gas swap	$1/bbl increase or decrease to WTI price over $80/bbl	73,000	(73,000)
AECO futures sale	$0.50/GJ increase or decrease to AECO price	92,000	(92,000)
WTI NYMEX futures sale	$0.50/GJ increase or decrease to AECO price over $2.7/GJ	547,500	(547,500)

d) Credit risk

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises principally from the Company's receivables from joint venture partners and oil and gas marketers.

e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and are updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

Since the Company operates in the upstream oil and gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production, develop reserves and to potentially acquire strategic assets. The Company's capital programs are funded principally by cash obtained through its credit facility, equity issuances and from operating activities. During times of low oil and natural gas prices, a portion of capital programs can generally be deferred, however, due to the long cycle times and the importance to future cash flow in maintaining the Company's production, it may be necessary to utilize alternative sources of capital to continue the Company's strategic investment plan during periods of low commodity prices. As a result, the Company frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, to the extent possible, the Company will use derivative instruments to manage cash flow in the event of commodity price declines.

The Company's financial obligations relate to its obligations under its credit facility (See Note 11) and trade and other payables, which consist of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Company processes invoices within a normal payment period and all amounts are due within the next 12 months.

11. Credit Facility

As at September 30, 2016, the credit facility includes a revolving operating demand facility of $24.9 million ("Credit Facility A"), a non-revolving acquisition and development facility of $5.0 million ("Credit Facility B") and a corporate credit card of $0.1 million ("Credit Facility C"). Credit Facility A can be used for general corporate purposes, ongoing operations, capital expenditures within Canada, and acquisition of petroleum and natural gas assets within Canada. Credit Facility B can only be used for the acquisitions of producing reserves and/or development of existing proved non-producing/undeveloped reserves.

Any borrowing under the facility, with the exception of letters of credit, bears interest at the bank's prime interest rate and an applicable basis point margin based on the ratio of debt to cash flow measured quarterly. The bank's prime rate currently is 2.70% per annum. The facility is secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at September 30, 2016 was 1.98 and the covenant was met. At September 30, 2016, $18.91 million (December 31, 2015: $14.54 million) was drawn on Credit Facility A.

The credit facility is a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facility, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity.

12. Subsequent Events

In the fourth quarter, the Company completed a private placement of 15.2 million Common Shares at a price of $0.49 per Common Share for gross proceeds of approximately $7.4 million.

During the fourth quarter, the Company's received a favorable ruling in respect of its appeal of a summary judgment issued in December 2015. Questerre anticipates it will receive the full $5.9 million paid by year-end, subject to any appeal by the joint venture partner. Any refund will be recorded in the Company's current assets with an offsetting contingent liability in respect of the potential exposure for the costs primarily relating to drilling two wells in 2010. A trial is currently scheduled for late 2018.

13. Related Party Transactions

Other than indicated below, the Company did not engage in any related party transactions during the period ended September 30, 2016.

Certain directors and officers of the Company participated in the Flow-Through Placement, which constituted a "related party transaction" within the meaning of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). Questerre relied upon exemptions from the formal valuation and minority approval requirements of MI 61-101 based on a determination that the fair market value of the placement, insofar as it involved related parties, did not exceed 25% of the market capitalization of the Company.