



**(An Exploration Stage Company)**

**Condensed Interim Consolidated Financial Statements**

**June 30, 2017**

**(Unaudited – in U.S. Dollars)**

**Notice of no auditor review**

The accompanying condensed interim consolidated financial statements of Quaterra Resources Inc. for the six months ended June 30, 2017 were prepared by management and have not been reviewed by its independent auditor.

**Quaterra Resources Inc.**  
**Condensed Interim Consolidated Statements of Financial Position**  
**(Unaudited-in thousands of U.S. Dollars)**

	Note	June 30, 2017	December 31, 2016
<b>Assets</b>		\$	\$
Current assets:			
Cash and cash equivalents		4,670	6,665
Other receivable		58	3
Marketable securities	3	155	132
Prepaid expenses		28	47
		<b>4,911</b>	<b>6,847</b>
Non-current assets:			
Mineral properties	4	29,298	27,597
Reclamation bonds		59	70
		<b>29,357</b>	<b>27,667</b>
<b>Total Assets</b>		<b>34,268</b>	<b>34,514</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities		482	111
Loan payable	5	553	540
Convertible notes	6	-	540
		<b>1,035</b>	<b>1,191</b>
Non-current liability			
Derivative liability - warrants	7	656	938
		<b>656</b>	<b>938</b>
<b>Total Liabilities</b>		<b>1,691</b>	<b>2,129</b>
<b>Shareholders' Equity</b>			
Share capital	8	100,729	100,051
Share-based payment reserve		18,729	18,560
Accumulated comprehensive loss		(8)	(31)
Deficit		(86,873)	(86,195)
		<b>32,577</b>	<b>32,385</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>34,268</b>	<b>34,514</b>

(See the accompanying notes to the condensed interim consolidated financial statements)

**Approved on behalf of the Board of Directors on August 10, 2017:**

/s/ "Thomas Patton"  
Director

/s/ "Terrence Eyton"  
Director

**Quaterra Resources Inc.**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
**(Unaudited- In thousands of U.S. Dollars, except for shares and per share amounts)**

		Three months ended June 30,		Six months ended June 30,	
	Note	2017	2016	2017	2016
				\$	\$
<b>General administrative expenses</b>					
Administration and general office expense		77	146	108	240
Consultants		(2)	20	-	30
Investor relations and communications		44	23	75	45
Personnel costs		103	154	228	258
Professional fees		24	50	52	98
Share-based payments		169	136	169	136
Transfer agent and regulatory fees		10	26	44	35
Travel and promotion		33	16	56	40
		<b>(458)</b>	<b>(571)</b>	<b>(732)</b>	<b>(882)</b>
<b>Depreciation</b>		-	(5)	-	(6)
<b>Fair value gain on derivative liability</b>	7	326	-	282	731
<b>Foreign exchange gain</b>		31	56	7	32
<b>Gain on disposal of assets</b>		-	112	-	455
<b>Loss on settlement of convertible notes</b>	6	-	-	(222)	-
<b>Impairment of mineral property</b>		-	(1,445)	-	(1,445)
<b>Interest expense</b>		(1)	37	(13)	(11)
<b>Other exploration costs</b>		-	7	-	20
		<b>356</b>	<b>(1,238)</b>	<b>54</b>	<b>(224)</b>
<b>Net loss for the period</b>		<b>(102)</b>	<b>(1,809)</b>	<b>(678)</b>	<b>(1,106)</b>
<b>Other comprehensive income</b>					
Items that may be subsequently reclassified to net loss					
Net change in fair value of marketable securities	3	8	-	23	-
<b>Comprehensive loss for the period</b>		<b>(94)</b>	<b>(1,809)</b>	<b>(655)</b>	<b>(1,106)</b>
<b>Loss per share - basic and diluted</b>		<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.00)</b>	<b>(0.01)</b>
<b>Weighted average number of common shares outstanding</b>					
		<b>200,969,314</b>	193,479,416	<b>197,907,146</b>	193,479,416

(See the accompanying notes to the condensed interim consolidated financial statements)

**Quaterra Resources Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**(Unaudited- In thousands of U.S. Dollars)**

	Six months ended June 30,	
	2017	2016
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(678)	(1,106)
Items not involving cash:		
Depreciation	-	6
Fair value gain on derivative liability	(282)	(731)
Gain on disposal of assets	-	(455)
Loss on settlement of convertible notes	222	-
Interest expense	20	66
Impairment of mineral property	-	1,445
Share-based payments	169	136
	(549)	(639)
Changes in non-cash working capital		
Other receivable	(4)	-
Prepaid expenses	19	43
Accounts payable and accrued liabilities	4	(105)
<b>Cash used in operating activities</b>	<b>(530)</b>	<b>(701)</b>
<b>Investing activities</b>		
Expenditures on mineral properties	(2,892)	(3,654)
Exploration recovery	-	48
Proceeds from option agreement	1,566	3,825
Proceeds from sale of mineral properties	-	2,000
Net proceeds from disposal of assets	-	455
Reclamation bonds	11	(18)
Short-term investments	-	(2,000)
<b>Cash (used) provided by in investing activities</b>	<b>(1,315)</b>	<b>656</b>
<b>Effect of foreign exchange on cash</b>	<b>(150)</b>	<b>(132)</b>
<b>Decrease in cash and cash equivalents</b>	<b>(1,995)</b>	<b>(177)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>6,665</b>	<b>4,522</b>
<b>Cash and cash equivalents, end of period</b>	<b>4,670</b>	<b>4,345</b>
<b>Supplemental cash flow information</b>		
Exploration expenditures included in accounts payable	\$ 447	\$ 36
Interest paid in cash	\$ 53	\$ -
Shares issued for interest	\$ 80	\$ -
Non-cash financing activities:		
shares issued for convertible notes	\$ 540	\$ -

(See the accompanying notes to the condensed interim consolidated financial statements)

**Quaterra Resources Inc.**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
**(Unaudited - In thousands of U.S. Dollars, except for shares)**

	Common Shares		Share-based	Accumulated other		
Note	Number of Shares	Amounts (\$)	payment reserve (\$)	comprehensive loss (\$)	Deficit (\$)	Total (\$)
Balance, December 31, 2015	193,479,416	100,051	18,424	-	(84,330)	34,145
Share-based payments	-	-	136	-	-	136
Net loss for the period	-	-	-	-	(1,106)	(1,106)
<b>Balance, June 30, 2016</b>	<b>193,479,416</b>	<b>100,051</b>	<b>18,560</b>	<b>-</b>	<b>(85,436)</b>	<b>33,175</b>
Balance, December 31, 2016	193,479,416	100,051	18,560	(31)	(86,195)	32,385
Shares issued to settle convertible notes	7,489,898	678	-	-	-	678
Share-based payments	-	-	169	-	-	169
Other comprehensive income	-	-	-	23	-	23
Net loss for the period	-	-	-	-	(678)	(678)
<b>Balance, June 30, 2017</b>	<b>200,969,314</b>	<b>100,729</b>	<b>18,729</b>	<b>(8)</b>	<b>(86,873)</b>	<b>32,577</b>

(See the accompanying notes to the condensed interim consolidated financial statements)

**Quaterra Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the six months ended June 30, 2017**  
**(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)**

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**1. NATURE OF OPERATIONS**

Quaterra Resources Inc. ("**Quaterra**" or the "**Company**") was incorporated in British Columbia, Canada, under the *Business Corporations Act* (British Columbia) on May 11, 1993. The Company is a copper exploration company with a primary objective to advance its copper projects in the Yerington District, Nevada, United States.

The Company defers all acquisition, exploration and evaluation costs related to the properties on which it is conducting exploration. The nature of the Company's operations requires significant expenditures for the acquisition, exploration, and development of those mineral properties. To date, the Company has not earned significant revenue and is considered to be in the exploration stage. The underlying value of the amounts recorded as mineral properties and the Company's continued existence is dependent upon the existence of economically recoverable mineral reserves and the ability of the Company to acquire new properties and obtain funding to complete the exploration activities. The carrying value of the Company's mineral properties does not reflect current or future values.

The primary office of the Company is located at 1199 West Hastings Street, Suite 1100, Vancouver, British Columbia, Canada, V6E 3T5.

**2. BASIS OF PRESENTATION AND CONSOLIDATION**

These condensed consolidated interim financial statements ("**Financial Statements**") have been prepared in accordance with *International Financial Reporting Standards* ("**IFRS**") including IAS 34, *Interim Financial Reporting* ("**IAS 34**") as issued by the International Accounting Standards Board. The accounting policies applied in the preparation of these Financial Statements are set out in Note 2 of the audited consolidated financial statements for the year ended December 31, 2016 and have been applied consistently to all the periods presented, unless otherwise stated.

These Financial Statements do not include all of the information required for full annual financial statements and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016.

These Financial Statements include accounts of the Company and its subsidiaries. All amounts are presented in United States dollars ("**\$**"), which is the functional currency of the Company and each of the Company's subsidiaries. References to CAD\$ are to Canadian dollars. All inter-company balances, transactions, and expenses have been eliminated.

**3. MARKETABLE SECURITIES**

The Company holds 1,182,331 common shares of Grande Portage Resources Ltd. ("**Grande Portage**"), as a result of the sale of the Company's 35% interest in the Herbert Gold project on July 29, 2016. These Grande Portage shares are recorded as marketable securities, classified as available-for-sale, and recorded at fair market value determined by reference to their closing share price at each reporting date. Any fair value gain or loss is recognized in the other comprehensive income (loss) at each reporting date.

During the six months ended June 30, 2017, a \$22,802 gain was recognized in other comprehensive loss.

## Quaterra Resources Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2017

(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)

#### 4. MINERAL PROPERTIES

On April 25, 2017, the Company announced it signed a lease agreement with Chuchuna Minerals Company (“Chuchuna”), an Alaska corporation, giving it an option to acquire a 90% interest in the Groundhog copper prospect, located 200 miles southwest of Anchorage, Alaska. To earn the 90% interest, the Company is required to fund a total of \$5.0 million of exploration expenditure over five years, of which \$1.0 million (\$0.27 million incurred) is committed in the first year, and to make a lump sum payment to Chuchuna of \$3.0 million by the end of the fifth year.

The Company has a 100% interest in four copper properties, MacArthur, Yerington, Bear and Wassuk, collectively the “Yerington Assets”, which are located in the Yerington District, Nevada, and held by its wholly owned subsidiary, Singatse Peak Services LLC (“SPS”).

On June 16, 2014, the Company announced a Membership Interest Option Agreement (the “Option Agreement”) with Freeport-McMoRan Nevada LLC (“Freeport Nevada”) whereby Freeport Nevada could earn an initial 55% interest in SPS by funding a three-stage exploration work program totaling \$40.75 million (\$13.7 million funded). On June 13, 2016, Freeport Nevada extended its option for up to four additional periods of six months each by making total \$5.75 million (\$3.725 million received) payments to SPS.

During the six months ended June 30, 2017, the Company received \$1.56 million from Freeport Nevada including \$0.89 million related to the 2017 drilling program. Subsequent to the period end, \$423,000 was reimbursed for drilling costs incurred in June 2017.

Funds received were credited to the carrying value of the Yerington Assets, and were used for mineral property maintenance, environmental compliance, exploration drilling and office overhead in Yerington. As of June 30, 2017, \$0.46 million cash was remaining from the Option Agreement funding received.

Total mineral property maintenance and exploration costs are listed in the table below:

Mineral properties	MacArthur (\$)	Yerington (\$)	Bear* (\$)	Wassuk (\$)	Groundhog (\$)	Total (\$)
<b>Net balance, December 31, 2016</b>	<b>17,537</b>	<b>9,400</b>	<b>-</b>	<b>660</b>	<b>-</b>	<b>27,597</b>
Additions:						
Acquisition & maintenance	-	-	795	-	58	<b>853</b>
Assay & labs	26	23	-	-	-	<b>49</b>
Camp & field expenses	-	-	-	-	12	<b>12</b>
Community support	-	-	-	-	35	<b>35</b>
Drilling	297	822	4	76	-	<b>1,199</b>
Environmental	-	93	34	-	-	<b>127</b>
Exploration overhead	40	248	-	12	68	<b>368</b>
Geological & mapping	-	282	30	-	27	<b>339</b>
Geophysical & survey	12	193	-	-	27	<b>232</b>
Permitting	-	-	-	-	19	<b>19</b>
Transportation	-	-	-	-	34	<b>34</b>
	375	1,661	863	88	280	<b>3,267</b>
Option payments	(223)	(668)	(675)	-	-	<b>(1,566)</b>
<b>Net balance, June 30, 2017</b>	<b>17,689</b>	<b>10,393</b>	<b>188</b>	<b>748</b>	<b>280</b>	<b>29,298</b>

\*Expenditures of \$3.5 million incurred as of December 31, 2016 had been fully recovered from the Option Agreement funding.



## Quaterra Resources Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2017

(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)

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a) MacArthur Copper, Nevada

The Company earned a 100% interest in the MacArthur property in January 2015.

The property is subject to a 2% net smelter return royalty (“NSR”), which may be reduced to a 1% NSR royalty for a consideration of \$1.0 million.

b) Yerington Copper, Nevada

The Company acquired a 100% interest in the Yerington property from the Arimetco bankruptcy proceedings in April 2011 for \$500,000 million cash and 250,000 common shares of Quaterra.

The acquisition followed years of due-diligence studies and negotiations with state and federal agencies and the receipt of Bona Fide Prospective Purchase (“BFPP”) letters from the U.S. Environmental Protection Agency (“EPA”), the Nevada Division of Environmental Protection (“NDEP”) and the Bureau of Land Management (“BLM”) to protect SPS from liability emanating from activities of the former mine owners and operations.

The property has a 2% NSR royalty capped at \$7.5 million on commencement of commercial production.

c) Bear Copper, Nevada

Bear Deposit consists of five option agreements covering private land in Yerington, Nevada. Under the terms of these option agreements, the Company is required to make approximately \$6.24 million in cash payments over ten years (\$3.62 million paid) in order to maintain the exclusive right to purchase the land, mineral rights and certain water rights and to conduct mineral exploration on these properties. Aggregate payments due under the five option agreements by year are as follows:

- \$329,258 due in 2013 (paid);
- \$341,258 due in 2014 (paid);
- \$788,258 due in 2015 (paid);
- \$1,363,258 due in 2016 (paid);
- \$895,258 due in 2017 (\$795,258 paid);
- \$975,258 due in 2018;
- \$1,012,000 due in 2019;
- \$512,000 due in 2020, and
- \$12,000 each due in 2021 and 2022, respectively.

d) Wassuk Copper, Nevada

The Company has an option to earn an interest in certain unpatented mining claims in Yerington, over ten years and is required to make \$1.51 million in cash payments (\$0.65 million paid) and incur a work commitment of \$300,000 (\$87,288 incurred) by August 1, 2018 as below:

- \$390,000 prior payments before August 23, 2013 (paid);
- \$80,000 each on or before August 1, 2014 and 2015 (paid);
- \$100,000 on or before August 1, 2016 (paid);
- \$200,000 each on or before August 1, 2017 and 2018; and
- \$230,000 each on or before August 1, 2019 and 2020, respectively.

**Quaterra Resources Inc.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the six months ended June 30, 2017**  
**(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)**

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The property is subject to a 3% NSR royalty upon commencing commercial production, which can be reduced to a 2% NSR royalty in consideration for \$1.5 million.

**5. LOAN PAYABLE**

On May 8, 2015, the Company entered into a \$500,000 secured note ("**Loan Payable**") with Freeport Nevada in order to facilitate a real property interest acquisition within the Bear Deposit area.

The Loan Payable bears a simple interest at a rate of 5% per annum and is due 180 days following written notice of termination of the Option Agreement by Freeport Nevada. The Company can extend repayment by 180 days by paying an extension fee of 5% of the outstanding principal and provided the interest accrued does not exceed \$100,000 (\$52,671 accrued to June 30, 2017).

In the event Freeport Nevada elects to enter Stage 3 of the Option Agreement, the \$500,000 may be credited to the Freeport Nevada future funding obligation.

**6. CONVERTIBLE NOTES**

On July 2, 2014, the Company closed a non-brokered private placement of 500 units for gross proceeds of \$500,000. Each unit comprised of one non-transferable convertible redeemable promissory note ("**Notes**") and 11,442 non-transferable warrants. The Notes bear simple interest at a rate of 10% per annum. Interest may be paid in cash or shares at the option of the Company, subject to any required exchange approvals in the case of share payments.

On February 25, 2017, the Company's shares had achieved a minimum closing price of CAD\$0.12 for a 10-consecutive trading day period on the TSXV, and the principal of the Notes was automatically converted into 6,609,000 shares at a rate of CAD\$0.10 per share. Of the interest due, \$79,977 was paid by issuing 880,898 shares, and the remaining interest \$53,315 was paid in cash.

The convertible notes were settled by issuing 7,489,898 shares and making a cash payment of \$53,315 on March 16, 2017. As a result, a \$0.22 million loss on the settlement of the convertible notes was recorded in the statement of loss and comprehensive loss.

**7. DERIVATIVE LIABILITY**

In connection with the convertible note issue on July 2, 2014 and an Asset Purchase Agreement with FMMP on October 3, 2014, the Company issued 5,721,000 and 19,000,000 share purchase warrants to the note holders and FMMP, respectively.

These warrants are derivative liabilities as they are either currently or were at the time of issue exercisable in a different currency from the Company's functional currency. They are carried at fair value and revalued at each reporting date.

As of June 30, 2017, the derivative warrants were recorded at \$655,910 using the following: weighted average assumptions: volatility of 118%, expected term of 1.85 years, discount rate of 0.62% and dividend yield of 0%.

## Quaterra Resources Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2017

(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)

#### 8. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value.

On March 16, 2017, the Company settled the convertible debt including principal and portion of the interest accrued by issuing a total of 7,489,898 common shares (Note 6).

#### 9. SHARE-BASED PAYMENTS

##### a) Stock options

The Company has a stock option plan under which the Company is authorized to grant stock options of up to 10% of the number of common shares issued and outstanding of the Company at any given time.

The following table presents changes in stock options as of June 30, 2017:

	Number of Options	Weighted Average Exercise Price (CAD\$)
Outstanding, beginning of period	15,710,000	0.16
Granted	2,900,000	0.095
Expired	(2,500,000)	(0.46)
Forfeiture	(60,000)	(0.10)
Outstanding, end of period	16,050,000	0.11
Exercisable, end of period	15,850,000	0.11

The following table summarizes stock options outstanding by expiry dates with the exercise price in Canadian dollars:

Exercise Price (CAD\$)	Expiry Date	Number of Options Outstanding	
		June 30, 2017	December 31, 2016
0.50	March 27, 2017	-	100,000
0.45	June 28, 2017	-	2,400,000
0.16	September 19, 2018	3,760,000	3,760,000
0.10	June 25, 2019	2,815,000	2,815,000
0.05	December 31, 2019	1,000,000	1,000,000
0.05	March 26, 2020	200,000	200,000
0.13	July 16, 2020	2,380,000	2,410,000
0.065	April 14, 2021	2,995,000	3,025,000
0.095	June 23, 2022	2,900,000	-
		16,050,000	15,710,000

The Company applies the fair value method of accounting for stock options. Option pricing models require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

## Quaterra Resources Inc.

### Notes to Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2017

(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)

The Company used the following assumptions in the Black-Scholes option pricing model: volatility 85% (141% 2016), risk-free rate 0.6% (0.6% 2016), 5-year life and 0% forfeiture rate as well as 0% expected dividend yield.

Share-based payment expenses were allocated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Consultants	55	31	55	31
Directors and officers	88	85	88	85
Employees	26	20	26	20
	169	136	169	136

b) Share purchase warrants

The following table summarizes information about warrants outstanding as of June 30, 2017:

Expiry date	Exercise price	Number of Warrants
January 2, 2018 CAD	0.16	5,721,000
September 13, 2018 \$	0.15	29,810,000
October 3, 2019 \$	0.16	19,000,000
		54,531,000

## 10. RELATED PARTY TRANSACTIONS

- a) Key management comprises directors and executive officers. In the event of a change of control, certain executive officers are entitled to termination benefits equal to the amount that would have been paid during the unexpired term of their employment agreement, and others to the equivalent of either one or two years' salary. The Company has no post-employment benefits and other long-term employee benefits. Compensation awarded to key management was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Salaries	106	98	212	145
Directors' fees	9	9	18	18
Share-based payments	114	85	114	85
	229	192	344	248

- b) Manex Resource Group ("Manex") is a private company owned by the Company's Corporate Secretary Mr. Lawrence Page. It provides office space and general office and administrative services for a monthly fee of CAD\$13,000 of which CAD\$5,000 can be cancelled with a 30-day notice.

## **Quaterra Resources Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**For the six months ended June 30, 2017**

**(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)**

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#### **11. SEGMENTED INFORMATION**

The Company has one business segment, the exploration of mineral properties. As of June 30, 2017, all the Company's significant non-current assets are located in the United States.

#### **12. COMMITMENTS AND CONTINGENCIES**

- a) The Company has a five-year service agreement with Manex ending on August 31, 2017, at a monthly rate of CAD\$8,000 plus CAD\$5,000 cancellable with 30-day notice. Should the Company terminate the service agreement as of June 30, 2017, it would be required to pay CAD\$16,000 to Manex.
- b) To acquire certain mineral property interests in Nevada and Alaska (Note 4), the Company must make optional acquisition expenditures in order to satisfy the terms of existing option agreements, failing which the rights to such mineral properties will revert back to the property vendors.

#### **13. CAPITAL MANAGEMENT**

The Company considers its capital to be equity, comprising share capital, reserves and deficit. The Company's objectives are to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and to maximize shareholder return through enhancing the share value.

The Company manages capital through its budgeting and forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. To maintain its objectives, the Company may issue new shares, adjust capital spending, acquire or dispose of assets. There is no assurance that these initiatives will be successful.

There was no change in the Company's approach to capital management during the period ended June 30, 2017.

The Company is not subject to any externally imposed capital requirements.

#### **14. FINANCIAL RISK MANAGEMENT**

The Company examines the various financial instrument risk to which it is exposed and assesses the impact and likelihood of those risks.

- a) Foreign currency risk

Foreign currency risk is the risk that fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company operates in Canada and the United States and is therefore exposed to foreign currency risk arising from transactions denominated in Canadian dollars. Certain amounts of the Company's accounts payable and accrued liabilities are denominated in Canadian dollars. The Company monitors its net exposure to foreign currency fluctuations and adjusts its cash held in Canadian dollars accordingly.

## **Quaterra Resources Inc.**

### **Notes to Condensed Interim Consolidated Financial Statements**

**For the six months ended June 30, 2017**

**(Unaudited - In U.S. Dollars; tabular amounts in thousands except for shares)**

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b) Interest rate risk

The Company's cash is held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on the estimated fair value as of June 30, 2017. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows. Cash is invested in highly liquid investments which are available to discharge obligations when they come due.

d) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk through its cash and cash equivalents which are held in large Canadian financial institutions that have high credit ratings assigned by international credit ratings agencies. The Company believes this credit risk is insignificant.