UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 40-F

[ ] Registration statement pursuant to section 12 of the Securities Exchange Act of 1934 or

[X] Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

Commission file number **1-33965**

QUATERRA RESOURCES INC.

(Exact name of registrant as specified in its charter)

British Columbia
(Province or other jurisdiction of incorporation or organization)

1000
(Primary Standard Industrial Classification Number)

1100-1199 West Hastings Street
Vancouver, BC
V6E 3T5 Canada
(604) 681-9059
(Address and telephone of principal executive offices)

CT Corporation System
818 West Seventh Street
Los Angeles, CA 90017
(213) 627-8252
Name, address, and telephone number of agent for service in the United States

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, no par value	**American Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act: **Not applicable**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this form:

[X] Annual Information Form [X] Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **83,167,005**

Indicate by check mark whether the registrant by filing this information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the registrant in connection with such rule. Yes [ ] No [X]

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days.
Yes [ ] No [X] *

* The registrant's obligation to file report in accordance with Section 13 of the Exchange Act commenced on March 3, 2008. The earliest the registrant will have been subject to such requirements for the past 90 days is June 2, 2008.



EXPLANATORY NOTE

Quaterra Resources Inc. is a Canadian issuer eligible to file its annual report pursuant to Section 13 of the Securities Exchange Act of 1934 (the "Exchange Act") on Form 40-F. We also qualify as a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and in Rule 405 under the Securities Act of 1933 (the "Securities Act"). Equity securities of the Quaterra Resources Inc. are accordingly exempt from Sections 14(a), 14(b), 14(c), 14(f) and 16 of the Exchange Act pursuant to Rule 3a12-3.

DIFFERENCES IN UNITED STATES AND CANADIAN REPORTING PRACTICES

We prepare our financial statements, which are filed with this annual report on Form 40-F in accordance with Canadian generally accepted accounting principles ("GAAP"), and are subject to Canadian auditing and auditor independence standards. They may not be comparable to financial statements of the United States companies. We are permitted, under a multi-jurisdictional disclosure system adopted by the United States, to prepare this report in accordance with Canadian disclosure requirements, which are different from those of the United States. Significant differences between Canadian GAAP and United States GAAP are described in Note 12 of the audited consolidated financial statements filed as Exhibit 1 to this annual report.

In addition, disclosure about exploration activities and certain mining terms is different under Canadian standards than under Securities and Exchange Commission (the "Commission") standards. Accordingly, information contained in this annual report and the documents incorporated by reference herein containing descriptions of our mineral deposits may not be comparable to similar information made public by United States companies subject to the reporting and disclosure requirements under the United States federal securities laws. Significant differences between Canadian and United States concepts are described in Preliminary Note IV to the Annual Information Form ("AIF") filed as Exhibit 2 to this annual report.

FORWARD-LOOKING STATEMENTS

This annual report and the exhibits incorporated by reference into it contain "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, statements with respect to studies performed on the mineral natural resource properties in which we have an interest, the future price of metals and minerals, the estimation of mineral resources and reserves, the realization of mineral resource and reserve estimates, the timing and amount of estimated future production, costs of production, capital expenditures, costs and timing of the development of new deposits, success of exploration activities, permitting time lines, currency fluctuations, requirements for additional capital,

government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage, and the timing and possible outcome of pending litigation. Forward-looking statements are frequently, but not always, identified by words such as “expects,” “anticipates,” “believes,” “intends,” “estimates,” “potential,” “possible” and similar expressions, or statements that events, conditions or results “will,” “may,” “could” or “should” occur or be achieved. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those described in Preliminary Note V to our AIF filed as Exhibit 2 to this annual report.

The forward-looking statements contained in the exhibits incorporated by reference into this annual report are made as of the respective dates set forth in such exhibits. These forward-looking statements are based on the beliefs, expectations, and opinions of management on the date the statements are made. In preparing this annual report, we have not updated such forward-looking statements to reflect any change in circumstances or in management’s beliefs, expectations or opinions that may have occurred prior to the date hereof. Nor do we assume any obligation to update such forward-looking statements in the future. For the reasons set forth above, readers should not place undue reliance on forward-looking statements.

ANNUAL INFORMATION FORM

Our AIF for the fiscal year ended December 31, 2007 is filed as Exhibit 2 and incorporated by reference in this annual report on Form 40-F.

AUDITED ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT’S DISCUSSION AND ANALYSIS

Audited Annual Financial Statements

The audited consolidated financial statements of Quaterra Resources Inc. for the fiscal years ended December 31, 2007 and 2006, including the report of the auditors with respect thereto, are filed as Exhibit 1 and incorporated by reference in this annual report on Form 40-F.

Management’s Discussion and Analysis

Our management’s discussion and analysis (“MD&A”) is filed as Exhibit 3 and incorporated by reference in this annual report on Form 40-F.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this annual report for the fiscal year ended December 31, 2007, we carried out an evaluation, under the supervision and with the participation of Thomas C. Patton and Scott B. Hean, our principal executive officer and our principal financial officer respectively, of the effectiveness of the design and operation of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

This annual report does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of a registered public accounting firm due to a transition period established by rules of the Commission for newly public companies.

There has been no change in our internal control over financial reporting during the fiscal year covered by this annual report ending December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

We were not an issuer of securities subject to Regulation BTR under the Exchange Act during the fiscal year ended December 31, 2007.

CODE OF ETHICS

The Company has adopted a Code of Business Conduct and Ethics for all its directors, executive officers and employees. It is available in the Governance section of our website at www.quaterraaresources.com. All amendments to the code, and all waivers of the code with respect to any of the officers covered by it, will be posted on our web site and furnished to the Commission on Form 6-K. There have been no amendments, waivers or implicit waivers to the code during the fiscal year ended December 31, 2007.

AUDIT COMMITTEE

Audit Committee

Our Board of Directors has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Our Audit Committee is composed of Robert Gayton, John R. Kerr, Tracy Stevenson, and LeRoy Wilkes, all of whom, in the opinion of the directors, are independent (as determined under Rule 10A-3 of the Exchange Act) and are financially literate. Please refer to Item 9 in our AIF under Exhibit 2 for details in connection with each of these members and their qualifications.

Audit Committee Financial Expert

We have determined that Robert Gayton meets the audit committee financial expert criteria prescribed by the Commission in Exchange Act Rule 10A-3 and the rules of the American Stock Exchange (“AMEX”), the United States exchange on which the our common stock is listed. Dr. Gayton has been designated as an audit committee financial expert for the Audit Committee. As disclosed above, in the opinion of the Board of Directors, Dr. Gayton is independent as determined under Rule 10A-3 of the Exchange Act.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table shows the aggregate fees billed to us by our principal accountant Smythe Ratcliffe LLP, Chartered Accountants, in each of the last two fiscal years.

	Years ended December 31,	
	2007	**2006**
Audit Fees	CDN$24,500	CDN$20,000
Audit-Related Fees	nil	nil
Tax Fees	CDN$2,750	nil
All Other Fees (1)	CDN$10,960	CDN$110

(1) These fees include services rendered as part of our AMEX listing and Sarbanes-Oxley compliance.

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT AUDITORS

The Audit Committee nominates and engages the independent auditors to audit the financial statements and approves all audit, audit-related services, tax services and other services provided by our external auditors. Any services provided by our external auditors that are not specifically included within the scope of the audit must be pre-approved by the audit committee prior to any engagement.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet financing arrangements or relationships with unconsolidated special purpose entities.

CONTRACTUAL OBLIGATIONS

The following table lists as of December 31, 2007 information with respect to our known contractual obligations. Further information about the mineral properties described below is found in Note 5 to our audited annual financial statements filed as Exhibit 1 and Part K.iv of our MD&A filed as Exhibit 3.

	Payments due by Period				
Contractual Obligations	*Total*	*Less than 1 year*	*1-3 years*	*3-5 years*	*More than 5 years*
Letter of Agreement for lease of claims in Arizona strip district (1)	US$140,000	US$40,000	US$100,000	-	-
Option to purchase mining claims in Arizona, Utah, and Wyoming (2)	US$410,000	US$75,000	US$335,000	-	-
Agreements to acquire right to earn interest in McArthur copper oxide mine in Lyon County, Nevada (3)	US$2,470,000	US$275,000	US$2,195,000	-	-
Agreement to acquire right to earn interest in S.W. Tintic Claims in Juab County, Utah (March 2007) (4)	US$980,000	US$20,000	US$60,000	US$100,000	US$800,000
Agreement to acquire right to earn interest in S.W. Tintic Claims in Juab County, Utah (August 2007), including promissory note (5)	US$550,000	US$275,000	US$275,000	-	-
Option to purchase Gray Hills claims in Lions County, Nevada (6)	US$130,000(6)	US$25,000	US$65,000	US$40,000(6)	-(6)
Agreement to acquire right to earn interest in Herbert Glacier in Mineral County, Nevada (7)	US$198,000(7)	US$12,000	US$24,000	US$32,000	US$130,000(7)
Option to acquire prospect permits in Texas properties (8)	US$550,000	US$50,000	US$130,000	US$370,000	-
Agreement to acquire right to earn interest in Copper Canyon Project in Mineral County, Nevada (9)	US$610,000	US$35,000	US$225,000	US$350,000	-
Agreement to acquire right to earn interest in Majuba Hill in Mineral County, Nevada (10)	US$2,900,000	US$100,000	US$350,000	US$750,000	US$1,700,000
TOTAL	US$8,938,000	US$907,000	US$3,759,000	US$1,642,000	US$2,630,000

(1) Pursuant to an August 2006 agreement with Nustar Exploration LLC, we leased 18 claims in the Arizona strip district. The terms of the Nustar lease are as follows: (i) an upfront payment of US$20,000 (paid); (ii) a first anniversary payment of US$30,000 (paid), a second anniversary payment of US$40,000; and (iii) a final third anniversary payment of US$100,000. The claims also are subject to royalty payments.

(2) Pursuant to a June 2005 agreement with North Exploration LLC, we acquired an option to purchase mining claims situated in Arizona, Utah and Wyoming. To exercise the option, we are required to make staged payments totalling US$500,000 over five years and to issue 600,000 common shares over three years, as follows: (i) US$15,000 and issue 200,000 common shares on or before September 6, 2005 (paid and issued); (ii) US$25,000 and issue 200,000 common shares on or before September 6, 2006 (paid and issued); (iii) US$50,000 and issue 200,000 common shares on or before September 6, 2007 (paid and issued); (iv) US$75,000 on or before September 6, 2008; (v) US$135,000 on or before September 6, 2009; (vi) US$200,000 on or before September 6, 2010. If we meet the above terms and conditions and elect to exercise the option, then the property may be purchased with a further payment of US$100. The agreement also contains royalty payment provisions upon commencement of commercial production.

(3) Pursuant to an October 2005 agreement with North Exploration LLC, we acquired the right to earn an interest in 66 unpatented mining claims covering the former MacArthur copper-oxide mine, in the Yerington district of Lyon County, Nevada. To earn a 100% interest, we were required under the original agreement to make staged payments totalling US $1,785,000 by January 15, 2008 as follows: (i) US$10,000 upon execution (paid); (ii) US$25,000 on or before January 15, 2006 (paid); (iii) US$75,000 on or before January 15, 2007 (paid); (iv) US$1,675,000 on or before January 15, 2008. However, since we met our obligation of US$100,000 in stage payments by January 15, 2007 and incurred US$500,000 in exploration expenditures by January 15, 2008, we elected to acquire the property by making additional payments totalling US$2,645,000 as follows: (i) US$100,000 on or before January 15, 2008; (ii) US $125,000 on or before January 15, 2009; (iii) US $2,420,000 on or before January 15, 2010. Under an amendment dated January 17, 2007 to the original agreement made October 2005, US$350,000 will be deducted from the final payment above to compensate for payments to Charles Gary Clifton (i) $175,000 (paid); (ii) $175,000 to be paid by December 31, 2008.

(4) Pursuant to a March 2007 agreement with North Exploration LLC, we acquired the right to earn an interest in 27 unpatented mining claims that form part of the S.W. Tintic Claims in Juab County, Utah. To earn a 100% interest, we are required to make staged payments totalling US $1,000,000 by February 16, 2018 as follows: (i) US$20,000 initial payment (paid); (ii) US$20,000 on or before February 15, 2008 (paid); (iii) US$20,000 on or before February 15, 2009; (iv) US$40,000 on or before February 15, 2010; (v) US$50,000 on or before February 15, 2011; (vi) US$50,000 on or before February 15, 2012; (vii) US$100,000 on or before February 15, 2013; (viii) US$100,000 on or before February 15, 2014; (ix) US$100,000 on or before February 15, 2015; (x) US$250,000 on or before February 15, 2016; and (xi) US$250,000 on or before February 15, 2017. Alternatively, we may acquire the property at any time by paying US$1,000,000 less any previously paid amounts. The claims also are subject to royalty payments.

(5) Pursuant to an August 2007 agreement with The Benjamin and Carol Weir Trust, we acquired the right to earn an interest in 81 unpatented mining claims that form part of the S.W. Tintic Claims in Juab County, Utah. To earn a 100% interest, we are required to make payments as follows: (i) US$254,410 initial payment (paid); (ii) US$5,000 deposit (paid); (iii) US$275,000 on or before August 29, 2008, and (iv) US$275,000 on or before August 29, 2009. The final two payments of US$275,000 each are governed by a promissory note with a two years and no interest. We have guaranteed full payment of the notes.

(6) Pursuant to a July 2007 agreement with Larry McIntosh, we entered into a lease with an option to purchase 43 mining claims known as Gray Hills claims in Lions County, Nevada. We may exercise the option at any time for US$500,000. To earn a 100% interest, we are required to make payments as follows: (i) US$15,000 initial payment (paid); (ii) US$20,000 on or before July 11, 2007 (paid); (iii) US$25,000 on or before July 11, 2008; (iv) US$30,000 on or before July 11, 2009; (v) US$35,000 on or before July 11, 2010; and (vi) US$40,000 on or before July 11, 2011 and each anniversary until we exercise the option to purchase the properties or the optionee chooses to withdraw from the lease. The claims also are subject to royalty payments.

(7) Pursuant to a November 2007 agreement with Dale Henkins, Floyd Branson and Jim Wilson, we acquired the right to earn an interest in 17 mining claims known as the Herbert Glacier in Mineral County, Nevada. To earn a 100% interest, we are required to make advance royalty payments as follows: (i) US$12,000 initial payment (paid); (ii) US$12,000 on or before November 19, 2008 (paid); (iii) US$12,000 on or before November 19, 2009; (iv) US$12,000 on or before November 19, 2010; (v) US$12,000 on or before November 19, 2011; (vi) US$20,000 on or before November 19, 2012; (vii) US$20,000 on or before November 19, 2013; (viii) US$20,000 on or before November 19, 2014; (ix) US$20,000 on or before November 19, 2015; (x) US$20,000 on or before November 19, 2016; (xi) US$20,000 on or before November 19, 2017; and (xii) US$30,000 on or before November 19, 2018 and every consecutive anniversary thereafter. We also must incur US$25,000 in exploration expenditures by November 19, 2008 and a further US$25,000 in exploration expenditures each year thereafter. The claims also are subject to royalty payments.

(8) Pursuant to a March 2007 option agreement with Andryck Patterson and Daniel Soto, we have the right to acquire 2 prospect permits in Texas. The option payments are as follows: (i) US$50,000 initial payment (paid); (ii) US$50,000 on or before March 27, 2008 (paid); (iii) US$60,000 on or before March 27, 2009; (iv) US$70,000 on or before March 27, 2010; (v) US$150,000 on or before March 27, 2011; and (vi) US$220,000 on or before March 27, 2012.

(9) Pursuant to a November 2007 agreement with Royal Pretoria Gold LLC, we acquired the right to earn an interest in 4 mining claims known as the Copper Canyon Project in Mineral County, Nevada. To earn a 100% interest, we are required to make staged payments totalling US$625,000 by November 6, 2011 as follows: (i) US$15,000 initial payment (paid); (ii) US$35,000 on or before November 6, 2008; (iii) US$75,000 on or before November 6, 2009; (iv) US$150,000 on or before November 6, 2010; and (v) US$350,000 on or before November 6, 2011. We also must pay $750,000 within five business days of deciding to commence commercial production. The claims also are subject to royalty payments.

(10) Pursuant to a December 2007 agreement with Majuba Mining Ltd, we acquired the right to earn an interest in 77 mining claims known as the Majuba Hill Project in Mineral county, Nevada. To earn a 100% interest, we are required to make staged payments totalling US $3,000,000 by December 10, 2015 as follows: (i) US$100,000 initial payment (paid); (ii) US$100,000 on or before December 10, 2008; (iii) US$100,000 on or before December 10, 2009; (iv) US$250,000 on or before December 10, 2010; (v) US$250,000 on or before December 10, 2011; (vi) US$500,000 on or before December 10, 2012; (vii) US$500,000 on or before December 10, 2013; (viii) US$500,000 on or before December 10, 2014; and (ix) US$700,000 on or before December 10, 2015. We also must incur cumulative US$1,000,000 in exploration expenditures by December 10, 2012. If we incur less than that amount, we must pay the shortfall by December 10, 2012. The claims also are subject to royalty payments.

AMEX CORPORATE GOVERNANCE

Our common shares are listed on AMEX. Section 110 of the AMEX company guide permits AMEX to consider the laws, customs and practices of foreign issuers in relaxing certain AMEX listing criteria, and to grant exemptions from AMEX listing criteria based on these considerations. A company seeking relief under these provisions is required to provide written certification from independent local counsel that the non-complying practice is not prohibited by home country law. A description of the significant ways in which our governance practices differ from those followed by domestic companies pursuant to AMEX standards is as follows:

Shareholder Meeting Quorum Requirement: The AMEX minimum quorum requirement for a shareholder meeting is one-third of the outstanding shares of common stock. In addition, a company listed on AMEX is required to state its quorum requirement in its bylaws. The Company's quorum requirement is set forth in its Articles. A quorum for a meeting of members of the Company is one person present in person, being a shareholder entitled to vote thereat or a duly appointed proxy holder for an absent shareholder so entitled.

In addition, we may from time-to-time seek relief from AMEX corporate governance requirements on specific transactions under Section 110 of the AMEX Company Guide by providing written certification from independent local counsel that the non-complying practice is not prohibited by our home country law, in which case, we shall make the disclosure of such transactions available on our website or by means of a submission on Form 6-K.

UNDERTAKINGS

We undertake to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or to transactions in said securities.

CONSENT TO SERVICE OF PROCESS

We have filed with the Commission a written Irrevocable Consent and Power of Attorney on Form F-X. Any change to the name or address of the agent for service shall be communicated promptly to the Commission by amendment to the Form F-X referring to the file number of the registrant.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

QUATERRA RESOURCES INC.

Dated: March 26, 2008

By: /s/ Scott Hean
Scott B. Hean
Chief Financial Officer

EXHIBIT INDEX

Annual Information

1. Audited consolidated annual financial statements and notes thereto for the fiscal years ended December 31, 2007 and 2006 together with the report of the auditors thereon and US GAAP reconciliation

2. Annual Information Form for the fiscal year ended December 31, 2007

3. Management's Discussion and Analysis for the fiscal year ended December 31, 2007 and 2006

Certifications

4. Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

5. Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

6. Certification Pursuant to 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Consents

7. Auditor's Consent

8. Expert's Consent of Caracle Creek International Consulting, Inc.

9. Expert's Consent of Avalon Development Corp.



1100 – 1199 West Hastings Street,
Vancouver, BC, V6E 3T5
Tel: 604-681-9059 Fax: 604-688-4670
www.quaterraresources.com

Consolidated Financial Statements

December 31, 2007 and 2006

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Quaterra Resources Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.



Thomas C. Patton
President and Chief Executive Officer

Scott Hean
Chief Financial Officer

Vancouver, British Columbia
March 26, 2008

SmytheRatcliffe
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

TO THE SHAREHOLDERS OF QUATERRA RESOURCES INC.
(An Exploration Stage Company)

We have audited the consolidated balance sheets of Quaterra Resources Inc. (An Exploration Stage Company) as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for each of the years ended December 31, 2007, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for each of the years ended December 31, 2007, 2006 and 2005 in conformity with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 26, 2008

COMMENTS BY AUDITORS FOR US READERS

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going-concern, such as described in note 1 to the consolidated financial statements. Our report to the shareholders dated March 26, 2008, is expressed in accordance with Canadian reporting standards, which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 26, 2008

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Canada V6C 2G8	Web:	SmytheRatcliffe.com

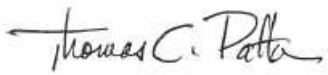
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Quaterra Resources Inc. (An Exploration Stage Company)
Consolidated Balance Sheets as at December 31, 2007 and 2006 (Canadian Dollars)

		2007	2006
			(Note 13)
Assets			
Current			
Cash and cash equivalents		$ 3,389,900	$ 9,112,732
Receivables		268,869	56,592
Prepaids and deposits		62,854	60,486
Amount due from Joint Venture partner	Note 5 (a)	581,124	113,430
		4,302,747	**9,343,240**
Prepaids and deposits		20,814	10,000
Equipment	Note 4	180,452	51,574
Mineral properties	Note 5	19,554,706	7,855,832
Reclamation bonds		139,492	79,898
		$ **24,198,211**	$ **17,340,544**
Liabilities			
Current			
Accounts payable and accrued liabilities		$ 1,079,779	$ 251,311
Due to related parties	Note 6	86,391	26,216
Current portion of promissory note	Note 5 (g)	270,050	-
		1,436,220	**277,527**
Long-term			
Promissory note	Note 5 (g)	270,050	-
		1,706,270	**277,527**
Shareholders' Equity			
Share capital	Note 7 (b)	36,875,448	27,861,058
Subscriptions receivable		-	(17,500)
Contributed surplus	Note 7 (b)	7,409,795	3,709,557
Deficit		(21,793,302)	(14,490,098)
		22,491,941	**17,063,017**
		$ **24,198,211**	$ **17,340,544**

Nature of Operations (Note 1)
Subsequent Events (Note 11)

Approved on behalf of the Board of Directors:



Thomas Patton

Robert Gayton

See notes to consolidated financial statements

Quaterra Resources Inc. (An Exploration Stage Company)
Consolidated Statements of Operations and Deficit for the years ended December 31, 2007, 2006 and 2005 (Canadian Dollars)

		2007	2006	2005
			(Note 13)	(Note 13)
Expenses				
Administration		$ 116,000	$ 60,000	$ 60,000
Amortization		43,309	9,991	-
Consulting				
Services		472,356	105,815	48,568
Stock-based compensation	Note 7 (g)	2,260,416	1,476,044	63,018
Directors' and officers' fees				
Directors' and officers' fees		48,683	5,625	-
Stock-based compensation	Note 7 (g)	1,745,631	749,697	199,555
Investor relations		231,665	144,858	71,630
Office and general		206,420	161,940	62,159
Professional fees		299,926	139,712	89,863
Regulatory fees and taxes		118,817	16,723	19,490
Shareholders' communications		92,549	15,522	20,931
Transfer agent		28,857	15,567	10,014
Travel and promotion		167,998	71,679	14,850
Wages and benefits				
Wages and benefits		263,544	60,984	-
Stock-based compensation	Note 7 (g)	496,116	819,263	68,269
		6,592,287	**3,853,420**	**728,347**
Other Items				
Interest income		(248,684)	(85,988)	(36,135)
Foreign exchange (gain) loss		778,126	(79,449)	125,907
General exploration		229,334	225,855	2,441
Option payment received		-	-	(35,000)
Write off of reclamation deposit		-	-	2,500
Joint venture administration fee		(47,859)	(42,975)	-
Expense recovery		-	(40,329)	-
		710,917	**(22,886)**	**59,713**
Net Loss and Comprehensive Loss for Year		**7,303,204**	**3,830,534**	**788,060**
Deficit, Beginning of Year		14,490,098	10,659,564	9,871,504
Deficit, End of Year		$ **21,793,302**	**$ 14,490,098**	**$ 10,659,564**
Loss per share - basic and diluted		$ 0.09	$ 0.05	$ 0.01
Weighted average number of common shares outstanding		79,971,435	69,964,072	60,318,200

See notes to consolidated financial statements

Quaterra Resources Inc. (An Exploration Stage Company)
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005
(Canadian Dollars)

Cash provided by (used for):		**2007**	**2006**	**2005**
			(Note 13)	**(Note 13)**
Operating Activities				
Net loss for the year		$ (7,303,204)	$ (3,830,534)	$ (788,060)
Items not involving cash:				
Amortization		43,309	9,991	-
Stock-based compensation	Note 7 (g)	4,502,163	3,045,004	330,842
Write off of reclamation deposit		-	-	2,500
Shares issued for services		67,500	-	-
		(2,690,232)	(775,539)	(454,718)
Changes in non-cash working capital				
Receivables		(212,277)	5,614	-
Prepaids and deposits		(13,182)	(70,486)	(54,310)
Accounts payable and accrued liabilities		83,377	(219,639)	99,775
Due to related parties		60,175	13,206	(5,925)
		(81,907)	(271,305)	39,540
Cash Used in Operating Activities		(2,772,139)	(1,046,844)	(415,178)
Investing Activities				
Expenditures on mineral properties		(9,132,683)	(3,335,212)	(1,695,212)
Due from Joint Venture partner	Note 5 (a)	(467,694)	64,369	(177,799)
Purchase of equipment		(172,187)	(30,180)	-
Purchase of reclamation bonds		(59,594)	(40,837)	(24,317)
Cash Used in Investing Activities		(9,832,158)	(3,341,860)	(1,897,328)
Financing Activities				
Proceeds from issuance of shares, net of share issue costs		6,863,965	11,715,138	2,416,145
Subscription receivable		17,500	-	-
Cash Provided by Financing Activities		6,881,465	11,715,138	2,416,145
Increase (Decrease) in Cash During the Year		(5,722,832)	7,326,434	103,639
Cash and Cash Equivalents, Beginning of Year		9,112,732	1,786,298	1,682,659
Cash and Cash Equivalents, End of Year		$ 3,389,900	$ 9,112,732	$ 1,786,298

Supplemental cash flow information (Note 10)

See notes to consolidated financial statements

1.

Nature of Operations

Quaterra Resources Inc. (the "Company") is an exploration stage company incorporated under the laws of British Columbia. The Company and its subsidiaries are engaged in the acquisition, exploration and development of precious metal properties and do not have any mineral properties in production. The Company has not determined whether these mineral properties contain ore reserves that are economically recoverable. The ability of the Company to meet its commitments as they become due, including completion of the acquisition, exploration and development of its mineral properties, is dependent on the Company's ability to obtain the necessary financing.

2.

Summary of Significant Accounting Policies

(a)

Basis of Presentation and Consolidation

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the accounts of the Company and its wholly-owned integrated subsidiaries:

(i) Minera Agua Tierra S.A. de C.V., incorporated in Mexico;

(ii) Quaterra Alaska, Inc., incorporated in Alaska, USA;

(iii) Quaterra International Limited, incorporated in the British Virgin Islands;

(iv) QTA International Nieves Limited, incorporated in the British Virgin Islands;

(v) Minera Nieves S.A. de C.V., incorporated in Mexico;

(vi) Singatse Peak Services, LLC, incorporated in Nevada, USA; and

(vii) Southwest Tintic, LLC, incorporated in Utah, USA.

All intercompany accounts and transactions were eliminated upon consolidation.

(b)

Mineral Properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized until such time as these mineral properties are placed into commercial production, sold or abandoned. If commercial production is achieved from a mineral property, the related capitalized costs will be amortized prospectively on a unit-of- production basis over the estimated life of the ore reserves. If a mineral property is abandoned, the related capitalized costs are written down and expensed. From time to time, the Company may acquire or dispose of all or part of its mineral property interests under the terms of property option agreements. As such options are exercisable entirely at the discretion of the optionee, option payments are recorded as property costs or recoveries when paid or received.

2. Summary of Significant Accounting Policies, continued

(b) Mineral Properties, continued

The recoverability of amounts shown for mineral properties is dependent upon the Company's ability to:

(i) Obtain the necessary financing to complete the acquisition, exploration and development of its mineral properties.

(ii) Enter into mineral property acquisition, joint venture or option agreements with other entities.

(iii) Discover economically recoverable reserves within its mineral properties.

(iv) Obtain future profitable production from its mineral properties or sufficient proceeds from the disposition thereof.

On an ongoing basis, the Company evaluates each mineral property for potential impairment based on results obtained to date to determine the nature of exploration, other assessment and development work, if any, that is warranted in the future and the potential for recovery of the capitalized costs. If there is little prospect of future work on a property being carried out within a three-year period from completion of previous activities, the deferred costs related to that property are written down to the estimated amount recoverable unless there is persuasive evidence that an impairment allowance is not required. The amounts capitalized for mineral properties represent costs incurred to date less write-downs, and are not intended to reflect present or future values.

(c) Cash and Cash Equivalents

Cash and cash equivalents include highly-liquid investments that are readily convertible to known amounts of cash and have maturities of three months or less from the date acquired. Interest income is recorded on an accrual basis at the stated rate of interest of the term deposit over the term to maturity.

(d) Foreign Currency

The consolidated financial statements are presented in Canadian dollars. Accounts of the Company's foreign operations have been translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at year-end rates.

(ii) All other assets and liabilities, at historical rates.

(iii) Revenue and expense items, at the average rates of exchange each quarter.

The effects of translation are credited or charged to the statement of operations as foreign exchange gain or loss.

2. Summary of Significant Accounting Policies, continued

(e) Equipment

Equipment is carried at cost less accumulated amortization. Amortization is calculated over the estimated useful life of the assets using the declining-balance method at an annual rate of 30% for vehicles, equipment and furniture, 45% for computers and 75% for software. One-half of the annual rate is used in the year of acquisition.

(f) Asset Retirement Obligation

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

(g) Share Capital

The proceeds from the exercise of stock options and share purchase warrants are recorded as share capital. Common shares issued for non-monetary consideration are recorded at an amount based on fair market value at the time of issuance, reduced by estimated transaction costs, if any.

(h) Stock-Based Compensation

The Company accounts for stock-based compensation using the fair value method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this standard stock-based payments are recorded as an expense in the period the stock- based payments are vested or the awards or rights are granted, with a corresponding increase in contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to share capital.

(i) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

2. Summary of Significant Accounting Policies, continued

(j) Loss per Share

Loss per share computations are based on the weighted average number of common shares outstanding during the year. Diluted loss per share has not been presented separately, as the effects of outstanding options and warrants are anti-dilutive.

(k) Use of Estimates and Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets, liabilities, expenses, other income, and contingent assets and liabilities. Significant areas requiring the use of management estimates relate to amortization of equipment, the determination of the recoverability of mineral property costs, the valuation allowance of future tax assets and the assumptions about the variables used in the calculation of stock-based compensation. Management believes the estimates are reasonable; however, actual results could differ from those estimates and would impact future results of operations and cash flows.

(l) Changes in Accounting Policies

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3855, "financial instruments – recognition and measurement", which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for- sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

The adoption of this section does not impact the opening equity and losses of the Company as the fair values of the financial instruments approximate their carrying values due to their short-term maturity.

2.

Summary of Significant Accounting Policies, continued

(l)

Changes in Accounting Policies, continued

Effective January 1, 2007, the Company also adopted the CICA Handbook Section 1530, "comprehensive income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period. The Company has no items of other comprehensive income in any period presented. Therefore, net income as presented in the Company's Statements of Operations and Deficit equals comprehensive income.

(m)

Future Accounting Changes

The CICA has issued the following new Handbook sections that will become effective on January 1, 2008 for the Company:

- Section 3862, "Financial Instruments - Disclosures"
- Section 3863, "Financial Instruments - Presentation"
- Section 1535, "Capital Disclosures".

CICA Handbook Section 3862 modifies the disclosure requirements for Section 3861, "Financial Instruments - Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward the presentation requirements of Section 3861. The Company is currently evaluating the impact of the adoption of these new sections.

CICA Handbook Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclose whether it has complied with any capital requirements to which it is subject and the consequences of non- compliance. The Company is currently evaluating the impact of adoption of this new section.

3.

Financial Instruments

(a)

Fair Value

The carrying values of cash and cash equivalents, receivables, amounts due from Joint Venture partner, bank indebtedness, accounts payable and accrued liabilities, and due to related parties approximate their fair values because of the short-term maturity of these financial instruments.

3. Financial Instruments, continued

(b) Interest Rate Risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities.

(c) Credit Risk

The Company is exposed to credit risk with respect to managing its cash position. To manage and mitigate this risk, the Company requires the deposits or short-term investments be invested with Canadian chartered banks rated BBB or better or commercial paper issuers R1/A2/P2 or higher, for a period not exceeding one year.

(d) Currency Risk

The Company is exposed to currency risk to the extent expenditures incurred or funds received by the Company are denominated in currencies other than the Canadian dollar (primarily US dollars and Mexican pesos). The Company does not manage the currency risks through hedging or other currency management tools.

(e) Derivatives – Mineral Properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties, the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral interests to which they relate are not sufficiently developed to reasonably determine value.

4. Equipment

Equipment is carried at cost less accumulated amortization. Details of equipment are as follows:

	2007			2006
	Costs	**Accumulated Amortization**	**Net Book Value**	**Net Book Value**
Vehicles	$ 140,293	$ (34,788)	$ 105,505	$ 29,078
Furniture	27,045	(2,463)	24,582	-
Equipment	34,780	(14,511)	20,269	1,234
Computers	23,249	(6,916)	16,333	1,843
Software	35,829	(22,066)	13,763	19,419
	$ 261,196	**$ (80,744)**	**$ 180,452**	**$ 51,574**

5.

Mineral Properties

The Company has interests in several mineral properties in Mexico, Alaska, Nevada, Arizona, Utah and Wyoming. The total capitalized deferred exploration and acquisition costs as at December 31, 2007 were as follows:

Mineral Properties	Nieves	Los Crestones	Alaskan Properties	Uranium Properties	MacArthur	Yerington	Other (1)	Total
Acquisition								
Balance, December 31, 2006	$ 1,244,464	$ 71,696	$ 130,746	$ 1,125,438	$ 170,324	$ -	$ 454,918	$ 3,197,586
Additions during the year	58,469	6,401	20,456	1,830,754	355,389	979,078	1,389,305	4,639,852
Balance, December 31, 2007	1,302,933	78,097	151,202	2,956,192	525,713	979,078	1,844,223	7,837,438
Exploration								
Balance, December 31, 2006	656,291	462,590	2,337,664	1,079,859	80,591	-	41,251	4,658,246
Advances to contractors	206	(4,103)	-	(61,088)	9,804	9,804	10,056	(35,321)
Air support	-	-	-	-	-	-	31,373	31,373
Assays and surveys	14,190	65,393	83,522	24,379	298,485	-	108,107	594,076
Camp costs	7,014	17,223	507	90,757	101,672	25,610	27,680	270,463
Drilling services	328,429	552,764	-	1,143,327	1,138,897	-	-	3,163,417
Equipment rental	590	224	220	168	94,239	601	12,546	108,588
Exploration support	10,047	11,652	2,157	22,162	65,770	7,025	9,578	128,391
Field supplies and wages	19,656	100,055	3,696	26,926	62,132	18,034	62,485	292,984
Geological services	21,995	45,332	12,080	968,200	376,295	196,410	139,899	1,760,211
Project management	37,001	84,855	9,464	157,701	101,871	-	114,239	505,131
Reclamation expenses	-	-	-	1,485	-	-	-	1,485
Travel and related costs	3,860	10,076	1,186	12,502	34,367	3,810	17,142	82,943
Vehicle expenses	3,677	22,365	361	53,150	42,892	15,706	17,130	155,281
Net additions during the year	446,665	905,836	113,193	2,439,669	2,326,424	277,000	550,235	7,059,022
Balance, December 31, 2007	1,102,956	1,368,426	2,450,857	3,519,528	2,407,015	277,000	591,486	11,717,268
Total acquisition and exploration at December 31, 2007	**$ 2,405,889**	**$ 1,446,523**	**$ 2,602,059**	**$ 6,475,720**	**$ 2,932,728**	**$ 1,256,078**	**$ 2,435,709**	**$ 19,554,706**

(1) Other properties include SW Tintic, Gray Hills, Las Americas, Mirasol, Jaboncillos, Peg Leg, Carbon County, Cerro Blanco, Herbert Glacier, Texas claims, INDE Durango, La Reforma, Copper Canyon and Majuba Hill.

5.

Mineral Properties, continued

The total capitalized deferred exploration and acquisition costs as at December 31, 2006 were as follows:

Mineral Properties	Nieves	Los Crestones	Alaskan Properties	Uranium Properties	MacArthur	Other (1)	Total
Acquisition							
Balance, December 31, 2005	$ 1,176,381	$ 59,303	$ 110,919	$ 170,148	$ 30,484	$ -	$ 1,547,235
Additions during the year	68,083	12,393	19,827	955,290	139,840	454,918	1,650,351
Balance, December 31, 2006	1,244,464	71,696	130,746	1,125,438	170,324	454,918	3,197,586
Exploration							
Balance, December 31, 2005	464,034	20,113	1,621,681	103,820	-	-	2,209,648
Advances to contractors	(1,289)	4,103	-	66,344	-	-	69,158
Air support	-	-	111,795	4,664	-	-	116,459
Amortization	2,215	-	-	-	-	-	2,215
Assays and surveys	7,994	13,959	9,636	17,611	-	8,927	58,127
Camp costs	4,201	17,811	47,601	25,160	-	620	95,393
Drilling services	135,855	144,665	155,807	277,846	-	-	714,173
Equipment rental	165	12,065	16,014	3,085	6,732	-	38,061
Exploration support	3,297	6,289	32,738	25,461	441	5,856	74,082
Field supplies and wages	18,613	128,929	116,305	13,135	18,833	1,007	296,822
Geological services	14,746	40,434	152,151	333,861	19,776	19,197	580,165
Project management	1,945	46,442	23,798	178,824	29,093	-	280,102
Travel and related costs	2,360	9,762	16,789	27,414	5,142	5,076	66,543
Vehicle expenses	2,155	18,018	33,349	2,634	574	568	57,298
Net additions during the year	192,257	442,477	715,983	976,039	80,591	41,251	2,448,598
Balance, December 31, 2006	656,291	462,590	2,337,664	1,079,859	80,591	41,251	4,658,246
Total acquisition and exploration at December 31, 2006	**$ 1,900,755**	**$ 534,286**	**$ 2,468,410**	**$ 2,205,297**	**$ 250,915**	**$ 496,169**	**$ 7,855,832**

(1)

Other properties include SW Tintic, Gray Hills, Las Americas, Mirasol, Jaboncillos, Peg Leg and Carbon County.

(a)

Nieves Concessions, Mexico

The Company holds a 50% interest in certain mineral concessions located in northern Zacatecas, Mexico, (the "Nieves Concessions") and two inlaying fractions within the Nieves Concessions (Delores and Nazarene), collectively called Nieves.

5. Mineral Properties, continued

(a) Nieves Concessions, Mexico, continued

The Company acquired an option on the property pursuant to an Assignment made March 26, 1999 of the Underlying Agreement by Western Silver Corporation ("Western"), a company with common directors and officers to the Company.

To acquire its interest, the Company issued 1,444,460 common shares to Western valued at $288,892, issued 360,000 common shares to the concessionaires valued at $72,000 and in accordance with the terms of the Underlying Agreement made scheduled option payments to the concession holders, totalling US $70,000 over three years. In addition, to acquire the interest in the claim fractions the Company paid US $40,000 to the concessionaires. Commencing January 26, 2004, an annual advance minimum royalty payment ("AMR") of US $75,000 is due to the concession holders until the commencement of commercial production.

The Nieves concessions are subject to a maximum 3% net smelter return royalty ("NSR") to the original concession holders, which the Company may purchase at any time for US $2 million. In addition, Kennecott Exploration Company, the optionor in the initial Underlying Agreement, retains NSR royalties of 2% on certain core claims and 1% on certain peripheral claims.

Funds in the amount of US $1,500,000 (C $1,904,550) were advanced to the Company pursuant to the terms of an agreement made April 10, 2003 with Blackberry Ventures I, LLC ("Blackberry"), a US-based investment partnership, whereby Blackberry could earn a 50% interest in the Nieves silver property in Mexico or the Duke Island property in Alaska by providing advance funding to the Company to fund exploration expenditures.

The agreement with Blackberry stipulated that once all monies received from the advances had been incurred on exploration expenditures, Blackberry effectively exercised its option and earned a 50% interest in the Nieves property. In August 2005, the parties formed a joint venture to proceed with exploration on the property. As at December 31, 2007, Blackberry owed the Company $581,124 (2006: $113,430) for its share of joint venture exploration expenditures that have been made on the property.

(b) Los Crestones Property, Mexico

The Company holds a 100% interest in a certain mineral concession located in northern Durango, Mexico.

(c) Alaskan Properties

The Company has a 100% interest in certain mining claims on Duke Island and a 100% interest in the Big Bar project, which consists of several state mining claims on the Seward Peninsula, northeast of Nome, Alaska.

5.

Mineral Properties, continued

(d)

Uranium Properties (Arizona, Utah and Wyoming)

In an agreement made effective June 22, 2005 with North Exploration LLC, a Nevada limited partnership, the Company acquired an option to purchase certain mining claims situated in Arizona, Utah and Wyoming. To exercise the option, the Company is required to make staged payments totalling US $500,000 over five years and to issue 600,000 common shares over three years, as follows:

(i) US $15,000 and issue 200,000 common shares on or before September 6, 2005 (paid and issued).

(ii) US $25,000 and issue 200,000 common shares on or before September 6, 2006 (paid and issued).

(iii) US $50,000 and issue 200,000 common shares on or before September 6, 2007 (paid and issued).

(iv) US $75,000 on or before September 6, 2008.

(v) US $135,000 on or before September 6, 2009.

(vi) US $200,000 on or before September 6, 2010.

If the Company meets the above terms and conditions and elects to exercise the option, the property may be purchased with a further payment of US $100. The agreement is subject to a 2% NSR payable upon commencement of commercial production, which the Company may reduce to 1% for US $1 million.

In an agreement made effective August 10, 2006 with Nu Star Exploration LLC, the Company acquired certain claims in the Arizona Uranium project area. Pursuant to this agreement, the Company's commitments are as follows:

(i) An initial payment of US $20,000 (paid).

(ii) US $30,000 on or before August 10, 2007 (paid).

(iii) US $40,000 on or before August 10, 2008.

(iv) US $100,000 on or before August 10, 2009.

This property is subject to a 4% royalty of which a 3% royalty can be bought back for US $500,000.

(e)

MacArthur Claim

Pursuant to an agreement made October 2005 with North Exploration LLC, the Company acquired the right to earn an interest in certain unpatented mining claims covering the former MacArthur copper-oxide mine, in the Yerington district of Lyon County, Nevada. The Company met its obligation of US $100,000 in staged payments by January 15, 2007, incurred US $500,000 in exploration expenditures by January 15, 2008, and may elect to acquire the property by making further payments totaling US $2,545,000.

5.

Mineral Properties, continued

(e)

MacArthur Claim, continued

To earn a 100% interest, subject to a 2% NSR, the Company is required to make total staged payments by January 15, 2010 as follows:

(i) US $10,000 upon execution (paid).

(ii) US $25,000 on or before January 15, 2006 (paid).

(iii) US $75,000 on or before January 15, 2007 (paid).

(iv) US $100,000 on or before January 15, 2008 (paid).

(v) US $125,000 on or before January 15, 2009.

(vi) US $2,420,000 on or before January 15, 2010.

The property is subject to a 2% NSR, 1% of which the Company may purchase for US $1 million.

By amendment dated January 17, 2007, US $350,000 will be deducted from the final payment of US $2,420,000.

(f)

Yerington

The Company has entered into an agreement to acquire all the assets of Arimetco Inc., a Nevada corporation, in the Yerington Mining District, Lyon County, Nevada. This transaction is subject to a 180 day review period (starting July 13, 2007), which may be extended for a further 120 days under certain circumstances (the Company extended its review by the 120 days subsequent to December 31, 2007).

Subject to regulatory approval, the consideration to be paid and issued by the Company is comprised of a payment of US $500,000 (of which US $100,000 has been paid as a non-refundable deposit) and the issuance of 250,000 common shares (allotted from treasury but not distributed (Note 7 (b))).

The property will be subject to a 2% NSR capped at US $7.5 million on production from any claims owned by the Company in the Yerington and MacArthur mine areas.

(g)

Other Properties

Mexico

Pursuant to an agreement made in December 2006, the Company acquired a 100% interest in certain mineral concessions located in Mexico for consideration of 200,000 common shares with a deemed value of $1.53 per share for a total value of $306,000 (Note 7 (d)).

5.

Mineral Properties, continued

(g)

Other Properties, continued

United States

S.W. Tintic Claims

Pursuant to an agreement made in March 2007, the Company acquired the right to earn an interest in certain unpatented mining claims, which forms part of the S.W. Tintic Claims in Juab County, Utah. To earn a 100% interest, the Company is required to make staged payments totaling US $1 million by February 16, 2018 as follows:

(i) Initial payment of US $20,000 (paid).

(ii) US $20,000 on or before February 15, 2008 (paid).

(iii) US $20,000 on or before February 15, 2009.

(iv) US $40,000 on or before February 15, 2010.

(v) US $50,000 on or before February 15, 2011.

(vi) US $50,000 on or before February 15, 2012.

(vii) US $100,000 on or before February 15, 2013.

(viii) US $100,000 on or before February 15, 2014.

(ix) US $100,000 on or before February 15, 2015.

(x) US $250,000 on or before February 15, 2016.

(xi) US $250,000 on or before February 15, 2017.

Alternatively, the Company may acquire the property at any time by paying $1 million less any previously paid amounts. The property is subject to a 2% NSR, 1% of which the Company may purchased for US $1 million.

Pursuant to another agreement made in August 2007, the Company acquired the right to earn an interest in further unpatented mining claims, which also form part of the S.W. Tintic Claims in Juab County, Utah. To earn a 100% interest, the Company is required to make the following payments:

(i) Initial payment of US $254,410 (paid).

(ii) US $5,000 deposit (paid).

(iii) US $275,000 on or before August 29, 2008. *

(iv) US $275,000 on or before August 29, 2009. *

* The US $550,000 note has a term of two years, with no interest. The Company has guaranteed full payment of this note.

5. Mineral Properties, continued

(g) Other Properties, continued

Gray Hills

Pursuant to an agreement made in July 2007, the Company entered into a lease with an option to purchase certain mining claims, known as the Gray Hills claims in Lions County, Nevada. To earn a 100% interest, the Company is required to make staged payments as follows:

(i) Initial payment of US $15,000 (paid).

(ii) US $20,000 on or before July 11, 2007 (paid).

(iii) US $25,000 on or before July 11, 2008.

(iv) US $30,000 on or before July 11, 2009.

(v) US $35,000 on or before July 11, 2010.

(vi) US $40,000 on or before July 11, 2011 and each anniversary until such time the option to purchase the properties is exercised by the Company or the optionee chooses to withdraw from the lease.

The Company may exercise its option to purchase at any time, for US $500,000.

The property is subject to a 3% NSR, up to 2% of which may purchased by the Company for US $500,000 per 1%.

Herbert Glacier

Pursuant to an agreement made in November 2007, the Company acquired the right to earn an interest in certain mining claims, known as the Herbert Glacier in Mineral County, Nevada. To earn a 100% interest, the Company is required to make the following advance royalty payments:

(i) Initial payment of US $12,000 (paid).

(ii) US $12,000 on or before November 19, 2008.

(iii) US $12,000 on or before November 19, 2009.

(iv) US $12,000 on or before November 19, 2010.

(v) US $12,000 on or before November 19, 2011.

(vi) US $20,000 on or before November 19, 2012.

(vii) US $20,000 on or before November 19, 2013.

(viii) US $20,000 on or before November 19, 2014.

(ix) US $20,000 on or before November 19, 2015.

(x) US $20,000 on or before November 19, 2016.

(xi) US $20,000 on or before November 19, 2017.

(xii) US $30,000 on or before November 19, 2018 and every consecutive anniversary thereafter.

The Company must also incur US $25,000 in exploration expenditures by November 19, 2008 and a further US $25,000 in exploration expenditures each year thereafter.

5. Mineral Properties, continued

(g) Other Properties, continued

Herbert Glacier, continued

The property is subject to NSR as follows:

(i) 3.0% on gold price less than US $400.

(ii) 3.5% on gold price between US $401 and US $500.

(iii) 4.0% on gold price between US $501 and $600.

(iv) 5.0% on gold price above US $601.

NSR shall be paid on or before the 30 th day of the following calendar quarter.

Texas Claims

Pursuant to an option agreement made in March 2007, the Company may acquire a 100% interest in certain prospect permits. The option payments are as follows:

(i) Initial payment of US $50,000 (paid).

(ii) US $50,000 on or before March 27, 2008.

(iii) US $60,000 on or before March 27, 2009.

(iiii) US $70,000 on or before March 27, 2010.

(iv) US $150,000 on or before March 27, 2011.

(v) US $220,000 on or before March 27, 2012.

Copper Canyon Project

Pursuant to an agreement made in November 2007, the Company acquired the right to earn an interest in certain mining claims, known as the Copper Canyon Project in Mineral County, Nevada. To earn a 100% interest, the Company is required to make staged payments totaling US $625,000 by November 6, 2011 as follows:

(i) Initial payment of US $15,000 (paid).

(ii) US $35,000 on or before November 6, 2008.

(iii) US $75,000 on or before November 6, 2009.

(iv) US $150,000 on or before November 6, 2010.

(v) US $350,000 on or before November 6, 2011.

The property is subject to a 2.5% NSR, 0.5% of which may be purchased by the Company for US $500,000.

Should the Company decide to commence commercial production, a payment of $750,000 is due within five business days from the date the decision is made.

5.

Mineral Properties, continued

(g)

Other Properties, continued

Majuba Hill

Pursuant to an agreement made in December 2007, the Company acquired the right to earn an interest in certain mining claims, known as the Majuba Hill in Mineral County, Nevada. To earn a 100% interest, the Company is required to make staged payments totaling US $3,000,000 by December 10, 2015 as follows:

(i) Initial payment of US $100,000 (paid).

(ii) US $100,000 on or before December 10, 2008.

(iii) US $100,000 on or before December 10, 2009.

(iv) US $250,000 on or before December 10, 2010.

(v) US $250,000 on or before December 10, 2011.

(vi) US $500,000 on or before December 10, 2012.

(vii) US $500,000 on or before December 10, 2013.

(viii) US $500,000 on or before December 10, 2014.

(ix) US $700,000 on or before December 10, 2015.

The Company must also incur cumulative US $1,000,000 in exploration expenditures by December 10, 2012. Should the Company incur less than US $1,000,000, the Company must pay the shortfall to the vendor by December 10, 2012.

On commencement of mining operations the property is subject to a 3% NSR, 1% of which the Company may purchase for US $1,000,000.

Canada

The option agreements from 2001, for the Arc and Brown Claims in the Skeena Mining District were terminated in 2006 and, accordingly, 100% interest reverted back to the Company.

No acquisition or exploration costs relating to these claims remain deferred as part of mineral property expenditures.

5. Mineral Properties, continued

The breakdown of other property exploration and acquisition costs as at December 31, 2007 were as follows:

Other properties	SW Tintic	Gray Hills	Las Americas	Mirasol	Jaboncillos	Peg Leg	Carbon County	Cerro Blanco	Herbert Glacier	Texas Claims	INDE Durango	La Reforma	Copper Canyon	Majuba Hill	Total
Acquisition															
Balance, December 31, 2006	$ 33,209	$ 25,032	$ 118,094	$112,688	$ 107,098	$ 57,089	$ 1,708	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 454,918
Additions during the year	927,800	44,915	4,745	79,215	1,150	63,521	-	22,633	55,774	63,602	4,572	3,716	16,604	101,058	1,389,305
Balance, December 31, 2007	961,009	69,947	122,839	191,903	108,248	120,610	1,708	22,633	55,774	63,602	4,572	3,716	16,604	101,058	1,844,223
Exploration															
Balance, December 31, 2006	456	18,172	5,606	3,214	3,891	9,115	797	-	-	-	-	-	-	-	41,251
Advances	-	-	1,899	7,511	-	646	-	-	-	-	-	-	-	-	10,056
Air support	-	-	-	-	-	-	-	-	31,373	-	-	-	-	-	31,373
Assays and surveys	-	5,524	8,930	72,917	9,765	-	-	-	8,684	-	933	1,354	-	-	108,107
Camp costs	-	89	-	17,820	-	805	-	-	8,630	336	-	-	-	-	27,680
Equipment rental and maintenance	-	-	-	10,074	-	-	-	-	2,194	278	-	-	-	-	12,546
Exploration and other	296	1	167	5,288	-	657	-	63	2,920	53	133	-	-	-	9,578
Field supplies and wages	739	1,031	185	48,853	-	-	-	-	9,868	-	1,809	-	-	-	62,485
Geological services	8,309	21,626	743	47,686	-	22,285	-	-	38,779	-	471	-	-	-	139,899
Project management	-	-	248	112,940	1,051	-	-	-	-	-	-	-	-	-	114,239
Travel and related costs	-	-	978	7,694	-	373	-	142	7,955	-	-	-	-	-	17,142
Vehicle expenses	-	2,040	-	14,569	-	49	-	-	472	-	-	-	-	-	17,130
Net additions during the year	9,344	30,311	13,150	345,352	10,816	24,815	-	205	110,875	667	3,346	1,354	-	-	550,235
Balance, December 31, 2007	9,800	48,483	18,756	348,566	14,707	33,930	797	205	110,875	667	3,346	1,354	-	-	591,486
Total acquisition and exploration	**$970,809**	**$118,430**	**$ 141,595**	**$540,469**	**$ 122,955**	**$154,540**	**$ 2,505**	**$ 22,838**	**$166,649**	**$ 64,269**	**$ 7,918**	**$ 5,070**	**$ 16,604**	**$101,058**	**$2,435,709**

5.

Mineral Properties, continued

The breakdown of other property exploration and acquisition costs as at December 31, 2006 were as follows:

Other Mineral Properties	SW Tintic	Gray Hills	Las Americas	Mirasol	Jaboncillos	Peg Leg	Carbon County	Total Other properties
Acquisition								
Balance, December 31, 2005	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions during the year	33,209	25,032	118,094	112,688	107,098	57,089	1,708	454,918
Balance, December 31, 2006	33,209	25,032	118,094	112,688	107,098	57,089	1,708	454,918
Exploration								
Balance, December 31, 2005	-	-	-	-	-	-	-	-
Assasys and surveys	-	1,833	3,409	1,519	2,070	96	-	8,927
Camp costs	-	620	-	-	-	-	-	620
Exploration and other	456	-	17	11	20	4,555	797	5,856
Field supplies and wages	-	48	220	198	541	-	-	1,007
Geological services	-	14,051	411	262	9	4,464	-	19,197
Travel and related costs	-	1,052	1,549	1,224	1,251	-	-	5,076
Vehicle expenses	-	568	-	-	-	-	-	568
Net additions during the year	456	18,172	5,606	3,214	3,891	9,115	797	41,251
Balance, December 31, 2006	456	18,172	5,606	3,214	3,891	9,115	797	41,251
Total acquisition and exploration	**$ 33,665**	**$ 43,204**	**$ 123,700**	**$ 115,902**	**$ 110,989**	**$ 66,204**	**$ 2,505**	**$ 496,169**

(h)

Title to Mineral Properties

Title to mineral properties may be affected by unregistered prior agreements or transfers, as well as undetected defects. Although the Company has verified title to its mineral properties in accordance with standard industry practices applicable for the current stage of exploration, these procedures do not guarantee the Company's interests in its mineral properties.

(i)

Environmental Expenditures

The operations of the Company may, in the future, be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

5.

Mineral Properties, continued

(i)

Environmental Expenditures, continued

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation, net of expected recoveries.

6.

Related Party Transactions

As at December 31, 2007, $86,391 (2006: $26,216) was due to directors or senior officers of the Company or to companies controlled by them, without interest or stated terms of repayment, for various services rendered and $12,500 (2006: Nil) was included in prepaids and deposits. The following table summarizes the Company's related party transactions for the years ended December 31, 2007, 2006 and 2005.

		2007	2006	2005
Services				
Administration fee		$ 116,000	$ 60,000	$ 60,000
Consulting		$ 172,283	$ 101,529	$ 48,568
Directors' and officers' fees		$ 41,984	$ 5,625	$ -
General exploration		$ -	$ 4,306	$ -
Investor relations		$ 39,794	$ 36,943	$ 36,167
Office and general	(1)	$ 19,753	$ 2,536	$ -
Professional fees		$ 83,188	$ 51,658	$ 55,549
Share issue costs	(2)	$ 1,170	$ 27,698	$ -
Wages and benefits		$ 238,747	$ 49,746	$ -
Mineral properties				
Nieves	(3)	$ -	$ 1,320	$ -
Los Crestones	(3)	$ 1,920	$ -	$ -
Alaskan Properties	(3)	$ 9,537	$ 14,603	$ -
Uranium Properties	(3)	$ 58,001	$ 83,372	$ 16,178
MacArthur	(3)	$ 58,758	$ 50,195	$ 6,396

(1) This amount represents a percentage administration fee paid on recoverable expenses

(2) This amount has been capitalized and is included in share capital on the balance sheet

(3) These amounts have been capitalized and are included in mineral properties on the balance sheet

These transactions were made in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the Company and related parties. They are considered related parties due to the following relationships to the Company:

(a) A private company controlled by directors or officers of the Company.

(b) A director and/or officer of the Company.

(c) An association of lawyers in which an officer of the Company is a member (resigned May 1, 2006).

7. Share Capital

(a) Authorized

The Company has unlimited authorized, without par value, common shares.

(b) Issued and Outstanding

	Number of Shares	Total	Contributed Surplus
Balance as at December 31, 2005	**65,522,200**	**$ 15,172,975**	**$ 1,013,998**
Issued for cash:			
Private placements	5,247,855	9,183,746	-
Exercised share purchase warrants	3,814,281	1,907,141	-
Exercised stock options	2,829,000	675,030	-
Total issued for cash	11,891,136	11,765,917	-
Issued for mineral property acquisitions	400,000	606,000	-
Issued for finders' fees	291,484	510,097	-
Fair value of stock options exercised	-	349,445	(349,445)
Stock-based compensation	-	-	3,045,004
Subtotal before share issue costs	12,582,620	13,231,459	2,695,559
Share issue costs	-	(543,376)	-
Balance as at December 31, 2006	**78,104,820**	**27,861,058**	**3,709,557**
Issued for cash:			
Exercised share purchase warrants	2,480,785	5,581,766	-
Exercised stock options	2,108,500	1,288,515	-
Total issued for cash	4,589,285	6,870,281	-
Issued for mineral property acquisition	200,000	586,000	-
Allotted for mineral property acquisition (Note 5 (f))	250,000	695,000	-
Issued for services	22,900	67,500	-
Fair value of stock options exercised	-	801,925	(801,925)
Stock-based compensation	-	-	4,502,163
Subtotal before share issue costs	5,062,185	9,020,706	3,700,238
Share issue costs	-	(6,316)	-
Balance as at December 31, 2007	**83,167,005**	**$ 36,875,448**	**$ 7,409,795**

7. Share Capital, continued

(c) Private Placements

There were no private placements during the year ended December 31, 2007.

During the year ended December 31, 2006, the Company issued 5,247,855 units at a price of $1.75 per unit for gross proceeds of $9,183,746. Each unit consisted of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase an additional common share at a price of $2.25 until expiry on June 21, 2008. The Company incurred net share issuance costs of $502,596, including 291,484 common shares issued for finders' fees valued at $510,097, resulting in net proceeds of $8,681,150 from the private placement.

(d) Shares Issued for Mineral Property

During the year ended December 31, 2007, the Company issued 450,000 common shares for value at $1,281,000.

(i) 200,000 common shares valued at $2.93 per share, $586,000 in total, pursuant to the terms of the uranium properties agreement (Note 5 (d)).

(ii) 250,000 common shares valued at $2.78 per share, $695,000 in total, pursuant to the acquisition of the Yerington property. These shares have been issued from treasury but have not been distributed. They will only be distributed when all terms of the Yerington property agreement have been met (Note 5 (f)).

During the year ended December 31, 2006, the Company issued 400,000 common shares for value at $606,000.

(i) 200,000 common shares valued at $1.50 per share, $300,000 in total, pursuant to the terms of the uranium properties agreement (Note 5 (d)).

(ii) 200,000 common shares valued at $1.53 per share, $306,000 in total, pursuant to the acquisition of three mineral concessions in Mexico (Note 5 (g)).

(e) Share Purchase Warrants

A summary of the Company's share purchase warrant transactions for the year ended December 31, 2007 is as follows:

Exercise Price	Expiry Date	Balance Dec 31, 2006	Warrants Issued	Expired	Warrants Exercised	Balance Dec 31, 2007
$2.25	June 21, 2008	2,623,928	-	143,143	2,480,785	-
Weighted average exercise price		$2.25	$0.00	$0.00	$2.25	$0.00

7. Share Capital, continued

(e) Share Purchase Warrants, continued

On July 20, 2007, notice was given to holders of the share purchase warrants exercisable at $2.25 with an expiry date of June 21, 2008, of an acceleration of the expiry date from June 21, 2008 to August 20, 2007. These warrants have now either been exercised or have expired.

A summary of the Company's share purchase warrant transactions for the year ended December 31, 2006 are as follows:

Exercise Price	Expiry Date	Balance Dec 31, 2005	Warrants Issued	Expired	Warrants Exercised	Balance Dec 31, 2006
$0.66	January 20, 2006	120,000	-	120,000	-	-
$0.50	September 27, 2007	3,250,000		-	3,250,000	-
$0.50	September 27, 2007	564,281		-	564,281	-
$2.25	June 21, 2008	-	2,623,928	-	-	2,623,928
		3,934,281	**2,623,928**	**120,000**	**3,814,281**	**2,623,928**
Weighted average exercise price		$ 0.50	$ 2.25	$ 0.66	$ 0.50	$ 2.25

(f) Stock Options

As at December 31, 2007 and 2006, the Company had a stock option plan (the "Plan") allowing for the reservation of common shares issuable under the Plan to a maximum 10% of the number of issued and outstanding common shares of the Company at any given time. The term of any stock option granted under the Plan may not exceed five years and the exercise price may not be less than the closing price of the Company's shares on the last business day immediately preceding the date of grant, less any permitted discount. On an annual basis, the Plan requires approval by the Company's shareholders and submission for regulatory review and acceptance.

7.

Share Capital, continued

(f)

Stock Options, continued

The purpose of the Plan is to provide directors, officers, key employees and certain other persons who provided services to the Company and its subsidiaries with an increased incentive to contribute to the future success and prosperity of the Company.

As at December 31, 2007 and 2006, all options granted were vested and exercisable. Transactions for the years ended December 31, 2007 and 2006 are as follows:

Exercise Price	Expiry Date	Balance Dec 31, 2006	Options Granted	Options Forfeited	Options Exercised	Balance Dec 31, 2007
$0.12	January 10, 2008	937,000	-	-	767,000	170,000
$0.25	October 2, 2008	50,000	-	-	50,000	-
$0.34	December 8, 2008	90,000	-	-	20,000	70,000
$0.62	March 25, 2009	590,000	-	-	445,000	145,000
$0.35	August 9, 2010	850,000	-	-	316,500	533,500
$0.40	January 9, 2011	200,000	-	-	-	200,000
$1.04	March 27, 2011	125,000	-	-	-	125,000
$1.00	May 19, 2011	75,000	-	-	-	75,000
$1.12	June 12, 2011	100,000	-	-	-	100,000
$1.55	July 28, 2011	2,110,000	-	-	510,000	1,600,000
$1.55	August 23, 2011	100,000	-	-	-	100,000
$1.50	September 25, 2011	100,000	-	-	-	100,000
$2.05	December 18, 2011	100,000	-	-	-	100,000
$2.65	January 11, 2012	-	75,000	-	-	75,000
$2.70	February 21, 2012	-	25,000	-	-	25,000
$3.33	July 20, 2012	-	2,031,000	20,000	-	2,011,000
$3.33	August 7, 2012	-	80,000	-	-	80,000
$2.93	October 9, 2012	-	50,000	-	-	50,000
		5,427,000	**2,261,000**	**20,000**	**2,108,500**	**5,559,500**
Weighted average exercise price		$ 0.92	$ 3.29	$ 3.33	$ 0.61	$ 1.99

7. Share Capital, continued

(f) Stock Options, continued

Exercise Price	Expiry Date	Balance Dec 31, 2005	Options Granted	Options Forfeited	Options Exercised	Balance Dec 31, 2006
$0.15	February 8, 2006	50,000	-	-	50,000	-
$0.15	May 7, 2006	55,000	-	-	55,000	-
$0.12	June 8, 2006	515,000	-	-	515,000	-
$0.19	September 27, 2006	490,000	-	-	490,000	-
$0.12	January 10, 2008	1,591,000	-	-	654,000	937,000
$0.25	October 2, 2008	75,000	-	-	25,000	50,000
$0.34	December 8, 2008	195,000	-	-	105,000	90,000
$0.65	March 2, 2009	100,000	-	100,000	-	-
$0.62	March 25, 2009	800,000	-	-	210,000	590,000
$0.35	August 9, 2010	1,575,000	-	-	725,000	850,000
$0.40	January 9, 2011	-	200,000	-	-	200,000
$1.04	March 27, 2011	-	125,000	-	-	125,000
$1.00	May 19, 2011	-	75,000	-	-	75,000
$1.12	June 12, 2011	-	100,000	-	-	100,000
$1.55	July 28, 2011	-	2,110,000	-	-	2,110,000
$1.55	August 23, 2011	-	100,000	-	-	100,000
$1.50	September 25, 2011	-	100,000	-	-	100,000
$2.05	December 18, 2011	-	100,000	-	-	100,000
		5,446,000	**2,910,000**	**100,000**	**2,829,000**	**5,427,000**
Weighted average exercise price		$ 0.29	$ 1.44	$ 0.65	$ 0.24	$ 0.92

(g) Value Assigned to Stock Options

The fair value of stock options granted using the Black-Scholes option pricing model was calculated with the following weighted average assumptions:

	2007	2006	2005
Risk-free interest rate	4.57%	4.02%	2.98%
Expected share price volatility	89.42%	121.60%	101.97%
Expected option life in years	3.0	3.5	2.0
Expected dividend yield	0%	0%	0%

7.

Share Capital, continued

(g)

Value Assigned to Stock Options, continued

The total calculated fair value of options expensed during the year ended December 31, 2007 was $4,502,163 (2006: $3,045,004; 2005: $330,842) and are included in the statement of operations as follows:

	2007		2006		2005	
	Number of Options	Stock-based Compensation	Number of Options	Stock-based Compensation	Number of Options	Stock-based Compensation
Consulting	1,155,000	$ 2,260,416	1,315,000	$ 1,476,044	300,000	$ 63,018
Directors' and officers' fees	855,000	1,745,631	725,000	749,697	950,000	199,555
Wages and benefits	251,000	496,116	870,000	819,263	325,000	68,269
Total	**2,261,000**	**$ 4,502,163**	**2,910,000**	**$ 3,045,004**	**1,575,000**	**$ 330,842**

8.

Income Taxes

As at December 31, 2007, the Company has non-capital losses of approximately $4,165,000 that may be applied against future income for Canadian income tax purposes. The potential future tax benefits of these losses have not been recorded in these financial statements. The losses expire as follows:

	2007
2008	$ 349,000
2009	235,000
2010	228,000
2014	284,000
2015	360,000
2026	698,000
2027	2,011,000
	$ 4,165,000

In addition, the Company has tax losses of approximately US $4,980,000 that may be applied against future taxable income in Mexico, which expire in stages over a 10 year period; and tax losses of approximately US $11,588,000 that may be applied against future taxable income in the USA.

8.

Income Taxes, continued

The future benefits of these losses and deductions have not been recorded in the accounts. A reconciliation of income tax provision computed at statutory rates to the reported income tax provision is provided as follows:

	2007	2006	2005
Loss before income taxes	$ (7,303,204)	$ (3,830,534)	$ (788,060)
Income tax rate	34.12%	34.12%	34.12%
Income tax benefit computed at Canadian statutory rates	$ 2,491,853	$ 1,306,978	$ 268,886
Foreign tax rates different from statutory rates	(5,780)	(97)	(6,233)
Permanent differences	(1,539,031)	(1,039,788)	(113,337)
Temporary difference	20,795	(2,347)	5,508
Unrecognized tax losses	(967,837)	(264,746)	(154,824)
	$ -	$ -	$ -

Significant components of the Company's future income tax assets, after applying enacted corporate income tax rates, are as follows:

	2007	2006	2005
Future income tax assets			
Temporary differences on assets	$ (3,147,371)	$ (1,023,999)	$ (194,685)
Losses carried forward	6,732,684	3,470,453	2,101,654
	3,585,313	2,446,454	1,906,969
Valuation allowance for future income tax assets	(3,585,313)	(2,446,454)	(1,906,969)
Future income tax assets, net	$ -	$ -	$ -

9. Segmented Information

The Company has only one industry segment, the exploration of mineral properties. The Company's non-current assets are distributed by geographic locations as follows:

	2007					2006			
	Prepaids and Deposits	Equipment	Mineral Properties	Reclamation Bond	Total	Equipment	Mineral Properties	Reclamation Bond	
Canada	$ 12,811	$ 22,335	$ -	$ -	$ 35,146	$ 24,997	$ -	$ -	
Mexico	-	56,276	4,693,257	-	$ 4,749,533	25,488	2,785,632	-	
U.S.A.	8,003	101,841	14,861,449	139,492	$ 15,110,785	1,089	5,070,200	79,898	
	$ 20,814	$ 180,452	$ 19,554,706	$ 139,492	$ 19,895,464	$ 51,574	$ 7,855,832	$ 79,898	

10. Supplemental Cash Flow Information

	2007	2006	2005
Cash Items			
Interest received	$ 263,818	$ 70,999	$ 34,470
Share issue costs	$ 6,316	$ 61,524	$ -
Interest paid	$ -	$ -	$ -
Taxes paid	$ -	$ -	$ -
Non-Cash Items			
Investing Activity			
Mineral property costs included in account payable	$ 900,613	$ 155,522	$ -
Financing Activities			
Non-cash share issue costs	$ -	$ 482,154	$ -
Shares issued for services	$ 67,500	$ -	$ -
Shares issued for mineral property	$ 1,281,000	$ 606,000	$ 76,000
Shares issued for finders fees	$ -	$ 510,097	$ -
Promissory note issued for mineral properties	$ 540,100	$ -	$ -
Cash and cash equivalents			
Cash	$ 2,411,052	$ 414,933	$ 375,285
Term deposits and bankers acceptance	978,848	8,697,799	1,411,013
	$ 3,389,900	**$ 9,112,732**	**$ 1,786,298**

11. Subsequent Events

The following occurred subsequent to December 31, 2007:

(a) 570,700 stock options with an average price of $0.42 per share were exercised for gross proceeds of $240,435.

(b) 7,653 common shares were issued at a price of $2.94 for services.

(c) The following agreements were implemented as at January 1, 2008:

(i) The employment agreement of the VP of Exploration was renewed.

(ii) The management agreement with a related party was renewed.

(iii) The employment agreement for the President was renewed.

(d) On February 5, 2008, the Company released US $83,000 towards the acquisition of all the assets of Arimetco Inc., a Nevada corporation, in the Yerington Mining District, Lyon County, Nevada (Note 5 (f)).

(e) Subject to regulatory approval, the Company is in the process of raising funds through a private placement of up to 4,000,000 units at a price of US $3.20 per unit for potential gross proceeds of US $12,800,000. Each unit will consist of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase an additional common share at a price of US $4.20 until expiry 18 months subsequent to the closing date.

(f) The Company has received US $509,300 from Blackberry in respect to its joint venture property Nieves.

(g) On March 3, 2008, the Company's common shares were approved for listing on the American Stock Exchange under the symbol QMM.

12. Differences Between Canadian and United States Generally Accepted Accounting Principles

(a) Differences in Accounting Principles

(i) Exploration expenditures

Under Canadian GAAP, acquisition costs of mineral properties and exploration expenditures are capitalized (Note 5).

Under US GAAP, exploration costs incurred in locating areas of potential mineralization are expensed as incurred. Commercial feasibility is established in compliance with SEC Industry Guide 7, which consists of identifying that part of a mineral deposit that could be economically and legally extracted or produced at the time of the reserve determination. After an area of interest has been assessed as commercially feasible, expenditures specific to the area of interest for further development are capitalized. In deciding when an area of interest is likely to be commercially feasible, management may consider, among other factors, the results of pre-feasibility studies, detailed analysis of drilling results, the supply and cost of required labour and equipment, and whether necessary mining and environmental permits can be obtained. To date no exploration expenses have been capitalized under US GAAP.

The Company has adopted EIFT 04-02 and separately reports the aggregate carrying amount of mineral rights. Mineral rights include an option for the Company to acquire the rights to extract and retain at least a portion of the benefits from the mineral deposits. Acquisition costs include cash and the fair market value of common shares for the mineral rights. These capitalized costs will be amortized over the estimated life of the property following commencement of commercial production or written off if the property is sold, allowed to lapse or abandoned, or when an impairment of value has occurred.

12. Differences Between Canadian and United States Generally Accepted Accounting Principles, continued

(a) Differences in Accounting Principles, continued

(ii) Reconciliation of total assets, liabilities and stockholders' equity:

	Years Ended December 31, 2007	2006
Total assets per Canadian GAAP	**$** 24,198,211	**$** 17,340,544
Exploration expenditures on mineral properties expensed under US GAAP	(13,110,749)	(5,196,365)
Total assets per US GAAP	**$ 11,087,462**	**$ 12,144,179**
Total liabilities per Canadian GAAP	**$** 1,706,270	**$** 277,527
Adjustments to US GAAP	-	-
Total liabilities per US GAAP	1,706,270	277,527
Total equity per Canadian GAAP	22,491,941	17,063,017
Exploration expenditures on mineral properties expensed under US GAAP	(13,110,749)	(5,196,365)
Total equity per US GAAP	9,381,192	11,866,652
Total liabilities and equity per US GAAP	**$ 11,087,462**	**$ 12,144,179**

12.

Differences Between Canadian and United States Generally Accepted Accounting Principles, continued

(a)

Differences in Accounting Principles, continued

(iii) Reconciliation of net loss reported in Canadian GAAP and US GAAP:

	Years ended December 31,		
	2007	**2006**	**2005**
Reconciliation of net loss fromCanadian GAAP to US GAAP			
Loss for year per Canadian GAAP	**$** 7,303,204	**$** 3,830,534	**$** 788,060
Exploration expenditures on mineral properties	7,914,384	2,646,351	1,172,538
Net loss for year per US GAAP	**15,217,588**	**6,476,885**	**1,960,598**
Deficit, beginning of year per US GAAP	19,686,463	13,209,578	11,248,980
Deficit, end of year as per US GAAP	**$ 34,904,051**	**$ 19,686,463**	**$ 13,209,578**
Net loss per share for the year in accordance with Canadian GAAP	$ 0.09	$ 0.05	$ 0.01
Total differences	0.10	0.04	0.02
Net loss per share for the year in accordance with US GAAP	$ 0.19	$ 0.09	$ 0.03
Weighted average number of common shares outstanding	79,971,435	69,964,072	60,318,200

12. Differences Between Canadian and United States Generally Accepted Accounting Principles, continued

(a) Differences in Accounting Principles, continued

(iv) Reconciliation of cash flows reported in Canadian GAAP and US GAAP:

	Years ended December 31,		
	2007	**2006**	**2005**
Cash used in operating activities in accordance with Canadian GAAP	$ (2,772,139)	$ (1,046,844)	$ (415,178)
Adjustments to net loss involving use of cash			
Write-off of expenditures on mineral properties	(7,914,384)	(2,646,351)	(1,172,538)
Cash used in operating activities in accordance with US GAAP	(10,686,523)	(3,693,195)	(1,587,716)
Cash used in investing activities in accordance with Canadian GAAP	(9,832,158)	(3,341,860)	(1,897,328)
Reclassification of expenditures on mineral property interest	7,914,384	2,646,351	1,172,538
Cash used in investing activities in accordance with US GAAP	(1,917,774)	(695,509)	(724,790)
Cash provided by financing activities in accordance with Canadian and US GAAP	6,881,465	11,715,138	2,416,145
Increase (decrease) in cash during the year in accordance with Canadian and US GAAP	(5,722,832)	7,326,434	103,639
Cash, beginning of year in accordance with Canadian and US GAAP	9,112,732	1,786,298	1,682,659
Cash, end of year in accordance with Canadian and US GAAP	$ 3,389,900	$ 9,112,732	$ 1,786,298

12. Differences Between Canadian and United States Generally Accepted Accounting Principles, continued

(b) Recent Accounting Pronouncements

(i) SFAS 154, *Accounting Changes and Error Corrections*. This new standard replaces APB Opinion No. 20, *Accounting Changes*, and FASB 3, *Reporting Accounting Changes in Interim Financial Statements*. Statement 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. Statement 154 also provides that (1) a change in method of depreciating or amortizing a long-lived non- financial asset be accounted for as a change in estimate (prospectively) that was effected by a change in accounting principle, and (2) correction of errors in previously issued financial statements should be termed a "restatement." The new standard is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Early adoption of this standard is permitted for accounting changes and correction of errors made in fiscal years beginning after June 1, 2005. There is no impact on the Company's consolidated financial statements.

(ii) SFAS 157, *Fair Value Measurements*. The provisions of this standard are to provide guidance for using fair value to measure assets and liabilities. The standard clarifies methods for measuring items not actively traded and the principles that fair value should be based upon when pricing an asset or liability. The provisions of Statement 157 are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year. There is no impact on the Company's consolidated financial statements.

(iii) On July 13, 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Additionally, Interpretation 48 provides guidance on de- recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Interpretation 48 is effective for fiscal years beginning after December 15, 2006, with early adoption permitted. There is no impact on the Company's consolidated financial statements.

12.

Differences between Canadian and United States Generally Accepted Accounting Principles, continued

(b)

Recent accounting pronouncements, continued

(iv)

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – an Amendment of FASB Statement No. 115*, which permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Adoption is required for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of the fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157. There is no impact on the Company's consolidated financial statements.

(v)

In September 2006, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin 108 ("SAB 108"). The interpretations in this bulletin express the staff's views regarding the process of quantifying financial statement misstatements and are being issued to address diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build up of improper amounts on the balance sheet. There is no impact on the Company's consolidated financial statements.

(vi)

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (SFAS 141(R)),* which replaces SFAS 141. SFAF 141(R) requires assets and liabilities acquired in a business combination, contingent consideration, and certain acquired contingencies to be measured at their fair values as of the date of acquisition. SFAS 141(R) also requires that acquisition- related costs and restructuring costs be recognized separately from the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and will be effective for business combinations entered into after January 1, 2009. There is no impact on the Company's consolidated financial statements.

(vii)

In December 2007, the FASB issued SFAS No. 160, *Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160)*. SFAS 160 clarifies the accounting for non-controlling interests and establishes accounting and reporting standards for the non-controlling interest in a subsidiary, including classification as a component of equity. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company does not currently have any minority interests.

13.

Comparative Figures

Certain of the 2006 and 2005 comparative figures have been reclassified to conform to the current year's presentation.



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Annual Information Form

For the year ended December 31, 2007
Dated March 26, 2008

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I. Date of Information

All information in this Annual Information Form ("AIF") is as of March 26, 2008 unless otherwise indicated.

II. Financial Statements

All financial information in this AIF is prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP").

This AIF should be read in conjunction with the Company's consolidated financial statements and notes thereto, as well as with the management's discussion and analysis ("MD&A") for the year ended December 31, 2007. The financial statements and MD&A are available at www.quaterraresources.com and under the Company's profile on the SEDAR website at www.sedar.com.

III. Reporting Currency

All dollar amounts are express in Canadian dollars unless otherwise indicated . Quaterra's quarterly and annual financial statements are presented in Canadian dollars and are prepared in accordance with Canadian generally accepted accounting principles.

IV. Disclosure of Mineral Resources

Disclosure about our exploration properties in this AIF uses the term "Mineral Resources", "Measured Mineral Resources", "Indicated Mineral Resources" and "Inferred Mineral Resources", which are Canadian geological and mining terms as defined in accordance with National Instrument 43-101, standards of disclosure for mineral projects of the Canadian Securities Administrators, set out in the Canadian Institute of Mining (CIM) Standards. None of our properties have mineral reserves. All disclosure about our exploration properties conforms to the standards of U.S. Securities and Exchange Commission Industry Guide 7, *description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations,* other than disclosure of "Mineral Resources", "Measured Mineral Resources", "Indicated Mineral Resources" and "Inferred Mineral Resources" which are discussed below:

a.

Cautionary Note to U.S. Investors concerning estimates of Measured Mineral Resources and Indicated Mineral Resources.

This AIF may use the terms "Measured Mineral Resource" and "Indicated Mineral Resource." We advise U.S. investors that while such terms are recognized and permitted under Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. U.S. investors are cautioned not to assume that any part of all of the Mineral Resources in these categories will every be converted into Mineral Reserves.

IV. Disclosure of Mineral Resources, continued

b. Cautionary Note to U.S. Investors concerning estimates of Inferred Mineral Resources.

This AIF may use the terms "Inferred Mineral Resource." We advise U.S. investors that while such terms are recognized and permitted under Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. "Inferred Mineral Resources" have a great amount of uncertainty as to their existence, and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred Mineral Resource will ever be upgraded to a higher category. Under Canadian rules estimates of Inferred Mineral Resources may not form the basis of feasibility or other economic studies. U.S. investors are cautioned not to assume that any part of all of the Inferred Mineral Resources exist, or is economically or legally mineable.

V. Forward Looking Statements and Cautionary Notes

Some of the statements contained in this AIF are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual results relating to, among other things, results of exploration, reclamation, capital costs, and the Company's financial condition and prospects, could differ materially from those currently anticipated in such statements for many reasons such as; changes in general economic conditions and conditions in the financial markets; changes in demand and prices for the minerals the Company expects to produce; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the Company's activities; and changing foreign exchange rates and other matters discussed in this AIF.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. Further information regarding these and other factors, which may cause results to differ materially from those projected in forward-looking statements, are included in the filings by the Company with securities regulatory authorities. The Company does not undertake to update any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities laws.

VI. Glossary of Terms and Definitions

Anomaly:

A geological feature distinguished by geological, geochemical or geophysical means, which is detectably different than the general surroundings and is sometimes of potential economic value.

Breccia:

Rock consisting of more or less angular fragments in a matrix of finer- grained material or cementing material.

Diamond drill:

A type of drill in which the cutting is done by abrasion using diamonds embedded in a matrix rather than by percussion. The drill cuts a core of rock which is recovered in long cylindrical sections.

Dilution:

Process whereby unwanted gangue or waste rock is mixed with ore during mining.

Epithermal:

A class of ore deposits that form generally less than 1 km from surface. These deposits, which can host economic quantities of gold, silver, copper, lead and zinc are formed as a result of the precipitation of ore minerals from up-welling hydrothermal fluids. There are several classes of epithermal deposits that are defined on the basis of fluid chemistry and resulting alteration and ore mineralogy. Fluid chemistry is largely controlled by the proximity to igneous intrusive rocks and as a result igneous fluid content.

Extrusive Rock:

Igneous rock that has solidified on the earth's surface from volcanic action.

Fluid inclusion:

A cavity, with or without negative crystal faces, containing one or two fluid phases, and possibly one or more minute crystals, in a host crystal. If two fluid phases are present, the vapor phase (bubble) may show Brownian motion.

Folds:

Flexures in bedded or layered rock formed when forces are applied gradually to rocks over a long period of time.

Fracture:

Breaks in a rock, usually due to intensive folding or faulting.

Gambusino:

An individual miner working without machinery.

Gangue:

Term used to describe worthless minerals or rock waste mixed in with the valuable minerals.

Gouge:

The finely ground rock that result from the abrasion along a fault surface.

VI. Glossary of Terms and Definitions, continued

Grade:

The concentration of each ore metal in a rock sample, usually given as weight percent. Where extremely low concentrations are involved, the concentration may be given in grams per tonne (g/t) or ounces per ton (oz/t). The grade of an ore deposit is calculated, often using sophisticated statistical procedures, as an average of the grades of a very large number of samples collected from throughout the deposit.

Hectare:

A square of 100 metres on each side.

Indicated Mineral Resource:

An 'Indicated Mineral Resource' is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as out-crops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

Inferred Mineral Resource:

An 'Inferred Mineral Resource' is that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

Lithology:

The physical characteristics of a rock or a rock formation.

Mafic:

A term used to describe ferromagnesian minerals. Rocks composed mainly of ferromagnesian minerals are correctly termed melanocratic.

Massive:

Used to describe sulfide ores containing more than 50% volume of sulphide.

VI. Glossary of Terms and Definitions, continued

Measured Mineral Resource:

A 'Measured Mineral Resource' is that part of a Mineral Resource for which quantity, grade or quality, densities, shape, physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters, to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

Mineral Deposit or Mineralized Material:

A mineralized body which has been intersected by sufficient closely spaced drill holes and or underground sampling to support sufficient tonnage and average grade of metal(s) to warrant further exploration- development work. This deposit does not qualify as a commercially mineable ore body (Reserves), as prescribed under Commission standards, until a final and comprehensive economic, technical, and legal feasibility study based upon the test results is concluded.

Mineral Resource:

A Mineral Resource is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.

Mineral Reserve:

A Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined.

Mineralization:

Usually implies minerals of value occurring in rocks.

Ore:

A natural aggregate of one or more minerals which may be mined and sold at a profit, or from which some part may be profitably separated.

VI. Glossary of Terms and Definitions, continued

Probable Mineral Reserve:

A 'Probable Mineral Reserve' is the economically mineable part of an Indicated, and in some circumstances a Measured, Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Properties as prospects:

A property is a claim owned by the Company and a prospect is a claim in which the Company holds an interest.

Proven Mineral Reserve:

A 'Proven Mineral Reserve' is the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Reserve(s):

A natural aggregate of one or more minerals which, at a specified time and place, may be mined and sold at a profit, or from which some part may be profitably separated.

Reverse circulation drill:

A rotary percussion drill in which the drilling mud and cuttings return to the surface through the drill pipe.

Tailings:

Material rejected from a mill after recoverable valuable minerals have been extracted.

VII. Glossary of Abbreviations

Ag:	Silver
Ag gm/t:	Silver grade measured in grams per metric tonne Converts to ounces per ton by dividing by 34.286
AMR:	Advance minimum royalty payments
Au:	Gold
Au gm/t:	Gold grade measured in grams per metric tonne Converts to ounces per ton by dividing by 34.286
Ba:	Barium
CAD:	Canadian dollars
Co:	Cobalt
CSAMT:	Controlled source audio-frequency magneto telluric geophysical survey
Cu:	Copper
EIS:	Environmental Impact Statement
Fe:	Iron
43-101:	Canadian National Instrument 43-101
gpm:	gallons per minute
gpt:	grams per tonne
g/t:	grams per tonne
IP:	Induced Polarization geophysical survey
m.y:	Million years
Ni:	Nickel
NSR:	Net smelter return royalty
Oz:	Troy ounce
oz/t or opt:	Ounces per ton.
Pb:	Lead
Pd:	Palladium
PGE:	Platinum Group Element
PGM:	Platinum group minerals
PPB:	Parts per billion
PPM:	Parts per million
Pt:	Platinum
S:	Sulphur
TD:	Total depth of a drill hole.
tpd:	Tonnes per day
TSX-V	Toronto Stock Exchange - Venture Exchange
US$:	U.S. dollars
U3O8:	Uranium oxide known as “yellow cake”.
VLF:	Very low frequency electromagnetic geophysical survey
VMS:	Volcanogenic massive sulphide

VIII. Conversion Tables

Conversion Table			
Imperial			**Metric**
1 Acre	=	0.404686	Hectares
1 Foot	=	0.304800	Metres
1 Mile	=	1.609344	Kilometres
1 Ton	=	0.907185	Tonnes
1 Ounce (troy)/ton	=	34.285700	Grams/Tonne

Information from www.onlineconversion.com

Precious metal units and conversion factors

ppb	- Part per billion	1	ppb	=	0.0010	ppm	=	0.000030	oz/t
ppm	- Part per million	100	ppb	=	0.1000	ppm	=	0.002920	oz/t
oz	- Ounce (troy)	10,000	ppb	=	10.0000	ppm	=	0.291670	oz/t
oz/t	- Ounce per ton (avdp.)	1	ppm	=	1.0000	ug/g	=	1.000000	g/tonne
g	- Gram								
g/tonne	- gram per metric ton	1	oz/t	=	34.2857	ppm			
mg	- milligram	1	Carat	=	41.6660	mg/g			
kg	- kilogram	1	ton (avdp.)	=	907.1848	kg			
ug	- microgram	1	oz (troy)	=	31.1035	g			

ITEM 1. CORPORATE STRUCTURE

I. Name, address and Incorporation

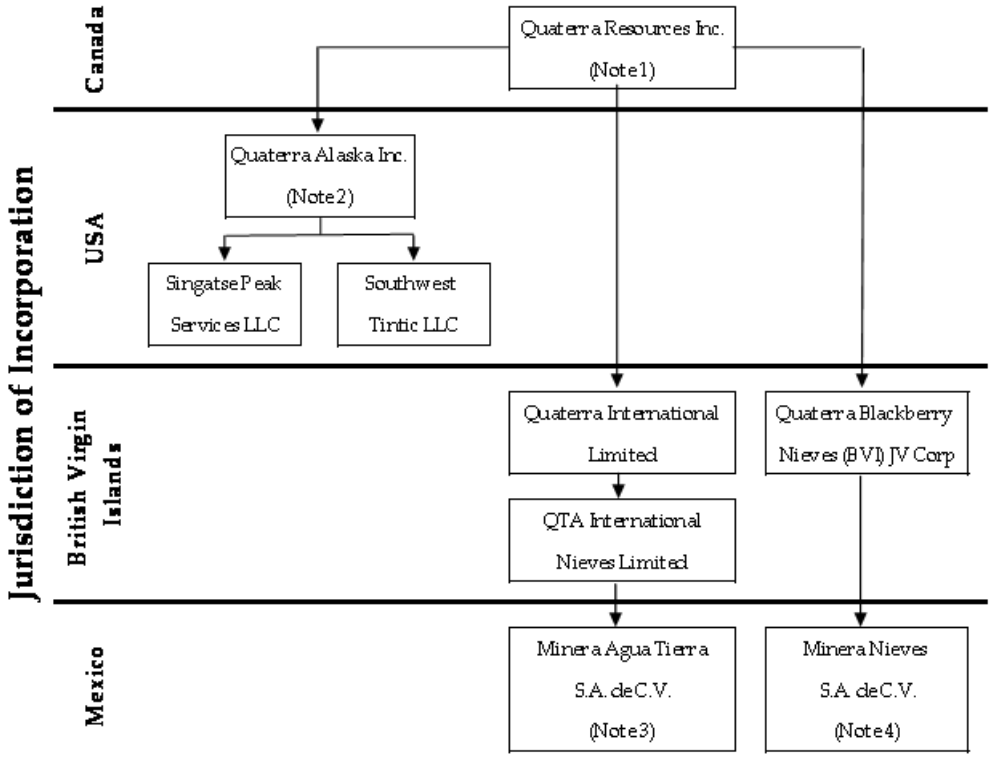
Quaterra Resources Inc. ("Quaterra" or the "Company") was incorporated under the Company Act (British Columbia) on May 11, 1993 originally under the name Acquaterre Mineral Development Ltd.

The Company's registered and head office is located at 1100 – 1199 West Hastings Street, Vancouver, British Columbia, V6E 3T5. Telephone: (604) 684-9384, Facsimile: (604) 688-4670, website: www.quaterraresources.com

The Company is a reporting issuer in British Columbia and Alberta and its shares trade on the Tier 2 Board of the TSX Venture Exchange ("TSX.V") under the symbol QTA and on American Stock Exchange ("AMEX") under the symbol QMM. The Company is required to file annual and periodic reports with the Securities and Exchange Commissions for each jurisdiction pursuant to their rules and regulations.

II. Inter-corporate Relationships

The flow chart below presents the Company's legal corporate structure and the jurisdictions of the incorporation.



II. Inter-corporate Relationships, continued

Note to flow chart

Note 1

Quaterra Resources Inc. holds the Big Bar property.

Note 2

Quaterra Alaska, Inc. holds Duke Island, Big Bar, Arizona, Wyoming and Utah Uranium properties, MacArthur, Yerington, SW Tintic, Gray Hills, Peg Leg, Carbon County, Herbert Glacier, Texas claims, Copper Canyon and Majuba Hill.

Note 3

Minera Agua Tierra S.A. de C.V. holds Nieves (to July 31, 2005) Los Crestones, Las Americas, Mirasol, Jaboncillos, Cerro Blanco INDE Durango, and La Reforma.

Note 4

Minera Nieves S.A. de C.V. holds the joint venture property Nieves from August 1, 2005.

ITEM 2. GENERAL DEVELOPMENT OF BUSINESS

Quaterra Resources Inc. ("Quaterra" or the "Company") was incorporated under the Company Act (British Columbia) on May 11, 1993 originally under the name Acquaterre Mineral Development Ltd. On November 30, 1993, the Company changed its name to Aquaterre Mineral Development Ltd. and ultimately became Quaterra Resources Inc. on October 23, 1997. Quaterra's domicile is British Columbia, Canada and the Company operates under the British Columbia Business Corporations Act SBC 2002 Chapter 57.

On March 4, 1997, the Company increased its authorized capital from 20,000,000 common shares without par value to 100,000,000 common shares without par value.

On October 23, 1997, the Company consolidated its issued and un-issued share capital on the basis of five pre-consolidation shares for one post-consolidation share, and increased its authorized capital to 100,000,000 common shares without par value.

On August 3, 1998, the Company cancelled its previous form of Articles and adopted a new form of Articles.

On April 25, 2005, the Company completed the transition procedures in accordance with the Business Corporations Act (British Columbia), (the "New Act").

On June 17, 2005, the Company increased the number of common shares which were authorized to issue to an unlimited number of common shares and, on June 13, 2005, cancelled its former Articles and adopted new Articles to take advantage of provisions of the New Act. The New Act was adopted in British Columbia on March 29, 2004 replacing the Company Act (the "Former Act"). The New Act requires the provisions formerly required in the Memorandum to be in our Articles. The New Act eliminates the requirement for a Memorandum.

The Company's common shares began trading on the TSX Venture Exchange ("TSX-V") (formerly the Vancouver Stock Exchange and the Canadian Venture Exchange) under the symbol "QTA" on November 14, 1997.

ITEM 2. GENERAL DEVELOPMENT OF BUSINESS, continued

The Company's common shares began trading on the American Stock Exchange ("AMEX") under the symbol "QMM" on March 3, 2008.

There have been no public takeover offers by third parties with respect to our shares and we have made no public takeover offers with respect to other companies' shares.

ITEM 3. DESCRIPTION OF THE BUSINESS

I. General

Quaterra is a mineral exploration company engaged in the business of the acquisition, exploration and when warranted, development of mineral natural resources properties. We currently have interests in mineral natural resources properties located in Canada, the United States and Mexico. The Company does not have any producing properties and consequently has no current operating income or cash flow. We are an exploration stage company and have not generated any revenues. Further exploration will be required before a final evaluation as to the economic and legal feasibility of any of the properties is determined. Commercially viable mineral deposits may not exist on any of the properties.

During 2008 the Company intends to conduct drilling programs at 1) its uranium pipe targets in Arizona; 2) the MacArthur copper property in Nevada; and 3) the Nieves silver property in Mexico. Other Phase 1 programs may take place, dependent on funding and positive exploration results.

II. Trends

Quaterra has not generated operating revenue to date and is currently an exploration stage company.

Other than noted in this AIF, we are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material affect on the Company's operations, liquidity or capital resources, or that would cause reported financial information to not necessarily be indicative of the Company's financial position.

III. Natural Resource Properties

a. The Nieves Concessions – Zacatecas, Mexico.

Property Description, Location, Access and Infrastructure



The Company owns a 50% interest in the Nieves silver Property located in northern Zacatecas State, Mexico about 90 kilometers north of Penoles' world-class Fresnillo silver mine (Figure 1).

The project occurs within a northwest trending mineral belt known as the Faja de Plata, which hosts many of the world's premier silver deposits including San Martin, Fresnillo, Zacatecas and Real de Angeles. The Company's land block consists of 15 mineral exploration concessions covering an area of approximately 50 square kilometers (18 square miles).

Figure 1: Location map of the Nieves Silver Property (after Caracle, 2004)

The small town of Nieves (now re-named Francisco R. Murguia) can be accessed from Highway 49 along a 17 kilometer paved side road. Nieves is the business center for the Company's exploration activities. From Nieves there are various dirt roads that provide access to the main mine areas on the Property. The nearest major population and services centre to Nieves is the mining town of Fresnillo approximately 90 kilometers to the south.

III.
Natural Resource Properties, continued

a. The Nieves Concessions – Zacatecas, Mexico, continued

History

The Spanish discovered high-grade silver at Nieves in 1560. Sporadic work occurred on the Concordia and Santa Rita veins until 1910, when the Mexican Revolution began. Several small-scale efforts to re-open the mines occurred thereafter but no modern exploration took place until 1994, when a Kennecott/RTZ study of satellite photos noted a color anomaly covering an area approximately 9 kilometers in diameter. Effective January 16, 1995, Kennecott Exploration Company ("Kennecott") entered into an option agreement with the Mexican concessionaires that allowed Kennecott to explore and acquire the Property by making specified option payments over five years, and advance minimum royalty payments ("AMR"). Kennecott subsequently completed geophysical surveys and drilled eight holes, six of which contained significant silver mineralization.

On March 13, 1998, Kennecott transferred its rights under the Nieves option to Western Silver Corporation ("Western") in consideration for an uncapped 2% NSR on certain core Claims and a 1% NSR on others. Western completed an additional five holes at the La California vein, all of which hit significant narrow widths of silver with 3 containing at least one narrow intercept of +800 g/t silver.

Western subsequently assigned its rights to the Nieves Project as specified in the "Underlying Agreement" to the Company on March 26, 1999, in consideration for 1,444,460 common shares of the Company at a deemed price of CAD$0.20 per share (CAD$288,892). In addition, the Company issued 360,000 common shares at a deemed price of CAD$0.20 per share (CAD$72,000) to the concessionaires in lieu of the US$50,000 option payment otherwise due under the terms of the Underlying Agreement.

The payment schedule in the Underlying Agreement was amended on November 22, 1999, February 11, 2000 and May 2002, such that US$30,000 was paid in January 2000, US$15,000 in May 2002 and US$25,000 in January 2003, for a total of US$70,000. In addition, to acquire the interest in the claim fractions the Company paid US$40,000 to the concessionaires. AMR payments of US$75,000 are due on or before January 26 each year from 2004 until the commencement of commercial production. The Nieves concessions are subject to a maximum 3% net smelter return royalty ("NSR") to the original concession holders, which the Company may purchase at any time for US$2 million.

On April 10, 2003, the Company completed a US$1.5 million limited partnership financing with Blackberry Ventures I, LLC ("Blackberry"), whereby Blackberry could earn a 50% interest in the Property by funding two exploration programs of US$750,000 each. The initial payment of US$750,000 received in the 2003 Fiscal Year was expended on a 5,300-metre drill program on the Nieves Property. During the 2004 Fiscal Year, Blackberry elected to continue by advancing a further US$750,000 towards a follow-up drill program completed in May 2005, thereby earning a 50% interest in the Property. The partners are in the process of formalizing a joint venture agreement and jointly contributed to all exploration costs incurred.

III.

Natural Resource Properties, continued

a. The Nieves Concessions – Zacatecas, Mexico, continued

Exploration and Drilling

The Company completed a two-phase 12-hole RC/core program in the Cerro San Gregorio area in 1999-2000 with results generally similar to previous drilling. Subsequently, the Company completed a program of magnetics and CSAMT/IP surveys, which identified a number of prospective anomalies. The survey results suggested that the Nieves Project is a large hydrothermal system with minimal erosion and several features in common with the high-grade Fresnillo silver district.

In August 2004, the Company conducted an initial 5,300 meter, 13-hole diamond drill program to test a number of targets adjacent to and below areas of previously defined mineralization on the Nieves Project and to test seven east-west striking anomalies, interpreted to be veins with associated mineralization, that extend for distances of up to 3.5 kilometers.

A second drill program (5,171 meter, 11-hole) was completed in May 2005 to follow up on the silver mineralization intersected in the 2004 drilling program and to evaluate other targets defined by a combination of mapping, sampling and geophysical surveys.

A third drilling program (5,894 meters, eight holes) began during the fourth quarter of 2005 and was completed during March 2006. Of particular note was hole QTA 37, drilled along the Santa Rita vein 500 meters east of the nearest hole. QTA 37 intersected a quartz breccia vein starting at a downhole depth of 466.1 meters that contains 5.9 meters averaging 104 g/t silver, 0.23% lead and 0.56% zinc. The thickness and strength of the vein are positive features that upgrade the potential of the eastern Santa Rita zone for higher silver grades. Excellent potential remains for narrow high-grade silver veins over a strike length of approximately 1.5 kilometers and a vertical extent of 300 meters on both the Concordia-San Gregorio and Santa Rita vein systems.

A 16 hole, 5,389 meter Phase four drilling program, primarily infill holes on the Concordia vein, was completed during September-December 2007. The program was successful in extending the Concordia high-grade silver vein mineralization and intersected significant new mineralization in the adjacent Arroyo fault, which may be a new mineralized structure or host the faulted extension of the Concordia vein. Highlights are as follows:

Concordia vein: Twelve holes tested the Concordia vein system, one of three east-west striking veins systems on the Nieves property. The best mineralized interval is in hole QTA-48 with 47.48 meters averaging 142 g/t silver, 0.13 g/t gold, 0.37% lead and 0.37% zinc, including a 4.67 meter interval with 777 g/t silver (22.7 oz/ton), 0.53 g/t gold, 2.45% lead and 2.20% zinc. Hole QTA-53 cut the highest grade intercept with a 1.22 meter interval averaging 1.8 kg/t silver (52.6 oz/ton), 0.32 g/t gold, 2.06% lead and 0.69% zinc.

III.
Natural Resource Properties, continued

a. The Nieves Concessions – Zacatecas, Mexico, continued

Exploration and Drilling, continued

The Concordia vein hosts moderate- to high-grade silver-gold-lead-zinc mineralization at shallow levels proximal to its intercept with the Arroyo fault. The best mineralized segment of the vein currently extends for at least 400 meters along strike and over a vertical distance of 300 meters. It has a gentle rake to the southwest where it remains open.

Arroyo fault: Hole QTA-55 was collared 120 meters northeast of hole QTA- 48 and tested the junction of the Concordia vein with the Arroyo fault. The mineralized intercept starts at 62 meters and includes 37.6 meters of 108 g/t silver, 0.15 g/t Au, 0.10% Pb and 0.14% Zn. Within this zone is a 3.3 meter interval that averages 331 g/t silver (9.6 oz/ton), 0.29 g/t gold, 0.17 lead and 0.28% zinc. Mineralization consists of sheeted veinlets, and because of its shallow depth and relatively uniform grade has open pit potential. The Arroyo vein-fault system appears to strike northwest with a moderate southwest dip. Additional drilling will be necessary to determine the extent and significance of this mineralization.

2008 exploration plan: A geologic mapping survey of the California and Santa Rita vein systems and the more remote parts of the Nieves concession is underway. The Rosario area will also be remapped with attention given to northwest-striking structures. This work will be followed by additional core drilling later this year, concentrating on the Concordia-Arroyo-San Gregorio vein systems and their junctions. Any new prospects identified by the mapping survey will also be tested. All work plans are made in consultation with the US-based Blackberry Ventures 1, LLC, investment partnership, which will continue to pay its share of all ongoing exploration costs.

Geology and Mineralization

The host rocks at Nieves are a thick sequence of Cretaceous-age dark grey calcareous siltstones and fine-grained sandstones of the Caracol formation. The siltstones and sandstones exhibit strong bleaching not only adjacent to veins but also in large irregularly shaped zones covering several square kilometers.

Mineralization is related to a low temperature silver-gold-copper-lead-zinc epithermal vein system similar to the world-class Fresnillo and Zacatecas Districts in central Zacatecas. There are three west-southwest bearing, steep south-dipping vein systems which, from south to north, are the Santa Rita-El Rosario; Concordia-Delores-San Gregorio; and the La California veins. The Santa Rita and Concordia-Delores-San Gregorio veins have historic production and are marked by numerous shafts, pits, dumps and old buildings. Mining ceased in 1910, with the onset of the Mexican Revolution. Several small-scale efforts to re-open the mines occurred thereafter but no modern exploration took place until 1994. Historic production focused on narrow bonanza veins, and production grades were in excess of 4,000-g/t silver.

III.

Natural Resource Properties, continued

a. The Nieves Concessions – Zacatecas, Mexico, continued

Geology and Mineralization, continued

The mineral occurrences in the Santa Rita and Concordia-Delores-San Gregorio veins are hosted in two to ten meter thick shear zones with reverse offset and secondary fault splays in the footwall. The sheeted < 2 meter wide silver-gold bearing veins were deposited during a period of distention and normal offset in Oligocene time. There are three types of veins: silica breccia, quartz-sulfide and ferroan carbonate. Sulfide content varies from minor to 50% pyrite-stibnite-sphalerite-chalcopyrite-galena; marcasite is present in the silica breccia veins. Identified silver minerals are tetrahedrite-pyrargyrite. A sulfidation alteration halo of 2-5% disseminated pyrite that weathers to an acid leached “bleached” white clay alteration surrounds the mineralized shears. This alteration is geochemically anomalous in gold-arsenic-antimony with erratic silver-copper-lead-zinc. An Eocene-Oligocene paleo-erosion surface in the northwest corner of the district indicates that the historic mines have exploited only the upper third of the epithermal mineral system.

The Concordia-Cerro San Gregorio zone, based on alteration and geophysics, has dimensions of 2.5 kilometers by 1.5 kilometers and generally trends northeasterly. La California zone is about 2.5 kilometers long by 250 meter wide. The Santa Rita zone also trends northeasterly and is approximately 2 kilometers long by 600 meters wide.

Both the Concordia-Delores San Gregorio and the Santa Rita vein systems at Nieves have excellent potential for both narrow zones of +500 g/t silver and a surrounding envelope of stock work mineralization with +50 g/t silver that may represent a bulk tonnage target. The top of the mineralized vein zone is marked by boiling textures observable in drill core at depths of 150-200 meters below surface. The near surface mineralization exposed on San Gregorio Hill and along the Santa Rita vein on Santa Rita Hill was originally interpreted as manto style (rootless) mineralization trapped in porous sediments at the base of Tertiary volcanic rocks. Recent work suggests that this mineralization may occur at and adjacent to the intersection of the Concordia-San Gregorio and Arroyo vein-faults.

Sampling and Analysis

Drill core (NQ diameter) was collected from the drilling rig and brought to the core storage facility on the Nieves Property for logging and sampling, by the project or assistant geologists, on a daily basis. At the core storage/logging facility, the core was measured, core recovery estimated, and the rock types, alteration minerals, textural features, structures, veining, and mineralized zones documented. Sample intervals were measured, marked with permanent marker and given a sample number and sample tag by the geologists. From this point, technicians were given the core to split, using a core saw, into halves where one half of each interval was placed with the sample tag into a sample bag and marked with the sample number. The other half was placed back into the core box in it original position and the core boxes were then stacked and stored in order and by hole number. Where the veins were coherent they were sawed in half perpendicular to the “grain” to get a representative split.

III.
Natural Resource Properties, continued

a. The Nieves Concessions – Zacatecas, Mexico, continued

Sampling and Analysis, continued

The geologists visually selected sample intervals based on the presence of quartz-carbonate veins, silicification or the presence of sulphide minerals. Any significant mineralized zones were also sampled for several meters below and above and generally samples were kept to between 0.05 m and 4.2 m in length to encompass entire vein structures.

Security of Samples

A total of 5,888 drill core samples from all four phases of exploration were marked by supervising and core logging geologists before being split using a diamond saw by Samples were placed into individual plastic bags marked with a unique sample identification number and with a sample tag placed into the bag. Sample ID numbers and meterages were also written onto the core trays. Samples were then packaged into sealed sacks and taken by Quaterra employees to ALS Chemex Laboratories in Guadalajara for analysis.

ALS Chemex is an ISO 9001:2000, ISO 17025:2005 and Standard Council of Canada accredited laboratory with preparation and analytical laboratories operating in over 16 countries. All samples were analyzed using a 41 element ICP method, in addition to analyzing gold and silver by standard fire assay. Lead and zinc values over 10,000 ppm and silver values over 100 ppm were re-assayed by atomic-absorption methods.

Internal quality assurance and quality control procedures for the first three drill phases were not utilized by Quaterra such as the insertion of blanks and standards into the sample sequences. For NI43-101 compliant resource estimates to be calculated a small check sampling program whereby ~5-10% random samples will be quarter split and sent to another accredited laboratory. Pulps/rejects available from the previous drilling will also be sent for check analyses.

For the fourth drilling phase, internal quality assurance and quality control procedures include the insertion of standards into the sample sequences. Rejects from the previously analyzed high grade samples will also be sent to another accredited laboratory for check analyses.

Mineral Resources

There are no resources or reserves on the Company's Nieves project that comply with the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines as adopted by CIM Council on August 20, 2000.

III.
Natural Resource Properties, continued

a. The Nieves Concessions – Zacatecas, Mexico, continued

Exploration and Development

An independent technical report completed by Caracle Creek International Consulting Inc. ("Caracle") on behalf of the Company and Blackberry in November 2006 concluded that excellent potential exists to find additional high-grade silver shoots both within the known vein systems and the abundant untested drill targets remaining on the property. Caracle recommended the following:

i) A program including structural analysis, three dimensional modeling and data compilation including satellite image analysis.

ii) An aggressive 10,000 meter drilling program to infill zones on the Concordia-San Gregorio- Delores vein system and to test other targets on the large land block.

A 16 hole, 5,389 meter Phase four drilling program, primarily infill holes on the Concordia vein, was completed during September-December 2007 (results detailed above).

b. Los Crestones Project – Durango, Mexico

Property Description, Location, Access and Infrastructure

The Company's 100% owned Crestones Project, comprising of exploration concessions, is located on the southwest side of a medium sized granitic pluton on the eastern edge of the Sierra Madre Occidental in northern Durango state of west-central Mexico (Figure 2). The Property is between the latitudes of 25.92° and 25.96° north and 105.09° and 105.13° west longitude. The town of Inde is about 10 kilometers to the southwest of the property while the larger town of Santa Maria del Oro is located about 20 kilometers to the northwest. The city of Durango is a five hour drive to the south.



Figure 2: Location Map of the Los Crestones Project (after C. J. Lloyd, 2004)

III.
Natural Resource Properties, continued

b. Los Crestones Project – Durango, Mexico

Property Description, Location, Access and Infrastructure, continued

Access to the Property is very good with a paved highway from Santa Maria del Oro, through Inde and on to the town of Vetarron, 2km more on dirt road leads to the turn off to El Pajaro, another 7km to the north and on the edge of the property. A local dirt road gives access to most of the property. Electric power lines service all the small towns mentioned above.

History

In 2003, the Company staked a 2,100 hectare claim to cover a hot spring gold-silver prospect at Los Crestones. In 2004 and early 2005, reconnaissance mapping and sampling programs were completed over an area of about 3.5 square miles. The Company staked an additional 3,547 hectare claim in 2006 and completed detailed mapping. The work delineated a hot spring gold-silver target with widespread silicification, flat-lying silica sinter aprons and quartz veining along high-angle, graben faults. Rock chip samples show anomalous Au-Ag values with occasional spikes up to ore grade; and strongly anomalous mercury, arsenic and antimony values which are typical of the upper levels of hot spring-related gold silver mineral systems. The level of exposure is clearly above the boiling zone and the gold numbers are consistent with those found in the top of epithermal gold systems.

Exploration and Drilling

The property has been geologically mapped at 1:5,000 scale. The Company completed a thirteen hole 6,163.4 -meter core drilling program during 2007. Six holes totalling 3,043.4 -meters were completed during the second quarter. An additional seven holes totalling 3,120 meters were completed during the third quarter. The first six drill-holes of the program did not intersect the targeted breccia feeder vents; the second phase of the program produced similar results with only a few low-grade intercepts within the hydrothermal breccia. Weakly disseminated sphalerite-galena-sulfosalts occur in silicified limestone, quartz porphyry, and hornfels. The silica breccia commonly contains minor to 5% disseminated pyrite-marcasite and minor to 5% stibnite. The mixed clast and silicified limestone breccias contain disseminated pyrite-marcasite and minor sphalerite-galena. Coarse sphalerite-galena has been observed in fault gouges.

Geology and Mineralization

Los Crestones displays geologic characteristics that are broadly similar to both the Magistral de Oro district, located 20 kilometers northwest and the Inde District that lies 12 km west. Magistral de Oro has a recorded production of greater than 1.0 million ounces gold and the Inde district has produced 0.5 million ounces of gold from one mine as well as significant silver-lead-zinc production from numerous small mines. All three districts have prominent aeromagnetic highs that represent oxidized intermediate to felsic intrusive stocks. The mineralization in all three districts is interpreted to be genetically related to these intrusives. Granodiorite is the host rock at Magistral de Oro. Bufa Inde, a prominent peak in the center of the Inde District, is a quartz porphyry stock. Both granodiorite and quartz porphyry occur at Los Crestones.

III.
Natural Resource Properties, continued

b. Los Crestones Project – Durango, Mexico, continued

Geology and Mineralization, continued

The oldest rock type at Los Crestones is an upper unit of the Mescalera Group limestone. It is a lower Cretaceous in age and can be divided into a thick and thin bedded facies. The more abundant thick bedded facies is composed of 10-25 cm beds of carbonaceous muddy limestone with black shaley partings. The limestone shows abundant soft sediment deformation features. The thin bedded facies consists of 1-4 cm thick inter-beds of clean gray limestone and black chert. It too commonly displays chaotic soft sediment folds.

A 40 m.y. granodiorite cuts the Mescalera limestone at Los Crestones. It is a circular 4 km diameter stock composed of equigranular biotite-hornblende-feldspar with interstitial quartz and accessory magnetite. The stock is rimmed by a band of altered limestone up to a kilometer in width of quartz-diopside hornfels that grades outward into a weak tremolitic marble.

The Los Crestones hydrothermal mineral system is located along the western contact of the granodorite stock and was emplaced in a northwest-striking fault system. The fault formed the east side of the Inde Graben that separates the Inde District and Los Crestones. Three bands of sheeted hydrothermal breccias, small quartz porphyry stocks and felsite dikes compose the Los Crestones system. The breccia has been classified into four breccias types based on clast types and matrix composition; these are: mixed clast breccia, silica matrix breccia, silicified limestone breccia and sinter matrix breccia.

The western band of hydrothermal breccia is informally referred to as the Cerro Pachon zone. It strikes northwest for a known distance of 3.5 kilometers and is about 50-200 meters wide. It is composed of sheeted bands of all four types of hydrothermal siliceous breccia hosted in an envelope of silicifed limestone. A small phyllic-altered quartz-porphyry stock outcrops at the northwest end of the Pachon breccia in close proximity to the largest occurrence mixed clast breccia on the property. The mixed clast breccia is composed of silicified limestone and quartz porphyry clasts set in a silicifed matrix of milled quartz porphyry. The Cerro Pachon breccia is cut off to the northwest by faults and post-breccia alluvial cover. It feathers into small silica breccia and felsite dikes to the southeast which are in turn cut off by a listric fault.

The Cerro Cahon breccia is the east band of hydrothermal breccia. It parallels the Cerro Pachon breccia with a similar strike length and width. Sheeted silica breccia dikes predominate that vary from 1 to 25 meters in width. The dikes tend to have clasts of silicified limestone along their margins and a core of weak banded translucent gray silica. The southeast half of the breccia cuts through limestone within an envelope of silicified limestone. There are occasional narrow bands of silicified limestone breccia and brecciated felsite dikes. The northwest half of the breccia cuts across the granodiorite where it breaks into a 75 meter wide stock work of sheeted narrow silica veins in the intrusive. There is one prominent splay of silica breccia to the west that follow the granodiorite-hornfels contact. Scattered float of hydrothermal limonitic breccia is common where the silica breccia dikes pass across the limestone-granodiorite contact which indicates the possible presence of a sulfide-bearing hydrothermal breccia. A drill test is planned to test this breccia occurrence.

III.
Natural Resource Properties, continued

b. Los Crestones Project – Durango, Mexico, continued

Geology and Mineralization, continued

The two breccia bands are separated by about a kilometer of silicifed and hornfelsed limestone and fresh granodiorite with numerous 5-15 meter thick breccia and felsite dikes. There is a third silica breccia band at the north end of the property that outcrops on Cerro Laguna, and between the between the Cerro Pachon and Cerro Cahon breccias. The Cerro Laguna breccia is composed of sheeted silica breccia dikes. It is about two kilometers in strike length. It is also cut by a low angle listric fault with its north half offset about 250 meters to the northeast.

Mineralization at Los Crestones has been observed in both outcrop and core. All three of the breccia types, the silicified limestone, the quartz porphyry, and the hornfels contain disseminated sulfides. The silica breccia commonly contains minor to 5% disseminated pyrite-marcasite and minor to 5% stibnite. The mixed clast and silicified limestone breccias contain disseminated pyrite-marcasite and minor sphalerite-galena. Disseminated galena-sulfosalts occur in both the porphyry and hornfels. Coarse spahalerite-galena have been observed in fault gouge.

Sampling and Analysis

Drill core (HQ and NQ diameter) was collected from the drilling rig and brought to the core storage facility located in the nearby village of El Pajaro for logging and sampling by the authors on a daily basis. At the El Pajaro camp, the core was measured, recovery and rock quality estimated and logged rock types, alteration assemblages, structures, veining and mineralization characteristics documented. Sample intervals were selected and marked on the core, also on the core box side and on the sample tag by the authors. Core intervals to be sampled were split into halves using a core saw; one half was placed into a thick plastic sample bag with the corresponding sample tag inside and marked with sample number outside. The other half was returned to its original position in the core box; core boxes were stacked and stored in an orderly fashion in the core shack. Important intervals like veins or other mineralized intervals are split in a perpendicular cut to get a representative sample.

Authors selected sample intervals on a visual basis considering the important rock, alteration, structure and especially the mineralization features present. Several meters of wall rock adjacent below and above of any significant mineralized interval were also sampled.

Sample intervals generally were kept to a two-meter length where the mineralization was ample and uniformly distributed or to the width of any significant mineralized vein band length to encompass the entire vein structures in one or more representative samples of every different band.

III.
Natural Resource Properties, continued

b. Los Crestones Project – Durango, Mexico, continued

Security of Samples

A total of 2111 core samples from holes C-01 to C-13 were selected and marked by the authors and split by a technician using a diamond saw. Samples were placed into 800-micron thick plastic bags previously marked with a unique identification number and a sample tag inside. Sample identification number and meterage were also written with a permanent marker on the core boxes; Samples were then packaged in sealed sacks and picked up at the camp site by an Inspectorate laboratories employee for their delivery to the Inspectorate Lab sample preparation facility office in the city of Durango.

Inspectorate America Corporation is an ISO 9001-2000 certified Laboratory. Inspectorate's Quality Assurance Program meets all established criteria related to reporting requirements for mining & exploration companies under National Instrument, NI-43-101, and is compliant with those practices deemed "best industry" in analytical data generation of mineral samples.

Pulp of samples after preparation in Durango was sent to the Inspectorate Laboratory in Sparks, Nevada USA for its analysis using a 30-element ICP method plus Au by fire assay. Lead, zinc and copper values over 10,000 parts per million were re-assayed by atomic absorption methods, silver values over 200 parts per million were re-analyzed by fire assay methods.

All sample preparation methods and analytical procedures were performed in accordance with the Inspectorate's preparation and analytical protocol outlined in the Inspectorate's brochure.

As this project is still in the discovery phase of exploration, internal quality assurance and quality control procedures were not utilized, such the insertion of blanks and standard samples into the sample sequences. For a future N143-101-compliant resource estimation, a check sampling program is needed.

Mineral Resources

There are no resources or reserves on the Company's Crestones project that comply with the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines as adopted by CIM Council on August 20, 2000.

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA

Property Description, Location, Access and Infrastructure

The Company's Arizona Uranium Project, located in the northern Arizona Strip uranium district in Coconino and Mohave Counties, occupies the southwest corner of the Colorado Plateau physiographic province in northwestern Arizona just south of the Utah state line (Figure 3). It is bounded to the west by the Grand Wash Cliffs and to the east by the Echo Cliffs. The area is characterized by a broad and featureless expanse of range land that becomes deeply incised by canyons of four major drainages.

Access to the property is provided by maintained county roads, mine access roads and a network of BLM recognized dirt roads and jeep trails used by ranchers and prospectors as well as State and Federal authorities for land management. Nearly all of the surface and mineral rights with the exception of the Arizona State lands are Federal and managed by the Bureau of Land Management with a field office in St. George, Utah.

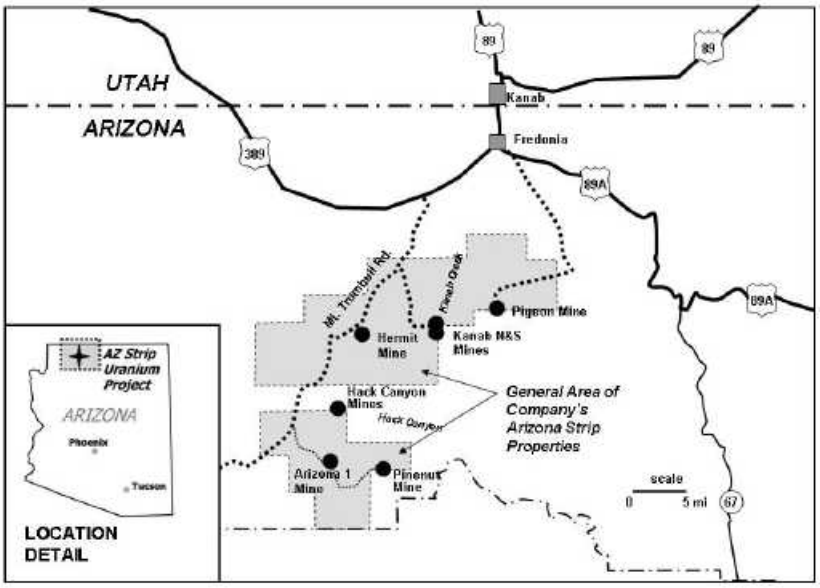


Figure 3: Location map of the Arizona Strip Uranium Property

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA, continued

History

Uranium mineralization was first discovered on the Arizona strip in a mineralized breccia pipe in 1947. The uranium occurred in association with copper mineralization at the Orphan mine 2 miles west of the visitor's center on the south rim of the Grand Canyon. The first uranium ore was shipped by the Golden Crown Mining Company in 1956 to a buying station in Tuba City. Before closing in 1969, the Orphan operation produced a reported total of 4.4 million lbs of uranium in material averaging 0.42% U3O8 and 6.7 million lbs of copper. (Baillieul, T.A. and Zollinger, R.C. (1980) NURE Grand Canyon Quadrangle, Arizona PGJ-020, 41p.)

The relationship of uranium to copper mineralization initiated an investigation of several small copper deposits in the region. Uranium was identified in the Hack Canyon copper mine on the northern Arizona strip in the 1950s but it was not until 1974 when Western Nuclear discovered uranium ore bodies in the Hack 1 and Hack 2 breccia pipes that industry began to focus attention on the emerging district. Energy Fuels Nuclear Inc. ("Energy Fuels") acquired the Hack Canyon ore bodies in 1980 and initiated an intense campaign of land acquisition and exploration that over the next ten years discovered seven ore bodies. With the entrance of Pathfinder Mines and Union Pacific Resources, at least three additional mineralized breccia pipes were added to the district. Several more were in earlier stages of discovery when in the early 1990s the price of uranium dropped below the cost of production.

The Arizona Strip historically represents some of the highest grade mineralization and most profitable per pound uranium production in the United States. Energy Fuels breccia pipe uranium mines were some of last hard rock uranium producers in the US prior to the price decline of the 1990s. Since 1980, the Arizona Strip has produced in excess of 19 million pounds of uranium, averaging 0.65% U3O8 from seven mines. Of these mines, Hack Canyon I, II, and III and Pigeon are mined out and have been reclaimed; Hermit is partially reclaimed; Pinenut, Kanab North, Canyon and Arizona 1 have remaining reserves and have been placed on a standby basis. The total amount of mineable uranium discovered to date in breccia pipes in northern Arizona is estimated to be in the range of 35 million pounds. (1998 International Uranium Corp. US SEC Registration Statement.).

The Company commenced uranium exploration in Arizona in June 2005 with the acquisition of 95 unpatented lode mining claims from North Exploration LLC ("North") that cover several uranium breccia pipe targets in the Arizona Strip district. The North agreement also included an option to acquire other properties in Utah and Wyoming that are prospective for both uranium and vanadium.

Under the terms of the North agreement, the Company may acquire a 100% interest in any or all of the North claims by making staged payments over a five-year period totaling US$500,000 and issuing 600,000 common shares. The initial consideration included a US$15,000 cash payment and 200,000 common shares. The North Properties are subject to a 2% production royalty on each Property, 1% of which may be purchased by the Company for US$1 million.

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA, continued

History, continued

In mid 2006, the Company signed a letter of agreement with Nu Star Exploration LLC. ("Nustar") to lease 18 Claims covering 4 additional breccia pipe targets in the district. The terms of the Nustar lease are an upfront payment of US$20,000, a first anniversary payment of US$30,000, a second anniversary payment of US$40,000 and a final third anniversary payment of US$100,000. The Nustar Claims are subject to a 4 % Yellowcake royalty, 75% of which the Company can buy back for US$500,000 per Claim group (thereby reducing the royalty from 4% to 1%).

The Company staked an additional 550 mining Claims on the Arizona Strip in 2006 and another 1,450 claims were perfected in early 2007 to cover more than 200 high and moderate priority anomalies identified by an airborne VTEM geophysical survey. The Company's mineral rights now total approximately 68 square miles in the Project area. The properties consist of many individual and scattered claim blocks that have been selectively staked over targets with some surface expression of a possible collapse structure, with favourable VTEM geophysical signatures and within areas of known mineralized occurrences.

Exploration and Drilling

The discovery of new breccia pipes in the Arizona strip district requires an aggressive and persistent program of exploration. Since commencing on the Arizona Strip, Quaterra has drilled 35,000 feet in 87 holes that investigated 16 targets. All but six holes were shallow stratigraphic holes evaluating the near surface structure for the presence of a pipe throat. Ten of the targets tested negative. Four targets have encouraging results and require additional drilling pending the enlargement of the drill permit area. Two of four deep holes in the program encountered mineralization in two targets that are scheduled for deep drilling programs.

One of the targets tested by deep drilling is the Ollie breccia pipe located ten miles southeast of the Hack's Canyon mines. The Ollie pipe was originally drilled by one of the last drilling programs conducted by Energy Fuels in the early 1990s. The original program was prematurely stopped when Energy Fuels discontinued exploration in the district due to declining uranium prices.

Quaterra's first hole at Ollie was drilled to a total depth of 1,430 feet. The best intercepts included:

Depth (Ft)			
From	**To**	**Thickness (Ft)**	**Grade**
1172	1175.5	3.5	0.13% eU38 - Including 2.0 fee at 0.17%
376			
1178	1180.5	2.5	0.12% eU38 - Including 1.5 fee at 0.16%

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA, continued

Exploration and Drilling, continued

The hole encountered numerous mineralized intercepts averaging 0.03% to 0.08% between the depths of 1,020 feet and 1,242 feet. At a depth of approximately 1,350 feet, the hole is believed to have exited the pipe throat and entered un-mineralized Hermit siltstone along the northeast margin of the pipe. A study of historic data indicates that much of the pipe to the southwest remains untested.

Another deep hole tested the EZ4 target, located seven miles northwest of Hack Canyon. The hole was drilled to 1,340 feet. It intercepted anomalous uranium mineralization between 970 and 1,000 feet near the Coconino sandstone/Hermit shale contact. The Coconino sandstone is considered the conduit for mineralization in the Arizona breccia pipes and the presence of mineralization near the contact strongly suggests the close proximity of a mineralized pipe throat. Drill-hole deviation to the east and south of the collar location defines a possible target to the northwest.

Geology and Mineralization

The canyon walls of northern Arizona expose numerous breccia pipes that are characteristic of the collapse structures that host uranium mineralization in the Arizona strip. Initiated by the roof collapse of caverns in the Mississippian Redwall Limestone, a pipe of breccia forms through the subsequent collapse of overlying sediments through mechanical and chemical processes to form a vertical column of breccia. Breccia pipes in the region average 200 to 400 feet in width and can extend upward over 3,000 feet from the Redwall Limestone to the upper Triassic sequence. (Figure 4).

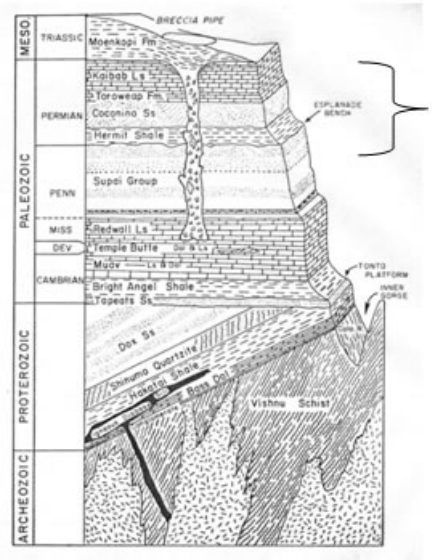


Figure 4: Diagrammatic Stratigraphic Section of the Arizona Strips showing a Characteristic collapse breccia pipe. (After W.J. Breed, 1974).

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA, continued

Geology and Mineralization, continued

Many northern Arizona Breccia pipes exhibit several common morphological features that are used to identify the structures at the surface and to position drill holes at depth (Figure 5). The cylindrical area of vertically displaced breccia in the center of the pipe is generally referred to as the "pipe throat." The amount of vertical displacement in the throat ranges from 50 to several hundred feet and often decreases up section. The internal geometry of the throat can be complicated by the later formation of "pipe in pipe" structures. These internal features are the result of late stage (often post-mineral) collapse due to continued dissolution of carbonates in the lower reaches of the pipe throat. They may result in the dispersal and elimination of economic accumulations of uranium mineralization in the pipe.

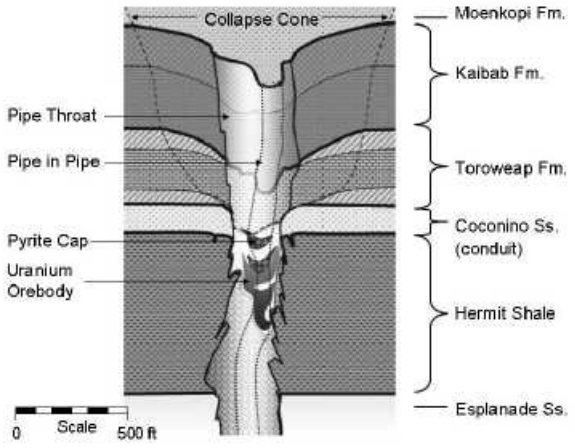


Figure 5: Morphology of a typical northern Arizona Strip breccia pipe.

The throat of a breccia pipe is seldom visible at the surface when not exposed in canyon walls. Where covered by the Moenkopi siltstone or recent alluvium, the only evidence of a pipe structure may be a large circular structure of gently inward dipping beds or even more subtle circular anomalies formed by ring fractures and vegetation. These features are caused by the dissolution of evaporites in the Toroweap and Kiabab sections along the margins of the throat during the formation of the pipe. As the evaporites are removed, a pronounced structural depression or "collapse cone" develops in the overlying strata above the Coconino sandstone. Many of the collapse cones are characterized by a thick section of Moenkopi siltstone that fills the cone near the upper Kiabab horizon. Although breccia pipes often have some structural symmetry at different levels, the throat of a pipe is not always in the center of a collapse cone and circular depressions or are not always related to pipes.

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA, continued

Geology and Mineralization, continued

Uranium mineralization in breccia pipes of the northern district occurs predominantly within the pipe throat and below the upper Hermit contact. Mineralization is also present in ring fractures along the margins of the throat, and in the underlying Supai Group, but significant accumulations at this level is less common on the north rim than in the southern district. Economic concentrations of mineralization often occur over a vertical distance of more than 600 feet in the pipe throat. Scattered mineralization can extend well below the upper contact of the Esplanade Sandstone.

Uranium occurs primarily as pitchblende in voids between sand grains and replacing rock fragments of a reduced sandstone dominant breccia derived from the Coconino Sandstone. Calcite and gypsum are common cementing minerals. Associated trace elements include copper, arsenic, nickel, lead, zinc and silver. The mineralized breccia often contains abundant bitumen that is considered an important reducing agent for the geochemical system. Uranium is generally thought to have been transported to the pipe by oxidizing ground waters in the Coconino Sandstone and deposited in a “trap” of porous sandstone breccia within the non porous pipe walls of Hermit siltstone and above a relatively tight base of siltstone dominant breccia. Finely disseminated pyrite is common in the mineralized zone and may contribute to the reducing environment necessary for the deposition of uranium. Immediately above the mineralization, pyrite becomes massive and forms a “cap” of pyrite after marcasite that can exceed 50 feet in thickness.

The USGS Open File Report (OFR-89-550) shows the mapped locations of 1,296 pipes in the northern and southern Arizona Strip district. The highest density of pipes occurs in outcrops of Carboniferous aged strata in the deeper canyons of the region. The density of pipes decreases dramatically below the cover of successive layers of younger sediments until fewer than 2 pipes are evident over a surface area of 500 square miles in the upper Triassic sequence. Clearly, the upper level of stoping by collapse varies and many pipes may occur at depth and remain hidden with no surface evidence of a pipe throat. If these structures penetrate the Coconino Sandstone in a favourable area of the district, an ore body may exist with no pipe feature at the surface. To date, Hack 2 is only “hidden” pipe ever discovered in the district. The number of mineralized pipes discovered to date may represent only a fraction of the number that lie waiting to be discovered at depth.

Sampling, Analysis and Security of Samples

The Company uses the industry standard gamma logging method for grade determinations of uranium mineralization in drill holes. The process requires systematic calibration of the logging tools for precision and accuracy. Grades are reported as equivalent “U3O8” based on an assumed direct correlation between gamma-ray intensity, as measured by the gamma logging tools, and uranium content.

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA, continued

Sampling, Analysis and Security of Samples, continued

Down hole logging for the Company's drill holes is contracted to Geophysical Logging Service of Prescott, Arizona. Mr. Ken Sweet, Geophysical Consultant, of Denver Colorado provides QA/QC and final interpretation of the process. Geophysical Logging Service uses a borehole NaI detector manufactured by Mt. Sopris in Golden, Colorado for initial grade calculations.

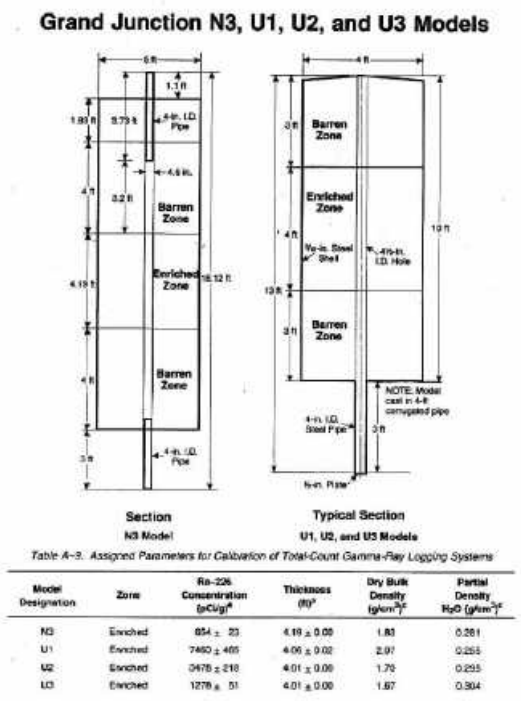


Table A–3. Assigned Parameters for Calibration of Total-Count Gamma-Ray Logging Systems

Model Designation	Zone	Ra–226 Concentration (pCi/g)[a]	Thickness (ft)[b]	Dry Bulk Density (g/cm³)[c]	Partial Density H_2O (g/cm³)[c]
N3	Enriched	654 ± 23	4.19 ± 0.00	1.83	0.281
U1	Enriched	7460 ± 465	4.06 ± 0.02	2.07	0.255
U2	Enriched	3478 ± 218	4.01 ± 0.00	1.70	0.255
U3	Enriched	1278 ± 51	4.01 ± 0.00	1.67	0.304

It is of the type 2PGA1000 which is a standard for uranium logging. It uses a large crystal, 22.22 mm in diameter and 76.2 mm long. As a back up an HLP-2375 tool is used, also manufactured by Mt. Sopris. The HLP tool is a smaller diameter and can be used small drill holes.

The tools are calibrated in Grand Junction Colorado, nominally every 3-6 months. When ore grade mineralization is encountered the tool will be calibrated more often. In general, ariation with this tool is insignificant within a year and requiring less than a 1% calibration change.

There are 4 calibration pits in Grand Junction; 0.231%, 0.452%, 1.22%, and 2.63% U3O8. The calibration pits are constructed of natural uranium ore. Corrections are made for hole diameter, the type of drilling pipe, and fluid in the hole.

Because the grades and thicknesses of the mineralized section are determined by down hole logging tools, the Company uses rotary drilling for exploration on the project. Drill cuttings from the program are often limited to the upper 400 feet of the hole. Circulation of the samples to the surface is often lost in the deeper evaporite dominant sections. Samples of the cuttings are collected in plastic boxes and archived in locked storage facilities.

III. Natural Resource Properties, continued

c. Uranium Projects – Arizona, USA, continued

Sampling, Analysis and Security of Samples, continued

When mineralization is intersected, spot core is collected when possible to compare to the interpreted gamma response. In some cases corrections need to be made for disequilibrium as established by closed-can analysis or direct neutron activation that compares the chemical values of core vs. the interpreted gamma grades. The gamma response has the advantage of sampling a large volume, on the order of 60 cm. Data is sampled at 0.5 foot or closer spacing. All core from the program is placed in boxes marked for depths, logged by the Company geologist and kept in the Company's storage facilities in Kanab, Utah.

For hole deviation a Mt. Sopris 2DVA-1000 borehole deviation probe is used. It consists of a 3 axis flux gate magnetometer and a 3 axis accelerometer. The tool is calibrated on the surface using a "Jig" to hold it in a known orientation. The data is recorded continually along the hole.

Induction logs are used in conjunction with the gamma probe to provide additional lithologic information. Correlation of the interpreted lithologies between drill holes in a target area can reveal structural deformation related to a possible breccia pipe.

Mineral Resources

There are no resources or reserves on the Company's Arizona Strip properties that comply with the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines as adopted by CIM Council on August 20, 2000.

Exploration and Development

The Company's approach to uranium exploration has been proven by years of past experience with Energy Fuels Nuclear. Geologic mapping, aerial photography, and satellite imagery have been and continue to be used extensively to identify breccia pipe targets. When a target was located, surface time domain geophysical surveys had significant success in defining areas of thickened (conductive) siltstone within the surface structure to locate drill holes that define the pipe throat. Most of the obvious targets identified by using these methods have been located and drill tested by companies exploring the northern district in the 1980s. However, extensive areas remain unexplored because of the time and expense required by the surface geophysical surveys.

In early 2007, Quaterra contracted Geotech ltd. to conduct the first extensive test of an airborne time-domain electromagnetic system on the Arizona Strip. The survey covered approximately 420 square miles. The VTEM system not only identified anomalies related to the collapse cones of most of the known breccia pipes but identified more than 200 moderate to high priority targets with similar geophysical signatures. Although a detailed interpretation of the airborne survey data is in progress for prioritization of the targets, Quaterra will begin testing the higher priority VTEM anomalies in the Spring of 2008.

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA

Property Description, Location, Access and Infrastructure.

The Duke Island Cu-Ni-PGE prospect is located in the Prince Rupert quadrangle of southeast Alaska about 30 miles south of Ketchikan (Figure 6).

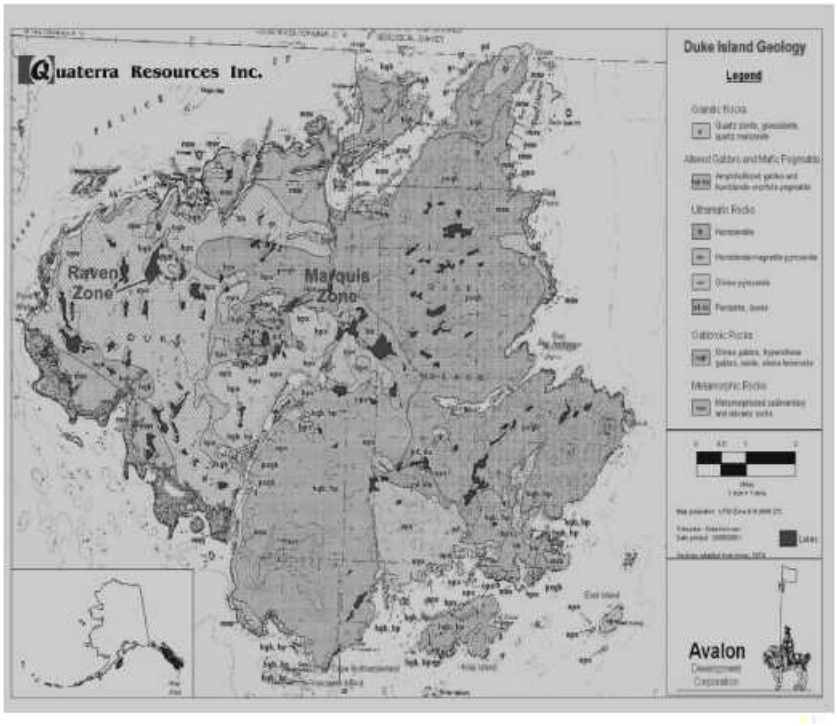


Figure 6: General geology of Duke Island showing location of Raven and Marquis zones (Avalon Development, 2006)

The Company's 100% owned Duke Island Project consists of 129 unpatented Federal lode mining Claims covering 2,580 acres, and 11 state of Alaska mining claims covering 1,280 acres in the Ketchikan quadrangle in Township 80 South, Range 93 East. Mineral rights in this part of Alaska are administered by the U.S. Forest Service and the Alaska Department of Natural Resources. The Duke Island Project is located within the Tongass National Forest on multiple-use lands open to mineral development.

The Duke Island Project is accessible via boat, small float plane and helicopter. There is tidewater access to the southeast end of the Property at Judd Harbor and the central portion of the Property via Hall Cove. The city of Ketchikan (population 14,000) is located 30 miles to the north and is the regional commercial hub for this part of southeast Alaska. The city hosts an all-season deep water port, international airport, commercial fixed wing and helicopter services, and most of the support industry required for mineral exploration.

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

History

Early exploration on Duke Island is limited to a drilling program in the late 1950's by Columbia Iron Mining, a subsidiary of United States Steel. The program tested two areas for potential magnetite mineralization. Nine vertical drill holes are reported to have been drilled to a depth of 500 feet to ascertain the magnetite content of the ultramafic rocks (Irvine, 1974). Six holes were drilled on the southeast side of Hall Cove and three in the Judd Harbor area. Precise locations of these holes are uncertain and no assay data of any kind is available to the Company. The potential for PGE mineralization was not addressed during these efforts.

In 1972, Clark and Greenwood collected 22 rock samples for PGE assays as part of a regional sampling and petrology study. In 1989 Bureau of Mines geologists collected 24 samples for assay. Eleven additional samples were collected by the Bureau of Mines in 1995. None of these efforts led to discovery of significant mineralization at Duke Island.

In early 2001 Avalon Development Corp. identified several geologically promising PGE exploration targets in Alaska which prompted the Company to acquire mining claims at Duke Island. In March and April 2001, Avalon Development conducted reconnaissance scale pan concentrate and grab rock sampling on behalf of the Company Resources and staked 45 federal Claims and 6 state Claims. Follow-up work was conducted in July which resulted in discovery of Cu-Ni-PGE sulfide mineralization hosted in pyroxenites on the north end of the Company's Claims. Subsequent rock sampling, soil sampling and 11,200 line-feet of dipole-dipole induced polarization geophysics were completed on the project in September and October.

Exploration and Drilling

During November and December 2001, the Company contracted with Layne Drilling to complete 4 diamond drill holes (447 meters, 1,467 feet) in the Marquis zone (Figure 3). The holes were drilled from two drill pads approximately 750 feet apart centered on a coincident rock geochemical and IP geophysical anomaly. The drill targets are associated with a highly conductive IP anomaly flanked by extensive chargeability anomalies to the northeast and southwest. Massive sulfides with highly anomalous copper and lesser nickel and PGE values were encountered in all holes.

III.

Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

Exploration and Drilling, continued

Significant drilling results are shown below:

Hole Number	From Ft	To Ft	Thickness Ft	Cu (Wt Avg ppm)	Pt (Wt Avg ppb)	Pd (Wt Avg ppb)
DK0101	0	298	298	1,270	47	59
Includes	177	258.3	81.3	2,170	50	64
DK0102	4	81	77	2,375	64	83
DK0103	0	252	252	1,328	62	72
DK0104	0	188	188	1,649	85	130
Includes	165	167	2	12,500	187	386

In January 2002 Perry Remote Sensing was retained to conduct a preliminary Landsat Thematic Mapping analysis of the Duke Island Prospect (Perry, 2002). The spectral image of iron-oxide stained sulfide-bearing rocks at the Marquis zone was used for ground truth to determine if surface outcrops of other potentially mineralized areas exist on Duke Island. The TM imagery identified two other obvious targets to the southwest and southeast of the Marquis zone. A total of 43 rock samples were collected in June 2002 in the southwestern TM anomaly, now known as the Monte zone. Approximately fifty percent of these samples (21 samples) returned values in excess of 1,000 ppm copper. Values for Pt, Pd, Ni and Co were generally lower than seen in the Marquis zone with maximum values of 310 ppb, 468 ppb, 784 ppm and 237 ppm, respectively.

In July 2002 AeroQuest Ltd. (“Aeroquest”) flew combined airborne magnetics and 6-channel electromagnetics over the Duke Island Project. A total of 890.5 line kilometers of survey was completed with most of this total along 200 meter-spaced lines. The survey revealed that areas of known sulfide mineralization generally fall within broad zones of anomalous conductivity that extend well beyond the limits of outcropping sulfides. A total of 459 high priority anomalies were identified by Aeroquest, including 311 Type 1 anomalies with positive in-phase response and a distinct, probable hardrock source and 148 Type 2 anomalies with a negative inphase and positive quadrature response (conductive magnetic anomalies).

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

Exploration and Drilling, continued

The largest zone of conductive anomalies occurs on the north side of the Marquis Zone and extends for 2.5 kilometers in an east-west direction. Magnetic and EM data also suggest that gabbroic units extending 1-2 miles to the north-northeast from the summit of Mt. Lazaro are underlain by highly conductive and variably magnetic rocks and that sulfide mineralization may underlie the gabbro body, significantly increasing the size potential of the Duke Island system.

Consulting geophysicist, Joe Inman of Salt Lake City, Utah prioritized the airborne EM anomalies and an initial ground follow-up of airborne EM anomalies was begun in September 2003. A total of 45 rock grab samples and 66 shovel soil samples were collected. Sampling was concentrated on the northeast Marquis, Raven and Potato Patch zones. These target areas also exhibit strongly conductive electromagnetic signature that suggest the presence of sulfide mineralization. Anomalous copper values up to 136 ppm were recovered from soils in the northeast Marquis zone however, additional soil sampling due east of the Marquis discovery returned highly anomalous copper (to 359 ppm) with grab rock samples returning values up to 984 ppm copper. No previous sulfide mineralization was known from this area and no surface outcrops of sulfide mineralization have been found to explain these soil and rock anomalies.

In addition, the 2003 field work expanded the size of known sulfide mineralization at the Potato Patch zone and also expanded the size of known sulfide mineralization at the Raven zone. Previous work at the Raven zone returned copper values up to 2.2% from a small area of outcrops surrounded by low, swampy topography. Soil sampling completed in 2003 returned copper values up to 4,320 ppm and Pt + Pd values up to 439 ppb from covered swampy terrain immediately south of outcropping sulfide mineralization. Sulfide mineralization at Raven was extended to over 650 meters south of the original Raven discovery outcrops and remains open to expansion in all directions.

During reconnaissance work completed in 2003 a new zone of disseminated copper sulfide mineralization was discovered at tidewater on Cape Northumberland on the extreme southern tip of Duke Island. While copper values (up to 352 ppm) did not reach percent-levels, the Northumberland zone is unique in that it represents the only sulfide mineralization discovered to date which is not located within the NW-SE trending belt of mineralization extending from the East Judd to Raven prospects. The significance of the sulfide mineralization at Northumberland and its extent are unknown.

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

Exploration and Drilling, continued

In late May and early June 2004 Clark Jorgenson of Big Sky Geophysics was contracted to conduct a ground based HCP-EM (Max-Min), magnetometer, and gravimeter survey of the Marquis and Raven prospects. Big Sky completed 20,000 line-feet (6.1 line km) of survey over the Marquis and Raven prospects. Results from this survey indicated three strong Max-Min conductive anomalies, two moderately conductive anomalies, and three weakly conductive anomalies at the Marquis prospect. The strong conductive anomalies are located coincident with the IP resistivity low and with an interpreted dip to the northeast. The weakly conductive anomalies are located to the northeast of the IP anomaly and dip to the southwest. There is an increase in rock density which starts in the western side of the Marquis prospect and trends east toward Knob Hill. At the Raven prospect Big Sky identified two weak Max-Min conductors on the western survey line. These are coincident with relative rock density highs that form two ellipsoids elongated W-E, one centered on the main Raven prospect and the other to the south separated by a density low. The shape and location of the relative density highs are somewhat coincident with the airborne EM conductivity highs and airborne magnetic highs previously identified at the Raven prospect.

In mid June 2005 the Company contracted Aurora Geosciences to conduct a 48,030 line-feet (14.6 line km) ground based gravimetric survey of the Marquis, Raven, Potato Patch, Scarp, and Lookout prospects along with the Northeast and Far Northeast areas. Results from this survey confirmed the 2004 gravity survey results and the expanded grids revealed local gravity highs in all of the surveyed areas. Local increases in density may reflect significant sulfide accumulation. Gravity field results from each prospect relative to each other show a general increase in the corrected Bouguer anomaly from west to east (-92.4 mgals to -74 mgals) perhaps showing the increasing thickness of the ultramafic package over the modeled feeder for the intrusion at the head of Hall Cove.

During August-September 2005 the Company contracted Connors Drilling to complete 7 NQ2 core drill holes at the Marquis, Potato Patch, and Raven prospects totaling 4,504 feet. Two holes were collared northeast of holes DK0101 through DK0104 and aimed southwest back toward the Marquis IP anomaly and the previous drill holes in the Marquis prospect. Both holes intercepted semi-massive to massive sulfide at depth in the hole indicating that the sulfide horizon is north dipping.

Hole DK0501 (AZ 225, -60, TD 654) intercepted semi-massive to massive sulfides at 238 feet down hole. This hole intercepted clinopyroxenite from surface to TD. Co and Ni values positively correlate with Cu and S values. Cu:Ni ratios for mineralized intervals averaged 2.17. This hole did not exit mineralization.

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

Exploration and Drilling, continued

Significant results are shown below:

Hole Number	From Ft	To Ft	Thickness Ft	Cu (Wt Avg ppm)	Pt (Wt Avg ppb)	Pd (Wt Avg ppb)
DK0501	326	425.5	99.5	2,320	68	72
	376					
Includes	376	394	18	4,520	100	111
Includes	404	424	20	3,625	123	133
DK0502	No Significant Intercepts					
DK0503	37.5	186.5	149	2,086	5	1
DK0504	No Significant Intercepts					
DK0506	8	395	387	2,035	56	59
Includes	33	75	42	3,801	331	313
Includes	8	92	84	2,531	211	219

Note: Holes DK0505 and DK0507 were not visibly mineralized and have not been submitted for geochemical analyses.

Avalon Development Corp completed a technical report on the Duke Island project for the Company in August 2006. The report concluded that mineralization identified at Duke Island had the potential to elevate the Project to one of the most important new discoveries in North America. The report recommended extensive geochemical sampling and geologic mapping of the Monte prospect and other prospective areas. It also recommended a thorough review of all petrological, geochemical and lithologic data to help guide future exploration efforts including a 14,500 foot drilling program includes specific exploration holes to test the Marquis, Raven, Scarp, and Lookout targets.

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

Geology and Mineralization

The Duke Island complex consists of two separate, well-exposed, ultramafic bodies interpreted to be parts of the same intrusive body at depth. Both intrusives are comprised of a dunite and peridotite core surrounded by concentric zones of olivine clinopyroxenite, hornblende-magnetite clinopyroxenite, and gabbro. The presence of dominantly ultramafic cumulates likely resulted from concentration of the mafic minerals by flow, settling, and entrapment from a mafic magma, rather than an origin as an unusual ultramafic magma.

A series of northwest and northeast trending faults appear to post-date emplacement of the Duke Island ultramafic body. The most significant of these structures is the Hall Cove – Grave Point structure which trends northeast along the trace of Hall Cove. Field relationships suggest this structure has an unknown amount of southeast-side down relative displacement. Ultramafic rocks of the Judd Harbor portion of the complex are exposed between the Bite Cove and Judd Harbor faults suggesting the ultramafic blocks occupy a horst block between the two structures. Copper-nickel-PGE mineralization discovered to date appears to be controlled by northwest trending structures although its relationship to the Hall Cove, Bite Cove and Judd Harbor structures is unknown.

Copper and nickel occurs as chalcopyrite and pentlandite in massive to disseminated pyrrhotite. Sulfide mineralization is primarily hosted in clinopyroxenite as interstitial blebs, pods and net-textured masses. There is little correlation between PGE content and sulfide content. PGE enriched intervals occur in sulfide rich intervals, but there are also numerous sulfide rich intervals with no appreciable PGE content.

Geochemical, geological and geophysical data from the project suggests that sulfide mineralization at Duke Island extends for over 14.5 kilometers along strike and up to 3.8 kilometers across strike with the ultimate dimensions of the system remaining open to expansion. Prior to discovery of significant accumulations of massive, semi-massive and disseminated sulfide mineralization, the mafic-ultramafic intrusive was considered to be a classic zoned Ural-Alaska type complex of mid-Cretaceous age.

Many of the zoned ultramafic complexes in the Koryak-Kamchatka and Southeast Alaska belts are described and mapped as plug or pipe-like, concentrically zoned intrusions, which are dome-like bodies originating from diapiric injection of ultramafic magmas-a type notably absent of economic nickel sulfide occurrences. The copper, nickel and iron contents at Duke Island are significantly elevated relative to most Ural–Alaska complexes. The geometry and the abundance of sulfide mineralization present on the property have many characteristics of layered mafic intrusive complex. Similar intrusives host some of the world's largest copper-nickel systems.

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

Sampling, Analysis and Security of Samples

All 2001 core samples were crushed at Bondar Clegg's Fairbanks preparation facility to 80% passing 10 mesh and then pulverized to +95% passing –150 mesh. Sample rejects were retained in Fairbanks and returned to Avalon Development. Sample pulps were to Bondar Clegg's main analytical facility in North Vancouver, British Colombia and analyzed for Pt + Pd + Au by 30 gram lead collection fire assay techniques with an inductively coupled plasma (ICP) finish. In addition, each sample was analyzed for a multi-element package by ICP analytical methods using two acid digestion procedures. The remaining half of the drill core was shipped to Fairbanks and stored in Avalon's secure warehouse.

All 2005 core samples were sawn in the field and sent to Vancouver by ALS Chemex for processing at their prep facility. Samples were crushed to 70% passing 2 millimeters (10 mesh) and a 250 gram split was taken and pulverized to +85% passing 75 microns (200 mesh). All samples were analyzed for Pt + Pd + Au by 30 gram lead collection fire assay techniques with an inductively coupled plasma (ICP) finish. In addition, each sample was analyzed for a suite of 27 trace elements using a four acid digestion procedure followed by ICP techniques with an atomic emission spectrographic finish. Fire assay and ICP processes were adjusted by ALS Chemex to account for the high concentrations of iron, magnesium, and chromium associated with ultramafic rocks. Pulps and rejects and remaining half of the core was sent to Avalon Development's Fairbanks warehouse for permanent storage.

A total of 148 sample blanks were inserted into the sampling sequence for the 2001 through 2005 Duke Island programs. Blanks were inserted on a minimum 1 for 25 basis into all sample sequences. Extensive previous analysis of this same blank rock type has given Avalon a large geochemical database for use on a comparative basis. Analyses performed by Bondar-Clegg and ALS Chemex on the blanks from the Duke Island project indicate no unusual or spurious sample results in the blanks submitted.

No blank of check analyses were completed on Duke Island geochemical samples during the period 2001 through 2004. In 2005, in addition to sample blanks, sulfide rich commercial geologic standards from Analytical Solutions Ltd. were inserted on a 1 to 50 basis in each sample submittal during 2005. Analysis results indicate no unusual or spurious sample results in the standards submitted.

Mineral Resources

There are no resources or reserves on the Company's Duke Island project that comply with the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines as adopted by CIM Council on August 20, 2000.

III.
Natural Resource Properties, continued

d. Duke Island – Alaska, USA, continued

Exploration and Development

A detailed review of the Duke Island data in 2007 suggests that sulfide mineralization may be related to an elongate sill complex, not a Ural Alaska ultramafic intrusive. The Duke Island complex appears favorable for hosting additional areas of mineralization with possibly higher sulfide concentrations and better metal grades in more basal and more dynamically active portions of the ultramafic contact zones. A low-lying area with essentially no outcrop to the north and east of earlier drilling presents an attractive target where numerous moderate to strong airborne EM conductors remain untested. Previously undrilled targets will be evaluated by electromagnetic surveying during summer 2007 in anticipation of a 2008 drilling program.

e. Big Bar – Alaska, USA

Property Description, Location, Access and Infrastructure

The Company's 100% Big Bar Project is a copper-lead-zinc prospect located 110 miles northeast of Nome, Alaska. The property consists of 7 claims controlling 1,120 acres of State of Alaska mineral rights classified as Open-to-Mineral-Entry in Sections 4, 5, and 9, T.1 S., R.17 W., Kateel River Meridian. Access to the prospect is by helicopter and the nearest improved airstrip is 16 miles to the northwest at Independence on the Kugruk River.

History

The Big Bar claims cover one of the most significant anomalies identified by Anaconda Minerals Company in a stream sediment and soil geochemical reconnaissance survey over a large part of the Seward Peninsula during the period of 1982 to 1984. Several stream sediment samples from the southern Kiwalik Mountain area were found to be anomalous in copper, lead, zinc, gold, cadmium, and arsenic. Soil samples were then collected from the drainage basin to follow-up on the stream sediment anomalies.

During the 1983 field season, Anaconda conducted geologic mapping and a detailed geochemical sampling program on a 3,900 by 3,000 foot soil sample grid. Sample spacing along strike was 330 feet and 165 feet along dip. The program defined a copper anomaly greater than 200 ppm that was over 3,900 feet long and 165 to 330 feet wide. Copper values within this anomaly were locally greater than 1,000 ppm. A zinc anomaly greater than 200 ppm in soils overlaps the copper anomaly to the west but is roughly parallel and displaced downslope from it to the east. The lead soil anomaly (greater than 100 ppm) is irregular and more discontinuous than the copper anomaly. Both the east and west limits of the anomaly are on slopes where downslope migration of surficial materials is to be expected but copper values greater than 200 ppm extended to both the northwest and southeast limits of the sample grid. Gossans collected as float from the anomaly contain up to .06 g/t Au, 1.6 opt Ag, 4260 ppm Cu and 3900 ppm Zn.

III.
Natural Resource Properties, continued

e. Big Bar – Alaska, USA, continued

History, continued

By this time the project geologists could see the close similarities between the Big Bar prospect and massive sulfide prospects in the Ambler District. During the 1984 field season, Anaconda continued detailed geologic mapping, expanded and tightened the geochemical grid, and completed some reconnaissance geophysical surveys (IP, MAXMIN, EM, gravity, and magnetics). One distinct IP anomaly, coincident with a magnetic high, was identified upslope of the copper anomaly. The Anaconda Minerals Company was dissolved in the spring of 1985 and the mining claims were dropped via non-performance of annual labor.

Exploration and Drilling

Quaterra staked the Big Bar prospect in August, 2000 and initiated field work the following field season with surface reconnaissance, sampling and a gravity geophysical survey conducted by Allan Spector and Associates Ltd. of Toronto, Canada. The survey collected gravity data on 200 foot intervals along four NW-SE oriented lines 400 feet apart and extending across the anomalous area defined by Anaconda. The survey delineated 3 high density zones, including two zones that correlated to higher copper geochem values and anomalous magnetics.

During the second quarter of 2006, the Company conducted a three-hole , 1,470 foot core drilling program to test a strike length of approximately 1000 feet near the center of the geochemical anomaly at Big Bar. The holes intersected uneconomic zones of disseminated pyrite and stringer sulfides but no massive sulfide mineralization.

Geology and Mineralization

Big Bar is a volcanogenic massive sulfide occurrence in an interlayered metavolcanic and metasedimentary sequence that strikes northwest and dips moderately south. The interbedded sequence includes metapelitic schist, white to tan siliceous muscovite schist, and muscovite-quartz-feldspar schist. The felsic schist contains apple green muscovite and up to 50 % feldspar porphyroblasts. The mineralized schists are highly oxidized and limonitic blebs and streaks are common along the foliation. Only a few remnants of pyrite and chalcopyrite are observed at the surface. Exposure is primarily frost-riven rubble although one non-mineralized felsic schist outcrop is present upslope of the defined mineralization.

The metamorphic assemblage that hosts this prospect is peripheral to the Devonian Kiwalik Mountain gneiss. The assemblage appears to contain metatuff and metarhyolite components that resemble lithologies in the Ambler district of the southern Brooks Range. The metavolcanic-bearing assemblage of the Kiwalik Mounatin area has only locally been separately mapped along Independence Creek. This assemblage flanks Kiwalik Mountain to the east, south, west and northwest. The prospect is highly oxidized. Quartz-sericite-pyrite alteration may be present in unoxidized parts of the prospect.

III.
Natural Resource Properties, continued

e. Big Bar – Alaska, USA, continued

Sampling, Analysis and Security of Samples

All core from the 2006 Big Bar drilling program was logged at the Avalon base camp on Independence Creek by an Avalon geologist. The interval length of diamond core samples was determined by the geologist logging the hole and marked on wooden blocks placed in the sample stream. Core was then digitally photographed and photos stored on CD-rom media. Core was then sawed using a Haley core saw. One half of each sample interval was placed in a sample bag for eventual shipment to Fairbanks. The other half of the core was retained for future use.

Alaska Assay lab of Fairbanks, Alaska completed all of the sample preparation and analyses for the 2006 Big Bar project. All core samples collected from the project remained under direct supervision of Avalon Development from their point of collection in the field until the samples were released to Alaska Airline Air Freight office in Nome Alaska. Samples were then shipped via air to Fairbanks where Avalon personnel took possession of the samples, checked them for integrity and inserted blanks and standards as described below. All core samples were prepared by crushing to more than 10% passing 10 mesh and splitting of 250 grams of reject which was then pulverized to greater than 90% passing 150 mesh.

Following sample preparation, core samples were analyzed for gold by lead collection fire assay techniques with an atomic absorption spectroscopy finish (FA-AA). In addition to gold assay analyses described above, each core sample was analyzed for 34 elements by inductively coupled plasma (ICP) with atomic emission spectroscopy (AES) finish using four acid digestion.

Quality assurance and quality control protocols on the Big Bar drilling project included insertion of blank and standard samples in all core sample submittals. Blank samples were inserted into the sample stream as the first sample in each sample batch and then on a 1 for 25 basis thereafter in a given sample batch. Avalon has utilized this material as a blank for over 5 years due to its hardness (assists in scouring crushers) and its distinctive geochemical fingerprint that is void of gold, base metals and gold-pathfinder elements. Overall blank sample results indicate good quality preparation and analysis at Alaska Assay Labs.

Commercially prepared gold standards were inserted as pulps into the sample stream on a 1 for 50 basis. Four different commercially prepared gold standards were used during the program. All of the Alaska Assay Labs analyses were within 10% of the expected standard value. Pulps for the program are stored in secured, weather proof containers at Avalon Development's Fairbanks warehouse. Rejects from the project were discarded.

Mineral Resources

There currently are no resources or reserves on the Big Bar project that comply with the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines as adopted by CIM Council on August 20, 2000.

III. Natural Resource Properties, continued

e. Big Bar – Alaska, USA, continued

Exploration and Development

The Company's initial phase of drilling examined only a small portion of the Big Bar anomaly. The geology of the drilled section suggests a good environment for massive sulfide mineralization, but does not give a clear indication of where the sulfides may have accumulated. To evaluate the possibility of massive sulfides at depth or in adjacent areas, the Company contracted Fugro Airborne Surveys Corp. to conduct an 85-line mile airborne EM-magnetometer survey covering an area of 15.5 square miles centered over the geochemical anomaly. The survey was completed in September 2006 and identified a number of anomalies adjacent to the geochemical anomaly that will be field-checked during summer 2007.

f. MacArthur – Nevada, USA

Property Description, Location, Access and Infrastructure

The Company's 100% owned MacArthur copper project is controlled by 294 unpatented mining claims covering approximately 8 square miles in Lyon County, Nevada. The property is located 50 miles southeast of Reno in Sections 23, 24, 25, 35, and 36 in T.14N, R.24E and Sections 19, 20,29,30, and 31 of T.14N, R.25E (figure 6). The deposit lies within the Yerington copper mining district about 5 miles north of the mined out Yerington pit. Access to the project from State Highway 95 one mile then north of the town of Yerington, is provided by 4.5 miles of graded county roads that lead to the MacArthur Copper Property.

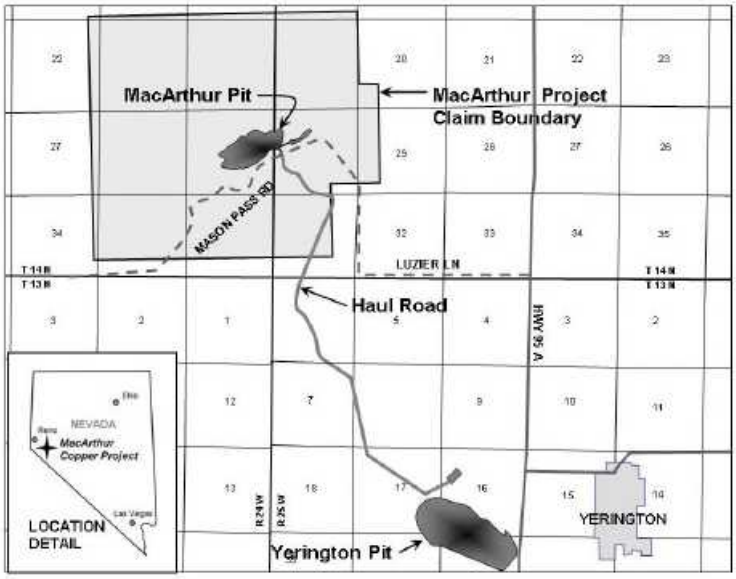


Figure 6: Location map of the MacArthur Copper project

III. Natural Resource Properties, continued

f. MacArthur – Nevada, USA, continued

History

Local prospectors staked unpatented mining Claims on the MacArthur property in the 1930's and made small tonnage shipments of hand sorted, high grade, oxide copper ore during that time. In 1950, the U.S. Bureau of Mines excavated a series of trenches across copper oxide occurrences and drilled 8 diamond drill holes. A total of over 60 holes were drilled on the Property by at least four major mining companies that optioned the Property from 1954 to 1971.

From 1971 to 1972, Anaconda carried out detailed geological mapping, systematic trenching and drilled approximately 56,000 feet in 280 vertical and angle percussion rotary holes to an average depth of 200 feet. The program outlined approximately 13 million tons of + 0.4% copper mineralization (Heatwole, D.A., 1978, Controls of Copper Oxide Mineralization, MacArthur Property, Lyon County, Nevada: Arizona Geological Society Digest, Vol. XI, p. 59-66.)

Arimetco International ("Arimetco") purchased the Anaconda Yerington district properties and staked unpatented mining Claims over the MacArthur prospect in 1988. The MacArthur Mining and Processing Company, Inc. commissioned Metech Pty. Ltd., of Perth, Australia to prepare an ore reserve and mining planning study of the MacArthur deposit in 1989. Metech digitized the Anaconda data set which consisted of 11,529 assay intervals from 290 drill holes.

The Metech study developed a statistically controlled Kriged ore body model of the MacArthur deposit within defined zones of mineralization. The study reported the definition of a (non 43-101 compliant) overall "geologic reserve" of 63.2 million tons grading 0.26% TCu at a 0.18% TCu cut-off.

Arimetco mined a total of six million tons at an estimated grade of 0.36 % total copper using open pit methods from the MacArthur deposit in the period of 1995 to 1998. The low-grade oxide ore was trucked to heaps at the Yerington site where it was successfully processed with operations to remove copper from the Yerington mine tailings using a solvent extraction electro-winning process. Due to financial difficulties resulting primarily from the low price of copper, Arimetco sought protection under Chapter 11 of the U. S. bankruptcy Code in January 1997 and suspended all operations in 2000.

After Arimetco's departure, the mining Claims over the deposit were allowed to expire. In January 2004, North Exploration LLC (North) staked 58 unpatented mining Claims over the deposit. In October 2005, the Company acquired the right to earn a 100% interest in the mining Claims covering the former MacArthur copper mine, subject to a 2% NSR, through making staged payments to North totaling US$1,785,000 by January 15, 2008 or staged payments totaling US$2,745,000 by January 15, 2010. The Company's property position was then extended through staking an additional 236 mining Claims around the deposit.

III. Natural Resource Properties, continued

f. MacArthur – Nevada, USA, continued

Exploration and Drilling

The Company acquired the digitized Anaconda exploration and drilling data package in August 2006 and commenced a review of the deposit geology and mineralization model using Datamine software. The data review is currently assessing the necessary steps to complete a technical report on the MacArthur Project with the objective of preparing a 43-101 compliant resource estimate.

Geology and Mineralization

The MacArthur copper deposit forms part of the Yerington mining district which includes at least three, large, porphyry copper deposits (Yerington, Ann Mason, Bear-Lagomarsino), as well as two large IOCG deposits (Pumpkin Hollow, and Minnesota). Mineralization ranges from disseminated porphyry copper occurrences to skarn, limestone replacement, and vein type deposits.

The principal rock unit in the area is the M. Jurassic Yerington Batholith emplaced into Triassic-Jurassic volcanic and sedimentary-layered sequences. The bulk of the mineralization appears to be associated with quartz monzonite porphyry dikes that are believed to be the final magmatic event associated with the batholith (Dilles, J. H. and Proffett, J. M., 1995, Metallogenesis of the Yerington Batholith, Nevada: Porphyry Copper Deposits of the American Cordillera, v 20, p. 306-315).

Following the emplacement of the batholith, a long hiatus in the stratigraphic record follows until the Oligocene during which time several thousand feet of Upper Oligocene volcanics and associated sedimentary rocks were laid down on an eroded, Mesozoic surface.

Normal, faulting associated with Late Tertiary basin-and-range extension has displaced and tilted all of the above-mentioned rocks. These faults dip east and are curved, concave upward, so that the dip of the fault flattens eastward. Net displacements are in an east-west direction. Fault hanging wall stratification and/or flow banding in Tertiary rocks is tilted west from 30° to near vertical as a result of the rotational displacement movements. The geologic section is completed by post-faulting conglomerates and alluvium section.

Heatwole (1978) described MacArthur as an oxidized low-grade porphyry copper deposit that has been locally enriched by exotic copper. The probable source of the exotic copper was primary sulfide mineralization peripheral to the porphyry center.

Copper mineralization is visible in the open pit excavated by Arimetco. A total of twelve, 7-meter high benches step down toward the northeast following the original topography. The excavation exposes copper mineralization including chrysocolla, copper wad (neotocite), pitch limonite (vitreous, goethite) and minor amounts of malachite and azurite all hosted in medium grained, biotite, quartz monzonite. Although copper wad (neotocite) and chrysocolla are exposed in the pit walls throughout most of the pit area, the copper wad is more abundant near the western end of the pit while chrysocolla is more common near the east end. "Pitch" limonite, (goethite) after chalcopyrite occurs sporadically as individual disseminations as well as along hairline veinlets containing biotized hornblende.

III. Natural Resource Properties, continued

f. MacArthur – Nevada, USA, continued

Geology and Mineralization, continued

At least three, quartz feldspar porphyry dikes up to 4 meters wide, trending N70°W and dipping 40 to 60° northerly, cut the quartz monzonite. The dikes exhibit quartz "eyes", feldspar, and biotite and/or hornblende phenocrysts set in an aphanitic groundmass.

Several post-mineral, andesite porphyry dikes commonly 0.5 to 2 meters thick (one up to 10 meters thick) striking N75°W, and dipping near vertical to 80° northerly, cut the quartz monzonite. Locally strong oxide copper mineralization (copper wad and chrysocolla) occurs along the contact between the dike and the quartz monzonite. The dikes are post primary mineralization and pre-supergene mineralization.

Hydrothermal alteration at MacArthur is influenced by a strong northwest-oriented fracture system that is exposed in most places throughout the pit. The alteration zoning in the area includes a north-western phyllic zone (quartz-clay-pyrite with sericite), a relatively unaltered central zone with exception of minor potassic alteration in the form of local biotization of hornblende, and an eastern albitic zone with albitization becoming more pervasive to the east. Propylitic alteration has been reported at only a few localities south and southwest of the pit.

Nearly all of the mineralization that forms the presently investigated deposit is supergene in origin. Although there remains a question as to what portion of the deposit represents exotic or laterally transported copper oxides as opposed to the percentage of copper oxides formed through enrichment by the vertical migration of ground water, the source of the copper was probably primary (sulfide) copper mineralization related a porphyry system at or near the MacArthur pit.

Three holes drilled 1,000-1,500 feet north of the MacArthur pit by the US Bureau of Mines in 1950 (Report of Investigations 4906) encountered what appears to be a chalcocite blanket between depths ranging from 200 to 300 feet. Although recoveries at the time were not good, drill hole 6 gave an indication of the mineralization with an intercept with 62 feet averaging 0.61% Cu between downhole depths of 241 and 303 feet.

The MacArthur drilling program is routinely supervised in the field by the project geologist for monitoring recovery, proper core handling and accuracy in labeling. Drill core (HQ diameter) is delivered from the drilling rig to the core storage facility in Yerington by the driller at the end of each 12 hour shift for logging and sampling by the project geologists.

III. Natural Resource Properties, continued

f. MacArthur – Nevada, USA, continued

Sampling, Analysis and Security of Samples

At the core storage/logging facility, the core is photographed, measured, core recovery calculated, and the rock types, alteration minerals, textural features, structures, veining, and mineralized zones documented. Sample intervals on the first three holes were fixed at 5 feet. In subsequent drill holes the sample intervals are taken at each of the core runs marked by the driller's blocks. Exceptions are where full recovery occurs in numerous, short core runs in intervals less than about 6 feet, or where the geologists visually selected sample intervals based on rock type or structure. Sample intervals are measured and marked with permanent marker, orange ribbon and aluminum tag that is stapled to the core tray showing the sample number. Where the core sample is coherent a line is drawn with permanent marker along the stick so that it is sawn in half perpendicular to the "grain" in order to get a representative split. The core is stored on pallets to be picked up by the analytical laboratory.

American Assay Laboratories (AAL) located in Sparks, Nevada prepares and assays samples from the MacArthur drilling program. AAL is ISO/IEC 17025 certified and participates in CANMET, PTP MAL certification analyses twice a year, in GEOSTATS, SMA, and IOAG testing twice a year.

When core from the project arrives at the laboratory, it is split, using a core saw, into halves and one half of each interval is placed into a sample bag that is marked with the sample number. The sample is then dried, crushed to –10 mesh, rotary split to 1,000 grams, pulverized to –150 mesh, and split to 350 gram pulps. The pulps are assayed for total copper using a 2 gram-3 acid volumetric ore grade atomic-absorption (AA) spectroscopy analysis. The solution from the total Cu analysis is assayed by inductively coupled plasma (ICP) spectrometry for 69 elements. Oxide copper (acid soluble) content of the sample is then analyzed by using a weak, sulfuric acid solution leach of a 1 gram pulp followed by AAS copper. Internal quality assurance and quality control procedures include the insertion of standards into the sample sequences. Rejects from the previously analyzed samples will also be sent to another accredited laboratory for check analyses.

The remaining half core is placed back into the core box in its original position and the core boxes are returned to the Yerington core storage/logging facility by the laboratory truck, were it is then stacked and stored in order and by drill hole number. Reject and pulps are also returned with the core to the Yerington facility for archiving.

Mineral Resources

There are no resources or reserves on the Company's MacArthur properties that comply with the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines as adopted by CIM Council on August 20, 2000.

III. Natural Resource Properties, continued

f. MacArthur – Nevada, USA, continued

Exploration and Development

The lateral zonation of supergene copper minerals visible at the surface, a possible chalcocite blanket to the north of the pit, and a large, pervasive phyllic alteration zone to the north and west of the mine workings, all suggest that the MacArthur deposit may have a significant potential for growth; both in the form of copper oxides and as primary sulfides in a related porphyry system. Although the MacArthur project currently has no NI43-101 compliant resource estimate, the historical data from the Project is substantial. With sufficient new drilling to substantiate the Anaconda data base, a formal resource can be calculated for the project.

In April 2007, the Company commenced a 10,000 foot core drilling program to twin approximately 10% of the shallow holes that defined the previously explored copper oxide mineralization at MacArthur and to identify extensions of copper oxide and chalcocite mineralization in the vicinity of the open pit. The program will also include at least 2 deep (1000-2000 ft holes) to investigate the potential of primary sulfide copper mineralization related to porphyry at depth. Additional mineralization within and peripheral to the deposit may significantly enlarge the area of known mineralization on the project and the value of a possible future producing operation at MacArthur.

g. Yerington Porphyry Copper Mine – Nevada, USA

On May 1, 2007, Quaterra received the approval of the appropriate U.S. court to the acquisition by a subsidiary of Quaterra of all Arimetco assets in the Yerington Mining District. Subject to the approval of the TSX Venture Exchange, the purchase price comprises US$500,000 cash, 250,000 shares of Quaterra common stock and a 2% net smelter return royalty capped at US$7.5 million dollars on production from any claims owned by Quaterra in the Yerington and MacArthur mine areas. Quaterra may terminate the transaction at any time during a 180-day review period if it is dissatisfied with the condition of the property or fails to obtain requested environmental clearances for past mining-related activities. The Chambers Group Inc. and Golder Associates Inc. are currently completing a Preliminary Site Condition Review as part of the Company's due diligence.

Under certain circumstances, the review period may be extended for additional successive 120 day periods.

Quaterra, subject to successful completion of due diligence, plans to explore the property as part of its ongoing exploration drilling program at MacArthur. Significant tonnages of copper oxide and sulfide mineralization remain below and peripheral to the Yerington pit and much of the area between the pit and the MacArthur deposit remains under-explored. The potential acquisition of this property in the center of a prolific copper district provides Quaterra not only with additional exploration targets but increased flexibility when considering production alternatives.

III.
Natural Resource Properties, continued

h. Other Properties

Early Stage Projects

Mirasol Gold Project – Durango, Mexico

The Mirasol Project is located in southeastern Durango, Mexico in the Municipality of Simon Bolivar. Quaterra's Mexico subsidiary, Minera Agua Tierrra, SA de CV, is the 100% owner of all eight concessions totaling 25,194 hectares (97 square miles) that were staked in 2006-2007..

Mirasol is located on the SW margin of the Ahuichila graben, a distensional tectonic feature that formed in Eocene time. The graben is partially filled with alluvial limestone clast conglomerate formally named the Ahuichila Formation. Mirasol is underlain by nearly flat Cretaceous limestone cut by numerous NW-striking faults. It is partially covered by the conglomerate in the east half of the project area. The NW-striking faults are the SW margin of the Ahuichila graben.

The area is marked by large areas of silicified limestone with minor barite, alunite, stibnite and cinnabar. Sampling shows uniformly anomalous mercury, antimony and arsenic and sporadic anomalous gold values. Hydrothermal breccias of unknown extent and origin are locally anomalous in gold and are likely part of the same mineralizing event. A 38 hole, 5,050 meter RC drilling program was completed in December 2007 to test areas with favorable geology and geochemistry. Results are pending.

The Company's 2008 exploration plans are dependent on results of recently completed drilling

Other properties

Other properties of the Company include the SW Tintic, Gray Hills, Peg Leg, Carbon County, Herbert Glacier, Texas claims, Copper Canyon and Majuba Hill properties in the USA, and Las Americas, Jaboncillos, Cerro Blanco, Inde and La Reforma properties in Mexico. Each of these properties are newly acquired and all are in the initial stages of exploration. Data from prior activities is limited or in the process of being acquired and studied. Total expenditures by the Company to date are minimal.

ITEM 4. RISK FACTORS

The principal business of the Company is the exploration and development of mineral properties. Given the nature of the mining business, the limited extent of the Company's assets and the present stage of development, the following risk factors, among others, should be considered. The factors below should be considered in connection with any forward-looking statements in this AIF. The risks described below are considered to be the significant or material ones, but they are not the only risks the Company could encounter. Some risks may not be known to Quaterra and others that are not considered significant may turn out to be material. Investment in the common shares of Quaterra must be considered speculative and risky, since any one or more of the risks could materially impact Quaterra's business, its ability to raise required capital and market price of its common shares.

I. Risks and Uncertainties

Resource exploration and development is a speculative business and involves a high degree of risk. Exploration of the Company's properties might not result in discoveries of commercial quantities of minerals. The marketability of natural resources which may be acquired or discover by the Company will be affected by numerous factors beyond our control. These factors include market fluctuations, the proximity and capacity of natural resource markets and processing equipment, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. Individually or in combination, these factors may result in our not receiving any or an adequate return on invested capital.

II. Political and Economic Risks of Doing Business

Our investments may be adversely affected by political, economic and social uncertainties which could have a material adverse effect on our results of operations and financial condition. Certain areas in which we may acquire properties have experienced and may continue to experience local political unrest and disruption by the indigenous peoples, which could potentially affect our projects. Changes in leadership, social or political disruption or unforeseen circumstances affecting political, economic and social structure could aversely affect our property interest or restrict its operations. Our mineral exploration and development activities may be affected by changes in government regulations relating to the mining industry and may include regulations on production, price controls, labor, export controls, income taxes expropriation of property, environmental legislation, and safety factors.

III. Funding Requirements

Since the Company does not generate any revenues, it may not have sufficient financial resources to undertake by itself all of its planned mineral property acquisition and exploration activities. Operations will continue to be financed primarily through the sale of securities such as common shares. The Company will need to continue its reliance on the sale of such securities for future financing, which may result in dilution to existing shareholders. Furthermore, the amount of additional funds required may not be available under favorable terms, if at all, and will depend largely on the acquisition and exploration activities pursued.

IV. Risk Associated with Title

The acquisition of title to resource properties or interest therein is a very detailed and time consuming process. Title to and the area of resource concessions may be disputed. The properties may be subject to prior, and in some cases, not fully ascertainable unregistered agreements or transfers, and title may be affected by undetected defects. Title may be based upon interpretation of a country's laws, which laws may be ambiguous, inconsistently applied and subject to reinterpretation or change.

The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

V. Competition

The resource industry is intensively competitive in all of its phases, and Quaterra competes with many other companies possessing much greater financial and technical resources. Competition is particularly intense with respect to the acquisition of desirable undeveloped gold and silver properties. The principal competitive factors in the acquisition of prospective properties include the staff and data necessary to identify and investigate such properties, and the financial resources necessary to acquire and develop the projects. Competition could adversely affect the Company's ability to acquire suitable prospects for exploration.

VI. Management and Dependence on Key Personnel

Quaterra currently has a small executive management group, which is sufficient for the Company's present stage of development. Quaterra has relied, and will continue to rely, upon the services of various consultants and others for operating expertise. Quaterra may need to recruit additional personnel to supplement existing management. Quaterra's development to date has largely depended, and will continue to depend, on the efforts of the current executive management group and the loss, however unlikely, of a significant number of the members of this group could have a material adverse effect on the Company, its business and its ability to develop its mineral properties.

VII. Exploration and Mining Risks

The Company does not hold any known mineral reserves of any kind and does not generate any revenues from production. The Company's success will depend largely upon its ability to locate commercially productive mineral reserves. Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that our exploration efforts will be successful. Success in establishing reserves is a result of a number of factors, including the quality of management, the level of geological and technical expertise, the quality of land available for exploration as well as various other factors.

Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling and bulk sampling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that our exploration programs will result in the establishment or expansion of resources or reserves.

VIII. Estimates of Mineral Reserves and Resources and Production Risk.

The mineral resource and reserve estimates are estimates only and no assurance can be given that any particular level of recovery of minerals will in fact be realized or that an identified resource will ever qualify as a commercially mineable (or viable) deposit, which can be legally and economically exploited. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, among other things. Short term factors, such as the need for orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations and on the results of operations.

IX. Exploration and Development Activities.

Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labor are other risks involved in extraction operations and the conduct of exploration programs. The Company may become subject to liability for damage to life and property, environmental damages, cave-ins or hazards against which our insurance cannot insure or against which it may elect not to insure. If any of our properties are found to have commercial qualities or ore, the Company would be subject to additional risk respecting any development and production activities. Most exploration projects do not result in the discovery of commercially mineable deposits of ore.

X. Resource Prices.

Resource prices have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the control of the Company. These include international economic and political trends, inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new and improved extraction and production methods. Such factors may negatively affect the marketability of any ore or minerals discovered at, and extracted from, our properties. If, because of a sustained decline in prices, financing were not available to meet cash operating costs, the feasibility of continuing operations would be evaluated and if warranted, would be discontinued.

XI. Environmental and Other Regulatory Requirements.

Our operations will be subject to environmental regulations promulgated by various Canadian, US and Mexican government agencies from time to time. Violation of existing or future environmental rules may result in various fines and penalties.

XI. Environmental and Other Regulatory Requirements, continued.

Claims and current and future operations will be governed by laws and regulations governing mineral concession acquisition, prospecting, development, mining, production, exports, taxes, labor standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. Companies such as ours that engage in exploration activities often experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. Issuance of permits for our exploration activities is subject to the discretion of government authorities, and we may be unable to obtain or maintain such permits. Permits required for future exploration or development may not be obtainable on reasonable terms or on a timely basis.

Failure to comply with applicable laws, regulations and permits may result in enforcement actions thereunder, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. We may be required to compensate those suffering loss or damage by reason of its mineral exploration activities and may have civil or criminal fines or penalties imposed for violations of such laws, regulations and permits. We are not currently covered by any form of environmental liability insurance. See “Insurance” below.

Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in exploration.

XII. Insurance.

Our business will be subject to a number of risks and hazards. Insurance to cover the risks to which our activities will be subject may not be available at all or at commercially reasonable premiums. We are not currently covered by any form of political risk insurance or any form of environmental liability insurance. The payment of such liabilities would reduce the funds available to the Company. If we are unable to fully fund the cost of remedying an environmental problem, we might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

XIII. Foreign Subsidiaries.

We are a holding company that conducts its business through foreign subsidiaries, joint ventures and Canadian divisions. Substantially all of our assets are held in such entities. Accordingly, any limitation on the transfer of cash or other assets between Quaterra and its subsidiaries, or among its subsidiaries, could restrict our ability to fund operation efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on our valuation and share price.

XIV. Conflicts of Interest.

Certain of our directors and officers also serve as directors and/or officers of other companies or other managerial positions involved or related to natural resource exploration and development. Consequently there exists the possibility for such directors and officers to be in a position of conflict.

XV. Share Price Volatility.

Securities markets have a high level of price and volume volatility, and the market price of securities of many companies have experience wide fluctuation in price which have not necessarily been related to the operating performance underlying assets values or prospects of such companies. Factors unrelated to the financial performance or prospects of Quaterra include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. Our share price, financial condition, and results of operations are all also likely to be significantly affected by short-term changes in uranium, gold, silver and copper prices. Continual fluctuations in metal prices may occur. As a result of any of these factors, the market price of our shares at any given point in time may not accurately reflect our long-term value.

ITEM 5. DIVIDENDS

Quaterra has not paid any dividends on its common shares since incorporation, nor has it any present intention of paying dividends, as it anticipates that all available funds will be used to undertake exploration and development programs on its mineral properties as well as the acquisition of additional mineral properties. However, Quaterra is not limited in any way in its ability to pay dividends on its common shares.

ITEM 6. CAPITAL STRUCTURE

I. Authorized Capital

Quaterra's has an unlimited number of common shares without nominal value. As at March 18, 2008 there are 83,745,358 common shares outstanding.

Quaterra has only one class of common shares, without any special rights or restrictions. Dividend entitlement of a shareholder of record is fixed at the time of declaration by the board of directors.

Each common share is entitled to one vote on the election of each director. There are no cumulative voting rights, in consequence of which a simple majority of votes at the annual meeting can elect all the directors of the Company. Each common share carries with it a right to share equally with every other common share in dividends declared and in any distribution of surplus assets of the Company after payment to creditors on any winding up, liquidation or dissolution. There are no sinking fund provisions. All common shares must be fully paid prior to issue and are thereafter subject to no further capital calls by the Company. There exists no discriminatory provision affecting any existing or prospective holder of common shares as a result of such shareholder owning a substantial number of shares.

II. Stock Options

Quaterra has a stock option plan pursuant to which the directors of the Company are authorized to grant stock options to directors, officers, employees, and consultants of the Company and its subsidiaries.

As at March 26, 2008, the following stock options were outstanding under the stock options plan:

Exercise Price	Expiry Date	Balance Dec 31, 2007	Granted	Cancelled or Expired	Exercised	Balance March 26, 2008
$0.12	January 10, 2008	170,000	-	-	170,000	-
$0.34	December 8, 2008	70,000	-	-	55,000	15,000
$0.62	March 25, 2009	145,000	-	-	50,000	95,000
$0.35	August 9, 2010	533,500	-	-	240,000	293,500
$0.40	January 9, 2011	200,000	-	-	-	200,000
$1.04	March 27, 2011	125,000	-	-	-	125,000
$1.00	May 19, 2011	75,000	-	-	-	75,000
$1.12	June 12, 2011	100,000	-	-	-	100,000
$1.55	July 28, 2011	1,600,000	-	-	55,700	1,544,300
$1.55	August 23, 2011	100,000	-	-	-	100,000
$1.50	September 25, 2011	100,000	-	-	-	100,000
$2.05	December 18, 2011	100,000	-	-	-	100,000
$2.65	January 11, 2012	75,000	-	-	-	75,000
$2.70	February 21, 2012	25,000	-	-	-	25,000
$3.33	July 20, 2012	2,011,000	-	-	-	2,011,000
$3.33	August 7, 2012	80,000	-	-	-	80,000
$2.93	October 9, 2012	50,000	-	-	-	50,000
		5,559,500	**-**	**-**	**570,700**	**4,988,800**
Weighted average exercise price		$ 1.99	$ 0.00	$ 0.00	$ 0.42	$ 2.17

III. Share Purchase Warrants

As at March 26, 2008, the Company has no share purchase warrants outstanding:

ITEM 7. MARKET FOR SECURITIES

The Company's common shares are listed and posted for trading on the TSX-V under the trading symbol "QTA" and on AMEX under the symbol "QMM". The following table provides information as to the high and low closing prices and the volume of shares trading for each month during the 12 months of the most recently completed financial year being December 31, 2007 and January 1, 2008 to the date of this AIF:

	Toronto Venture Exchange			American Stock Exchange		
Month	**High**	**Low**	**Volume**	**High**	**Low**	**Volume**
March 1 - 26, 2008 *	$ 3.90	$ 3.47	281,098	US$ 3.97	US$ 3.05	1,044,800
February 2007	$ 4.18	$ 3.43	1,987,996	N/A	N/A	N/A
January 2007	$ 3.50	$ 2.90	1,259,822	N/A	N/A	N/A
December 2006	$ 3.48	$ 2.90	1,558,898	N/A	N/A	N/A
November 2006	$ 3.92	$ 2.91	12,587,082	N/A	N/A	N/A
October 2006	$ 3.99	$ 2.66	1,474,493	N/A	N/A	N/A
September 2006	$ 3.02	$ 2.26	914,797	N/A	N/A	N/A
August 2006	$ 3.50	$ 2.21	3,435,136	N/A	N/A	N/A
July 2006	$ 3.80	$ 3.05	1,093,188	N/A	N/A	N/A
June 2006	$ 3.84	$ 2.97	1,534,742	N/A	N/A	N/A
May 2006	$ 4.16	$ 3.38	2,160,766	N/A	N/A	N/A
April 2006	$ 3.59	$ 2.60	2,024,279	N/A	N/A	N/A
March 2006	$ 3.00	$ 2.10	1,294,100	N/A	N/A	N/A
February 2007	$ 2.94	$ 1.98	1,257,700	N/A	N/A	N/A
January 2007	$ 2.96	$ 2.45	1,410,234	N/A	N/A	N/A

* Trading on AMEX started on March 4, 2008.

ITEM 8. ESCROWED SECURITIES

As at the date of this AIF the Company has 250,000 securities allotted from treasury but not distributed with regard to the consideration to be paid in respect to the Yerington property. These securities will be distributed when the relevant terms of the agreement have been met and regulatory approval has been obtained.

Otherwise there are no securities held in escrow or similar arrangement.

ITEM 9. DIRECTORS AND OFFICERS

I. Name, Occupation, and Experience

The following table sets forth all current directors and executive officers as of the date of this AIF.

Name, Country of Residence and Position (1)	Appointed	Number of shares (2)	% of Class
Dr. Thomas Patton Washington, USA Director, President and Chief Executive Officer	November 10, 1998	1,299,000	1.55%
Tracy Stevenson (3) Utah, USA Chairman and Director	July 17, 2007	Nil	Nil
Eugene Spiering British Columbia, Canada Director, Vice President of Exploration	July 13, 2006	45,000	0.05%
Dr. Robert Gayton (3) British Columbia, Canada Director	April 9, 1997	217,998	0.26%
John R Kerr (3)(4) British Columbia, Canada Director	November 22, 2004	Nil	Nil
Lawrence Page Q.C. (4) British Columbia, Canada Director	September 5, 1995	500	0.00%
Leroy Wilkes (3)(4) Colorado, USA Director	August 23, 2006	15,000	0.02%
Stacey Bligh British Columbia, Canada Corporate Secretary	May 1, 2006	Nil	Nil
Charles Hawley Alaska, USA Vice President Exploration - Alaska	June 8, 2001	Nil	Nil
Scott B Hean British Columbia, Canada Chief Financial Officer	March 28, 2006	30,000	0.04%

Notes to table

(1) The information as to country of residence, principal occupation, not being within the knowledge of the Company, has been furnished by the respective individuals

(2) The number of shares held by the director/officer as at March 18, 2008 had been taken from SEDI (Insider reporting regulatory information – www.sedi.ca) and includes all shares held either directly or indirectly

I. Name, Occupation, and Experience, continued

Notes to table, continued
(3) Denotes member of Audit Committee
(4) Denotes member of Nomination and Compensation Committee

The Company's directors are elected and hold office until the next annual general meeting of the Company's shareholders, unless any director resigns, is removed or becomes disqualified earlier than this date.

Dr. Thomas Patton *– Director, President and Chief Executive Officer*

Dr. Patton graduated from the University of Washington in 1971 (Ph.D.) and has worked in the exploration industry for thirty-five years as a field geologist, consultant and executive officer of both junior and senior mining companies. His work has been primarily in North America, where he and his teams have played major roles in several significant discoveries and reserve expansions of existing operations. Before joining Quaterra on a full-time basis, Dr. Patton was President and COO of Western Silver Corporation from 1998 to May 2006. The highlights of this period were the discovery and delineation of the world-class Peñasquito silver-gold-lead zinc deposit in Zacatecas, Mexico and the subsequent sale of the company to Glamis Gold Ltd.

Prior to joining Western Silver, Dr. Patton held senior positions with Rio Tinto PLC and Kennecott Corporation, where he served as Senior Vice President, Exploration and Business Development. Dr. Patton is a member of the Society of Economic Geologists, the American Institute of Mining & Metallurgical Engineers and is a registered professional geologist in the states of Arizona and California

Tracy Stevenson *– Chairman and Director*

Mr. Stevenson graduated from the University of Utah with a B.S. in Accounting and is a senior mining industry executive with international experience in finance, merger and acquisitions, strategic planning, corporate governance, auditing, administration and information systems and technology. Mr. Stevenson worked for Rio Tinto plc, the world's second largest mining company, and related companies for 26 years and held a number of senior leadership positions, including the Global Head of Information Systems and Shared Services for Rio Tinto plc, Executive Vice President, CFO and a director of Comalco Ltd (an Australian company partially owned by Rio Tinto) and CFO and a director of Kennecott Corporation (owned by Rio Tinto). He has been involved with many major exploration, development and financing projects. Mr. Stevenson is a member of the Advisory Board of the University of Utah David Eccles School of Business.

I. Name, Occupation, and Experience, continued

Eugene Spiering *– Director, and Vice President of Exploration*

Mr. Spiering received his Bachelor of Science-Geology degree from the University of Utah and is a member of the Society of Economic Geologists, the Australasian Institute of Mining and Metallurgy and the American Association of Petroleum Geologists. Mr. Spiering joined the Company on January 10, 2006 as Vice President of Exploration. Mr. Spiering has over 28 years of experience in the mining exploration industry. He most recently held the position of Vice President, Exploration at Rio Narcea Mines Ltd., where he managed a team that discovered two gold deposits and completed the final definition of one nickel deposit in Spain. All three of these deposits are currently in production. Prior to his tenure at Rio Narcea, Mr. Spiering held the position of senior geologist with Energy Fuels Nuclear, Inc. where his responsibilities included uranium exploration in northern Arizona and gold exploration in western US and Venezuela.

Dr. Robert Gayton *– Director*

Dr. Gayton graduated from the University of British Columbia in 1962 with a Bachelor of Commerce and in 1964 earned the chartered accountant (C.A.) designation while at Peat Marwick Mitchell. Dr. Gayton joined the Faculty of Business Administration at the University of British Columbia in 1965, beginning 10 years in the academic world, including time at the University of California, Berkeley, earning a Ph.D. in Business. Dr. Gayton rejoined Peat Marwick Mitchell in 1974 and became a partner in 1976, where he provided audit and consulting services to private and public company clients for 11 years. Dr. Gayton has directed the accounting and financial matters of public companies in the resource and non-resource fields since 1987.

John R Kerr *– Director*

John R. Kerr graduated from the University of British Columbia in 1964 with a Bachelor of Applied Science (B.A.Sc) degree in Geological Engineering. He has participated in the mining industry continuously since graduation as an exploration geologist. Mr. Kerr has gained experience in recognition and identification of mineral potential in a diversified field of geological environments. His expertise is epithermal and sedex-hosted precious metal deposits in the southwest United States, strata controlled gold deposits and porphyry copper/gold/molybdenum deposits of the western Cordillera, and VMS deposits in all areas of North America. Successful ventures include recognition (1972) and discovery (1974) of the Santa Fe gold mine, identification (1979) of the Calvada gold mine and discovery (1981) of the Mindora gold/silver deposit, all located in Nevada. He is also credited with early identification (1967) of two VMS deposits at the Rambler Mine in Newfoundland, and recognition (1979) of the Frasergold strata controlled gold deposit in British Columbia. Mr. Kerr has sat on the boards of numerous public companies. He currently runs a geological consulting practice out of Vancouver, B.C., with projects located in all areas of North America.

I. Name, Occupation, and Experience, continued

Lawrence Page, Q.C. *– Director*

Lawrence Page, Q.C. obtained his law degree from the University of British Columbia in 1964 and was called to the Bar of British Columbia in 1965. Thereafter, he studied labour law and industrial relations in Sydney, Australia as a Commonwealth Scholar, returning to active practice in Vancouver in 1967. In 1970, he was a founding partner of Worrall and Page, where he practiced until 1995. He currently practices on his own in Vancouver. Mr. Page's preferred areas of practice are commercial litigation, native law, natural resource law and securities law. He has been admitted to the Bar of Ontario for the purpose of acting as counsel in specified litigation. Mr. Page was awarded the distinction of Queen's Counsel in 1988. Through his experience with natural resource companies and, in particular, precious metals development, Mr. Page has established a unique relationship with financiers, geologists and consultants and has been counsel for and a Director of Corona Corporation (now Homestake) and Prime Resources Corporation, which have brought into production and operate Canadian gold mines.

Leroy Wilkes *– Director*

Mr. Wilkes is a graduate mining engineer from the Montana School of Mines. Mr. Wilkes was the president of Washington Group International's Mining Business Unit and in this role participated in many developing mining projects throughout the world including Latin America, Canada, Europe and the United States. Mr. Wilkes was also the Chief Operating Officer of Santa Fe Pacific Gold Corporation during the expansion of its Nevada operations. Whilst serving as Senior Vice President of Business Development for Anaconda Mineral Mr. Wilkes was involved in the development of such projects as Greens Creek in Alaska, Stillwater in Montana, and Las Pelameres in Chile

Stacey Bligh *– Corporate Secretary*

Stacey Bligh is a securities legal assistant and has been Corporate Secretary of the Company since May 1, 2006. Ms. Bligh has been working with various public companies since 1997 and currently holds the position of Corporate Secretary with three other public companies listed on the TSX-V. Prior to joining the Company, Ms. Bligh held the position of Executive Assistant to the President of a TSE listed, and subsequently, AMEX listed merchant bank.

Charles Hawley *– Vice President of Exploration – Alaska*

Charles Hawley joined the Company on July 6, 2001. Mr. Hawley graduated with a Bachelor of Arts degree from Hanover College, Indiana in 1951 and earned a Ph.D in geology from the University of Colorado in 1963. He worked for the U.S. Geological Survey from 1952-1968. Mr. Hawley has been working within the exploration and mine development field in Alaska's private sector since 1969.

I. Name, Occupation, and Experience, continued

Scott B Hean *– Chief Financial Officer*

Scott B. Hean, B.A., M.B.A., ICD.D graduated from Simon Fraser University in 1973 and from the Ivey School of Business, London, Ontario, in 1975. He completed the Institute of Corporate Directors Director Education program in May 2006. In April 2006, Mr. Hean was appointed to the Board of Sabina Silver Corporation and in 2007 to the Board of Great Quest Metals Ltd. Prior to joining the Company in March 2006 as Chief Financial Officer, Mr. Hean was Chair and Chief Financial Officer of Plastics Solutions Canada Inc. which markets biodegradable plastic products in Canada and the United States. He has held senior management and executive positions with Bank of Montreal as Senior Vice President and Managing Director responsible for financing in the natural resources sectors in North America and with J.P. Morgan of New York, where he was primarily involved in financing oil and gas companies. He is a Chair, Bill Reid Trust, a not for profit organization concerning the work of the Haida artist, Bill Reid. Mr. Hean has served on numerous not-for-profit Boards, including Outward Bound and B.C. Children's Hospital.

II. Control of Securities

The Company's directors and senior officers as a group beneficially own, directly or indirectly, or exercise control or direction over, 1.58% of the voting securities of the Company as of March 18, 2008. In addition, the directors and executive officers of the Company as a group held 1,970,000 stock options for the purchase of common shares of the Company. The stock options are exercisable as shown below:

Number of Options	Exercise Price	Expiry Date
50,000	$0.62	March 25, 2009
50,000	$0.35	August 9, 2010
200,000	$0.40	January 9, 2011
125,000	$1.04	March 27, 2011
640,000	$1.55	July 28, 2011
100,000	$1.55	August 23, 2011
805,000	$3.33	July 20, 2012
1,970,000	$2.07	

III. Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Dr. Robert Gayton, Thomas Patton and Lawrence Page were directors or executive officers of Newcoast Silver Mines Ltd. (now Southern Silver Exploration Corp.) at the date of a Cease Trade Order by the British Columbia Securities Commission on September 30, 2003 and by the Alberta Securities Commission on October 31, 2003 for failure to file financial statements. The orders were revoked on October 23, 2003 and March 25, 2004 respectively.

Lawrence Page, a director and President of Saturna Beach Estates Ltd., a private Company formed under the laws of British Columbia, Canada ("SBEL") which conducts the business of a vineyard and winery. On August 17, 2004, SBEL obtained an Order from the Supreme Court of British Columbia under the provisions of the Companies' Creditors Arrangement Act (Canada) that allowed SBEL to continue to run its daily business affairs without creditor action during financial reorganization. At the date hereof, the financial reorganization has been completed and the Order terminated

Other than disclosed above, no director or executive office of the Company is, as at March 26, 2008, or was within 10 years before the date of this AIF, a director, chief executive officer ("CEO") or chief financial officer ("CFO") of any company (including the Company), that:

(a) Was subject to an order that was issued while the director or executive officer was acting in the capacity as director, CEO or CFO, or

(b) Was subject to an order that was issued after the director or executive officer ceased to be a director, CEO or CFO and which resulted from an event that occurred while that person was acting in the capacity as director, CEO or CFO.

For the purpose here of "order" means

(a) A cease trade order;

(b) An order similar to a cease trade order; or

(c) An order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days.

No director or executive officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company.

(a) No director or executive office of the Company is, as at March 26, 2008, or was within 10 years before the date of this AIF, a director, CEO or CFO of any company (including the Company), that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets state the fact; or

(b) Has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver executive officer or shareholder.

IV. Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other reporting companies or have significant shareholders in other reporting companies and, to the extent that such other companies may participate in ventures in which Quaterra may participate, the directors of the Company may have a conflict of interest in negotiation and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of Quaterra's directors, a director who has such a conflict will abstain from voting for or against the approval of such a participation or such terms and such director will not participate in negotiating and concluding terms of any proposed transaction.

IV. Conflicts of Interest, continued

Below are the other positions held by Director and Officers.

Name	Position with Quaterra	Other director or officer roles
Thomas Patton	Director, President and Chief Executive Officer	Fortune River Resource Corp. Southern Silver Exploration Corp
Tracy Stevenson	Director and Chairman	Vista Gold company
Eugene Spiering	Director and Vice President of Exploration	None
Robert Gayton	Director	Amerigo Resources Ltd B2Gold Corp Bema Gold C Candian Zinc Corporation CRH Medical Corporation Doublestar Resources Ltd Eaglecrest Exploration Ltd Eastern Platinum Limited Intrinsyc Software International Inc. Minco Gold Corporation Nevsun Resources Ltd Northern Orioin Resources Inc. Palo Duro Energy Inc. Radiant Resources Inc. Western Copper Corporation
John Kerr	Director	Pacific Coast Nickel Corp.
Lawrence Page	Director	Dundee Mines Ltd Bravo Venture Group Inc. Fortune River Resource Corp. Southern Silver Exploration Corp Valterra Resource Corporation

IV. Conflicts of Interest, continued

Name	Position with Quaterra	Other director or officer roles
Leroy Wilkes	Director	Sabina Silver Corporation Ascendent Copper Corp.
Stacey Bligh	Corporate Secretary	Bravo Venture Group Inc.
Charles Hawley	Vice-President of Exploration - Alaska	Hawley Resource Group Incorporated Mines Trust Co. Piper Capital Inc.
Scott Hean	Chief Financial Officer	Great Quest Metals Ltd Sabina Silver Corporation

ITEM 10. PROMOTERS

The Company does not employ any person or company to act or perform as a promoter for the Company.

ITEM 11. LEGAL PROCEEDINGS AND REGULATORY ACTION

Quaterra is not a party to any legal proceedings and is not aware of any such proceedings known to be contemplated.

ITEM 12. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, senior officer or principal shareholder of Quaterra, or any associate or affiliate of the foregoing, has had any material interest, direct or indirect, in any transaction within three most recently completed financial years or during the current financial year prior to the date of this AIF that has materially affected or will materially affect Quaterra.

ITEM 13. TRANSFER AGENT AND REGISTRARS

The registrar and transfer agent of the Company is CIBC Mellon Trust Company at its office in Vancouver, British Columbia, at 1600 – 1066 West Hasting Street, Vancouver BC, V6E 3X1.

ITEM 14. MATERIAL CONTRACTS

During the last two years the Company has not entered into any material contract, other than contracts entered into in the ordinary course of business, to which the Company or any of its subsidiaries is a party.

ITEM 15. INTEREST OF EXPERTS

To the best of Quaterra's knowledge, the authors of the reports listed below do not have any interest in nor hold any securities of the Company:

a.

Independent Technical Report for the Nieves Silver project, Zacatecas State, Mexico dated November 15, 2006 and prepared in accordance with National Instrument 43-101 by Stephen Wetherup, B.Sc., P. Geo of Caracle Creek International Consulting Inc .

b.

Summary Report for the Duke Island Cu-Ni PGE Property Ketchikan Mining District, Alaska dated August 25, 2006 and prepared in accordance with National Instrument 43-101 by Curtis Freeman of Avalon Development Corp.

The auditors of the Company are Smythe Ratcliffe LLP, Chartered Accountants of Vancouver, British Columbia, and they certified the auditors' report on the annual financial statements of Quaterra for the years ended December 31, 2007 and 2006.

Smythe Ratcliffe LLP, Chartered Accountants, report that they are independent of the Company in accordance with the Rules of Professional Conduct in British Columbia, Canada.

ITEM 16. ADDITIONAL INFORMATION

I.

Audit Committee

a. Purpose

The Board of Directors of Quaterra has an overall responsibility to oversee the affairs of the Company for the benefit of the shareholders. The Audit Committee (the "Committee") is appointed by the Board to assist the Board in fulfilling its oversight responsibilities. The Committee's primary duties and responsibilities are to:

(i) Ensure the effectiveness of the overall process of identifying and addressing principal business risk and the adequacy of the related disclosure.

(ii) Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance.

(iii) Monitor the independence of and the performance of the Company's polices, procedures and practices at all levels.

(iv) Provide an avenue of communications among the independent auditors, management and the Board of Directors

(v) Encourage adherence to, and continuous improvement of, the Company's polices, procedures and practices at all levels.

The Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

I.

Audit Committee, continued

b. Members and Meetings

Committee members shall meet the requirements of the TSX-V and AMEX. The Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent non-executive directors, free from any relationship that would interfere with the exercise of his or her independent judgement. All the members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial expertise.

Committee members shall be appointed by the Board. If the Committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Committee should meet privately in executive session at least annually with management, the independent auditors and as a committee to discuss any matters that the Committee or each of these groups believes should be discussed. In addition, the Committee, or at least its Chair, should communicate with management quarterly to review the Company's financial statements and significant finds based upon the auditors' limited review procedures, if any.

c. Responsibilities and Duties

Review Procedures

The Committee reviews the Company's annual audited financial statements and MD&A prior to filing or distribution. The review includes discussion with management and independent auditors of significant issues regarding accounting principles, practices and judgments.

In consultation with management and the independent auditors, the Committee consider the integrity of the Company's financial reporting processes and controls, discuss significant financial risk exposures and the steps management has taken to monitor, control and report such exposures and review significant finds prepared by the independent auditor together with management's responses.

The Committee review with financial management the Company's quarterly financial results and MD&A prior to the release of earnings, discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors.

I.

Audit Committee, continued

c. Responsibilities and Duties, continued

Independent Auditors

The independent auditors are accountable directly to the Committee. The Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of the auditors when circumstances warrants.

The Committee approves the fees and other significant compensation to be paid to the independent auditors, and pre-approve any non-audit services that the auditors may provide.

On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence.

The Committee review the independent auditors' audit plan and engagement letter.

Prior to releasing the year-end earnings, the Committee discuss the results of the audit with the independent auditors.

The Committee consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

Other Audit Committee Responsibilities

On at least an annual basis, the Committee review with the Company's counsel, any legal matters that could have a significant impact on the Quaterra's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

The Committee annually prepares a report to shareholders to be included in the Company's annual information circular. The Chairman of the Committee with review all disclosure documents to be issued by the Company relating to financial matters, including news releases, annual information forms and information circulars.

Whistleblower Policy

Effective June 30, 2005, the Committee has adopted resolutions that authorized the establishment of procedures for complaints received regarding accounting, internal controls or auditing matters, and for a confidential, anonymous submission procedure for employees who have concerns regarding questionable accounting or auditing matters. The implementation of the whistleblower policy is in accordance with new requirements pursuant to Multilateral Instrument 52-110 Audit Committees, National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices

I.

Audit Committee, continued

d. Composition and Relevant Education and Experience

The Committee is comprised of Robert Gayton (Chair), Tracy Stevenson, John Kerr and Leroy Wilkes. All four members are independent and are financially literate, as described in Multilateral Instrument 52-110. See “Director and Officers” section for detailed description of each member’s relevant education and experience.

e. Pre-approved Policies and Procedures

All non-audited services are per-approved by the Committee. Before approval is given, the Committee examines the independence of the external auditors in relation to the services to be provided and assesses the reasonableness of the fees to be charged for such services.

f. External Auditor Service Fees

The following sets out the aggregate fees billed by the Company’s external auditors for the last three years in respect to the audit of the Company’s year end financial statements as at 31, December.

Year end December 31	Audit Fee	Tax Fees (1)	All other Fees (2)	Total
2007	$ 24,500	$ 2,750	$ 10,960	$ 38,210
2006	$ 20,000	$ -	$ 110	$ 20,110
2005	$ 8,540	$ -	$ -	$ 8,540

(1) Fees changed for tax compliance, tax advice and tax planning services.

(2) Fees for services other than disclosed in any other column.

II. General

Information relating to Quaterra can be found under the Company’s profile on the SEDAR website at www.sedar.com. The information available at www.sedar.com includes copies of the full text of the technical reports prepared for the Company. Additional financial information including the Company’s financial statements and management discussion and analysis for the year ended December 31, 2007 can also be found on SEDAR.

Additional information relating to Quaterra can also be found on the Company’s web site at www.quaterraresources.com

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Management's Discussion and Analysis

In respect to the Year ended December 31, 2007

Dated: March 26, 2008

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A. Introduction

The following Management Discussion and Analysis ("MD&A") of the operating results and financial condition of Quaterra Resources Inc. (the "Company") compares results for the year ended December 31, 2007 ("2007") to the year ended December 31, 2006 ("2006"). This MD&A should be read in conjunction with the audited financial statements for the years ended December 31, 2007, December 31, 2006 and December 31, 2005. All notes referenced herein may be found in the consolidated financial statements dated December 31, 2007.

The financial statements were prepared in accordance with Canadian generally accepted accounting principles. This MD&A, dated as of March 26, 2008, was prepared to conform to National Instrument 51-102 F1 and was approved by the Board of Directors prior to release.

The Company is a reporting issuer in British Columbia and Alberta and its shares trade on the Tier 2 Board of the TSX Venture Exchange ("TSX.V") under the symbol QTA and on American Stock Exchange ("AMEX") under the symbol QMM.

The Company's reporting currency is the Canadian dollar and all dollar amounts are in Canadian dollars, unless otherwise indicated.

Certain forward-looking statements are discussed in the MD&A with respect to the Company's activities and future financial results. These are subject to significant risks and uncertainties that may cause projected results or events to differ materially from actual results or events.

Additional information relating to the Company, including detailed drill results previously disclosed in news releases, is available on SEDAR at www.sedar.com. Terms of property option agreements are described more fully in the notes to the consolidated financial statements.

B. Qualified Person

Dr. Thomas C. Patton, P. Geo., the President and Chief Executive Officer of the Company, is the qualified person responsible for the preparation of the technical information included in this MD&A. Dr. Patton graduated from the University of Washington in 1971 (Ph.D.) and has worked with both junior and senior mining companies. His exploration efforts have concentrated on North America and have resulted in several significant discoveries and led to the expansion of mineral reserves at existing operations. He served as the President and Chief Operating Officer for Western Silver Corporation from January 1998 to May, 2006. Previously, Dr. Patton held senior positions with Rio Tinto PLC and Kennecott Corporation. Dr. Patton is a member of the Society of Economic Geologists and the American Institute of Mining & Metallurgical Engineers.

Eugene Spiering joined the company on January 10, 2006 as Vice President of Exploration. Mr. Spiering has over 28 years of experience in the mining exploration industry. He most recently held the position of Vice President, Exploration at Rio Narcea Mines Ltd., where he managed a team that discovered two gold deposits and completed the final definition of one nickel deposit in Spain. All three of these deposits are currently in production. Prior to his tenure at Rio Narcea, Mr. Spiering held the position of senior geologist with Energy Fuels Nuclear, Inc. where his responsibilities included uranium exploration in northern Arizona and gold exploration in western US and Venezuela. He received his Bachelor of Science-Geology degree from the University of Utah. Mr. Spiering is a member of the Society of Economic Geologists, the Australasian Institute of Mining and Metallurgy and the American Association of Petroleum Geologists.

C. Exchange information and conversion tables.

For ease of reference, the following information is provided:

Canadian Dollars per U.S. Dollar		
	2007	December 31, 2006
Rate at end of period	0.98200	1.16640
Average rate for period	1.07440	1.13461
High for period	1.18730	1.17960
Low for period	0.90570	1.09260

www.oanda.com

Conversion Table			
Imperial			Metric
1 Acre	=	0.404686	Hectares
1 Foot	=	0.304800	Metres
1 Mile	=	1.609344	Kilometres
1 Ton	=	0.907185	Tonnes
1 Ounce (troy)/ton	=	34.285700	Grams/Tonne

Information from www.onlineconversion.com

Precious metal units and conversion factors

ppb	- Part per billion	1	ppb	=	0.0010	ppm	=	0.000030	oz/t
ppm	- Part per million	100	ppb	=	0.1000	ppm	=	0.002920	oz/t
oz	- Ounce (troy)	10,000	ppb	=	10.0000	ppm	=	0.291670	oz/t
oz/t	- Ounce per ton (avdp.)	1	ppm	=	1.0000	ug/g	=	1.000000	g/tonne
g	- Gram								
g/tonne	- gram per metric ton	1	oz/t	=	34.2857	ppm			
mg	- milligram	1	Carat	=	41.6660	mg/g			
kg	- kilogram	1	ton (avdp.)	=	907.1848	kg			
ug	- microgram	1	oz (troy)	=	31.1035	g			

Information from www.onlineconversion.com

D. Description of Business

The Company acquires and explores mineral properties in the Americas. It is currently exploring for base and precious metals in Mexico and Alaska, uranium in Arizona, and copper in Nevada.

E. Description of Mineral Properties

i) Nieves Property – Mexico

Quaterra's 50% owned Nieves silver property is located about 90 kilometers north of Penoles' world-class Fresnillo silver mine in Zacatecas, Mexico. The project occurs within a northwest trending mineral belt known as the Faja de Plata or Silver Belt, which hosts many of the world's premier silver deposits. Quaterra's land block consists of 15 concessions covering an area of more than 18 square miles and has good road access and excellent regional and local infrastructure.

The Nieves property hosts at least three steep-dipping vein systems that cross the property in an east-west direction. Both the Concordia-Delores-San Gregorio and the Santa Rita vein systems have excellent potential for both narrow zones of +500 g/t silver and a surrounding envelope of stockwork mineralization with +50 g/t silver that may represent a bulk tonnage target.

Quaterra and its equal partner Blackberry Ventures 1, LLC, completed thirty holes totaling 16,367 meters during 2004-2006. An independent technical report completed in November 2006 recommended a 10,000 meter drilling program to infill zones along the Concordia- San Gregorio vein system and to test other targets on the large and block. A 16 hole, 5,388.8 meter drilling program, primarily infill holes on the Concordia vein, was completed in December 2007. The program was successful in extending the Concordia high-grade silver vein mineralization and intersected significant new mineralization in the adjacent Arroyo fault, which may be a new mineralized structure or host the faulted extension of the Concordia vein. Highlights are as follows:

Concordia vein: Twelve holes tested the Concordia vein system, one of three east-west striking veins systems on the Nieves property. The best mineralized interval is in hole QTA-48 with 47.48 meters averaging 142 g/t silver, 0.13 g/t gold, 0.37% lead and 0.37% zinc, including a 4.67 meter interval with 777 g/t silver (22.7 oz/ton), 0.53 g/t gold, 2.45% lead and 2.20% zinc. Hole QTA-53 cut the highest grade intercept with a 1.22 meter interval averaging 1.8 kg/t silver (52.6 oz/ton), 0.32 g/t gold, 2.06% lead and 0.69% zinc.

The Concordia vein hosts moderate to high-grade silver-gold-lead-zinc mineralization at shallow levels proximal to its intercept with the Arroyo fault. The best mineralized segment of the vein currently extends for at least 400 meters along strike and over a vertical distance of 300 meters. It has a gentle rake to the southwest where it remains open.

Arroyo fault: Hole QTA-55 was collared 120 meters northeast of hole QTA- 48 and tested the junction of the Concordia vein with the Arroyo fault. The mineralized intercept starts at 62 meters and includes 37.6 meters of 108 g/t silver, 0.15 g/t Au, 0.10% Pb and 0.14% Zn. Within this zone is a 3.3 meter interval that averages 331 g/t silver (9.6 oz/ton), 0.29 g/t gold, 0.17 lead and 0.28% zinc. Mineralization consists of sheeted veinlets, and because of its shallow depth and relatively uniform grade has open pit potential. The Arroyo vein-fault system appears to strike northwest with a moderate southwest dip. Additional drilling will be necessary to determine the extent and significance of this mineralization.

E. Description of Mineral Properties, continued

i) Nieves Property – Mexico, continued

2008 exploration plan: A geologic mapping survey of the California and Santa Rita vein systems and the more remote parts of the Nieves concession is underway. The Rosario area will also be remapped with attention given to northwest-striking structures. This work will be followed by additional core drilling later this year, concentrating on the Concordia-Arroyo-San Gregorio vein systems and their junctions. Any new prospects identified by the mapping survey will also be tested. All work plans are made in consultation with the US-based Blackberry Ventures 1, LLC, investment partnership, which will continue to pay its share of all ongoing exploration costs.

By December 31, 2007, the Company had incurred $1,302,933 for acquisition costs and $3,007,506 ($1,102,956 net of recovery) for exploration expenditures giving a total of $4,310,439 in gross costs on the Nieves property, or $2,405,889 net of the recovery of $1,904,550 (US $1.5 million) from Blackberry.

As at December 31, 2006, the Company had incurred $1,244,464 for acquisition costs and $2,560,841 ($656,291 net of recovery) for exploration expenditures giving a total of $3,805,305 in gross costs on the Nieves property, or $1,900,755 net of the recovery of $1,904,550 (US $1.5 million) from Blackberry. (Note 5 (a) in the consolidated financial statements dated December 31, 2007)

ii) Los Crestones Project – Mexico

During 2007 the Company has completed a thirteen hole 6,163.4 meter core drilling program at its 100%-owned Crestones property in Durango State, Mexico. Six holes totalling 3,043.4 -meters were completed during the second quarter. An additional seven holes totalling 3,120 meters were completed during the third quarter. The first six drill-holes of the program did not intersect the targeted breccia feeder vents; the second phase of the program produced similar results with only a few low-grade intercepts within the hydrothermal breccia. Weakly disseminated sphalerite-galena-sulfosalts occur in silicified limestone, quartz porphyry, and hornfels. The silica breccia commonly contains minor to 5% disseminated pyrite-marcasite and minor to 5% stibnite. The mixed clast and silicified limestone breccias contain disseminated pyrite-marcasite and minor sphalerite-galena. Coarse sphalerite-galena has been observed in fault gouges.

Data evaluation is in progress to determine if additional exploration is warranted.

Acquisition costs incurred to December 31, 2007 were $78,097 and exploration expenditures were $1,368,426 for a total of $1,446,523. Acquisition costs incurred to December 31, 2006 were $71,696 and exploration expenditures were $462,590 for a total of $534,286. (Note 5(b) in the consolidated financial statements dated December 31, 2007)

E. Description of Mineral Properties, continued

iii) Alaskan Properties

Duke Island – Alaska

The Company's 100% owned Duke Island project includes 129 federal and eleven state claims on Duke Island, near Ketchikan, Alaska. The Duke Island complex consists of two separate, well-exposed, zoned ultramafic bodies interpreted to be parts of the same intrusive body at depth. Both intrusives are comprised of a dunite and peridotite core surrounded by concentric zones of olivine clinopyroxenite, hornblende-magnetite clinopyroxenite, and gabbro. Copper, nickel and platinum group element (PGE) mineralization on Duke Island is unlike any known Ural–Alaska complex in southeast Alaska's Alexander Platinum Belt.

Two phases of shallow exploration drilling in 2001 and 2005 by Quaterra (11 holes, 5,971 feet) defined several large zones of low grade copper sulfide mineralization with minor nickel and platinum values. Geochemical, geological and geophysical data suggest the system extends for over 14.5 kilometers along strike and up to 3.8 kilometers across strike with the ultimate dimensions of the mineralized system remaining open to expansion. However, low grades and lack of targets better than the ones already drilled stalled exploration during 2006.

During 2007, the Company contracted an expert in ultramafic-related ore deposits to review all data and make recommendations for further work, if any. The primary conclusion was that the ultramafic rocks may be related to a layered mafic intrusive complex with potential for hosting Cu-Ni-PGE mineralization in economic quantities. The study identified several undrilled targets with higher grade potential and recommended an airborne electromagnetic survey.

Fugro Airborne Surveys Corp completed a 273 line-kilometer airborne electromagnetic (EM) survey during February 2008 using the HeliGEOTEM time domain EM survey system. The Fugro system has the potential to identify conductors more than four times deeper than earlier frequency domain EM surveys of the project and will focus in an area that has been interpreted as having the potential to contain higher sulfide concentrations and better metal grades than previously identified on the property.

The Company's exploration plans are to compile and analyze results of airborne EM survey, permit drill sites and drill best targets in summer 2008.

Acquisition costs incurred to December 31, 2007 were $129,570 and exploration expenditures were $1,722,717 for a total of $1,852,287. Acquisition costs incurred to December 31, 2006 were $112,285 and exploration expenditures were $1,625,551 for a total of $1,737,836. (Note 5 (c) in the consolidated financial statements dated December 31, 2007)

Seward Peninsula – Big Bar, VMS Project – Alaska

The Company has conducted maintenance work only on its Big Bar project during the year. Acquisition costs incurred to December 31, 2007 were $21,632 and exploration expenditures were $728,140 for a total of $749,772. Acquisition costs incurred to December 31, 2006 were $18,461 and exploration expenditures were $712,113 for a total of $730,574. (Note 5 (c) in the consolidated financial statements dated December 31, 2007)

E. Description of Mineral Properties, continued

iv) Uranium Project – Arizona, Utah and Wyoming

The Company, with a land position covering over 85 square miles, is one of the largest claim holders in the Arizona Strip district north of the Grand Canyon that has produced more than 20 million pounds of U3O8 from seven breccia pipes. The Company's exploration program is directed by Patrick Hillard, who discovered these pipes during his tenure as Exploration Manager for Energy Fuels Nuclear.

The Arizona Strip has historically represented some of the highest grade mineralization and most profitable per pound uranium production in the United States. Quaterra's mineral rights, when combined with four other leased properties controlling key extensions of previously mined uranium and vanadium deposits in Utah and Wyoming, position the Company solidly within the ranks of leading North American uranium explorers.

Quaterra decided early in 2007 to concentrate its exploration efforts on the discovery of blind or hidden pipes (those pipes not collapsing to the surface and therefore with no discernible clues to their existence). This decision was in part due to the fact that most pipes with surface expressions had been tested previously, coupled with the suggestion that blind pipes may be potentially higher grade and more numerous than pipes that have collapsed to the surface. The lack of an effective method to define targets has deterred exploration for blind pipes in the past.

Quaterra contracted Geotech Ltd. during Q1 2007 to test the applicability of its airborne time domain electromagnetic system (VTEM) to the search for blind pipes on the Arizona Strip. The survey covered approximately 420 square miles in the heart of the district. The VTEM system not only identified anomalies associated with known pipes but also found more than 200 moderate to high priority targets with similar geophysical signatures. Exploration on Quaterra's properties during 2007 has completed 39,800 feet of drilling in 55 holes. The program has focused on 8 targets including the Company's first VTEM anomaly A-01. Drilling on the A-01 target has encountered favorable alteration in the Hermit section, anomalous sulfide mineralization in the Kaibab Formation, dissolution of evaporites, breccia and anomalous mineralization in both the underlying Toroweap and Coconino Formations, and a pronounced structure at Kaibab/Toroweap contact; all indicative of the proximity of a blind breccia pipe .

The Company's exploration plans involve the prioritization and drilling of a number of airborne geophysical anomalies in the search for blind pipes throughout 2008.

Acquisition costs incurred to December 31, 2007 were $2,956,192 and exploration expenditures were $3,519,528 for a total of $6,475,720. Acquisition costs incurred to December 31, 2006 were $1,125,438 and exploration expenditures were $1,079,859 for a total of $2,205,297. (Note 5 (d) in the consolidated financial statements dated December 31, 2007)

E. Description of Mineral Properties, continued

v) MacArthur Property – Nevada

The Company's 100%-owned MacArthur mine is a fully stripped copper oxide deposit in Lyon County, Nevada. Located 5 miles north of the Yerington copper mine formerly operated by Anaconda, MacArthur forms part of the famous Yerington porphyry copper district that includes 3 deposits with historical resources totaling approximately 1.2 billion tons of ore averaging approximately 0.45% Cu. The MacArthur mine occurs in a quartz monzonite intrusive of Jurassic age that has been intruded by a series of northwesterly-trending quartz monzonite porphyry, rhyolite and andesite dikes.

The MacArthur copper oxide deposit, based on shallow drilling performed by Anaconda in 1971-1972, contains an historic resource of 29 million tons grading 0.28% copper, including 13 million tons of +0.40% copper. Quaterra's 2007 drilling program (28,900 feet of drilling in 44 core holes and 42 reverse circulation holes) has substantially expanded the mineralized zone below and adjacent to the pit. Principal accomplishments are as follows:

1. Delineation of mixed oxide/chalcocite mineralization north of the MacArthur pit that has been traced for nearly 5,000 feet in a general east-west direction. Based on holes drilled on 500 foot centers, the zone is currently up to 1,500 feet wide, averages over 100 feet thick and remains open to expansion to the north and northwest. A few historic Anaconda drill-holes suggest that this zone may connect to the south with mineralization in and adjacent to the MacArthur pit but more drilling will be required for this to be confirmed

2. Discovery of a new zone (not included in the historic resource) of predominately chalcocite mineralization located 20 feet to approximately 70 feet below the existing MacArthur oxide copper deposit that remains open to extension both to the north and west where it may connect with the north zone mineralization detailed above. Mineralization intersected in drill holes located 1,200 to 1,700 feet east of the pit also signal good opportunities to delineate additional mineralization in this direction.

3. Identification of a porphyry copper target in the Gallagher area west and north of the MacArthur pit below a large area of iron oxides and phyllic alteration.

The Company's exploration plans and primary objectives for the 2008 program are to complete detailed geologic mapping of the entire property; to delineate the total extent of the acid soluble copper zone and produce a NI43-101-compliant resource; and to explore the area for primary copper mineralization.

Acquisition costs incurred to December 31, 2007 were $525,713 and exploration expenditures were $2,407,015 for a total of $2,932,728. Acquisition costs incurred to December 31, 2006 were $170,324 and exploration expenditures were $80,591 for a total of $250,915. (Note 5(e) in the consolidated financial statements dated December 31, 2007). A payment of US $350,000 for the purchase of the PIT claims will be deducted from the final payment due to North Exploration LLC for the McArthur properties. (Note 5 (e) of the consolidated financial statements dated December 31, 2007)

E. Description of Mineral Properties, continued

vi) Yerington – Nevada

The Company received approval from the appropriate U.S. bankruptcy court in May 2007 to acquire all assets of Arimetco, Inc., a Nevada corporation, in the Yerington Mining District, Lyon County, Nevada. The Company is currently conducting due diligence and may terminate the transaction at any time if it is dissatisfied with the condition of the property or fails to obtain requested environmental clearances for past mining-related activities. The Chambers Group Inc. and Golder Associates Inc. are currently completing a Preliminary Site Condition Review as part of the Company's due diligence.

Subject to regulatory approval, the consideration to be paid and issued by the Company is comprised of a payment of US $500,000 (of which US $100,000 has been paid as a non-refundable deposit) and the issuance of 250,000 common shares (allotted from treasury but not distributed) and a 2% net smelter return royalty capped at US $7.5 million dollars on production from any claims owned by Quaterra in the Yerington and MacArthur mine areas (Note 5 (f) of the consolidated financial statements dated December 31, 2007).

The Anaconda Copper Company conducted open pit mining at Yerington from 1953 to 1978, producing 1.75 billion pounds of copper from oxide and sulfide ores. Arimetco subsequently used the site for heap leaching of Yerington dumps and ore from the nearby MacArthur mine from 1989 to 2000. Quaterra plans to use the site as the base for its district-wide activities, and will explore the property as part of its ongoing exploration drilling program at its 100%-owned MacArthur property.

vii) Other properties

Other properties of the Company include various properties in the USA, and Mexico. See Note 5 (g) in the consolidated financial statements dated December 31, 2007.

F. Mineral Property Expenditures

All mineral property expenditures, detailed by property, can be found in Note 5 of the consolidated financial statements dated December 31, 2007. The deferred mineral property costs as at December 31, 2007, were as follows:

All Mineral Properties	Year End Balance Dec 31, 2006 $	Additions Q1 $	Q2 $	Q3 $	Q4 $	Change During 2007 $	Balance as at Dec 31, 2007 $
Summary by Expenditure							
Total acquisitions	3,197,586	1,041,068	301,971	2,332,471	964,342	4,639,852	7,837,438
Total exploration	6,562,796	1,043,512	1,885,961	1,721,933	2,407,616	7,059,022	13,621,818
Less: cost recovery, Nieves	(1,904,550)	-	-	-		-	(1,904,550)
Total	**7,855,832**	**2,084,580**	**2,187,932**	**4,054,404**	**3,371,958**	**11,698,874**	**19,554,706**
Summary by Property							
Nieves, net of cost recovery	1,900,755	17,112	14,846	88,202	384,974	505,134	2,405,889
Los Crestones	534,286	238,345	238,812	348,014	87,066	912,237	1,446,523
Uranium properties	2,205,297	1,351,275	976,688	1,472,795	469,665	4,270,423	6,475,720
Alaskan Properties	2,468,410	3,083	13,877	32,028	84,661	133,649	2,602,059
MacArthur	250,915	236,526	589,274	714,749	1,141,264	2,681,813	2,932,728
Yerington	-	12,306	143,512	778,326	321,934	1,256,078	1,256,078
Other properties	496,169	225,933	210,923	620,290	882,394	1,939,540	2,435,709
Total	**7,855,832**	**2,084,580**	**2,187,932**	**4,054,404**	**3,371,958**	**11,698,874**	**19,554,706**

The total mineral properties expenditure of $19,554,706, which excludes $1,904,550 recovered from Blackberry, as at December 31, 2007 was allocated as follows; 33% on Uranium properties, 15% MacArthur, 13% on the Alaskan properties (9% on Duke Island and 4% on Big Bar), 13% other properties, 12% on Nieves, 7% on Los Crestones 7% on Yerington.

F. Mineral Property Expenditures, continued

Total deferred mineral property costs for the year ended December 31, 2006 are as follows:

All Mineral Properties	Year End Balance Dec 31, 2005 $	Additions Q1 $	Q2 $	Q3 $	Q4 $	Change During 2006 $	Year End Balance Dec 31, 2006 $
Summary by Expenditure							
Total acquisitions	1,547,235	122,047	119,813	664,638	743,853	1,650,351	3,197,586
Total exploration	4,114,198	389,555	566,387	651,262	841,394	2,448,598	6,562,796
Less: cost recovery, Nieves	(1,904,550)	-	-	-	-	-	(1,904,550)
Total	**3,756,883**	**511,602**	**686,200**	**1,315,900**	**1,585,247**	**4,098,949**	**7,855,832**
Summary by Property							
Nieves, net of cost recovery	1,640,415	203,847	31,237	6,107	19,149	260,340	1,900,755
Los Crestones	79,416	3,703	86,140	89,951	275,076	454,870	534,286
Uranium properties	273,968	275,097	330,409	610,034	715,789	1,931,329	2,205,297
Alsakan Properties	1,732,600	14,228	176,143	450,461	94,978	735,810	2,468,410
MacArthur	30,484	14,727	62,271	110,848	32,585	220,431	250,915
Other properties	-	-	-	48,499	447,670	496,169	496,169
Total	**3,756,883**	**511,602**	**686,200**	**1,315,900**	**1,585,247**	**4,098,949**	**7,855,832**

The total mineral properties expenditure of $9,760,382, which excludes $1,904,550 recovered from Blackberry, as at December 31, 2006 was allocated as follows; 32% on the Alaskan properties (22% on Duke Island and 10% on Big Bar), 28% on Uranium properties, 24% was spent on Nieves, 7% on Los Crestones, 6% on other properties and 3% on MacArthur.

For further information on mineral properties expenditure see Note 5 of the consolidated financial statements dated December 31, 2007

G. Results of Operations

For the year ended December 31, 2007, the Company had a net loss of $7,303,204 compared to a net loss of $3,830,534 for the year ended December 31, 2006. Stock based compensation was $4,502,163 for 2007 (2006: $3,045,004) as stock options were granted and recognized. Removing the stock based compensation results in a net loss of $2,801,041 for 2007 and $785,530 for 2006.

The increase of $2,015,511, in the net loss for 2007, excluding stock based compensation can be explained as follows:

i) Administration costs increased by $56,000 from $60,000 for 2006 to $116,000 for 2007. This is due to an increase in these fees from $5,000 to $10,000 per month from January to October and $8,000 per month in November and December.

ii) Amortization costs increased by $33,318 from $9,991 for 2006 to $43,309 for 2007. This is due to the purchase of fixed assets and the depreciation of these assets.

iii) Consulting services increased by $366,541 from $105,815 for 2006 to $472,356 for 2007. This is increase is due to the contract of consultants in respect to compliance with the Sarbanes-Oxley act ("SOX") necessary for listing on Amex. There was also an increase in activity in respect to the day to day running of the Company and the commissioning of consultants for exploration purposes.

iv) Director and officer fees increased by $43,058 from $5,625 for 2006 to $48,683 for 2007. This increase is due to the new company policy of providing compensation for independent directors.

v) Investor relation costs increased by $86,807 from $144,858 for 2006 to $231,665 for 2007. This is due to the fees paid during 2007 to O & M Partners to provide investor relations as well as the attendance by the Company at several trade shows and the upgrade of the promotional booth and literature for these conferences.

vi) Office and general expenses increased by $44,480 from $161,940 for 2006 to $206,420 for 2007. This is due to the increased activity in respect to the day to day running of the Company.

vii) Professional fees increased by $160,214 from $139,712 for 2006 to $299,926 for 2007. This is due to increased legal, accounting and auditing expenses due to the increased activity of the Company.

viii) Regulatory fees increased by $102,094 from $16,723 for 2006 to $118,817 for 2007. This is due to increased in TSX.V filing fees for a publicly listed company, which is based on the issued and outstanding share capital and a timing difference in the payment of these fees.

G. Results of Operations, continued

ix) Shareholders communications expenses increased by $77,027 from $15,522 for 2006 to $92,549 for 2007. This is almost exclusively due to the production and distribution of the Annual General Meeting ("AGM") brochure in 2007.

x) Transfer agent's costs increased by $13,290 from $15,567 for 2006 compared to $28,857 for 2007. This is due to the increased activity.

xi) Travel and promotion costs increased by $96,319 from $71,679 for 2006 to $167,998 for 2007. This is due to the increased travel of a VP exploration as well as increased travel by other consultants to inspect potential new properties. There was also an increase in travel for trade shows, and meetings with analysts and other prominent industry experts.

xii) Salaries and benefits costs increased by $202,560 from $60,984 for 2006 compared to $263,544 for 2007. This increase is due to the new salary payments to the President of the Company.

xiii) Interest income increased by $162,696 from $85,988 for 2006 to $248,684 for 2007. This is due to considerably larger cash amounts being held in fixed term deposits.

ivx) The Company reported a net foreign currency loss of $778,126 for 2007 compared to a gain $79,449 for 2006.

Since all current assets and liabilities held in US dollars as at December 31, 2007 have to be converted to Canadian dollars on consolidation at the prevailing exchange, being 0.982, this created an exchange loss due to a weakening US dollar compared to the Canadian dollar. The Company held US dollar cash amounts, on average, of approximately US $4 million during 2007 which was not the case in 2006 when the average cash held was approximately US $1.3 million.

This foreign exchange loss reflects the Company's US cash position and that the US dollar has fallen from Cdn$1.1664 at December 31, 2006 to Cdn$0.982 at December 31, 2007.

It is important to note that the majority of transactions for the Company are in US dollars and, to a lesser extent, Mexican Pesos, and therefore foreign exchange fluctuations can result in increases or decreases in these expenditures when translated to Canadian dollars.

vx) A Joint Venture administration fee of $47,859 was received for 2007 . This is reflective of work performed on the joint venture in 2007 compared to 2006.

vxi) A expense recovery of $40,329 occurred during 2006.

H. Quarterly Results

The following financial data was derived from the Company's consolidated financial statements for the current and eight previous quarters:

	Dec 31, 2007 $	Sept 30, 2007 $	June 30, 2007 $	March 31 2007 $	Dec 31, 2006 $	Sept. 30, 2006 $	June 30, 2006 $	March 31, 2006 $	Dec, 31 2005 $
Operating expenses	676,059	405,391	549,223	459,451	211,786	202,843	209,825	140,987	134,585
Interest earned	(41,355)	(54,205)	(62,770)	(90,354)	(30,060)	(26,277)	(19,267)	(10,384)	(22,641)
Other income	(47,859)	-	-	-	-	-	-	-	(25,000)
Foreign exchange (gain) loss	44,294	242,974	413,887	76,971	(115,647)	29,136	4,450	2,612	81,907
General exploration	31,449	67,843	57,241	72,801	78,640	53,067	85,237	8,911	2,441
Loss before the undernoted	662,588	662,003	957,581	518,869	144,719	258,769	280,245	142,126	171,292
Stock-based compensation	(1,620,850)	5,834,303	15,555	273,155	880,374	1,982,373	114,500	67,757	(129,373)
Write off of reclamation bond	-	-	-	-	-	-	-	-	2,500
Accrued liabilities written off	-	-	-	-	6,063	(6,761)	(23,831)	(15,800)	-
Net Loss	**(958,262)**	**6,496,306**	**973,136**	**792,024**	**1,031,156**	**2,234,381**	**370,914**	**194,083**	**44,419**
Loss (profit) per share - basic and diluted	(0.01)	0.08	0.01	0.01	0.01	0.03	0.01	0.00	0.01

I. Selected Annual Information.

The following financial data is derived from the Company's consolidated financial statements for each of the three most recently completed fiscal years ending December 31:

	2007	2006	2005
Total revenues	$ 296,543	$ 128,963	$ 71,135
Net loss for the year	$ (7,303,204)	$ (3,830,534)	$ (788,060)
Basic and fully diluted per share	$ (0.09)	$ (0.05)	$ (0.01)
Total assets	$ 24,198,211	$ 17,340,544	$ 5,855,847
Total long-term financial liabilties	$ 270,050	$ -	$ -
Cash dividends declared per common share	$ -	$ -	$ -

J. Related Party Information.

The Company is party to an agreement dated January 1, 2007 with its President, Thomas C Patton., for Mr. Patton to provide services in the capacity of President for $12,500 per month giving an annual remuneration of $150,000.

The Company is party to an agreement dated January 1, 2006 with its Vice-President of Exploration, Eugene Spiering, for Mr. Spiering to provide services in the capacity of Vice-President of Exploration for $12,500 per month giving an annual remuneration of $150,000.

The Company is party to an agreement dated March 27, 2006 with its Chief Financial Officer, Scott Hean, for Mr. Hean to provide services in the capacity of CFO for $2,500 for the first six months of service and $3,250 per month thereafter.

The Company, commencing August 22, 2006, compensates its independent directors with an annual fee of $9,000, $375 per meeting attended and any other reasonable meeting fees. The Company uses the definition of "independent" from MI 52-110 where to be independent the director must not have a direct or indirect material relationship with the Company other than that of director.

During the year ended December 31, 2007 a private company controlled by a director provided management and administration services of $116,000 (2006: $60,000) and other various consulting services of $ $308,711 (2006: $166,116) to the Company. Other private companies controlled by a director or officer provided other various services totaling $31,084 (2006: $69,936) to the Company. These services were provided in the normal course of operations for consideration established and accepted by the Company and related parties, which management believes was reasonable under the circumstances.

For further information regarding related party expenditures, refer to Note 6 of the consolidated financial statements dated December 31, 2007.

K. Financial Conditions, Liquidity and Capital Resources

The Company has limited financial resources and finances its operations by raising capital in the equity markets. The Company will need to rely on the sale of such securities and/or enter into joint venture agreements with third parties to provide working capital and to finance its mineral property acquisition and exploration activities. Since the Company does not generate any revenue from operations, its long-term profitability will be directly related to the success of its mineral property acquisition and exploration activities.

The Company had a working capital balance of $2,866,527 as at December 31, 2007, compared to a working capital balance of $9,065,713 as at December 31, 2006.

i) **Equity financings**

Year ended December 31, 2007

There were no equity financings during the year ended December 31, 2007.

During the year ended December 31, 2007 4,589,285 common shares were issued for gross proceeds of $6,870,281 from shares issued for the exercise of stock options and share purchase warrants.

K.

Financial Conditions, Liquidity and Capital Resources, continued

ii)

Funds raised by Stock options and share purchase warrants

Year ended December 31, 2006

During the year ended December 31, 2006, the Company issued 5,247,855 units at a price of $1.75 per unit for gross proceeds of $9,183,746. Each unit consisted of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase an additional common share at a price of $2.25 until expiry on June 21, 2008 (accelerated to August 20, 2007 see Note 7 (e) of the consolidated financial statements dated December 31, 2007). The Company incurred net share issuance costs of $502,596, including 291,484 shares were issued for finders' fees valued at $510,097.

During the year ended December 31, 2006 6,643,281 common shares were issued for gross proceeds of $2,582,171 from shares issued for the exercise of stock options and share purchase warrants.

iii)

Exploration expenditures

Year ended December 31, 2007

During the year ended December 31, 2007, the Company spent $9,132,683 mineral property costs, (excluding shares issued for acquisition costs, the promissory note and amounts accrued for exploration accounts payable) of which $2,818,752 was spent on acquisition costs and $6,313,931 on exploration.

Year ended December 31, 2006

During the year ended December 31, 2006, the Company spent $3,335,212 mineral property costs, (excluding shares issued for acquisition costs and amounts accrued for exploration accounts payable) of which $1,044,352 was spent on acquisition costs and $2,290,860 on exploration.

iv)

Commitments

Over the next two years, pursuant to the terms of its option agreements and amendments thereto, the Company has the following expenditure commitments to maintain the properties and earn its interests:

1. The Company is required to make payments for the Uranium properties.

   a. US $40,000 on or before August 10, 2008.

   b. US $75,000 on or before September 6, 2008.

   c. US $100,000 on or before August 10, 2009.

   d. US $135,000 on or before September 6, 2009.

2. The Company is required to make either of the following payment options for MacArthur Claim.

a. US $43,750 on or before March 31, 2008.

a. US $43,750 on or before June 30, 2008.

a. US $43,750 on or before September 30, 2008.

a. US $43,750 on or before December 31, 2008.

b. US $125,000 on or before January 15, 2009.

c. US $2,070,000 on or before January 15, 2010.

K.

Financial Conditions, Liquidity and Capital Resources, continued

iv) Commitments

3

The Company has the following potential payments for the Yerington.

a. US $400,000 on completion of terms of agreement.

4

The Company is required to make the following payments for the South West Tintic mining claims.

a. US $275,000 on or before August 29, 2008

b. US $20,000 on or before February 15, 2009.

c. US $275,000 on or before August 29, 2009

d. US $40,000 on or before February 15, 2010.

5

The Company is required to make the following payments for Gray Hills claims.

a. US $25,000 on or before July 11, 2008.

b. US $30,000 on or before July 11, 2009.

6

The Company is required to make the following payments for Herbert Glacier claims.

a. US $12,000 on or before November 19, 2008.

b. US $12,000 on or before November 19, 2009.

The Company is also required to incur the following exploration expenditure Herbert Glacier claims.

a. US $25,000 on or before November 19, 2008.

b. US $25,000 on or before November 19, 2009.

7

The Company is required to make the following payments for Cave Peak claims.

a. US $50,000 on or before March 27, 2008.

b. US $60,000 on or before March 27, 2009.

8

The Company is required to make the following payments for Copper Canyon project.

a. US $35,000 on or before November 6, 2008.

b. US $75,000 on or before November 6, 2009.

9 The Company is required to make the following payments for Majuba Hill claims.

a. US $100,000 on or before December 10, 2008.

b. US $100,000 on or before December 10, 2009.

v) Outstanding stock options and share purchase warrants

As at March 26, 2008, 2,897,800 stock options are “in the money” (the exercise price is less than the current share trading price) and all are exercisable. If they were exercised, the Company would realize proceeds of $3,882,140.

L. Outstanding Shares, Options and Share Purchase Warrants

i) Issued and outstanding shares

The Company has unlimited authorized, without par value, common shares.

L.

Outstanding Shares, Options and Share Purchase Warrants, continued

i) Issued and outstanding shares, continued

	Number of shares		Total
Balance as at December 31, 2007	83,167,005	$	36,875,448
Issued subsequent to year end			
Exercise of stock options	570,700	$	240,435
Issued for services	7,653	$	22,500
Balance as at March 26, 2008	**83,745,358**	**$**	**37,138,383**

ii) Share Purchase Warrants

As at December 31, 2007, there were no share purchase warrants outstanding.

iii) Stock Options

As at December 31, 2007, there were 5,559,500 stock options outstanding with a weighted average exercise price of $1.99 per share. Options currently outstanding are as follows:

Exercise Price	Expiry Date	Balance Dec 31, 2007	Granted	Cancelled or Expired	Exercised	Balance March 26, 2008
$0.12	January 10, 2008	170,000	-	-	170,000	-
$0.34	December 8, 2008	70,000	-	-	55,000	15,000
$0.62	March 25, 2009	145,000	-	-	50,000	95,000
$0.35	August 9, 2010	533,500	-	-	240,000	293,500
$0.40	January 9, 2011	200,000	-	-	-	200,000
$1.04	March 27, 2011	125,000	-	-	-	125,000
$1.00	May 19, 2011	75,000	-	-	-	75,000
$1.12	June 12, 2011	100,000	-	-	-	100,000
$1.55	July 28, 2011	1,600,000	-	-	55,700	1,544,300
$1.55	August 23, 2011	100,000	-	-	-	100,000
$1.50	September 25, 2011	100,000	-	-	-	100,000
$2.05	December 18, 2011	100,000	-	-	-	100,000
$2.65	January 11, 2012	75,000	-	-	-	75,000
$2.70	February 21, 2012	25,000	-	-	-	25,000
$3.33	July 20, 2012	2,011,000	-	-	-	2,011,000
$3.33	August 7, 2012	80,000	-	-	-	80,000
$2.93	October 9, 2012	50,000	-	-	-	50,000
		5,559,500	**-**	**-**	**570,700**	**4,988,800**
Weighted average exercise price		$ 1.99	$ 0.00	$ 0.00	$ 0.42	$ 2.17

L.

Outstanding Shares, Options and Share Purchase Warrants, continued

iii)

Stock Options, continued

The following events occurred subsequent to the year end December 31, 2007.

1. 570,700 stock options were exercised at an average price of $0.42 per share for total funds of $240,435.

M. Subsequent events and outlook

The Company's 2008 exploration plan details can be found in Note E of this MD&A.

On February 5, 2008 the Company released US $83,000 towards the acquisition of all the assets of Arimetco Inc., a Nevada corporation, in the Yerington Mining District, Lyon County, Nevada (Note 5 (f) of the consolidated financial statements dated December 31, 2007). US $17,000 of the US $100,000 non-refundable deposit remains in escrow along with the 250,000 Quaterra common shares issued but not distributed.

Subject to regulatory approval the Company is in the process of raising funds through a private placement of up to 4,000,000 units at a price of US $3.20 per unit for potential gross proceeds of US $12,800,000. Each unit will consist of one common share and one-half of one share purchase warrant, each whole warrant entitling the holder to purchase an additional common share at a price of US $4.20 until expiry 18 months subsequent to the closing date.

The Company is progressing with its SOX documentation and expects to be compliant within the regulatory deadline of December 31, 2008.

N. Off Balance Sheet

The Company did not enter into any off balance sheet transactions or commitments as defined by National Instrument 51 - 102.

O. Management's Responsibility for Financial Information

Preparing financial statements requires management to make estimates and assumptions that affect the reported results. The estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. Critical accounting policies were disclosed in the annual audited financial statements.

Consistent with accepted policies of the Canadian junior mining industry, the Company capitalizes exploration expenditures. This decision, and the timing of the possible recognition of impairment in the mineral property value, can materially affect the reported earnings of the Company.

Management has prepared the information and representations in this annual report. The financial statements have been prepared to conform to generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgment. The financial information presented throughout this report is consistent with the data presented in the financial statements.

The Company maintains adequate systems of internal accounting and administrative controls. These systems were designed to provide reasonable assurance that relevant and reliable financial information is produced. The independent auditors have the responsibility of auditing the annual financial statements and expressing an opinion on them.

O. Management's Responsibility for Financial Information, continued

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Audit Committee is composed of four directors, who meet at least quarterly with management and, at least annually with the external auditors to review accounting, internal control, financial reporting, and audit matters.

Certification of Annual Filing

Based on their knowledge, the President and Chief Financial Officer of the Company have reviewed the annual filing and certified that the annual consolidated financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows. The President and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Company, and they believe:

(i) the disclosure controls and procedures provide reasonable assurance that material information relating to the Company, including its consolidated subsidiary, are made known to them, particularly during the period in which the annual filings are being prepared; and

(ii) the internal control over financial reporting provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Canadian generally accepted accounting principles.

Due to the small size of the Company, there is a lack of segregation of duties which is an internal control weakness. Management mitigates this risk through direct involvement of senior management in day-to-day operations. It is unlikely that this weakness can be properly addressed until the Company grows to a significant size. During the year ended December 31, 2007, there are no changes in the Company's internal control over financial reporting that occurred that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

P. Changes in Accounting Policies and Recent Accounting Pronouncements

Changes in Accounting Policies

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3855 "financial instruments – recognition and measurement" which establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The standard requires the Company to account for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

P. Changes in Accounting Policies and Recent Accounting Pronouncements, continued

Changes in Accounting Policies, continued

Financial instruments include cash and cash equivalents, bank indebtedness, accounts payable and accrued liabilities and amounts due to related parties, which are designated as held for trading. Changes in fair value for these instruments have been recorded in net income. Investments are classified as available-for-sale and because they do not have a quoted market price in an active market, they are recorded at their carrying value on the balance sheet.

The adoption of this section does not impact the opening equity and losses of the Company as the fair values of the financial instruments approximate their carrying values due to their short-term maturity.

Effective January 1, 2007, the Company also adopted the CICA Handbook Section 1530, "comprehensive income", which establishes standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period. The Company has no items of other comprehensive income in any period presented. Therefore, net income as presented in the Company's Statements of Operations and Deficit equals comprehensive income.

Future accounting changes

The CICA has issued the following new Handbook sections that will become effective on January 1, 2008 for the Company:

- Section 3862, "Financial Instruments - Disclosures"
- Section 3863, "Financial Instruments - Presentation"
- Section 1535, "Capital Disclosures".

CICA Handbook Section 3862 modifies the disclosure requirements for Section 3861, "Financial Instruments - Disclosure and Presentation", including required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 carries forward the presentation requirements of Section 3861. The Company is currently evaluating the impact of the adoption of these new sections.

CICA Handbook Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. The entity's disclosure should include information about its objectives, policies and processes for managing capital and disclose whether it has complied with any capital requirements to which it is subject and the consequences of non-compliance. The Company is currently evaluating the impact of adoption of this new section.

These new accounting pronouncements currently have no impact on the financial statements of the Company.

Q. Risks and Uncertainties

The principal business of the Company is the exploration and development of mineral properties. Given the nature of the mining business, the limited extent of the Company's assets and the present stage of development, the following risk factors, among others, should be considered.

The Company does not hold any known mineral reserves of any kind and does not generate any revenues from production. The Company's success will depend largely upon its ability to locate commercially productive mineral reserves. Mineral exploration is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that our exploration efforts will be successful. Success in establishing reserves is a result of a number of factors, including the quality of management, the level of geological and technical expertise, the quality of land available for exploration as well as various other factors.

Once mineralization is discovered, it may take several years in the initial phases of drilling until production is possible, during which time the economic feasibility of production may change. Substantial expenditures are required to establish proven and probable reserves through drilling and bulk sampling, to determine the optimal metallurgical process to extract the metals from the ore and, in the case of new properties, to construct mining and processing facilities. Because of these uncertainties, no assurance can be given that our exploration programs will result in the establishment or expansion of resources or reserves or the ultimate development of mining operations.

Since the Company does not generate any revenues, it may not have sufficient financial resources to undertake by itself all of its planned mineral property acquisition and exploration activities. Operations will continue to be financed primarily through the sale of securities such as common shares. The Company will need to continue its reliance on the sale of such securities for future financing, which may result in dilution to existing shareholders. Furthermore, the amount of additional funds required may not be available under favorable terms, if at all, and will depend largely on the acquisition and exploration activities pursued.

The ability to attract capital to the Company is dependent on movements in commodity prices. Commodity prices fluctuate on a daily basis and they are affected by a number of factors beyond the control of the Company. If, because of a sustained decline in prices, financing were not available to meet cash operating costs, the feasibility of continuing operations would be evaluated and if warranted, would be discontinued.

The resource industry is intensively competitive in all of its phases, and the Company competes with many other companies possessing much greater financial and technical resources. Competition is particularly intense with respect to the acquisition of desirable undeveloped properties. The principal competitive factors in the acquisition of prospective properties include the staff and data necessary to identify and investigate such properties, and the financial resources necessary to acquire and develop the projects. Competition could adversely affect the Company's ability to acquire suitable prospects for exploration.

R. Licenses and Permits

The operations of the Company require licenses and permits from various government authorities. The Company believes that it holds all necessary licenses and permits under applicable laws and regulations for work in progress and believes it is presently complying in all material respects with the terms of such licenses and permits. However, such licenses and permits are subject to change in various circumstances. There can be no guarantee that the Company will be able to obtain or maintain all necessary licenses and permits that may be required to explore and develop its properties, commence construction or operation of mining facilities or to maintain continued operations that economically justify the cost.

S. Whistleblower Policy

Effective June 30, 2005, the audit committee adopted resolutions that authorized the establishment of procedures for complaints received regarding accounting, internal controls or auditing matters, and for a confidential, anonymous submission procedure for employees who have concerns regarding questionable accounting or auditing matters. The implementation of the whistleblower policy is in accordance with new requirements pursuant to Multilateral Instrument 52-110 Audit Committees, National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices

T. Forward-Looking Statements

Some of the statements contained in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Actual results relating to, among other things, results of exploration, reclamation, capital costs, and the Company's financial condition and prospects, could differ materially from those currently anticipated in such statements for many reasons such as; changes in general economic conditions and conditions in the financial markets; changes in demand and prices for the minerals the Company expects to produce;, litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the Company's activities; and changing foreign exchange rates and other matters discussed in this MD&A.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. Further information regarding these and other factors, which may cause results to differ materially from those projected in forward-looking statements, are included in the filings by the Company with securities regulatory authorities. The Company does not undertake to update any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities.

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas C. Patton, certify that:

1. I have reviewed this annual report on Form 40-F of Quaterra Resources Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the issuer's auditors and the audit committee of issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial data; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls over financial reporting.

Date: March 26, 2008

/s/ Thomas Patton
Thomas C. Patton
President and Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott B. Hean, certify that:

1. I have reviewed this annual report on Form 40-F of Quaterra Resources Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the issuer and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the issuer's auditors and the audit committee of issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial data; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls over financial reporting.

Date: March 26, 2008

/s/ Scott Hean
Scott B. Hean
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Quaterra Resources Inc. (the "Company") on Form 40-F for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Thomas Patton, Chief Executive Officer, and Scott Hean, Chief Financial Officer, respectively, of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Thomas Patton
Thomas C. Patton
Chief Executive Officer
March 26, 2008

/s/ Scott Hean
Scott B. Hean
Chief Financial Officer
March 26, 2008

This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

SmytheRatcliffe
CHARTERED ACCOUNTANTS

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors,
Quaterra Resources Inc.

We hereby consent to the incorporation by reference in the Form 40F, dated March 26, 2008, of Quaterra Resources Inc. (an exploration stage company) (the "Company") our report dated March 26, 2008, relating to the Company's consolidated balance sheets as of December 31, 2007, 2006 and 2005 and the related consolidated statements of operations and deficit and cash flows for each of the years ended December 31, 2007, 2006 and 2005.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 26, 2008

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Canada V6C 2G8	Web:	SmytheRatcliffe.com	

[Letterhead]

CONSENT of AUTHOR

Stephen Wetherup, B.Sc., P.Geo
34176 Cedar Avenue
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Canada V2S 2W1
Telephone: 604-217-1900
Email: swetherup@cciconline.ca

United States Securities and Exchange Commission

TSX Venture Exchange

I, *Stephen Wetherup*, do hereby consent to the use of my name in connection with the following reports and documents, which are being filed as exhibits to and incorporated by reference into the annual report on Form 40-F of Quaterra Resources Inc. (the "Company") being field with the United States Securities and Exchange Commission.

The technical report dated November 15, 2006 titled "Independent Technical Report for the Nieves Silver Project, Zacatecas State, Mexico" prepared by Stephen William Wetherup, B.Sc., P. Geo of Caracle Creek International Consulting, Inc.

Dated this 27th day of March 2008.

/s/ S. Wetherup

Stephen Wetherup, B.Sc., P.Geo.

CONSENT OF AVALON DEVELOPMENT CORP.

I the undersigned hereby consents to the use of its name in connection with the following reports and documents, which are being filed as exhibits to and incorporated by reference into the annual report on Form 40-F for the fiscal year ended December 31, 2007 of Quaterra Resources Inc. being filed with the United States Securities and Exchange Commission:

> The technical report dated August 25, 2006 titled “Summary Report for the Duke Island Cu-Ni-PGE Property, Ketchikan Mining District, Alaska” prepared by Curtis Freeman of Avalon Development Corp.

Dated at Fairbanks, Alaska on March 26, 2008.

AVALON DEVELOPMENT CORP.

/s/ Curtis Freeman
Curtis Freeman
President