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

For the fiscal year ended **December 31, 2010**

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

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	**NYSE Amex**

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: **141,823,040 common shares**

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 [ ] 82- 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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [ ] No [ ]

EXPLANATORY NOTE

Quaterra Resources Inc. ("Quaterra" or the "Company") 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. The Company also qualifies 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 Company 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

The Company prepares its financial statements, which are filed with this annual report on Form 40-F in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), and are subject to Canadian auditing and auditor independence standards. They may not be comparable to financial statements of the United States companies which typically report according to United States generally accepted accounting principles ("US GAAP"). Significant differences between Canadian GAAP and US GAAP are described in Note 17 of the audited consolidated financial statements filed as Exhibit 2 to this annual report. Effective January 1, 2011, the Company will begin preparing its financial statements in accordance with International Financial Reporting Standards.

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 the Company's 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 the preliminary notes to the Annual Information Form ("AIF") filed as Exhibit 1 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. Statements that are not historical fact and relate to predictions, expectations, belief, plans, projections, objectives, assumptions, future events, or future performance may be forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are subject to a variety of risks and uncertainties which could cause actual events or results to differ from those reflected in the forward-looking statements, including, without limitation:

- the Company's ability to finance the continued exploration of mineral properties;
- the Company's history of losses and expectation of future losses;
- the Company's ability to obtain adequate financing for planned exploration activities;
- uncertainty of production at the Company's mineral exploration properties;
- the lack of Proven Mineral Reserves or Probable Mineral Reserves;
- the impact of governmental regulations, including environmental regulations; and
- commodity price fluctuations.

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. The Company undertakes no obligation to update forward-looking statements should circumstances or estimates or opinions change.

ANNUAL INFORMATION FORM

The Company's AIF for the fiscal year ended December 31, 2010 is filed as Exhibit 1 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 the Company for the fiscal years ended December 31, 2010, 2009, and 2008, including the report of the auditors with respect thereto, are filed as Exhibit 2 and incorporated by reference in this annual report on Form 40-F.

Management's Discussion and Analysis

The Company's management's discussion and analysis ("MD&A") for the fiscal year ended December 31, 2010 is filed as Exhibit 3 and incorporated by reference in this annual report on Form 40-F.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) as of the end of the fiscal year covered by this report. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2010, the Company's disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

A report of management's assessment regarding internal control over financial reporting and an attestation report of the Company's independent registered public accounting firm of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board, is provided with the audited consolidated financial statements for the year ended December 31, 2010 as filed as Exhibit 2 and incorporated by reference in this annual report on Form 40-F.

There were no changes in the Company's internal control over financial reporting during the fiscal year ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

NOTICES PURSUANT TO REGULATION BTR

There were no notices required by Rule 104 of Regulation BTR that the Company sent during the fiscal year ended December 31, 2010 concerning any equity security subject to a blackout period under Rule 101 of Regulation BTR.

CODE OF ETHICS

The Company has adopted a Code of Business Conduct and Ethics for all directors, officers, and employees. It includes a Code of Ethical Conduct for Financial Managers that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The Code of Business Conduct and Ethics is available in the Investors – Governance section of the Company's website at www.quaterra.com. There were no amendments, waivers or implicit waivers to the code during the fiscal year ended December 31, 2010.

AUDIT COMMITTEE

Audit Committee

The Company's Board of Directors has a separately-designated standing audit committee established in accordance with Section 3(a) (58) (A) of the Exchange Act. The Company's Audit Committee is composed of Robert Gayton, John Kerr and LeRoy Wilkes, all of whom, in the opinion of the Company's Board of Directors, are independent (as determined under Rule 10A-3 of the Exchange Act and Section 803 of the NYSE Amex Company Guide) and are financially literate. Please refer to the Directors and Officers section in the AIF filed as Exhibit 1 for details in connection with each of these members and their qualifications.

Audit Committee Financial Expert

The Company's Board of Directors has determined that Dr. Robert Gayton qualifies as an audit committee financial expert (as that term is defined in Form 40-F) and is independent (as that term is defined under Rule 10A-3 of the Exchange Act and Section 803 of the NYSE Amex Company Guide).

PRINCIPAL ACCOUNTING FEES AND SERVICES

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

	Years ended December 31,	
	2010	**2009**
Audit Fees	CDN$123,500	CDN$80,000
Audit-Related Fees	CDN$4,000	CDN$5,000
Tax Fees	CDN$2,800	CDN$2,800
All Other Fees	nil	nil

Audit Fees

Audit fees are the aggregate fees billed by the Company's independent auditor for the audit of the Company's annual consolidated financial statements, reviews of interim consolidated financial statements and attestation services that are provided in connection with statutory and regulatory filings or engagements.

Audit-Related Fees

Audit-related fees are fees charged by the Company's independent auditor for assurance and related services that are reasonably related to the performance of the audit or review of financial statements and are not reported under "Audit Fees".

Tax Fees

Tax fees are fees for professional services rendered by the Company's independent auditors for tax compliance and tax advice on actual or contemplated transactions.

All Other Fees

All other fees relate to services other than the audit fees, audit-related fees and tax fees described above.

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

The Audit Committee recommends to the Board of the Directors the external auditor to perform audit, review, and attestation services. The Audit Committee pre-approves all non-audit services provided by the Company's external auditors, and pre-approved the tax fees and the other fees listed in the table above.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does 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, 2010 information with respect to Quaterra's known contractual obligations, which consist of option agreements regarding mineral properties and office leases. Further information about the mineral properties described below is found in Note 6 to the Company's audited annual consolidated financial statements filed as Exhibit 2 and in "Update on Mineral Properties" on page 6 of the MD&A filed as Exhibit 3.

	Payments due by Period				
Contractual Obligations	*Total*	2011	2012 – 2013	2014 – 2015	2016+
Letter of Agreement for lease of claims in Arizona strip district (1)	US$100,000	US$100,000	-	-	-
Agreement to acquire right to earn interest in MacArthur copper oxide mine in Lyon County, Nevada (2)	US$1,572,000	US$524,000 (2)	US$1,048,000 (2)	-	-
Agreement to acquire right to earn interest in S.W. Tintic claims in Juab County, Utah (3)	US$900,000	US$50,000	US$150,000	US$200,000	US$500,000
Agreement to acquire right to earn interest in Willow Creek, in Montana, including promissory note (4)	US$2,545,000	US$200,000 (4)	US$1,245,000	US$1,100,000	-

Option to purchase Gray Hills claims in Lions County, Nevada (5)	US$240,000+ (5)	US$40,000	US$80,000 (5)	US$80,000 (5)	US$40,000+ (5)
Agreement to acquire right to earn interest in Herbert Glacier in Mineral County, Nevada (6)	US$162,000+ (6)	US$12,000	US$40,000	US$40,000	US$70,000+ (6)
Option to acquire prospect permits in Texas Cave Peak property (7)	US$370,000	US$150,000 (7)	US$220,000	-	-
Agreement to acquire right to earn interest in Copper Canyon Project in Mineral County, Nevada (8)	US$505,000	US$35,000	US$70,000	US$70,000	US$330,000
Agreement to acquire right to earn interest in Klondike and Reveille projects in Eureka and Nye County, Nevada (9)	US$1,960,000	US$40,000	US$120,000	US$200,000	US$1,600,000
Agreement to acquire right to earn interest in Tecolote project in Mexico (10)	US$40,000	US$40,000	-	-	-
Agreement to acquire right to earn interest in Santo Domingo project in Mexico (11)	US$270,000	US$30,000	US$90,000	US$100,000	US$50,000+ (11)
Agreement to pay advanced minimum royalty in Nieves Concessions (12)	US$525,000 (12)	US$75,000 (12)	US$225,000 (12)	US$150,000 (12)	US$75,000+ (12)
Office lease (13)	US$277,488	US$184,992	US$92,496	-	-
TOTAL	US$9,466,488	US$1,4380,992	US$3,380,496	US$1,940,000	US$2,665,000

(1) Pursuant to an August 2006 agreement, as amended August 14, 2009, with Nustar Exploration LLC, Quaterra 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 (paid); and (iii) a final payment of US$100,000 was renegotiated to August 2011.

(2) Pursuant to a September 2005 agreement, as amended January 9, 2010 and November 2010, with North Exploration LLC, Quaterra 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, Quaterra was required under the original agreement to make staged payments totaling US$1,572,000 by January 15, 2012 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 Quaterra met its obligation of US$100,000 in stage payments by January 15, 2007 and incurred US$500,000 in exploration expenditures by January 15, 2008, Quaterra elected to acquire the property by making additional payments totaling US$2,645,000 as follows: (i) US$100,000 on or before January 15, 2008 (paid); (ii) US$125,000 on or before January 15, 2009 (paid); (iii) US$300,000 (paid) and 150,000 common shares on or before January 15, 2010 (issued); (iv) US$524,000 by January 15, 2011; (v) US$1,048,000 plus interest at the rate of 6% per annum by January 15, 2012 or US$524,000 plus interest by January 2012 and 2013, respectively which reflects a US$350,000 credit made pursuant to an amendment dated January 17, 2007 to the original agreement to compensate for payments to Charles Gary Clifton consisting of (i) $175,000 (paid); and (ii) $175,000 to be paid by December 31, 2008 (paid).

(3) Pursuant to a March 2007 agreement with North Exploration LLC, Quaterra 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, Quaterra is required to make staged payments totaling 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 (paid); (iv) US$40,000 on or before February 15, 2010 (paid by Freeport-McMoran Exploration Corporation ("FMEC")); (v) US$50,000 on or before February 15, 2011 (anticipated to be paid by FMEC); (vi) US$50,000 on or before February 15, 2012 (anticipated to be paid by FMEC); (vii) US$100,000 on or before February 15, 2013 (anticipated to be paid by FMEC); (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, Quaterra may acquire the property at any time by paying US$1,000,000 less any previously paid amounts. On May 29, 2009, the Company signed an earn-in agreement with FMEC for this property. Under the terms of the agreement, FMEC has the exclusive right and option to acquire a 70% ownership interest in this property by making a US$275,000 property payment and by spending US$4,725,000 on option payments and exploration costs over four years.

(4) Pursuant to an October 2008 agreement, as amended October 26, 2009 with the Willow Creek Discovery Group, LLC, Quaterra acquired the right to earn an interest in the south-western Montana. To earn a 100% interest, Quaterra is required to make payments as follows: (i) US$75,000 initial payment and issue 100,000 common shares(paid and issued); (ii) US$30,000 and issue 100,000 common shares (paid and issued) on or before October 11, 2009 (paid) ; (iii) US$150,000 or US$50,000 and 100,000 shares on or before October 11, 2010 (waived); (iv) US$150,000 on or before October 11, 2011; (v) US$350,000 on or before October 11, 2012; (vi) US$750,000 on or before October 11, 2013, and (vii) US$1,000,000 on or before October 11, 2014. The property is also subject to royalty payments as follows: (i) US$5,000 on or before September 10, 2008 (paid); (ii) US$35,000 on or before September 10, 2009 (paid); (iii) US$40,000 on or before September 10, 2010 (paid); (iv) US$50,000 on or before September 10, 2011; (v) US$65,000 on or before September 10, 2012; (vi) US$80,000 on or before September 10, 2013; and (vii) US$100,000 on or before September 10, 2013.

(5) Pursuant to a July 2007 agreement, as amended July 24, 2009, with Larry McIntosh, Quaterra entered into a lease with an option to purchase 43 mining claims known as Gray Hills claims in Lions County, Nevada. Quaterra may exercise the option at any time for US$500,000. To earn a 100% interest, Quaterra is 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 (paid); (iv) US$15,000 on or before July 11, 2009 (paid); (v) US$35,000 on or before July 11, 2010 (paid); and (vi) US$40,000 on or before July 11, 2011 and each anniversary until Quaterra exercises the option to purchase the properties or the optionee chooses to withdraw from the lease.

(6) Pursuant to a November 2007 agreement with Dale Henkins, Floyd Branson and Jim Wilson, Quaterra acquired the right to earn an interest in 17 mining claims known as the Herbert Glacier in Mineral County, Alaska. To earn a 100% interest, Quaterra is 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 (paid); (iv) US$12,000 on or before November 19, 2010 (paid by Grande Portage Resources); (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. Quaterra also must incur US$25,000 in exploration expenditures by November 19, 2008 and a further US$25,000 (incurred) in exploration expenditures each year thereafter. On June 17, 2010, Quaterra signed an option agreement with Grande Portage Resources for this property. Under the terms of the agreement, Grande Portage can earn a 51% interest by spending US$750,000 on or before June 15, 2011,and has the option to an additional 14% interest by spending US$500,000 on or before June 15, 2012.

(7) Pursuant to a March 2007 option agreement with Andryck Patterson and Daniel Soto, Quaterra has the right to acquire 2 prospect permits in Cave Peak property 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 (paid); (iv) US$70,000 on or before March 27, 2010 (paid); (v) US$150,000 on or before March 27, 2011 (pay by FMEC); and (vi) US$220,000 on or before March 27, 2012. On July 24, 2009, the Company acquired a mining lease with the State of Texas for 19 years for a total of US$120,462 payments depending on submittal of exploration and mining plan of operations. If production has not commenced before one year of the date of the lease, the lease will be terminated unless delay payments are made on anniversary dates during the lease term as follows: (i) US$26,190 on July 24, 2010 (paid); (ii) US$26,190 on each anniversary date between 2011 and 2013; (iii) US$39,280 on each anniversary date between 2014 and 2018; (iv) US$78,560 on each anniversary date between 2019 and 2023; and (vi) US$104,750 on each anniversary date between 2024 and 2027. On November 1, 2009, the Company signed an earn-in agreement with FMEC for this property. Under the terms of the agreement, FMEC has the exclusive right and option to acquire a 70% ownership interest in this property by paying future land and lease holding cost and by spending US$5,000,000 on option payments and exploration costs over five years.

(8) Pursuant to a November 2007 agreement, as amended October 9, 2009 and October 9, 2010, with Royal Pretoria Gold LLC, Quaterra acquired the right to earn an interest in four mining claims known as the Copper Canyon Project in Mineral County, Nevada. To earn a 100% interest, Quaterra is required to make staged payments totaling 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 (paid); (iii) US$35,000 on or before November 6, 2009 (paid); (iv) US$35,000 on or before November 6, 2010 (paid); (v) US$35,000 annually through November 6, 2024; and (vi) US$15,000 on or before November 6, 2025. Quaterra also must pay $750,000 within five business days of deciding to commence commercial production.

(9) Pursuant to an agreement made on August 3, 2010 with Arden Larson, Quaterra acquired the right to earn an interest in four claims known as Klondike and Reveille property in Eureka and Nye County, Nevada respectively. The total consideration is US$2,000,000 over 10 years as follows: (i) US$40,000 upon execution (paid); (ii) US$40,000 on or before July 31, 2011; (iii) US$40,000 on or before July 31, 2012; (iv) US$80,000 on or before July 31, 2013; (v) US$100,000 on or before July 31, 2014; (vi) US$100,000 on or before July 31, 2015; (vii) US$200,000 annually from July 31, 2016 to July 31, 2018; (viii) US$500,000 from July 31, 2019 to July 31, 2020.

(10) Pursuant to a September 2008 agreement with Exmin Resources Inc., Quaterra acquired the right to earn a 75% interest in Exmin's Tecolote property in Mexico. To earn the 75% interest, Quaterra is required to make payments as follows: (i) US$20,000 on or before September 30, 2008 (paid); (ii) US$20,000 on or before September 30, 2009 (paid); (iii) US$20,000 on or before September 30, 2010 (paid); and (iv) US$40,000 on or before September 30, 2011.

(11) Pursuant to a January 6, 2010 agreement with La Cuesta International Inc. ("LCI"), Quaterra acquired the right to earn a 100% interest in four mineral concessions known as Santo Domingo property in Mexico. To earn the 100% interest, Quaterra is required to make payments as follows: (i) US$10,000 and 100,000 common shares on initial date (paid and issued); (ii) US$10,000 on or before July 1, 2010 (paid); (iii) US$15,000 each on or before January 6, 2011 and July 31, 2011 respectively; (iv) US$20,000 each on or before January 6, 2012 and July 31, 2012 respectively; and (v) commencing January 1 , 2013, US$25,000 every six months.

(12) Pursuant to a March 1999 agreement with Western Silver Corporation ("Western"), Quaterra acquired a 50% interest in Nieves property in Zacatecas, Mexico. Commencing January 26, 2004, Quaterra is required to pay an annual advance minimum royalty payment of US$75,000 to Western until the commencement of commercial production.

(13) During 2007, the Company entered into a service agreement, as amended subsequently, with Manex Resource Group for its Vancouver office space, administration and corporate secretarial services at a monthly rate of CDN$15,500 (the equivalent of US$15,416 based upon the Bank of Canada exchange rate on December 31, 2010). Manex Resource Group is a private company controlled by Lawrence Page, a director of the Company. The agreement can be cancelled at anytime upon one year's notice. The current expiry date is June 30, 2012.

NYSE AMEX CORPORATE GOVERNANCE

The Company's common shares are listed on NYSE Amex. Section 110 of the NYSE Amex Company Guide permits NYSE Amex to consider the laws, customs and practices of foreign issuers in applying certain NYSE Amex listing criteria, and to grant exemptions from NYSE Amex listing criteria based on these considerations. A statement of significant ways the Company's corporate governance practices may differ from those of domestic companies pursuant to NYSE Amex standards is available in the Investors – Governance section of the Company's website at www.quaterra.com.

MINE SAFETY DISCLOSURE

Pursuant to Section 1503(a) of the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act (The "Dodd-Frank Act"), issuers that are operators, or that have a subsidiary that is an operator, of a coal or other mine in the United States are required to disclose in their periodic reports filed with the SEC information regarding specified health and safety violations, orders and citations, related assessments and legal actions, and mining-related fatalities. During the fiscal year ended December 31, 2010, the Company had no such specified health and safety violations, orders or citations, related assessments or legal actions, mining-related fatalities, or similar events in relation to the Company's United States operations requiring disclosure pursuant to Section 1503(a) of the Dodd-Frank Act.

UNDERTAKINGS

The company undertakes 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

The Company has filed with the Commission an Appointment of Agent for Service of Process and Undertaking on Form F-X.

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 30, 2011

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

EXHIBIT INDEX

Annual Information	
1.	Annual Information Form for the fiscal year ended December 31, 2010
2.	Audited annual consolidated financial statements and notes thereto for the fiscal years ended December 31, 2010, 2009, and 2008 together with the report of the auditors thereon,
3.	Management's Discussion and Analysis for the fiscal year ended December 31, 2010
Certifications	
4.	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
5.	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
6.	Certification of the Principal Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
7.	Certification of the Principal Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Consents	
8.	Consent of Independent Registered Public Accounting Firm
9	Consent of Michelle Stone, Caracle Creek International Consulting Inc.
10.	Consent of Michelle Stone, Caracle Creek International Consulting Inc.
11.	Consent of John W. Rozelle, Tetra Tech



1100 – 1199 West Hastings Street,
Vancouver, BC, V6E 3T5
Tel: 604-681-9059 Fax: 604-641-2740
www.quaterra.com

Annual Information Form
For the year ended December 31, 2010

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PRELIMINARY NOTES

Date of Information

All information in this Annual Information Form ("AIF") is at March 30, 2011 **,** unless otherwise indicated**.**

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, 2010. The financial statements and MD&A are available at www.quaterra.com and under the Company's profile on the SEDAR website at www.sedar.com.

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.

Disclosure of Mineral Resources

None of the Company's properties have Mineral Reserves. Disclosure about the Company's 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. These terms are not defined in the U.S. Securities and Exchange Commission (SEC) Industry Guide 7, *Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations,* and are normally not permitted to be used in reports and registration statements filed with the SEC. Accordingly, information contained in this AIF contain descriptions of our mineral deposits that may not be comparable to similar information made public by U.S. companies subject to the reporting and disclosure requirements under the United States federal securities laws and the rules and regulations thereunder.

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

This AIF may use the terms "Mineral Resources," "Measured Mineral Resource" and "Indicated Mineral Resource." The Company advises U.S. investors that while such terms are recognized and permitted under Canadian regulations, the SEC does not recognize them. U.S. investors are cautioned not to assume that any part or all of the Mineral Resources in these categories will ever be converted into Mineral Reserves.

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

This AIF may use the term "Inferred Mineral Resource." The Company advises U.S. investors that while such a term is recognized and permitted under Canadian regulations, the SEC does not recognize it. "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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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.

GLOSSARY OF GEOLOGIC AND MINING TERMS

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.
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: A term used to describe sulfide ores containing more than 50% volume of sulphide.

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 SEC 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

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 a company and a prospect is a claim in which a 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.

GLOSSARY OF ABBREVIATIONS

Ag:	Silver
Ag gm/t:	Silver grade measured in grams per metric tonne
AMR:	Advance minimum royalty payments
Au:	Gold
Au gm/t:	Gold grade measured in grams per metric tonne
Ba:	Barium
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	Meters
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
U3O8: Uranium oxide known as “yellow cake”.
VLF: Very low frequency electromagnetic geophysical survey
VMS: Volcanogenic massive sulphide

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

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			

CORPORATE STRUCTURE

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. 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.

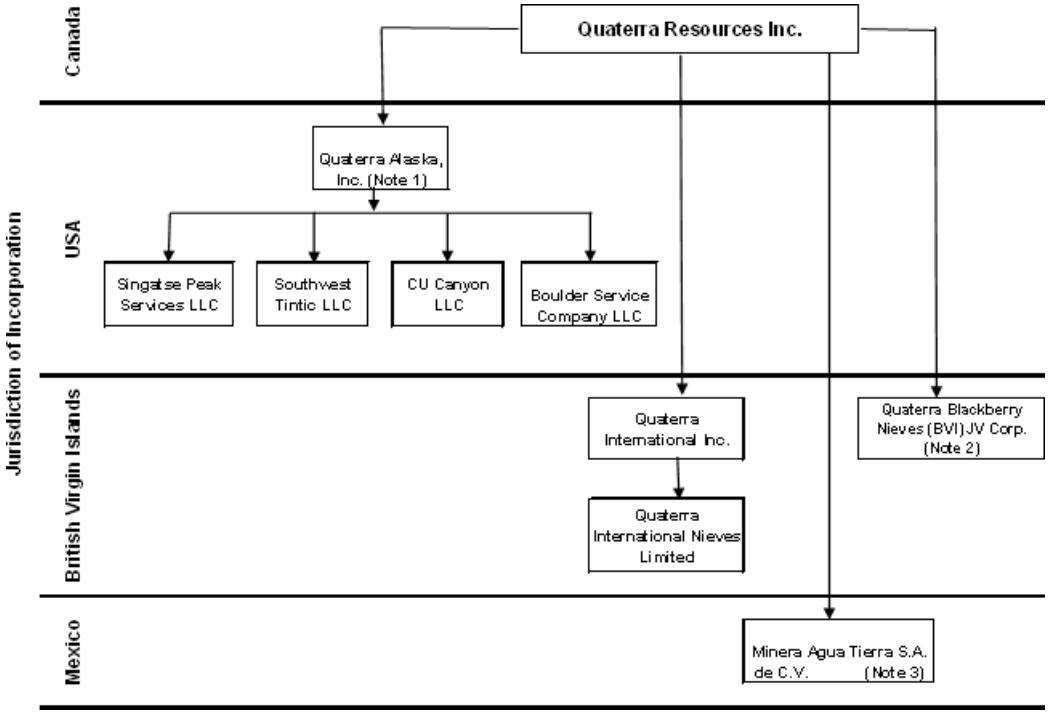
On April 25, 2005, the Company completed the transition procedures in accordance with the Business Corporations Act (British Columbia), (the "New Act").

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 the Company's Articles. The New Act eliminates the requirement for a Memorandum.

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) 641-2740, website: www.quaterra.com

Inter-corporate Relationships

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



Note 1 Quaterra Alaska, Inc. is 100% owned by Quaterra Resources Inc. and holds Duke Island, Arizona, Wyoming and Utah Uranium properties, MacArthur, Yerington, SW Tintic, Gray Hills, Peg Leg, Herbert Glacier, Copper Canyon, Willow Creek and Wassuk Copper.

Note 2 Quaterra Blackberry Nieves (BVI) JV Corp. is 50% owned by Quaterra Resources Inc. and holds 50% of the Nieves property.

Note 3 Minera Agua Tierra S.A. de C.V. is 100% owned by Quaterra Resources Inc. and holds Nieves, Los Crestones, Las Americas - Mirasol

GENERAL DEVELOPMENT AND DESCRIPTION OF BUSINESS

Business Overview

Quaterra is an exploration stage company focused on exploration and development of mineral properties in North America. The Company is currently exploring for gold, silver, copper, uranium, molybdenum, and precious metals in the United States and Mexico. Quaterra's exploration efforts are directed at properties with potential to host large base metal, precious metal, and uranium deposits. When identifying prospects, the Company's consideration include the following criteria: infrastructure; environment and location that is favorable for building a mine; large tonnage and/or high grade potential; and opportunity to acquire a 100% interest under reasonable terms.

Three Year History

On July 22, 2008, the Company acquired the Cave Peak molybdenum prospect from the State of Texas. The prospect covers three breccia pipes, one of which contains significant molybdenum mineralization.

On September 30, 2008 the Company completed a joint venture agreement with EXMIN Resources Inc. on EXMIN's East Durango concession. Quaterra has the right to earn a 75% interest in EXMIN's East Durango property. The East Durango property consists of the 11,181 hectare Tecolote concession which abuts and is directly north of Quaterra's Mirasol-Americas projects.

On November 24, 2008 the Company secured an option with the Willow Creek Discovery Group, LLC to acquire 100% of the Willow Creek porphyry molybdenum prospect in southwestern Montana. Willow Creek is a North American asset in a major mineral belt where Quaterra has the opportunity to earn a 100% interest.

On May 29, 2009, the Company signed an earn-in agreement with Freeport-McMoRan Exploration Corporation of Phoenix, Arizona ("FMEC") for the Company's Southwest Tintic copper project in Utah. In the terms of the agreement, FMEC has the exclusive right and option to acquire a 70% ownership interest in the Southwest Tintic property by making a US$275,000 property payment and by spending US$4.725 million on exploration over four years. Upon earning a 70% interest in the property, FMEC agreed to either fund the Company's share of costs through the delivery of a bankable feasibility study or convert its interest to a 1% net smelter return royalty if it determines not to deliver such a feasibility study.

On July 30, 2009, Quaterra announced receipt of notification from FMEC that it would extend its earn-in option at the Southwest Tintic copper project in Utah by making a US$275,000 property payment and paying 2009 Bureau of Land Management claim maintenance fees. To keep the option in good standing, FMEC must make a minimum expenditure of US$750,000 by August 29, 2010.

On August 27, 2009, Quaterra signed an earn-in agreement with FMEC for the Company's Peg Leg copper project in Arizona. FMEC has the exclusive right and option to acquire a 70% interest in the Peg Leg project by spending US$3 million on exploration by December 31, 2012.

On September 29, 2009, Quaterra signed an option agreement with Copper Ridge Exploration Inc. ("Copper Ridge") for the Company's Duke Island copper-nickel-platinum-palladium property in southeast Alaska. The agreement provides that Copper Ridge can earn up to a 51% interest by issuing one million pre-consolidation shares to the Company and spending $3.0 million on exploration by December 31, 2012. The amount of $750,000 of the $3.0 million is a firm commitment to be spent by December 31, 2010. Copper Ridge terminated the option agreement in February, 2011.

On January 6, 2010, Quaterra signed an option agreement with La Cuesta International Inc. for an option to acquire a 100% interest in four mineral concessions located in Durango, Mexico known as the Santo Domingo Prospect., Total consideration consists of US$7.5million in cash payments, 100,000 shares of the Company and $50,000 in work expenditure.

On January 29, 2010, Quaterra entered into an Investment Framework Agreement (IFA) with Goldcorp Inc. ("Goldcorp") of Vancouver, B.C. Under the IFA, Goldcorp received an option to acquire up to 65% in any the Company's properties in the central Mexico Interest, with the exception of Nieves, by spending $2 million over a two-year period on advanced exploration and by completing a bankable feasibility. In return, to fund generative exploration by Quaterra, Goldcorp agreed to invest US$10 million in the Company over two years.

On February 4, 2010 the Company completed a private placement of 3,001,418 units for gross proceeds of US$4.0 million (C$4,231,999) received from Goldcorp pursuant to the IFA. Each unit consisted of one common share and one-half of one share warrant with an exercise price of $1.76 per full warrant expiring February 4, 2012.

On June 17, 2010, Quaterra signed an option agreement with Grande Portage Resources for the Herbert Glacier property. Under the terms of the agreement, Grand Portage can earn a 51% interest by spending US$750,000 on or before June 15, 2011 and has to option to earn an additional 51% interest by spending US$500,000 on or before June 15, 2012. If Grand Portage earns an interest, the two parties have agreed to form a joint venture to further explore and develop the property.

In August 2010, Quaterra entered into a lease with an option to purchase certain mining claims, known as the Klondike and Reveille in Eureka and Nye County, Nevada. The total consideration is US$2,000,000 over 10 years.

On October 27, 2010 the Company completed a private placement of 11,724,200 units for gross proceeds of $17,000,090 Each unit consists of one common share and one-half of one common share purchase warrant with an exercise price of $1.90 per full warrant expiring on October 27, 2012.

On February 7, 2011 the Company completed a private placement of 3,293,407 units for gross proceeds of US$6.0M (C$5,994,000) received from Goldcorp pursuant to the IFA. Each unit consisted of one common share and one-half of one share warrant with an exercise price of $2.27 per full warrant expiring February 7, 2013

Property, Plants and Equipment

Nieves Silver Project, Mexico

Property Description and Acquisition

The Nieves silver project is located in the Rio Grande Municipality of the Zacatecas Mining District near the southeastern boundary of the Sierra Madre Occidental Physiographic Province in central Mexico. The Nieves property consists of 16 concessions covering approximately 6,050 hectare. These concessions are registered in the name of Minera Agua Tierra. The property is jointly owned by Quaterra and Quaterra Blackberry Nieves (BVI) JV Corp. ("Blackberry JV").

Kennecott Exploration Company ("Kennecott") acquired the Nieves property on January 16 th, 1995, through an option agreement with Mexican concessionaires by making specified option payments over five years, and advance minimum royalty payments. On March 13th, 1998, Kennecott transferred its rights under the Nieves option to Western Copper Holdings Ltd. ("Western") in consideration for an uncapped 2% NSR on certain core concessions and a 1% NSR on others. Western assigned its rights to the Nieves Project to Quaterra on March 26th 1999. The Nieves concessions are subject to a maximum 3% NSR to the original concession holders, which the Company may purchase at any time for US$2 million. Kennecott's royalties on the property were later sold to Royal Gold Inc. on January 24th, 2007.

On April 10th, 2003, Quaterra completed a limited partnership financing with Blackberry JV, whereby Blackberry JV 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 JV 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 signed a joint venture agreement in 2006 and have jointly contributed to all exploration costs subsequently incurred.

Expenditures to Date

Since inception to December 31, 2010, the Company had incurred $1,472,896 (2009 - $1,413,183) for acquisition costs and $2,780,131 (2009 - $2,017,463) for exploration expenditures giving a total of $4,253,027 (2009 - $3,430,646) for its interest in Nieves. The Company's joint venture partner, Blackerry JV had spent, including the company's administration fee, US$4,406,526 for its 50% interest in Nieves

Location, Access and Infrastructure

Quaterra/Blackberry JV exploration activities are coordinated from the small town of Nieves (now re-named Francisco R. Murguia) where they maintain an office and a house. The town of Nieves is accessed via a 17 km paved road from Highway 49. The nearest major population and service centre to Nieves is the mining town of Fresnillo located ~90 km to the south. Fresnillo has a population of approximately 75,000 and services the Fresnillo Mine run by Peñoles. Fresnillo offers a professional work force experienced in mining and related activities in addition to most other supplies and services. International airports are located within approximately a three hour drive of the property in the city of Zacatecas to the south, and in Torreõn (Coahuila State) to the north. Road access is excellent with the main paved highway to Nieves running along the northern portion of the property. A network of dirt roads and trails provide access to the historical mining operations and extend southward to all areas of the property. Drill and access roads can be built as most of the Nieves Property is flat-lying with only a few dry creek beds.

The Nieves property lies within the Mexican Altiplano or Mesa Central region. This region is flanked to the west by the Sierra Madre Occidental and to the east by the Sierra Madre Oriental mountain ranges. The Altiplano is dominated by broad alluvium filled plains between rolling to rugged mountain ranges and hills reaching up to 3,000m above mean sea level and average elevations in valleys of approximately 1,700m. Elevations on the Nieves property range from 1,900m. to 2,000m. The terrain is generally flat-lying with a prominent north-south trending ridge along the eastern portion of the property with moderate to vertical slopes. There is very little human habitation on the property, with only a few widely scattered farm houses, although the town of Nieves directly borders the property to the northeast.

The La Quinta field office, as well as core logging, cutting and storage facilities are located on the Nieves Property. . Other infrastructure in the area includes: (1) a power line adequate to support a small mill (eg. 100 tonnes per day), (2) an existing mill structure on the Property at the Santa Rita vein area which could be refurbished, (3) a spur of the main Zacatecas rail line that connects the city of Rio Grande, located 18 km to the south, and (4) operating smelters in San Luis Potosi (copper and zinc, approximately 350 km to the south) and in Torreõn, Coahuila state (Peñoles lead-zinc smelter, approximately 200 km north).

History

The first discovery on the area covered by the Nieves Property was the Santa Rita Vein in 1560 by Spanish explorers. Soon after in 1574 the Concordia vein was discovered. The Santa Rita and Concordia-San Gregorio-Dolores veins were the focus of mining by the Spanish and Mexican miners until 1880 when an English company, the Mexican Rosario Mining Company, and two Californian companies, the Almaden Mining Company and the Concordia M. and M. Company, worked in the area. These companies worked primarily on the Concordia vein while a small independent miner Gonzáles Piñera worked concurrently on the San Gregorio vein. Prior to the 1910 revolution, which halted all production in the Nieves District, total ore production in the District was estimated at 50,000 tonnes. The only production reported is from the Concordia Mine where 5,414 tonnes at a grade of 4,065 g/t silver were produced.

Between 1910 and 1978 several companies attempted to de-water, sample, and re-open the historical workings in the Concordia and Santa Rita mines, and were largely unsuccessful. The Santa Rita vein and refurbished mill and flotation plant were purchased by Fomento Minero in 1978; they operated the mine until 1987. Fomento Minero also sank three shafts and deepened a historic shaft along the Concordia-San Gregorio vein system during the 1970's. The flotation mill was capable of running 100 tonnes/day during this time and was fed 50% tailings and 50% ore with an average head grade of 130 g/t silver, 2% lead, 2.4% zinc and 2.5% antimony, according to Consejo Recursos Minerales. Today, all that remains on the site are the building foundations, abandoned shafts and power lines.

In the early 1990's, a group of Mexican concessionaires assembled a land position in the area and presented it to Kennecott who signed the option agreement on January 16th, 1995. Exploration work completed by Kennecott included geologic mapping, surface sampling, geophysical surveying and reverse circulation (RC) drilling of the Gregorio North, California and Orion West veins. The drilling intersected several zones of significant silver mineralization hosted by two distinct styles of mineralization. Drill hole NV08 in the California area intercepted two separate 2m intervals of high grade silver vein mineralization that returned assay values of 367 g/t Silver and 795 g/t silver at depths of 108m and 116m, respectively. In contrast, drill hole NV03 intersected a large low grade zone of silver mineralization at a depth of 180m depth that averaged 82 g/t silver over 28m. Drill hole NV03 also encountered a high grade silver vein at 148m depth that returned 254 g/t silver over 2m. Drill hole NV06 also encountered a large zone of low-grade silver mineralization that returned 67 g/t silver over 68m.

After acquiring the Nieves option from Kennecott in 1998, Western drilled 5 RC holes testing the California vein system. The holes were drilled in the area around hole NV08. Western also twinned hole NV08 and reproduced similar assay values for the intercepts reported by Kennecott including 890 g/t Silver over 1.0m in drill hole WCNV01. Holes drilled to intercept mineralization below drill hole NV08 returned assay values of 841 g/t silver over 0.45m, 109 g/t silver over 0.8m, and 1,081 g/t silver over 0.35m in drill hole WCNV04.

Exploration of the property continued after Quaterra received the Nieves property rights from Western in 1999. From 1999 through 2008 just over 31,000m of drilling was completed in 82 holes by Quaterra and the Quaterra/Blackberry JV. An initial mineral resource estimate was subsequently prepared in 2009 by Michelle Stone with Caracle Creek International Consulting Inc. of Toronto, Ontario (CCIC). Almost 2.9 million tonnes of Indicated Mineral Resources grading ~110 g/t Ag (+10.25 million ounces) and 0.13 g/t Au were estimated in addition to ~2.25 million tonnes of Inferred Mineral Resources grading ~96.5 g/t Ag (+7 million Ag ounces) and 0.12 g/t Au along the Concordia vein system. It was recommended that a program of step out and infill drilling be completed to better define high grade resources within the area modeled.

Geology

The Nieves Property lies on the western flank of the Central Altiplano in Mexico, just east of the Sierra Madre Occidental ranges. Basement rocks underlying the western Altiplano are a Mesozoic assemblage of marine sedimentary and submarine volcanic rocks belonging to the Guerrero Terrane that sit unconformably on Precambrian continental rocks.

The late Cretaceous to early Tertiary Laramide Orogeny folded and thrust faulted the basement rocks throughout area and preceded the emplacement of mid-Tertiary plutons and related dykes and stocks. Unconformably overlying the Mesozoic basement rocks in the western Altiplano are units from the late Cretaceous to Tertiary, Sierra Madre Occidental magmatic arc. These rocks consist of a "lower volcanic complex" comprising an assemblage of late Cretaceous to Tertiary volcanic, volcaniclastic, conglomerate, and limestone rocks unconformably overlain by a Tertiary "upper volcanic supergroup" of caldera related, rhyolite ash-flow tuffs and flows. Eocene to Oligocene intrusions occur throughout the Altiplano and are related to the later felsic volcanic event. A final stage of NE-SW extensional tectonics accompanied by major strike-slip fault movement during the Miocene developed much of the basin and range topography currently exhibited in the area. Subsequent erosion of the ranges has covered most of the valleys.

The Mesozoic section on the Nieves property is represented by a thick sequence of fine laminar grey to dark green argillite beds up to 1m thick belonging to the late Cretaceous Caracol Formation. The Caracol Formation is host to silver mineralization on the property. The argillite beds are more abundant to the south in the Santa Rita area and to the west in the Concordia area. The Mesozoic section is isoclinally folded with an axial plane cleavage. Fold axes strike east-northeast to east and beds strike east-west and dip steeply south to near vertical.

Tertiary clastic rocks unconformably overlie the Caracol Formation on the east side of the Nieves Property. The shallow dipping Tertiary clastic section includes a 1 to 10m thick conglomerate composed of rounded to sub-rounded limestone boulders in a sandstone groundmass. Above the limestone conglomerate there is up to 130m of conglomeratic sandstone with thin bands of calcareous conglomerate. Overlying the conglomerate is 40m to 50m of Tertiary volcanic rocks composed of rhyodacitic to andesitic welded tuff. A thin 1.5 to 2m unit of grey to dark grey basalt occurs above the tuff and is in turn overlain by at least 56m of porphyritic rhyolite flows striking north-northwest and dipping northeast. These flows underlie a prominent north trending ridge on the east side of the Nieves property and are the host rock for manganese-calcite veins and breccia mineralization previously exploited by local miners.

The oldest structures on the Nieves Property are the folds which affect the Mesozoic argillite beds. These structures are likely related to compression during the Laramide Orogeny in the Cretaceous. Thrust faults are also common features of structures attributed to the Laramide Orogeny and several have been suspected to occur on the Nieves Property. Post-Laramide structures affected both the Mesozoic Caracol Formation sedimentary rocks and the Tertiary volcanic and sedimentary rocks. These structures include: (1) faults that strike 330^{o} to 000^{o} and dip moderately northeast to east with east plunging slicken-sides, (2) faults that strike 170^{o} to 180^{o} and dip steeply to the west, and (3) major vein structures that strike 240^{o} to 270^{o} and dip 60^{o} to 90^{o} to the south.

Mineralization

Silver mineralization on the Nieves Property is classified as low-sulphidation epithermal mineralization and is the primary exploration target. Epithermal silver veins are the dominant type of deposit within the Altiplano Region of Mexico that includes world-class examples such as Pachuca, Zacatecas, Fresnillo, and Guanajuato. The closest example is the Fresnillo Deposit, located 90 km to the south of the Nieves Property. The Fresnillo deposit includes mantos and chimneys, stockworks, disseminated mineralization, and veins that show vertical mineralogical zonation. Typically in these veins, the high-grade silver (gold) zone is constrained in elevation within the vein structure to up to 500m vertically, or between 180 to 750m depths below which the veins becomes dominated by base-metal sulfides and progressively lower in precious metal content.

Three major east to east-northeast striking silver vein systems known as the California, Concordia-San Gregorio-Dolores (C-S-D), and Santa Rita are the principle silver mineralized structures on the Nieves Property. In the Santa Rita and the CS-D veins, the silver mineralization is hosted in two to ten meter thick shear zones with reverse offset and secondary fault splays in the footwall. The mineralized shears are surrounded by a sulfidation alteration halo of 2-5% disseminated pyrite that weathers to an acid leached “bleached” white clay alteration. A local, more intense alteration assemblage related to the system includes weak to moderate sericite replacing thin calcite veinlets and weak to advanced fine-grained quartz replacing calcite, associated with an increase in fine grained pyrite. Silicification, mainly of sandstone beds, occurs in a few zones north of the Santa Rita vein. Weak chlorite alteration of tuffs and conglomeratic sandstone occurs in the manganese mine area within the Tertiary rhyolitic rocks on the east side of the property.

Carbonate-quartz-sulfide veins contain the best grades of silver, gold, lead and zinc and constitute the majority of past production. These veins range from centimeters to 1.5m wide and contain up to 50% sulfide minerals. Sulfides include pyrite, stibnite, sphalerite, galena, chalcopyrite. The primary silver mineral is freibergite (argentiferous tetrahedrite) withminor jamesonite and silver sulphosalts proustite and pyrargyrite. Up to 5% disseminated pyrite occurs in jasperoid structures located to the northwest of the C-S-D vein systems which are anomalous in gold, arsenic and antimony with erratic silver, lead and zinc values. Low grade silver is also associated with iron carbonate veins containing pyrite veinlets. Some of these veinlets contain stibnite and silver sulphosalts and are abundant in surface alteration halos as well as above and below ore intercepts in drill core.

The California vein is marked by a shaft and series of small open cuts aligned 250° to 255° over a distance of 300m. Only thin and discontinuous quartz-oxide veinlets outcrop near the workings. The California vein system shows a large 150-600m wide alteration zone extending about 2,700m along strike. Local stockwork zones contain thin calcite veinlets in part weakly replaced by quartz-oxide veinlets. The California vein was intercepted in Kennecott hole NV08 in two intervals at depths of 108m and 116.0m that returned assays of 367 g/t silver over 2m and 795 g/t silver over 2m respectively.

The C-S-D vein systems have a known strike length, in mine workings of nearly 1.8 km in two systems of veins; the 240º-260° striking Concordia-San Gregorio vein and the 260°-270º striking Dolores splay. Both veins dip from 60º southward to near vertical. The C-S-D systems are composed of carbonate to quartz-sulfide veins and varies in width from tens of centimeters up to 1.5m. The Concordia vein can be traced in shafts and mine workings for approximately 600m to the southwest of the San Gregorio arroyo. The San Gregorio vein can be traced in some small open cuts for about 500m to the northeast. Surface samples from 10 to 40 cm wide calcite to quartz veins with oxides returned silver assays of up to 954 g/t.

The Dolores vein, interpreted to be a splay of the Concordia vein, strikes at 260º to 270° and is traceable for nearly 500m on surface by numerous small open cuts and at least five shafts. A stockwork zone of thin calcite to quartz and oxides veinlets in the hanging wall extends on surface for up to 250m across strike from the main vein and along strike for an additional 350m from the last workings on the vein. Surface samples of some of the thin stockwork veinlets from this zone returned silver assays of up to 553 g/t. The Concordia and Dolores veins appear to intersect to the west of the Rosario Shaft in an area of abundant calcite and lesser quartz veinlets. This area was evaluated on the surface by two long trenches separated by 85m, with 2m wide channel samples collected 10 to 20 cm below the surface.

The Santa Rita vein system, located in southern portion of the Property, strikes 230° to 260° and can be recognized in shafts and in short drifts for over 500m. Last production during 1970-1985 came from the lower levels of the mine which was deepening to 9 levels reaching a depth of 282m. The Santa Rita vein contains a series of veinlets in the footwall that form a wide stockwork zone in an area of 100 x 100m centered on a small silica altered hill north of the main Santa Rita drift. Quaterra hole QTA-16 tested the vein at a depth of 350m and intercepted a 3.1m interval that averages 71.44 g/t silver, 0.56% lead and 0.91% zinc. QTA-37 also appears to have cut the Santa Rita vein system at 416m depth where it encountered a 5.90m zone that averaged 104 g/t silver, 0.23% lead, and 0.55% zinc.

Various small pits and drifts sunk on calcite-manganese-oxides breccias and stockwork veinlets hosted in volcanic rocks occur 1 km east of the C-S-D vein systems on the eastern side of the Nieves Property. The stockwork zone is flanked to the north and south by two breccia structures formed by sub-angular volcanic fragments in clay altered sandy groundmass with irregular ferroan calcite and manganese oxides of possible hydrothermal origin.

Exploration and Drilling Results

Quaterra and the Quaterra/Blackberry JV have drilled 130 holes on the Nieves project since initiating work on the property in 1999. The Concordia vein system has been the target of most of the drilling on the Nieves project. From 2004 through 2008, the drilling program focused largely on defining the lateral and down dip extents of the Concordia system and defined a series of sub-parallel veins and veinlets that occur over a strike length of at least 1,100m. The 2007 and 2008 drilling was successful in defining both high-grade vein and potential bulk-mineable silver mineralization along the Concordia vein system over a horizontal distance of 400m, a depth of 150-200m and an average true thickness of 40m. The mineralization remained open to the east and west. Ten intercepts over 1 kg Ag were intersected in the drilling program. Four hundred and nineteen samples reported silver grades greater than 60 g/t (~ 2 ounces).

In 2009 and 2010, drilling at Nieves focused on the definition of continuity of the higher grade Ag mineralization. Prior to the completion of the updated NI 43-101 compliant independent resource estimate on August 10, 2010, the program completed 6,118.7m of drilling in 29 holes targeting the La Quinta stockwork veinlet deposit, a series of veins and veinlets located along the Concordia-Gregorio Vein. The purpose of the program was to infill the core area of the known deposit for 200 meters along strike and up to 200 vertical meters below surface. Holes were drilled on 25-meter centers between existing holes drilled on 50-meter centers. The La Quinta stockwork deposit remains open along strike and at depth.

Holes QTA-96 through QTA-108 all intersected relatively shallow zones of continuous silver mineralization in the La Quinta zone ranging between 30 and 70 meters in thickness and between one and three ounces in grade. Eight of these holes contain narrower intervals of higher grade silver mineralization ranging between 15 and 38 meters in thickness and 3.2 to 9.5 ounces in grade. Two holes (QTA-109 and QTA-110) tested shallow mineralization in the La Quinta and Arroyo Gregorio zones respectively.

The 2009-2010 drilling program delineated a strong continuity of silver mineralization along strike and down dip. An induced polarization/resistivity (IPR) survey conducted on the Nieves property during May and August, 2010 indicates a continuation of mineralization well beyond the extent of current drilling. The survey totaled 36,300 meters in 27 lines that covered each of the target areas including C-S-D vein system, Santa Rita vein system, California vein system and two additional target areas; the Manto-1 target and the El Rosario mercury occurrence.

The IPR method is commonly used to map relatively low concentrations of metallic sulfides including pyrite, chalcopyrite, and other metallic minerals. The method is capable of detecting volume percent sulfides as low as 2-3 volume percent. The volume detectable is dependent on the depth of the target volume and the length of the dipole used in the survey. At Nieves the volume of metallic sulfides is generally in the 2-3 percent range and these sulfides are generally found to be in relatively close proximity to the veins, rather than being widespread throughout the area.

Following a successful test of the method over an area of strong, shallow silver mineralization in the La Quinta stockwork zone, fourteen lines were completed over the Concordia, San Gregorio and Dolores veins at 200m intervals. The survey results clearly indicated that the Concordia and San Gregorio are two separate veins; not fault offsets of the same vein, and that strong anomalies along strike to the east and west on both veins have not been drilled. Each of the three vein systems was found to have discrete zones of anomalous IP response exceeding 40 milliradians over a strike length exceeding 1000m. Background IP response is generally less than 10 milliradians and in many areas of Nieves less than 5 milliradians.

Additional IPR was completed on the Santa Rita (4 lines spaced 400 meters apart) and California (4 lines spaced 200 meters apart) vein systems, and two (2) lines were completed over the El Rosario mercury pit. The four lines over the Santa Rita vein indicate a zone of anomalous IP response exceeding 40 milliradians extending eastward a distance of 1,000 meters from the historic mine at Santa Rita. Each of four lines surveyed on the California vein show an anomalous response exceeding 40 milliradians. The anomalies represent a strike length exceeding 600 meters, and extending 400 meters west from the nearest historic drill holes and at least 50 meters east of previous drilling. The two lines surveyed at El Rosario indicated narrow zones of weakly anomalous IP response.

The Quaterra/Blackberry JV drilled an additional 19 holes prior to the end of 2010 to evaluate the numerous untested induced polarization (IP) anomalies identified at Nieves. Eight holes testing the Gregorio North vein (QTA 112-118, QTA 122) traced the vein for an additional 500 meters to the west. The vein now has a known strike length of approximately 1,000 meters. The two best holes (QTA 115-116) are on the extreme east end and are anticipated to be offset further eastward. The decrease in grade and thickness to the west (QTA 122) also is anticipated to be evaluated with further drilling.

Three holes (QTA 119-120, QTA 123) drilled west of the La Quinta zone tested the Concordia West vein. The program intersected significant mineralization and demonstrated that La Quinta remains open in this direction. Hole QTA 123 contains 78.1 meters of 69 g/tonne silver beginning at a downhole depth of 103.6 meters, including a 13.85 meter interval averaging 290 g/tonne silver (8.5 oz/ton).

Three holes tested the California vein (QTA 127-128 and QTA 130) and demonstrated that silver mineralization continues over a minimum distance of 350 meters. Hole QTA 130, near the east end of known mineralization, intersected several zones of shallow, stockwork style mineralization, including eight meters of 79 g/tonne silver beginning at a depth of 22 meters. Additional drilling is anticipated to be necessary to determine if the vein continues westward beyond this hole.

Sampling, Analysis and Security of Samples

Quaterra and Quaterra jointly with Blackberry have drilled 130 holes on the Nieves property. All but 10 holes completed by Quaterra in 1999-2000 were core holes. Major Drilling of Mexico S.A. de C.V. was the drill contractor for drill programs completed during 1999 to 2006 and B.D.W. International Drilling of Mexico S.A. de C.V. has been the drilling contractor since 2006.

Drill hole orientations are generally perpendicular to the strike of the overall structural trend of the vein(s) targeted. In 2009-2010 the holes were drilled at an azimuth/inclination of 340°/-60°. HQ (63.5 mm) was the standard drill core diameter. NQ (47.6 mm) was used locally as an extension (a tail) where drill conditions were difficult. Drill hole locations are surveyed using a RTK Trimble (model R8), double frequency GPS with precision to 1 cm. Down-hole survey readings were recorded on average approximately every 50 or 100m depending on the length of the hole using an Eastman Single Shot instrument. Survey results have been corrected for magnetic declination (+9º).

All drilling is conducted under the supervision of Quaterra personnel. Core boxes were collected from the drill site 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. The drill core was washed and core recovery estimated. Rock types, alteration minerals, textural and structural features, 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 its original position and the core boxes were then stacked on racks and stored in order and by hole number in their core storage facility. Where the veins were coherent they were sawed in half perpendicular to the "grain" to get a representative split. 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 on the core trays.

Samples were then packaged into sealed sacks and taken by Quaterra employees to ALS Chemex Laboratories in Guadalajara for preparation. No employees, officers, directors or associates of Quaterra or Blackberry JV are involved in the preparation of the samples. After preparation the samples were then packaged into sealed sacks and taken by Quaterra employees to ALS Chemex Laboratories in Guadalajara for analysis.

Standard and blank samples were also included with the primary core samples for analysis. Standards were inserted directly into the sample sequence with a frequency of ~ 1 in 50. Blanks were inserted directly into the sample sequence with a frequency of ~ 1 in 25. The final prepared samples were shipped to the ALS laboratory in Vancouver, Canada for analysis. All samples were analyzed using a 41 element ICP method (ME-ICP41), in addition to analyzing gold and silver by standard fire assay (ME-GRA21). Lead and zinc values over 10,000 ppm and silver values over 100 ppm were re-assayed by atomic-absorption methods (ME-OG62). There are no known drilling, sampling or recovery factors that could materially impact the accuracy and reliability of the results. The sampling procedure is appropriate for the type of mineralization being assayed such that samples are representative and there is no sampling bias.

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. Samples are sent to ALS Chemex in Guadalajara for preparation using their PREP-32 procedure. Upon receipt samples are dried, weighed and crushed. Two hundred and fifty grams of material is split and pulverized to at least 85% passing 75 microns. Reject material is retained at ALS Chemex in Guadalajara.

Internal quality assurance and quality control (QA/QC) procedures such as the insertion of blanks and standards into the sample sequences were not utilized by Quaterra and Blackberry JV during initial phases of exploration. Routine analysis of standard reference material (standards) began in 2007 with the insertion of a commercially prepared standard. Duplicate sampling began in 2008, and continued through the 2009-2010 drill program. Duplicate samples were packaged and shipped using the same security protocols as the primary drill core samples and submitted to Skyline Assayers & Laboratories ("Skyline") in Tucson, Arizona. Skyline is ISO 17025 accredited including analyses for Au and Ag by fire assay (including gravimetric methods), which is the method of analyses used for the submitted samples. Samples were analyzed using fire assay – gravimetric finish method in addition to ICP.

Preliminary metallurgical testwork on the composite sample from the Nieves property was completed in June 2010 by G & T Metallurgical Services Ltd. Approximately 100 kg of coarse crush material was composited from reject core material from selected intervals in 12 holes drilled through the La Quinta mineralization in 2009-2010. The sample was determined to contain ~ 79 g/t Ag (theoretical grade of 83 g/t Ag). Freibergite was the major silver phase present in the sample. Ore hardness tests indicated that the sample was moderately soft with a Bond work index of 10.8 kWh/tonne. Open circuit floatation tests showed that~ 86% of the Ag can be recovered into a final concentrate with a grade of ~ 2.3 kg/tonnes Ag. Rougher tests suggested that Ag recovery was relatively independent of primary grind size between 67 and 104µm K_{80}. Additional testwork was recommended to investigate coarser primary grind sizes. Rougher tests also indicated that silver recovery could also be increased by using a collector such as EROPHINE 3418A which would increase the selectivity of Ag over pyrite. Open circuit cleaner tests suggest that regrinding the rougher concentrate to 20µm K_{80} had no significant benefit on silver metallurgy. However, increasing the pH of the cleaner circuit to 10 significantly improved the Ag grade in the final concentrate.

Mineral Resource Estimate

On August 10, 2010 CCIC completed an updated NI 43-101 compliant independent resource estimate for Nieves silver property incorporating the 2009-2010 drilling program results. The updated resource estimate for the San Gregorio North zone was just over 4 million tonnes of Inferred Mineral Resources with an estimated grade of 79.4 g/t Ag and 0.15 g/t Au equating to almost 10.25 million ounces of Ag and over 19,000 ounces of Au. Resources estimated for the La Quinta zone include almost 4.6 million tonnes of Indicated Mineral Resources averaging 103.4 g/t silver (~15.26 million Ag ounces) and 0.10 g/t Au in addition to just over 10.5 million tonnes of Inferred Mineral Resources grading 85.5 g/t Ag (~ 28.9 million Ag ounces) and 0.08 g/t Au.

Current Indicated and Inferred Mineral Resources for the Concordia and San Gregorio vein systems reported at a 45 g/t Ag cut-off grade (base case)[1] are shown in the table below:

Vein	Zone	Resource Class	Tonnes (t)	Au (g/t)	Ag (g/t)	Au (oz) [2]	Ag (oz)[2]
Concordia	La Quinta	Indicated	4,590,000	0.1	103.4	14,757	15,259,171
Concordia	La Quinta	Inferred	10,516,000	0.08	85.5	27,048	28,907,758
San Gregorio	North	Inferred	4,005,000	0.15	79.4	19,315	10,223,998

[1]Tonnes have been rounded up to the nearest 1,000. Au is reported to 2 decimal places and Ag to 1 decimal place.
[2]1 troy ounce = 31.103 grams.

The resource estimate is based on the interpretation of 94 surface drill holes. The collar position, down-hole survey and assay data for these holes and samples are stored in an MS Access database. A digital terrain model was supplied by Quaterra and used to constrain the upper boundary of the resource estimate.

3D solid shapes surrounding the overall extents of the Ag and Au mineralization along the La Quinta (based on 83 drill holes) and San Gregorio (based on 11 drill holes) were constructed and used to constrain the tonnage and grade estimation. An additional 3D solid was constructed representing the higher grade portion of the La Quinta mineralization (based on 50 of 83 drill holes) and also used in the estimation process. GEMCOM's SurpacVision software V.6.1.3 was used to generate the 3D model and perform the grade estimation.

Two meter composites were produced from the assay data within the 3D ore solid. Intervals less than 2m were composited near the contacts where sample length was equal to 0.02m (1% of the maximum composite length). The QA/QC review indicated that the repeatability associated with higher grade Ag and Au values was good and the coefficient of variation is close to or below 1.2, and therefore no top cut was applied to the model.

A variety of classification parameters were evaluated for the classification. The maximum average distance between sample pairs deemed acceptable for classification of Indicated Mineral Resources was 60m. Above this value there is a significant increase in estimated tonnages that is not as well supported by the data. If the average distance between sample pairs used in the estimate was greater than 60m but less than or equal to 180m the blocks were classified as Inferred Mineral Resources.

The current Indicated and Inferred Mineral Resources of the Concordia and San Gregorio North veins, reported at various Ag ranges (g/t) [1] are shown in the following table:

Ag Range (g/t)	Vein	Zone	Classification	Tonnes (t)	Au (g/t)	Ag (g/t)	Au (oz) [2]	Ag (oz) [2]
> 15.0	Concordia	La Quinta	Indicated	7,717,000	0.09	72.8	22,330	18,062,489
	Concordia	La Quinta	Inferred	31,019,000	0.06	46.6	59,838	46,474,147
	San Gregorio	North	Inferred	17,158,000	0.11	37.1	60,682	20,466,251
> 30.0	Concordia	La Quinta	Indicated	5,810,000	0.09	89.5	16,812	16,718,484
	Concordia	La Quinta	Inferred	17,291,000	0.07	66.4	38,915	36,913,558
	San Gregorio	North	Inferred	6,999,000	0.14	60.8	31,504	13,681,613
> 45.0	Concordia	La Quinta	Indicated	4,590,000	0.10	103.4	14,757	15,259,171

Ag Range (g/t)	Vein	Zone	Classification	Tonnes (t)	Au (g/t)	Ag (g/t)	Au (oz) [2]	Ag (oz) [2]
	Concordia	La Quinta	Inferred	10,516,000	0.08	85.5	27,048	28,907,758
	San Gregorio	North	Inferred	4,005,000	0.15	79.4	19,315	10,223,998
> 60.0	Concordia	La Quinta	Indicated	3,625,000	0.11	117.0	12,820	13,636,144
	Concordia	La Quinta	Inferred	6,319,000	0.09	107.8	18,285	21,901,045
	San Gregorio	North	Inferred	2,608,000	0.16	94.3	13,416	7,907,096
> 75.0	Concordia	La Quinta	Indicated	2,757,000	0.13	132.6	11,523	11,753,792
	Concordia	La Quinta	Inferred	3,734,000	0.11	136.3	13,206	16,363,187
	San Gregorio	North	inferred	1,792,000	0.17	107.1	9,795	6,170,569
> 90.0	Concordia	La Quinta	Indicated	2,057,000	0.14	149.8	9,259	9,907,038
	Concordia	La Quinta	Inferred	2,506,000	0.12	163.1	9,669	13,141,131
	San Gregorio	North	Inferred	1,383,000	0.17	114.6	7,559	5,095,708
> 120.0	Concordia	La Quinta	Indicated	1,106,000	0.16	189.8	5,689	6,749,150
	Concordia	La Quinta	Inferred	1,454,000	0.14	206.6	6,545	9,658,117
	San Gregorio	North	Inferred	460,000	0.17	137.8	2,514	2,038,003
> 150.0	Concordia	La Quinta	Indicated	655,000	0.19	229.0	4,001	4,822,525
	Concordia	La Quinta	Inferred	904,000	0.15	251.2	4,360	7,301,058
	San Gregorio	North	Inferred	72,000	0.19	169.4	440	392,142

[1]Tonnes have been rounded up to the nearest 1,000. Au is reported to 2 decimal places and Ag to 1 decimal place.

[2]1 troy ounce = 31.103 grams.

Measured resources could not be estimated for the La Quinta and San Gregorio North zones because metallurgical testing is only in the preliminary stages and drill spacing is still considered too broad to confidently estimate. Material was reclassified from Indicated to Inferred Mineral Resource category in areas where the classification was supported by only one drill hole. The classification of material in the area of the historic Concordia mine was also reduced in its classification because the actual 3D location and extents of the workings are not accurately known. Based on a historic long section circa 1954, development appears to have been completed down to 200m below surface, and mining carried out only to approximately 100m depth.

A conceptual analysis of the resource model using mine planning software assisted the development of an appropriate exploration program to advance the Nieves Project. Gemcom Whittle software was used in this process with conceptual costs forecast by Quaterra, the mineral resources (Indicated and Inferred) and two (2) pit slopes (45 and 50°) to create a number of scenarios. The resulting pit shells were examined in 3D and drill holes proposed that would test the area between the shells, along strike outside the shells and potentially upgrade Inferred Mineral Resources to the Indicated classification.

The analysis clearly showed that the La Quinta zone needs additional drill testing in the area between the shells to potentially upgrade the Inferred Mineral Resources to Indicated and that additional drill testing should be completed along strike (both directions) of the extents of the larger conceptual pit to potentially increase the tonnage of the Ag mineralization. Similarly, drilling needs to be completed along strike, in both directions of the San Gregorio Zone to determine the extent of the mineralization that occurs along this trend. Drilling also needs to be closer spaced in the area drilled in the last exploration program to potentially increase to resource class from Inferred to Indicated.

Specific recommendations by CCIC for the Nieves project include step out drilling to close off the strike extent of the Concordia and San Gregorio vein systems and infill drilling to upgrade mineral resource classification in San Gregorio North and to the SW of the high grade La Quinta resource. Additional recommendations include drill testing geophysical anomalies in the Dolores, Santa Rita, California and Orion areas and a continuation of metallurgical test work on the Concordia and the San Gregorio mineralization with additional specific gravity determinations to more accurately estimate the deposit tonnage along both vein systems.

Future Work Plans

Quaterra's current drilling program is anticipated to complete six to eight additional holes to test open-ended mineralization on the Concordia, Gregorio North and California veins. Future work on the program is anticipated to require infill drilling to upgrade mineral resource classification in San Gregorio North and to the SW of the high grade La Quinta resource and drill testing several geophysical anomalies that may represent extensions to existing zones or new targets to add to the silver resources of the Nieves property. A scoping study has also been initiated to evaluate the open-pit potential of the existing resource.

MacArthur, Nevada, USA

Acquisition and Staking of Copper Claims

The MacArthur property consists of 409 unpatented lode claims totaling approximately 8,450 acres on lands administered by the US Bureau of Land Management ("BLM"). The claims are held by means of a mineral lease with option to purchase, executed on August 27, 2005 and subsequently amended. The agreement gives Quaterra the right to purchase the claims from North Exploration LLC ("North") by making 3 annual payments of $524,000 (option balance) plus interest at the rate of 6% per annum by January 15, 2013. The first of these three annual payments was paid January 11, 2011. Quaterra's purchase is subject to a two percent Net Smelter Return (NSR) royalty with a royalty buy down option of $1,000,000 to purchase one percent of the NSR, leaving a perpetual one percent NSR. The agreement with North Exploration is in good standing.

Expenditures to Date

Acquisition costs incurred by the Company to December 31, 2010 were $1,731,5000 (2009 - $1,069,819) and exploration expenditures were $10,820,796 (2009 - $8,299,960) for a total of $12,552,296 (2009 - $9,369,779).

Location, Access and Infrastructure

The MacArthur Copper Property is located near the geographic center of Lyon County, Nevada, USA along the northeastern flank of the Singatse Range approximately seven miles northwest of the town of Yerington, Nevada. The property is accessible from Yerington by approximately five miles of paved roads and two miles of maintained gravel road. A 100-foot wide gravel haul road that accessed the MacArthur open pit copper mine during the 1990s leads 5 miles south to the Yerington Mine. Beyond the MacArthur pit area are several existing historic two-track dirt roads that provide access throughout the property. Topographic coverage is on US Geological Survey "Mason Butte" and "Lincoln Flat" 7.5' topographic quadrangles. The nearest major city is Reno, Nevada approximately 75 miles to the northwest.

History

The MacArthur project has been the subject of exploration and drilling by several operators who have contributed to the current database of more than 590 holes totaling approximately 200,000 feet. During the late 1940s, Consolidated Copper Mines attracted the interest of the US Bureau of Mines to conduct 7,680 feet of trenching in 1948 and followed up with the completion eight core holes for 3,414 feet in 1950. The Anaconda Company ("Anaconda") began investigations at MacArthur including 33 shallow drill holes during 1955, 1956, and 1957. In 1963, Bear Creek Mining Company ("Bear Creek") optioned claims and drilled at least fourteen air rotary holes, the deepest to 663 feet. At least four holes for 1,237 feet were drilled to satisfy claim staking location work. During 1967 to 1968, The Superior Oil Company optioned the claims formerly held by Bear Creek and drilled eleven holes as rotary pre-collar, core finish, for 13,116 feet testing the concept that a deep primary sulfide-bearing porphyry copper ore shell might underlie the MacArthur oxide mineralization heretofore tested no deeper than 663 feet. During the early 1970s, Anaconda conducted an extensive trenching and rotary drilling program consisting of more than 280 rotary holes totaling approximately 56,000 feet over and adjacent to the present day MacArthur pit.

Metech Pty. Ltd., of Perth, Australia was commissioned 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 that initiated the purchase of the Anaconda Yerington district properties by Arimetco International (“Arimetco”). 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. 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. No consistent, large-scale mining has occurred on the site.

Quaterra acquired the MacArthur property in August, 2005. The acquisition was motivated by the obvious potential of the property to host a copper deposit capable of sustaining a large run-of-mine heap leach operation using a solution extraction/electrowinning (SXEW) process for low cost production. The Company initiated exploration drilling in April 2007 and by September 2010, completed a total of 122,100 feet of drilling in 249 holes on the property. The drilling program defined a widespread blanket of acid soluble copper oxide and chalcocite mineralization above primary copper mineralization that is believed to be the fringes of a major copper porphyry system.

Geology

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 Yerington area is underlain by early Mesozoic volcanic and sedimentary rocks now exposed along uplands in the Singatse Range in the west and the Wassuk Range to the east. These Mesozoic rocks were intruded by two Middle Jurassic batholiths, an older granodiorite (Yerington Batholith) and younger quartz monzonite (Bear Quartz Monzonite) that comprise the majority of outcropping rocks in the district. The batholiths were themselves intruded by another Middle Jurassic quartz monzonite event moderately to steeply north dipping quartz-biotite-hornblende porphyry dike swarms, associated with copper mineralization, striking north-northwesterly across the entire mining district. The Mesozoic section is overlain by Early to Middle Tertiary volcanics deposited ash flow tuffs prior to the advent of normal, faulting associated with Late Tertiary basin-and-range extension that 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. The geologic section is completed by post-faulting conglomerates and alluvium section.

At MacArthur, the older granodiorite underlies most of the northern and western parts of the Company’s claim block. Along the east part of the claim block quartz monzonite is dominant and underlies the MacArthur pit. In bench walls at the MacArthur Pit, the quartz monzonite hosts conspicuous light brown limonite alteration banding (averaging 4 to 6 per foot) sub-parallel to the steeply north dipping, west-northwest trending quartz porphyry dikes. Along the eastern portions of the property, including the eastern third of the MacArthur pit, quartz monzonite assumes a light gray color due to widespread sodic-calcic alteration. A “border-phase quartz monzonite” commonly lies at the contact between the granodiorite and the quartz monzonite. The border-phase quartz monzonite is finer-grained than the quartz monzonite and has more abundant potassium feldspar.

Quartz porphyry dikes that host a large portion of the primary copper mineralization at Anaconda’s Yerington mine are associated with all copper occurrences in the district. The porphyry dikes at MacArthur are classified by dominate mafic minerals into quartz biotite porphyry and quartz hornblende porphyry, each subdivided further based on composition and alteration. Dikes contain feldspar crystals and either hornblende or biotite crystals set in an aphanitic matrix. The structures are typically ridge-formers with widths to 50 feet, dip steeply to the north, and follow a penetrative north-northwest (S60°E to S80°E) structural fabric. Narrow (<10 feet) fine grained, post porphyry andesite dikes follow the same NNW structural fabric.

Both Jurassic and Tertiary age andesite dikes in the walls of the MacArthur Pit can be traced from bench to bench and projected across the pit floors. The Jurassic dikes are commonly very fine grained, dactylitic plagioclase-bearing porphyries that pinch and swell as they fill fractures and intrude the hornblende and biotite quartz porphyry dikes. Tertiary hornblende andesite dikes are similar, but coarser grained than the Jurassic andesite dikes, containing abundant, acicular, black hornblende phenocrysts and occasionally plagioclase phenocrysts. Mid-Tertiary ash flow tuff units unconformably overlay the Mesozoic intrusive rocks in the southeast and western margins of the property.

Mineralization

The MacArthur deposit is part of a large, partially defined porphyry copper system that has been complicated by complex faulting and possible post-mineral tilting. Events leading to the current geometry and distribution of known mineralization include 1) emplacement of primary porphyry copper mineralization; 2) supergene enrichment resulting in the formation of a widespread, tabular zone of secondary chalcocite mineralization below outcrops of totally oxidized rocks called a leached cap; 3) oxidation of outcropping and near-surface parts of this chalcocite blanket, as well as oxidation of the primary porphyry sulfide system coupled with partial remobilization of copper to form the upper zone of oxide copper now exposed in the MacArthur pit and throughout the MacArthur property. Oxide, chalcocite, and primary copper mineralization on the MacArthur property is hosted in both granodiorite and quartz monzonite, and in lesser amounts within quartz biotite-hornblende (monzonite) porphyry dikes all of middle Jurassic age. Oxide copper is also hosted in northwest striking andesite dikes less than one to ten feet wide with contacts as favorable loci for mineralization. Andesite dikes make up less than approximately one to two percent of the host rocks on the property. Fracturing and ground preparation supplied the passage ways for the copper to migrate.

Copper oxide minerals are exposed throughout Quaterra's MacArthur property, particularly in MacArthur pit walls as primarily green and greenish-blue chrysocolla CuSiO3.2H20 along with black neotocite, aka copper wad (Cu, Fe, Mn) SiO2, azurite Cu3(OH2)(CO3) and malachite Cu2(OH2)CO3, while tenorite (CuO) was identified with the electron microprobe (Schmidt, 1996). Copper-enriched limonite was identified by Anaconda as the mineral delafossite (CuFeO2). Chalcocite has been identified in drill holes below the MacArthur pit and in drilling throughout the property. The sulfides digenite (Cu9S5) and covellite (CuS) have been identified petrographically in drill cuttings from the western part of the property. The oxide copper mineralization is strongly fracture controlled, coating joint and fracture surfaces and within shears and faults. Both green and black copper oxides are frequently found on 1-5 millimeter fractures, as coatings and selvages and may be mixed with limonite. The fractures trend overall N60°W to N80°W (bearing 300° to 280° azimuth) and generally dip to the north. Limited turquoise is found on the property, mainly in one- to five-millimeter veinlets. On a minor scale, oxide copper mineralization replaces feldspar phenocrysts in the igneous host units, favoring andesite.

A significant amount of chalcocite has been intersected in drillholes. Chalcocite is seen on drill chips or drill core coating pyrite and chalcopyrite as weak to strong coatings and is strongest when occurring around the MacArthur fault. Chalcopyrite is present as disseminations and veinlets, with or without chalcocite. As much of the historic drilling was stopped at shallow (<400 foot) depths, the scope and extent of chalcopyrite mineralization have not been fully defined.

Both copper oxide and chalcocite mineralization occur over approximately 9,000 feet east-west by 4,500 feet north-south. Copper oxides are structurally controlled coating fractures, joint surfaces, and developed as green or black "streaks" within shears and faults over several feet. Chalcocite may similarly be seen as grayish "streaks" within shears. Oxide mineralization occurs as a general, flat-lying geometry extending with good continuity 150 feet below surface and less continuously up to 600 feet below surface. Chalcocite mineralization generally forms as flat-lying 50 feet or more in thickness, mixed with or below oxide mineralization.

Primary chalcopyrite mineralization occurs irregularly with chalcocite and as porphyry style disseminations or as veinlets in quartz monzonite associated with potassic alteration below both the oxide and chalcocite mineralization. Quaterra's drilling program in the Gallagher area has delineated a zone of chalcopyrite mineralization that extends over a north-south distance of 2,500 feet. The primary sulfide zone has a defined width of 500 feet and extends to a depth of approximately 650 feet. At the North Porphyry Target, a single drill hole, QM-100, intersected 0.58 percent Cu over 65 feet as veinlet and disseminated primary chalcopyrite mineralization, open in all directions.

Exploration and Drilling Results

Quaterra 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 was used to assess the required drilling and sampling to complete a technical report on the MacArthur Project with the objective of preparing a 43-101 compliant resource estimate.

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 suggested that the MacArthur deposit could have a significant potential for growth; both in the form of copper oxides and as primary sulfides in a related porphyry system.

In April 2007, the Company commenced a 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 also included 5 deep core holes to investigate the potential for primary copper mineralization in relation to a primary copper porphyry system at depth.

The 20-month drilling program totaled 80,100 feet in 173 holes including 23,900 feet of core in 49 holes and 56,200 feet of reverse circulation drilling in 124 holes. Although limited to a maximum disturbance of 5 acres under a Notice of Intent permit, the program was designed to maximize the use of existing roads and disturbances. The drilling successfully targeted a deeper chalcocite zone in step-out holes from the pit, expanded the known oxide mineralization, and encountered a large, underlying tabular blanket of mixed oxide-chalcocite mineralization that overlies primary chalcopyrite mineralization verified by deeper drillholes in the western and northern margins of the drilled area.

Drilling on the MacArthur project was suspended through most of 2009 pending receipt of a Plan of Operations (POO) drilling permit. On October 28th the Company received the approval of the MacArthur POO and the BLM Record of Decision with a Finding of No Significant Impact (FONSI). The POO environmental assessment anticipates a total surface disturbance of 200 acres as a result of drilling activities throughout much of the project area.

A helicopter-borne aeromagnetic survey conducted over the project early in 2008 coupled with an inversion of historical IP data indicated high magnetic anomalies at the southwest and northeast margins of the drilled areas. During the period mid-November, 2009 to mid-December, 2009, Zonge Engineering of Reno, Nevada, was contracted to extend the IPR coverage in all directions including to greater depths from that of the historic IP survey. The survey consisted of 7 north-south lines of which 4 lines were surveyed using the pole-dipole array and 3 employed the dipole-dipole method. A total of 14.7 miles were surveyed in the program.

At shallower depths, the new IPR survey results compared favorably with the historic IP data, but the older data could not be used to effectively resolve the bottom of the IP anomalies nor determine if any of the anomalies extend to great depths. The 2009 IPR survey shows the top surface of the stronger IP anomalies in the central project area occur at an elevation of 4,400 feet (depth below surface of 300-400 feet). Many of these zones of anomalous IP response have not been tested with deeper drilling since the initial focus has been to delineate and extend the oxide copper/chalcocite mineralized zone. Several shallow holes drilled above the zones of anomalous IP response have intersected significant chalcocite and chalcopyrite near the bottom of these holes. The IP anomaly within the existing MacArthur pit extends to a significant depth and has not been tested with any drill holes. This is a high priority target in the exploration for high grade primary-sulfide ore.

The new survey also defined deep moderate-strong to strong IP anomalies in North Porphyry target and the Gallagher area that are coincident with magnetic highs. The North Porphyry target has been tested by a total of 12 drill-holes exceeding a depth of 750 feet and 2 holes exceeding 1,500 feet. Although several intersected primary-sulfide porphyry copper mineralization, the strongest IP anomalies with coincident magnetic highs have not yet been tested by drilling. Similarly, the northern edge of the Gallagher target has a number of strong IP anomalies of which only drill-hole QM-049 tested the south edge of this zone.

Alteration and copper mineralization as well as zones of coincident high magnetic susceptibility and IP response continue to the contact with the post-mineral Tertiary volcanic front in the western portion of Quaterra's claim block. The new IPR survey identified two areas, northwest and north of the Gallagher deposit that represent the best chance for mineralization to be found beneath the volcanic rocks at reasonable depths. Moderate IP anomalies have been detected in both areas and further work including advanced modeling using a 'constrained' 3d inversion of the magnetic data is planned early in 2011 in an attempt to 'see' below the highly magnetic volcanic rocks.

Quaterra initiated a second phase of reverse circulation and deep core drilling in early December 2009. Completed in August 2010, the program included a total of 37,418 ft. of R/C drilling in 73 holes and 4,550 ft. of drilling in 3 deep core holes. The drilling program tested the northern extension to higher grade acid soluble copper mineralization on 500 foot centers northwest of the pit (where QM-60 intercepted 260 ft. averaging 0.38% Cu at a depth of 140 ft.) and in-filled on 500 ft centers an undrilled area west of the pit (where QM-67 intercepted 50 ft. averaging 0.42% Cu at a depth of 175 ft.). In the southern Gallagher area, the program confirmed a band of continuous near surface oxide mineralization ranging in thickness from 15 to 60 feet over a distance of 1,900 feet between holes QM-155 and 156. Hole QM-141 intercepted 60 feet of 0.33% TCu from 0 to 60 feet.

The 2009-2010 drilling program included three deep holes to test three of five prospective IPR anomalies to the north and northwest of the MacArthur pit. The North Porphyry Target was identified by three earlier Quaterra drill holes that intersected ore grade porphyry copper style sulfide mineralization below the low-angle MacArthur fault zone over a strike length of 1,000 feet. The results of the early program included 1.19% copper over a thickness of 110 feet at a depth of 485 feet in QM-68, an intercept averaging 0.82% copper over a thickness of 60 feet at a depth of 420 feet in QM-70 and a thickness of 15 feet averaging 1.20% copper at a depth of 770 feet in hole QM-72.

The geology and the new geophysical data in the northern MacArthur project area were combined to select three targets for core drilling with rotary pre-collars. Hole QM-100, located 1,400 feet north of QM-68, intercepted porphyry-style chalcopyrite/biotite-chlorite veining at a depth 1,203 feet that assayed 0.58% copper over a thickness of 65 feet below the shallow-dipping MacArthur fault zone. QM-109, spotted on an IPR anomaly, failed to reach projected depth due to fractured, caving ground while QM-99 intersected massive pyrite impregnated breccia and scattered zones of secondary biotite and chlorite alteration; common elements of a porphyry system.

The North Porphyry target, now supported by significant intercepts in four drill holes over an area of 3000 feet by 1000 feet, remains open in three directions and to depth. Four IPR targets, located north or west of the existing drilling, have yet to be tested. Significant porphyry-style alteration including potassic feldspar flooding-pyrite veining, particularly around the ore intercept of hole QM-100, indicate that Quaterra's exploration program is penetrating the margins of a previously unrecognized porphyry center.

Future Work Plans

Quaterra's future plans for the MacArthur project include; infill drilling to upgrade the status of existing resources, step-out drilling to delineate the outer margins of the deposit, deep drilling to explore for primary copper sulfide mineralization, and large diameter (PQ) core drilling to obtain adequate sample material for metallurgical leach column tests. Data from these programs will be incorporated into a preliminary scoping study to guide additional definition drilling on the project. In addition to initiating mine planning and baseline environmental studies, continued surface geologic mapping, and securing adequate supplies of water and power will be required for the project to proceed toward feasibility.

Sampling, Analysis and Security of Samples

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

At the core storage/logging facility, 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.

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 34 elements. The acid soluble copper oxide (asCu) content of the sample is then analyzed by using a weak, sulfuric acid solution leach of a 1 gram pulp. The acid leachable copper sulfide content is analyzed by using ambient temperature concentrated sulfuric acid and hydrated ferric sulphate to determine Ferric Sulfate Soluble Copper (FSCu) content. Internal quality assurance and quality control procedures include the insertion of standards and duplicates into the sample sequences. Rejects from the previously analyzed samples are also 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 hole number. Reject and pulps are also returned with the core to the Yerington facility for archiving.

American Assay Laboratories (AAL) located in Sparks, Nevada prepared and assayed samples from the MacArthur drilling program in 2007. AAL is ISO/IEC 17025 certified and participates in CANMET, PTP MAL certification analyses twice a year and in GEOSTATS, SMA, and IOAG testing twice a year. Core samples from subsequent programs have been prepared and analyzed by ISO17025 compliant ALS Chemex Laboratories in Sparks, Nevada and Skyline Assayers and Laboratories (Skyline) in Tucson, Arizona.

The MacArthur reverse circulation drilling program is supervised in the field by the project geologist for sample accuracy, proper handling and accuracy in labeling. Methods and procedures for splitting and packaging of samples are conducted such that the quality of the sample splitting meets or exceeds standards required under NI 43-101 and a chain of custody starts with the drillers collecting, splitting and bagging of RC drill cuttings.

For logging of drilled lithologies, a continuous chip sample is collected in a plastic chip tray over five foot intervals and stored for logging by the project geologists. A 5/16 continuous split of five foot sample intervals is collected for assaying from 5.2 inch diameter drill holes through a wet splitter mounted on the rig. The samples are placed in sample bags and transported from the drilling rig to the Company's storage facility in Yerington at the end of each 12 hour shift. The samples are then inventoried by Company personnel, dried, placed on pallets, wrapped in plastic and shipped via United Parcel Service to the Skyline laboratory in Tucson, Arizona for sample preparation and assaying. Rejects and pulps are returned to the Yerington facility for archiving.

Skyline Assayers & Laboratories is accredited by the American Association for Laboratory Accreditation (A2LA -certificate no. 2953.01) in the Chemical field of Testing. Skyline is a recognized industry leader for all types of base metal, ferrous and non-ferrous analysis including high quality ore-grade assays, sequential copper analyses of ores, and umpire assays of metallurgical products. The Tucson laboratory has provided analytical service to the copper mining industry for over 70 years.

At Skyline, the RC samples are crushed to plus 75% passing a -10 mesh, split and pulverized at the Skyline laboratories for assay using analytical techniques as described for the core drilling program. Internal quality assurance and quality control procedures include the insertion of standards into the sample sequences. Rejects from the previously analyzed samples are sent to ALS Chemex Laboratories in Sparks, Nevada for check assays.

Mineral Resources

Tetra Tech, Inc. of Golden, Colorado completed an updated NI43-101 compliant independent resource estimate and technical report for the MacArthur Copper Project in January 2011. The Tetra Tech estimate gives the MacArthur project a measured and indicated oxide/chalcocite resource of 143.72 million tons averaging 0.192% total copper (TCu) that contains 551.6 million pounds of copper, an inferred oxide/chalcocite resource of 215.0 million tons averaging 0.197% TCu that contains 846.8 million pounds of copper, and an inferred primary sulfide resource of 74.1 million tons averaging 0.256% TCu that contains 379.5 million pounds of copper. The tables below present a summary of measured, indicated and inferred resources of the MacArthur project at various cutoff grades.

MEASURED COPPER RESOURCES
MACARTHUR COPPER PROJECT –YERINGTON, NEVADA
December 2010

	Cutoff Grade %TCu	Tons (x1000)	Average Grade %TCu	Contained Copper (lbs x 1000)
Oxide and Chalcocite Material (MinZone 10 and 20)	0.50	381	0.584	4,452
	0.40	1,232	0.485	11,938
	0.35	2,299	0.433	19,896
	0.30	4,463	0.379	33,821
	0.25	9,899	0.320	63,294
	0.20	23,365	0.263	122,947
	0.18	30,914	0.245	151,664
	0.15	41,544	0.225	186,865
	0.12	48,337	0.213	205,432

INDICATED COPPER RESOURCES
MACARTHUR COPPER PROJECT –YERINGTON, NEVADA
December 2010

	Cutoff Grade %TCu	Tons (x1000)	Average Grade %TCu	Contained Copper (lbs x 1000)
Oxide and Chalcocite Material (MinZone 10 and 20)	0.50	797	0.620	9,886
	0.40	1,659	0.530	17,575
	0.35	2,386	0.482	23,006
	0.30	3,766	0.423	31,845
	0.25	7,777	0.344	53,521
	0.20	22,661	0.263	118,970
	0.18	35,409	0.236	167,272
	0.15	64,173	0.204	261,697
	0.12	95,384	0.181	346,053
Primary Material (MinZone 30)	0.50	6	0.577	69
	0.40	19	0.486	185
	0.35	38	0.428	325
	0.30	164	0.350	1,146
	0.25	353	0.309	2,179
	0.20	639	0.269	3,443
	0.18	1,046	0.238	4,987
	0.15	1,448	0.218	6,325

MEASURED+INDICATED COPPER RESOURCES
MACARTHUR COPPER PROJECT –YERINGTON, NEVADA
December 2010

	Cutoff Grade %TCu	Tons (x1000)	Average Grade %TCu	Contained Copper (lbs x 1000)
Oxide and Chalcocite Material (MinZone 10 and 20)	0.50	1,178	0.609	14,339
	0.40	2,891	0.510	29,511
	0.35	4,684	0.458	42,896
	0.30	8,229	0.399	65,667
	0.25	17,676	0.330	116,803
	0.20	46,027	0.263	241,918
	0.18	66,323	0.240	318,881
	0.15	105,717	0.212	448,663
	0.12	143,721	0.192	551,601
Primary Material (MinZone 30)	0.50	6	0.577	69
	0.40	19	0.486	185
	0.35	38	0.428	325
	0.30	164	0.350	1,146
	0.25	353	0.309	2,179
	0.20	639	0.269	3,443
	0.18	1,046	0.238	4,987
	0.15	1,448	0.218	6,325

INFERRED COPPER RESOURCES
MACARTHUR COPPER PROJECT –YERINGTON, NEVADA
December 2010

	Cutoff Grade %TCu	Tons (x1000)	Average Grade %TCu	Contained Copper (lbs x 1000)
Oxide and Chalcocite Material (MinZone 10 and 20)	0.50	4,967	0.820	81,479
	0.40	7,894	0.680	107,406
	0.35	10,776	0.598	128,773
	0.30	17,312	0.494	170,939
	0.25	30,740	0.397	243,953
	0.20	63,538	0.306	389,234
	0.18	84,685	0.277	469,155
	0.15	132,829	0.236	626,953
	0.12	215,043	0.197	846,839
Primary Material (MinZone 30)	0.50	6,482	0.564	73,143
	0.40	10,044	0.524	105,181
	0.35	10,904	0.512	111,657
	0.30	13,969	0.469	130,890
	0.25	28,347	0.370	209,995
	0.20	39,476	0.328	259,120
	0.18	51,363	0.297	304,685
	0.15	74,090	0.256	379,489

The resources quoted in the table above are based on a three-year average copper price of US$3.03 per pound. For the leachable, SX/EW recoverable resources a base case cutoff grade of 0.12 percent TCu has been applied. For the sulfide resources that would be recoverable by conventional flotation methods, a base case cutoff grade of 0.15 percent TCu has been applied. These cutoff grades have been developed based on average mining costs for similar sized operations and from cost estimation services, using a metallurgical recovery of 90% of the oxide copper grades for the SX/EW material and a metallurgical recovery of 88% for the conventional flotation material, and a smelter charge of US$0.50 per pound for processing conventional flotation concentrates.

The 2009-2010 drilling program added 8,547 copper assays to the 26,554 existing copper assays that were used in the 2009 report. The 2010 updated resource model used the same kriged estimation parameters as were developed and reported in the 2009 technical report, with the exception of the increase in the physical block model due to the new drilling, an update in the interpretation of the various mineralized zones and slight modifications in the search parameters for the inferred class.

The copper resources were estimated using whole block kriging techniques and oriented search ellipsoids based on the individual variograms and were then classified into measured, indicated, and inferred categories by a combination of jackknifing and kriging error analysis. The rock model was then assigned a tonnage factor based on the historic information that indicates an average in-place bulk density of 12.5 cubic-feet per ton. The individual blocks of the model measure 25 by 25 feet by 20 feet high.

The location of the various categories of resource blocks in the estimate reflects the density of drill holes on the project. Measured and indicated resource blocks are predominantly in or adjacent to the MacArthur pit where the drill hole spacing is the tightest. Inferred Mineral Resource trace the wider-spaced, 500 foot by 500 foot drilling pattern to the north and west of the pit. Several isolated areas containing indicated resource blocks are also estimated where one or more angle holes have been drilled from the same location in the wider spaced pattern.

The technical report concludes that significant potential for development of additional mineral resources are present within and adjacent to the current drill-hole pattern at MacArthur. The report recommends a completion of infill drilling to an approximate average drillhole spacing of 250 feet to allow re-classification of inferred category resources into measured and indicated categories in areas that are currently under-drilled and continued efforts to enlarge the oxide and chalcocite/oxide mix resource areas. The report concludes with a recommendation to continue the investigation of the potential primary sulfide mineralization at depth.

The Tetra Tech resource estimate is included with a description of the project history, geology, mineralization, sampling procedures, and laboratory Quality Assurance/Quality Control procedures. The NI43-101 Technical Report is available at www.sedar.com. The Qualified Person for the MacArthur Copper Project resource estimate and the technical report is Mr. John W. Rozelle, P.G., Principal Geologist for Tetra Tech, Golden Colorado

Yerington Porphyry Copper Mine – Nevada, USA

On May 1, 2007, the Company received the bankruptcy court approval for the acquisition by a subsidiary of Quaterra of all Arimetco assets in the Yerington Mining District, subject to the Company completing due diligence. The purchase price comprises US$500,000 cash, 250,000 of the Company's common shares and a 2% net smelter return royalty capped at US$7.5 million dollars on production from any claims owned by the Company in the Yerington and MacArthur mine areas.

Quaterra's review of the Arimetco assets in the Yerington Mining District has progressed slowly but steadily. The Chambers Group Inc. and Golder Associates Inc. completed a Phase I Environmental Site Assessment Report (ESA) in April of 2008 as part of the Company's due diligence. The purpose of this Phase I ESA is to identify conditions indicative of releases or threatened releases of hazardous substances. This report is essential to obtain requested environmental protections for past mining related activities.

Technical due diligence has concentrated on reviewing and compiling a wealth of historical data in the Anaconda Library in Laramie, Wyoming. To assist in the review, numerous reports, maps and historical drilling data have been scanned and entered into an internal data base. An initial review has been completed of both past production and remaining mineralization in and around the Yerington pit. The area contains significant under-explored potential for copper mineralization.

Although the process has been slow, the Arimetco assets merit the efforts required for acquisition. The Yerington mine is the center of a prolific copper district and can provide Quaterra not only with additional exploration targets but increased flexibility when considering production alternatives. Subject to successful completion of due diligence, Quaterra plans to explore the property as part of its ongoing exploration 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, including the large and only partially delineated Bear deposit.

Expenditures to Date

Acquisition costs incurred by the Company to December 31, 2010 were $2,100,233 (2009 - $1,659,336) and exploration expenditures were $839,354 (2009 - $739,824) for a total of $2,939,587 (2009 - $2,399,160).

Future Work Plans

Subject to completion of due diligence, Quaterra plans to explore the property and update Anaconda's historical resources.

Arizona Uranium Claims, USA

Acquisition and Staking of Uranium Claims

Quaterra commenced uranium exploration in Arizona in June 2005 with the acquisition of 99 unpatented lode mining claims from North Exploration LLC ("North") that cover several uranium breccia pipe targets in the Arizona Strip district. 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 North Properties are subject to a 2% production royalty on each Property, 1% of which may be purchased by Quaterra for US$1 million. The North agreement also included an option to acquire other properties in Utah and Wyoming that are prospective for both uranium and vanadium.

In mid 2006, Quaterra signed a letter 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 anniversary payment of US$100,000. The final payment date has been amended so that the payment is deferred for a period of two years or less should the current Segregation by the Department of the Interior be lifted and exploration and mining activities be allowed to continue. 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%).

Quaterra 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 claims are subject to a 4% Yellowcake royalty. The Company may purchase 75% of this royalty (reducing it from 4% to 1%) for US$1,000,000 each as it applies to each breccia pipe discovered on the claims.

In response to a July 20, 2009 decision by the US Department of the Interior ("DOI") to segregate 1 million acres of federal lands in the Arizona Strip for two years pending a review for a possible 20 year withdrawal of the district from mineral entry, Quaterra conducted a detailed review of all the Company's Arizona Strip assets. Unpatented claims held in the area of segregation were prioritized and selectively reduced to establish a land position consisting of 1,000 claims and one state lease that covers approximately 21,000 acres. The optimized land position controls 195 VTEM anomalies that include Quaterra's best breccia pipe targets with a maintenance cost that can be supported throughout the two year segregation period.

In early 2010, Arizona state Mineral Exploration Permits ("MEPs") totaling approximately 3,200 acres were acquired through an option agreement with Eagle Hill Exploration, Eagle Hill Arizona Uranium LLC, and Snowden Resources Corp. Additional MEPs were acquired by the Company in 2011 making a total of 6.9 square miles of Arizona state land now under lease by Quaterra. When combined with 32.3 square miles covered by 1000 unpatented federal claims, the Company's land position now covers approximately 39 square miles in the heart of the Arizona Strip uranium district. 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 favorable VTEM geophysical signatures and within areas of known mineralized occurrences

Expenditures to Date

Acquisition costs incurred to December 31, 2010 were $4,175,454 (2009 - $3,704,810) and exploration expenditures were $7,368,733 (2009 - $7,153,307) for a total of $11,544,187 (2009 - $10,858,117).

Location, Access and Infrastructure

Quaterra's Arizona Uranium property is located in the northern Arizona Strip uranium district in Coconino and Mohave Counties. The property occupies the southwest corner of the Colorado Plateau physiographic province in northwestern Arizona just south of the Utah state line. 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.

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 two 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 breccia pipes. Of these, Hack Canyon I, II, and III, Pigeon and Hermit are mined out and have been reclaimed, Arizona 1 (owned by Dennison Mines) resumed production in January 2010, Pinenut (Dennison Mines) is in the final phases of development and pending permitting to commence production and Kanab North has been placed on a standby with reserves remaining.

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. The collapse of cavern roofs in the Mississippian Redwall Limestone forms a pipe of breccia 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.

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. 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.

The throat of a breccia pipe is seldom visible at the surface when not exposed in canyon walls. Where covered by the Triassic 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 Permian Toroweap and Kaibab Formations (“PKfm”) 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 Kaibab 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 are not always related to pipes.

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 northern Arizona. More than 90% of mapped pipes are shown within the deeper canyons of the region where they are exposed by erosion of the younger strata. Because of their scenic value, these canyons have been withdrawn from exploration and mining. However, the same density of pipes is probable at depth in the surrounding district where the number of known 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. The upper level of stoping by collapse varies and many pipes may occur at depth within the district and remain hidden with no surface evidence of a pipe throat. If these structures penetrate the Coconino Sandstone, an ore body may exist with no pipe feature at the surface.

Hidden or “blind” pipes may be the most numerous types of mineralized structures. Until the discovery of A-1, the Hack 2 mine was the only blind pipe ever discovered in the district. Hack 2 was also the largest deposit ever mined in the district with approximately 7 million pounds of U3O8 produced. The number of pipes identified to date may represent only a small fraction of the number of mineralized hidden pipes that lie waiting to be discovered at depth. With continued exploration, the Arizona Strip may soon become one of the more significant producing uranium districts in the United States.

Recent Exploration and Drilling Results

The discovery of new deposits in a mature district requires a determined and innovative approach combined with the latest exploration technology. Quaterra initiated uranium exploration on the Arizona Strip in 2006 with methods that have 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 electromagnetic geophysical surveys had significant success in defining areas of thickened (conductive) siltstone within the surface structure. Shallow drill holes are used define a collapse cone and to target deep holes to test for mineralization in the pipe throat. Most of the obvious targets identified by these methods have been located and drill tested by companies exploring the northern district in the 1980s. However, extensive areas remained unexplored because of the time and expense required by the surface geophysical surveys.

Since commencing on the Arizona Strip, Quaterra has drilled 98,403 feet in 105 shallow and 41 deep holes that investigated 25 targets. The program had limited success until Quaterra contracted Geotech Ltd. to conduct the first extensive test of an airborne time-domain electromagnetic system (VTEM) in the district in early 2007. The VTEM system identified most of the known breccia pipes and more than 200 moderate to high priority targets on the Company’s property with similar geophysical signatures but with little or no outcropping evidence of a collapse feature. The similarities to known structures and the sheer number of targets suggested that many of the anomalies could be bind pipes.

The first VTEM target tested resulted in the discovery of the first new mineralized breccia pipe found on the Arizona Strip in 18 years. Discovery Hole A-01-31 intercepted a thickness of 57 feet averaging 0.33% U_3O_8 at a depth of 1,034 feet. The intercept includes a higher grade interval of 28 feet averaging 0.58% U_3O_8. The drill-hole data indicate that the A-1 structure is a hidden breccia pipe. Upward collapse of the A-1 pipe stopped more than 400 feet below the surface.

Quaterra followed up on the discovery of the A-1 mineralized pipe with a drilling program in 2008 dedicated to testing several more of the many airborne geophysical anomalies on Quaterra’s properties. The first hole to test the second geophysical anomaly identified a new breccia pipe with high-grade uranium mineralization at A-20. Discovery Hole A-20-01 intercepted a thickness of 34.5 feet averaging 0.37% U_3O_8 at a depth of 1,442 feet, including a high-grade zone of 6.5 feet averaging 0.63% U_3O_8 at a depth of 1,443 feet. The hole also intercepted a deeper zone of 13.0 feet averaging 0.46% at a depth of 1,567 feet that includes a higher grade interval of 10.0 feet averaging 0.58% .

The relative size of the A-20 pipe can not yet be determined, but it may be comparable to the larger breccia pipes in the district. Only three holes have been completed in the structure, one exited the pipe above the favorable mineralized horizon and two have penetrated pipe breccia.

Since commencing the drilling program to target VTEM anomalies Quaterra has achieved a 70% success ratio in its exploration results. Near surface structures were identified in all but three of seven additional VTEM targets tested during the year.

The A-18 target, located midway between and about half a mile from the Company’s mineralized Ollie and A20 pipes, is in a suitable position for a single development to access all three targets. To date, five deep and two shallow holes have been completed that define a 40-foot-deep structural depression at the upper Fossil Mountain horizon. The deep holes have encountered up to eight feet of altered Hermit shale and a strongly altered section of Coconino sandstone that are indicative of close proximity to a pipe throat.

Drilling at the A51 target, located 1.5 miles west of the A1 discovery provided similar encouragement. Three shallow holes and four deep holes defined a 60-foot-deep structure at the upper Fossil Mountain horizon and more than 20 feet of alteration in the Hermit shale. A gamma log of one deep hole showed a radiometric anomaly over a thickness of 15 feet in the Toroweap Formation. The holes are believed to have encountered the outer margins of a breccia pipe structure.

While waiting to complete a down-hole survey, one rig was moved to the Ollie prospect to re-enter and probe an old hole drilled by Energy Fuels Nuclear in 1990. The probe identified an intercept in hole JH2618-04 of 52.5 feet averaging 0.24% eU3O8 at a depth of 1,342.5 feet, including 27.0 feet averaging 0.36% eU3O8 at a depth of 1,359.5 feet. A down-hole TEM survey (using technology that was nonexistent during the EFN program) identified a significant anomaly to the south of the drilled area which suggests that a large section of the Ollie pipe may remain untested. The down-hole TEM proved exceptionally valuable in locating the pyrite cap and providing information to target additional drill holes.

The A-21 VTEM target may also be a pipe, but deep drilling has failed to encounter the throat below the upper Coconino horizon. Three shallow and two deep holes have defined approximately 30 feet of structural closure in the Kaibab Formation and up to five feet of altered Hermit Shale below the lower Coconino contact indicating the proximity of a pipe structure. Additional shallow drilling will be required to target the pipe throat at depth.

Future Work Plans

Quaterra's position on the Arizona Strip, selectively staked to control airborne geophysical anomalies, has given the Company a unique advantage in the search for breccia pipes. The Company's assets now include 3 mineralized breccia pipes; one which could be among the larger identified in the district, 4 probable pipe structures that remain untested in the favorable horizon for uranium mineralization, and 5 possible pipe structures that have been defined by shallow drilling or have pipe structures clearly visible at the surface. The success of past drilling programs has proven the validity of the geophysical targets and added significantly to the prospective value of the many anomalies remaining to be tested on the Company's properties. Future drilling programs to explore these targets is subject to the status of public lands in the district, access to funding and commodity prices.

Although the Arizona Strip represents one of the few areas in the U.S. that has been officially set aside for mining and public use by an act of Congress, anti-mining interests are currently pursuing the removal of the district from mineral entry. On July 20, 2009, the DOI announced a decision to segregate 1 million acres of federal lands in the Arizona Strip for two years to allow an evaluation as to whether the DOI should withdraw the lands from new mining claims for a year of 20 years. The release states that the segregation would prohibit new mining claims in the designated areas but "would not prohibit ongoing or future mining or extraction operations on valid pre-existing claims."

It is the Company's view that mining companies holding valid claims within the land segregated from mining may exercise notice operations to confirm or corroborate previous work on existing claims. The Company presently has a total of 26 breccia pipe targets that are fully permitted and bonded for exploration drilling.

Future drilling programs to explore the Company's breccia pipe targets is subject to funding and the status of public lands in the district. Past operations have an exemplary record of prudent mining and reclamation. The uranium of this prolific district represents an enormous domestic supply of clean energy at a time when it is critical to the needs of the country; however, the Company does not intend to commit significant expenditures on additional exploration projects on federal lands until the legal status of exploration and mining operations in the area is clarified.

As a result of the segregation, Quaterra is changing the focus of the breccia pipe exploration program to the evaluation of state owned properties in the Arizona Strip where 15 high and moderate priority VTEM anomalies have been identified by the Company's airborne geophysical survey. The restrictions on uranium exploration on Federal lands do not affect exploration activity or access to conduct exploration on Arizona state lands. These lands lie within the heart of the uranium district and are vital to Arizona to provide funds for Arizona school districts. In contrast to the segregated area, exploration on state mineral properties is encouraged and permitting is possible.

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. The techniques for gamma log interpretation has been found to represent in-situ grades for uranium mineralization in the district as established by Energy Fuels Nuclear Inc. during their exploration and mining operations conducted on the Arizona Strip.

Down hole logging for the drill holes is contracted to Strata Data, Casper, Wyoming and Century Geophysical Corp. with verification by Geophysical Logging Service of Prescott, Arizona. The down-hole gamma logging tools are routinely calibrated by probing standardized test pits in Grand Junction, Colorado. 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. 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, variation 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.

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.

Duke Island, Alaska

Acquisition

In March and April 2001, Avalon Development, under contract with Quaterra, conducted reconnaissance scale pan concentrate and grab rock sampling and staked 45 federal claims and 6 state claims. The Company increased the Company's property position during subsequent field programs, to include a total 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.

Expenditures to Date

Acquisition costs incurred by the Company to December 31, 2010 for Duke Island were $163,220 (2009 - $162,612) and exploration expenditures were $2,278,372 (2009 - $2,277,831) for a total of $2,441,592 (2009 - $2,440,443).

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. The potential for PGE mineralization was not addressed during these efforts.

In March and April 2001, Avalon Development under contract with Quaterra conducted reconnaissance scale pan concentrate and grab rock sampling while staking 45 federal lode mineral claims and 6 state lode mineral claims. Follow-up work for Quaterra was conducted in July which resulted in discovery of Cu-Ni-PGE sulfide mineralization hosted in pyroxenite on the north end of Quaterra's claims. Avalon conducted subsequent rock sampling and soil sampling in September and October. In conjunction with rock sampling 3,415 meters of dipole-dipole induced polarization geophysics were completed by Zonge Engineering in September and October. In November and December Avalon collected additional rock samples from the project and completed 4 diamond drill holes totaling 448 meters from two drill stations in the Marquis zone.

In May 2002 Avalon Development conducted limited field reconnaissance work to ground truth several Landsat TM anomalies identified by Perry Remote Sensing and revealed outcropping disseminated sulfide mineralization outside areas previously known to contain such mineralization. In July 2002 AeroQuest Ltd. 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.

During the 2003 field season, Avalon Development field checked high priority EM conductors, collected additional surface samples and conducted reconnaissance work that revealed the presence of disseminated sulfide mineralization at Cape Northumberland on the extreme southern end of Duke Island.

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. The Survey completed 6.1 line km of survey over the Marquis and Raven prospects.

In mid June 2005 Aurora Geosciences completed 14.6 line km of ground based gravimeter survey, expanding on the 2004 program. During August and September of 2005, a total of 1,372 meters of NQ2 core was drilled in 7 holes to explore the Marquis, Potato Patch, and Raven prospects.

In early 2008, Fugro Airborne flew 389 line km of HeliGEOTEM ®II over the Hall Cove and Judd Harbor intrusions centered on the Marquis prospect and the area of cover to the north. The survey comprised 84 lines at 150 meter spacings and 6 tie lines at 1500 meter spacing. In early May 2008 Avalon Development staked an additional 75 federal lode mineral claims for Quaterra Alaska Inc. During July and August 2008 Zonge Engineering conducted 5 lines of NSAMT surveys totaling 9 line km over the Marquis prospect and the covered area to the north. Concurrent with the NSAMT survey Dave Matherly conducted 9 lines of gravity survey totaling 210 stations over the Marquis and the covered northern area, and over the Monte prospect.

In September 2009 Quaterra Resources entered into a joint venture agreement on Duke Island with Copper Ridge Explorations Inc. ("Copper Ridge"). Under terms of the agreement, Copper Ridge can earn up to a 51% interest in the Duke Island property by issuing one million pre-consolidation shares and spending $3 million on exploration by December 31, 2012.

Following execution of the Quaterra – Copper Ridge joint venture in September 2009, Copper Ridge initiated a field program at Duke Island in preparation for drilling planned for 2010. The 2009 field work was completed by personnel from Avalon Development and Copper Ridge between October 3rd and October 13th. The three-person field crew worked from a tent camp in the Marquis zone area and collected magnetic susceptibility, resistivity, and semi-quantitative compositional data (Niton hand held XRF) from 104 sites covering the majority of the Marquis area covered by previous NSAMT surveys. Lithologic and structural information were recorded at each site and along the traverses between sites to allow completion of an updated geologic map for the Marquis area. At select site outcrops, mostly those containing visible magmatic sulfide mineralization, field personnel collected 43 grab rock samples for comparison to Niton results. Analytical work on these samples included Au, Pt and Pd by fire assay techniques and 2-acid and 4-acid ICP-AES analyses.

In June 2010, Copper Ridge initiated a core drilling program to target high grade massive to semi-massive Cu-Ni-PGE sulphide mineralization within the Marquis Zone. The program completed five holes totaling 1,537 meters that tested the North Rim and South Rim geophysical anomalies and other prospective targets in the Marquis area. Copper Ridge terminated the option agreement in February, 2011.

Following execution of the Quaterra – Copper Ridge joint venture, Copper Ridge initiated a field program at Duke Island in preparation for drilling planned for 2010. The 2009 field work was completed by personnel from Avalon Development and Copper Ridge between October 3rd and October 13th. The three-person field crew worked from a tent camp in the Marquis zone area and collected magnetic susceptibility, resistivity, and semi-quantitative compositional data (Niton hand held XRF) from 104 sites covering the majority of the Marquis area covered by previous NSAMT surveys. Lithologic and structural information were recorded at each site and along the traverses between sites to allow completion of an updated geologic map for the Marquis area. At select site outcrops, mostly those containing visible magmatic sulfide mineralization, field personnel collected 43 grab rock samples for comparison to Niton results. Analytical work on these samples included Au, Pt and Pd by fire assay techniques and 2-acid and 4-acid ICP-AES analyses.

Outcrop scale geologic mapping of the greater Marquis prospects defines three lithologic units: a plagioclase-pyroxene dominant unit, a clinopyroxene dominant unit (Cpx), and an olivine dominant unit (Wh). All three units display cumulate textures and are medium to coarse grained. Magmatic sulfide mineralization is predominately hosted in Cpx, and in isolated clinopyroxene rich enclaves in Wh. Based on this recent mapping, it appears that Ni-Cu-Fe sulfide mineralization at the Marquis prospect is spatially associated with the contact between Cpx and Wh. At the surface this contact appears to be dipping steeply to the south-southwest. The majority of high Cu-Ni sulfide mineralization is present in the zone between the “olivine in” boundary and the Cpx-Wh contact.

The 2010 Copper Ridge drilling program targeted massive to semi-massive Cu-Ni-PGE sulphide mineralization along the basal contact or within the feeder of the Marquis Zone, where the highest grades of sulphide mineralization were inferred to occur. The drill targets were defined by interpretations based on geological mapping, the results of historical drilling and three-dimensional modeling of a variety of geophysical surveys including magnetics, electromagnetics, induced polarization, magnetotellurics and gravity. The historical drilling did not extend to the depths required to test these targets.

DK10-08, the first hole of the program, was drilled vertically to test the South Rim anomaly at depth. The hole collared in pyroxenite and transitioned into a gabbro at 204 m. The hole remained in variably serpentinized gabbro until a final depth of 467 m. Up to several percent disseminated to net textured pyrrhotite with trace to locally one to three percent chalcopyrite occurred throughout the pyroxenite interval. The best intervals of copper mineralization were from 124.4 m to 137.8 m which returned 1,476 ppm copper and 392 ppm nickel over 13.4 m and from 170.4 m to 175.3 m which returned 2,937 ppm copper and 751 ppm nickel over 4.9m. From 1% to 15% pyrrhotite was encountered in the gabbro from 302 m to 350 m. Assimilated sedimentary country rock with local graphite also occurred within this interval. The pyrrhotite mineralization with graphite could be the cause of the conductor that had been interpreted as possible massive sulphides along the basal contact of the South Rim of the Marquis zone.

Hole DK10-09, drilled at an angle of - 80 degrees and DK10-10, drilled at an angle of - 45 degrees were collared from the same site to test the strong EM conductor identified under cover at the North Rim of the Marquis zone. Both holes collared in gabbro and remained in gabbro until lengths of 380 m and 153 m respectively. Hole DK10-09 intersected from 1% to 15% net textured to semi-massive pyrrhotite and locally from trace to 10% graphite associated with assimilated sedimentary rock from 64 to 124 m. Hole DK10-10 intersected similar pyrrhotite with graphite and assimilated sediments from 10 to 108 m. Trace to 1% chalcopyrite was observed in both holes, but no significant copper or nickel assays were returned from either hole. The strong EM conductor under the North Rim of the Marquis zone is likely explained by the presence of pyrrhotite and graphite related to sedimentary rocks within the gabbro.

Holes DK10-11 and DK10-12 were drilled to test EM conductors and prospective stratigraphy at other areas of the Marquis zone. DK10-11 intersected the prospective pyroxenite horizon from the collar to 150m and then remained in gabbro until a final depth of 387 m. DK10-12 intersected gabbro from the collar to a final length of 225 m. While both holes intersected significant amounts of pyrrhotite in the gabbro, no significant copper or nickel mineralization was returned from either hole.

Future Work Plans

Copper Ridge believes that Cu-Ni-PGE enriched magmatic sulphide accumulations along basal contacts or within a feeder zone remains a unique and prospective exploration target at Duke Island, due to the intrusion's high sulphide content, the magmatic or net-textured nature of the sulphide mineralization and nickel depletion of some of the intrusion's silicate mineral phases. However, the 2010 drilling has demonstrated that such a target, if it exists, is geophysically masked by overlying zones of conductive pyrrhotite-graphite mineralization. Further study is required to determine if other exploration tools might be applied to direct future drill programs.

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.

Other Properties

The Company's other properties, listed by commodity, include:

Copper +/- gold: Yerington District (Wassuk, Gray Hills, Copper Canyon), Klondike, Reveille in Nevada; SW Tintic in Utah; and Peg Leg in Arizona;

Gold +/- silver: Herbert Glacier, Alaska; Central Mexico (Americas/Mirasol, Sierra Sabino, Santo Domingo, Marijo, Onix, Azafran, Tian, Lupita);

Molybdenum: Cave Peak, Texas, Willow Creek, Montana;

Uranium: Tidwell, Sinbad, and Shootaring, Utah and Basin, Wyoming;

Data from prior activities is limited or in the process of being acquired and studied. The Company's total expenditures to date with respect to these other properties are minimal.

RISK FACTORS

The Company may not have sufficient funds to complete further exploration programs.

The Company does not generate operating revenue and must finance exploration activity by other means, such as raising funds through the sale of equity, debt, or property interests. The Company cannot provide any assurance that additional funding will be available for further exploration of the Company's projects or to fulfill anticipated obligations under existing property agreements. As of December 31, 2010, the Company had working capital of $18,862,859. Management believes that its remaining cash resources, together with the continue contribution of its joint venture partners will enable Quaterra to carry its exploration activities in the next twelve months. If the Company fails to maintain or obtain sufficient financing, the Company will have to delay or cancel further exploration of Quaterra's properties and could lose some of or all of its interest in the properties Future equity transactions could cause dilution of present and prospective shareholders.

Historically, the Company has financed operations through private placements. In order to finance future operations and development efforts, the Company may raise funds through the issue of common shares or the issuance of securities convertible into common shares through private placements or public offerings. The common shares in these financings often are sold at a discount to market prices, and the exercise price of the warrants sometimes is at or may be lower than market prices. The Company cannot predict the size of future issues of common shares or the issue of securities convertible into common shares or the effect, if any, that issues and sales of the Company's common shares will have on the market price of its common shares. Any transaction involving the issue of common shares, or securities or convertible into common shares, could result in dilution, possibly substantial, to present and prospective holders of common shares, either at the time of the financing or subsequently when restrictions if any expire and the common shares are resold into the public markets.

The Company has a history of losses and expects to incur losses for the foreseeable future.

The Company has incurred losses during each of the prior three periods in the amounts of $6,806,432 for the year ended December 31, 2010, $6,988,414 for the year ended December 31, 2009, and $6,834,181, for the year ended December 31, 2008. As of December 31, 2010, the Company had an accumulated deficit of $42,422,329. Quaterra expects to continue to incur losses unless and until such time as one or more of the properties enter into commercial production and generate sufficient revenues to fund the Company's continuing operations.

The Company's exploration programs may not result in a commercial mining operation.

Mineral exploration involves significant risk because few properties that are explored contain bodies of ore that would be commercially economic to develop into producing mines. Quaterra's mineral properties are without a known body of commercial ore and the proposed programs are an exploratory search for ore. The Company cannot provide any assurance that current exploration programs will result in any commercial mining operation. If the exploration programs do not result in the discovery of commercial ore, the Company will be required to acquire additional properties and write-off all investments in existing properties.

The Company does not have Proven Mineral Reserves or Probable Mineral Reserves.

The Company has not established the presence of any Proven Mineral Reserves or Probable Mineral Reserves (as such terms are defined in National Instrument 43-101 of the Canadian Securities Administrators); please refer to "Disclosure of Mineral Resources" in the Preliminary Notes to this AIF) at any of Quaterra's mineral properties. The Company cannot provide any assurance that future feasibility studies will establish Proven Mineral Reserves or Probable Mineral Reserves at Quaterra's properties. The failure to establish Proven Mineral Reserves or Probable Mineral Reserves could restrict the Company's ability to successfully implement its strategies for long-term growth.

The Company's future business and financial condition are dependent upon resource prices.

Resource prices have fluctuated widely, particularly in recent years, and are affected by numerous factors beyond the Company's control. 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. These factors may negatively affect the marketability of any ore or minerals discovered at, and extracted from, Quaterra's 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.

The Company's common share price has been and may continue to be subject to volatility.

U.S. and Canadian securities markets in recent years have experienced high levels 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 Quaterra's financial performance or prospects include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The Company's 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 the Company's shares at any given point in time may be subject to wide swings unrelated to any direct action by Quaterra's operations.

Some of the Company's directors and officers may have conflicts of interest due to their involvement with other natural resource companies.

Some the Company's directors and officers are directors or officers of other natural resource or mining-related companies and these associations may give rise to conflicts of interest from time to time. As a result of these conflicts of interest, Quaterra may miss the opportunity to participate in certain transactions, which may have a material, adverse effect on the Company's financial position.

The Company may experience difficulty attracting and retaining qualified management to grow Quaterra's business.

The Company is dependent on the services of key executives including the Chief Executive Officer and other highly skilled and experienced executives and personnel focused on advancing corporate objectives as well as the identification of new opportunities for growth and funding. Due to the Company's relatively small size, the loss of these persons or the Quaterra's inability to attract and retain additional highly skilled employees required for activities may have a material adverse effect on the Company's business and financial condition.

The Company may be limited in its ability to manage growth.

Should the Company be successful in its efforts to develop mineral properties or to raise capital for such development or for the development of other mining ventures, it may experience significant growth in operations. Any expansion of the Company's business would place demands on management, operational capacity, and financial resources. The Company anticipates that it will need to recruit qualified personnel in all areas of operations. There can be no assurance that Quaterra will be effective in retaining current personnel or attracting and retaining additional qualified personnel, expanding operational capacity or otherwise managing growth. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

Environmental and other regulatory requirements may limit the Company's operations and increase expenses.

The Company's operations are subject to environmental regulations promulgated by various Canadian, U.S., and Mexican government agencies. 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. For example, as discussed on page 29 above, the US Department of the Interior on July 20, 2009 decided to segregate 1 million acres of federal lands in the Arizona Strip for two years pending a review for a possible 20 year withdrawal of the district from mineral entry. 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 Quaterra's exploration activities is subject to the discretion of government authorities, and the Company 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. 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 and cause increases in capital expenditures or require abandonment or delays in exploration.

Operating hazards associated with mining may expose the Company to liability.

Mining operations generally involve a high degree of risk, including hazards such as unusual or unexpected geological formations. Operations in which the Company has an interest are subject to all the hazards and risks normally incidental to exploration, development and production of minerals, any of which could result in work stoppages, damage to or destruction of mines and other producing facilities, damage to or loss of life and property, environmental damage and possible legal liability for any or all damage or loss. The Company currently does not maintain standard insurance policies on Quaterra's properties. The Company may become subject to liability for cave-ins and other hazards for which cannot be fully insured or against which the Company may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. For example, the Company is not currently covered by any form of political risk insurance or any form of environmental liability insurance. The payment of such insurance premiums and the incurring of such liabilities would reduce the funds available for exploration activities.

The Company's properties may be subject to uncertain 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 Company has investigated title to all of its mineral properties and, to the best of the Company's knowledge, title to all of Quaterra's properties are in good standing. 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.

Enforcement of judgments or bringing actions outside the United States against the Company and its directors and officers may be difficult.

Quaterra is organized under the law of and headquartered in British Columbia, Canada, and the majority of the Company's directors and officers are not citizens or residents of the U.S. In addition, a substantial part of the Company's assets are located outside the U.S. and Canada. As a result, it may be difficult or impossible for you to (a) enforce in courts outside the U.S. judgments against the Company and a majority of Quaterra's directors and officers, obtained in U.S. courts based upon the civil liability provisions of U.S. federal securities laws or (b) bring in courts outside the U.S. an original action against the Company and its directors and officers to enforce liabilities based upon such U.S. securities laws.

DESCRIPTION OF CAPITAL STRUCTURE

Authorized Capital

Quaterra has an unlimited number of common shares without nominal value. As at March 30, 2011, there were 141,823,040 common shares outstanding.

Quaterra has only one class of common shares, without any special rights or restrictions.

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.

Material Modifications to the Rights of Security Holders

Effective June 18, 2008, in accordance with the vote of shareholders at the 2008 Annual General Meeting on June 18, 2008, the Company adopted a rights plan applicable to our common shares (the “Rights Plan”). Under the Rights Plan, Quaterra issued one right for no consideration in respect of each outstanding common share. All common shares we subsequently issue during the term of the Rights Plan will have one right represented for each common share. The term of the Rights Plan is through the first annual meeting of shareholders held after June 18, 2013. The rights issued under the Rights Plan become exercisable only if a party acquires 20% or more of the Company’s common shares without complying with the Rights Plan or without a waiver from our Board of Directors.

Each right entitles the registered holder to purchase from the Company on the occurrence of certain events, one common share at the price of $100 per share, subject to adjustment (the “Exercise Price”). If a “Flip-in Event” as defined in the Rights Plan occurs, each right would then entitle the registered holder to receive, upon payment of the Exercise Price, that number of common shares that have a market value at the date of that occurrence equal to twice the Exercise Price. The rights are not exercisable until the “Separation Time” as defined in the Rights Plan.

The purpose of the Rights Plan is to ensure, to the extent possible, that all shareholders are treated equally and fairly in connection with any take-over bid or similar proposal to acquire the Company’s common shares. Take-over bids may be structured in such a way as to be coercive or discriminatory in effect, or may be initiated at a time when it will be difficult for the Company’s Board of Directors to prepare an adequate response. Such offers may result in shareholders receiving unequal or unfair treatment, or not realizing the full or maximum value of their investment in the Company. The Rights Plan discourages the making of any such offers by creating the potential of significant dilution to any offeror who does so.

An offeror can avoid that potential by making an offer that either: (i) qualifies as a “Permitted Bid” under the Rights Plan, and therefore meets certain specified conditions (including a minimum deposit period of 90 days) which aim to ensure that all shareholders are treated fairly and equally; or (ii) does not qualify as a “Permitted Bid” but is negotiated with and has been exempted by the Company’s Board of Directors from the application of the Rights Plan in light of the opportunity to bargain for agreed terms and conditions to the offer that are believed to be in the best interests of shareholders.

Under current Canadian securities laws, any party wishing to make a formal take-over bid for the Company’s common shares is required to leave the offer open for acceptance for at least 35 days. To qualify as a “Permitted Bid” under the Rights Plan, however, a take-over bid must remain open for acceptance for not less than 90 days. The Board of Directors believes that the statutory minimum period of 35 days may be insufficient for the directors to: (i) evaluate a take-over bid (particularly if the consideration consists, wholly or in part, of shares of another issuer); (ii) explore, develop and pursue alternative transactions that could better maximize shareholder value; and (iii) make reasoned recommendations to the shareholders. The additional time afforded under a “Permitted Bid” is intended to address these concerns by providing the Board of Directors with a greater opportunity to assess the merits of the offer and identify other possible suitors or alternative transactions, if any by providing other bidders or proponents of alternative transactions with time to come forward with competing, and potentially superior, proposals.

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.

The following summarizes information about the stock options outstanding and exercisable at December 31, 2010:

Price	Expiry Date	December 31, 2010	December 31, 2009
$ 0.35	August 9, 2010	-	270,000
$ 0.40	January 29, 2011	-	200,000
$ 1.04	March 27, 2011	-	125,000
$ 1.00	May 19, 2011	50,000	75,000
$ 1.12	June 12, 2011	100,000	100,000
$ 1.55	July 28, 2011	1,364,000	1,431,000
$ 1.55	August 23, 2011	100,000	100,000
$ 1.50	September 25, 2011	100,000	100,000
$ 3.33	July 20, 2012	805,000	836,000
$ 3.45	March 31, 2013	150,000	150,000
$ 3.30	June 19, 2013	945,000	970,000
$ 0.98	November 9, 2014	2,145,000	2,575,000
$ 1.02	November 9, 2014	2,185,000	2,305,000
$ 2.00	January 14, 2015	120,000	-
$ 1.80	April 1, 2015	100,000	-
$ 1.76	April 22, 2015	200,000	-
$ 1.29	August 9, 2015	2,095,000	-
$ 1.55	October 6, 2015	65,000	-
$ 1.51	November 3, 2015	100,000	-
Total options outstanding		10,624,000	9,237,000
Total options exercisable		10,457,333	9,237,000

Share Purchase Warrants

The following summarizes information about the warrants outstanding at December 31, 2010:

Expiry Date	**Exercise Price**	**December 31, 2010**	**December 31, 2009**
November 27, 2010	$ 0.75 US	-	1,921,458
December 19, 2010	$ 0.75 US	-	2,441,333
January 15, 2011	$ 0.75 US	-	1,880,500
September 29, 2011	$ 0.75	7,978,540	9,666,206
October 28, 2011	$ 0.75	4,844,674	5,675,204
February 4, 2012	$ 1.76	1,500,709	-
October 27, 2012	$ 1.90	5,862,100	-
		20,186,023	**21,584,701**

MARKET FOR SECURITIES

The Company's common shares are listed on the TSX Venture Exchange under the trading symbol "QTA" and on NYSE Amex under the symbol "QMM". The following tables provide 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, 2010:

TSX Venture Exchange			
Month	*High*	*Low*	*Volume*
January	*2.50*	*1.42*	*2,041,292*
February	*2.16*	*1.26*	*2,406,887*
March	*1.79*	*1.46*	*1,248,371*
April	*1.99*	*1.50*	*1,651,526*
May	*1.97*	*1.16*	*1,038,975*
June	*1.65*	*1.06*	*2,357,652*
July	*1.39*	*1.05*	*277,762*
August	*1.59*	*1.29*	*668,138*
September	*1.74*	*1.49*	*597,024*
October	*1.66*	*1.41*	*731,532*
November	*1.94*	*1.46*	*956,815*
December	*1.97*	*1.55*	*1,305,093*

NYSE Amex			
Month	*High*	*Low*	*Volume*
January	*2.42*	*1.31*	*5,792,417*
February	*2.08*	*1.20*	*5,619,030*
March	*1.72*	*1.45*	*2,920,316*
April	*2.03*	*1.48*	*5,479,947*
May	*1.92*	*1.06*	*5,186,916*
June	*1.58*	*1.13*	*4,015,014*
July	*1.35*	*1.01*	*1,938,461*
August	*1.55*	*1.29*	*2,483,317*
September	*1.69*	*1.40*	*2,982,263*
October	*1.72*	*1.36*	*2,559,543*
November	*1.85*	*1.41*	*3,585,943*
December	*2.00*	*1.58*	*4,297,044*

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.

Directors and Officers

Name, Occupation, and Experience

The following table sets forth all current directors and executive officers as of the date of this AIF. (March 30, 2010)

Name, Jurisdiction of Residence and Position with the Company	Principal Occupation, Business or Employment	Director Since	Number of Securities Beneficially Owned, Directly or Indirectly, or Controlled or Directed
Tracy Stevenson Utah, USA Chairman and Director	Retired Mining Executive	Since 2007	142,293
Thomas C. Patton Washington, USA President, CEO and Director	President of the Company	Since 1998	2,562,212
Robert Gayton(1) (2) British Columbia, Canada Director	Financial Consultant	Since 1997	140,023
John Kerr(1)(2) British Columbia, Canada Director	Geological Engineer	Since 1993	21,667
Lawrence Page, Q.C. British Columbia, Canada Corporate Secretary and Director	Lawyer	Since 1995	500
Eugene Spiering British Columbia, Canada Vice President, Exploration and Director	Vice President, Exploration of the Company	Since 2006	165,790
LeRoy Wilkes(1)(2) Colorado, USA Director	Retired Mining Executive	Since 2006	105,428
Charles Hawley Alaska, USA Vice President Exploration, Alaska	Geologist	Since 2001	Nil
Scott Hean British Columbia, Canada Chief Financial Officer	Chief Financial Officer of the Company	Since 2006	279,094
Gerald Prosalendis British Columbia, Canada Vice President Corporate Development	Vice President Corporate Development	Since 2010	18,451

Notes:
1. Denotes member of the Audit Committee
2. Denotes member of the Corporate Governance Nomination and Compensation Committee

Tracy Stevenson

Mr. Stevenson received a B.S. Accounting Magna Cum Laude from the University of Utah. He has international experience in finance, mergers and acquisitions, strategic planning, corporate governance, auditing, administration and information systems and technology. He worked for Rio Tinto plc, the world's second largest mining company, and related companies for 26 years, where he held a number of senior leadership positions. Mr. Stevenson was the global head of information systems and shared services for Rio Tinto. He also served for four years as Executive Vice President, Chief Financial Officer and a director of Comalco Ltd., an Australia-based international aluminum company partially owned by Rio Tinto, and a further four years as Chief Financial Officer and a director of Kennecott Corporation, a diversified North American mining company owned by Rio Tinto. He also has public accounting experience with Coopers & Lybrand (now PriceWaterhouseCoopers). Mr. Stevenson also serves as a director of Vista Gold Corp. Mr. Stevenson is also a founding member of Bedrock Resources, LLC, a private resources financial advisory firm and SOS Investors, a private resources investment firm.

Dr. Thomas Patton

Dr. Patton graduated from the University of Washington in 1971 (Ph.D.) and has worked with both junior and senior mining companies. He served as the President and Chief Operating Officer for Western Silver Corporation from January 1998 to May 2006. Among his accomplishments at Western Silver were the discovery and delineation of the 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 and the American Institute of Mining & Metallurgical Engineers.

Dr. Robert Gayton

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. 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 has directed the accounting and financial matters of public companies in the resource and non-resource fields since 1987. Dr. Gayton also serves as a director of these eight companies: Amerigo Resources Ltd.; Nevsun Resources Ltd.; Eastern Platinum Limited; Western Copper Corp.; Silvercorp Metals Inc.; National B2Gold Corp; and Palo Duro Energy Inc.

John R Kerr

John R. Kerr graduated from the University of British Columbia in 1964 with a Bachelor of Applied Science (B. ASc) 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. Mr. Kerr also serves as director of Pacific Coast Nickel Corp., Bravada Gold Corporation, and Queensgate Resources Corp. He currently operates a geological consulting practice out of Vancouver, B.C., with projects located in all areas of North America.

Lawrence Page, Q.C.

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. 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. Mr. Page practices on his own in Vancouver in the areas of commercial litigation, native law, natural resource law and securities law. He is the principal of the Manex Resource Group, which provides administrative, financial, corporate and geological services to a number of public companies in the mineral resource sector, including Quaterra. Mr. Page also serves as a director of five public companies: Duncastle Gold Corp.; Valterra Resource Corporation; Southern Silver Exploration Corp.; Bravada Gold Corp. and Bravo Gold Corp.

Eugene Spiering

Mr. Spiering has a Bachelor of Science-Geology degree from the University of Utah. He has over 28 years of experience in the mining exploration industry. Mr. Spiering previously 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. Prior to his tenure at Rio Narcea, Mr. Spiering held the position of senior geologist with Energy Fuels Nuclear, Inc. where his responsibilities included drilling supervision, geologic mapping, and ore reserve calculations related to uranium exploration in northern Arizona and gold exploration in western US and Venezuela. Mr. Spiering is a member of the Society of Economic Geologists, the Society for Mining, Metallurgy & Exploration, the American Association of Petroleum Geologists, and the Australasian Institute of Mining and Metallurgy.

LeRoy Wilkes

Mr. Wilkes is a graduate mining engineer from the Montana School of Mines. He recently retired as president of Washington Group International's Mining Business Unit. As leader of this group, he participated in 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. He was also involved in the development of such projects as Greens Creek, Alaska; Stillwater, Montana; and Las Pelameres in Chile, while serving as Senior Vice President of Business Development for Anaconda Minerals. Mr. Wilkes also serves as a director and chairman of the Board of Sabina Silver Corporation.

Scott B. Hean

Mr. Hean 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. 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 involved in financing oil and gas companies. Currently, Mr. Hean is director and past chair of the audit committee for Sabina Silver Corporation, a TSX listed company and a director of Southern Silver Exploration Corp., Bravo Gold Corp., and Duncastle Gold Corp., all TSX-Venture listed companies. In the non-profit sector, he serves as a director and chair of the Bill Reid Trust, a not for profit organization concerning the work of the Haida artist, Bill Reid. He has served on numerous not-for-profit Boards, including Outward Bound Canada and B.C. Children's Hospital.

Dr. Charles Hawley

Dr. 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. Dr. Hawley has been working within the exploration and mine development field in Alaska's private sector since 1969.

Gerald Prosalendis

Mr. Prosalendis has experience in corporate strategy, markets, shareholder relations and communications. He was the Vice President Corporate Development of Western Silver Corporation and was involved in the sale of that company in 2006 to Glamis Gold Ltd. for $1.6 billion. He was also Vice President Corporate Development of Dia Met Minerals Ltd., a member of the team that developed the Ekati diamond mine and was involved in the sale of Dia Met to BHP Billiton for $687 million in 2001. Mr. Prosalendis has been a consultant to Anderson & Schwab Inc., a mineral and business firm based in New York, a Senior Counselor for James Hoggan & Associates of Vancouver, an advisor to public and private companies and Business Editor of *The Vancouver Sun*. He also worked as a financial services analyst for a brokerage firm.

Control of Securities

The Company's directors and senior officers as a group beneficially own, directly or indirectly, or exercise control or direction over 3,598,456 of the voting securities of the Company as March 30, 2011.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Dr. Robert Gayton, Dr. 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.

Other than disclosed above, no director or executive office of the Company is, as at March 30, 2011 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, is as at March 30, 2011 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 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 other than:

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

LEGAL PROCEEDINGS

Legal Proceedings

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

CONFLICTS OF INTEREST

Conflicts of Interest

Certain officers and directors of the Company are officers and directors of, or are associated with, other public and private companies. Such associations may give rise to conflicts of interest with the Company from time to time. The British Columbia Business Corporations Act requires, among other things, the officers and directors to act honestly and in good faith with a view to the best interest of the Company and its shareholders, to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and, in the case of directors, to abstain from voting as a director for the approval of any such transaction.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Interest of Management and others in Material Transactions

Except as otherwise disclosed in the Company’s annual audited consolidated financial statements and MD&A, no director or executive officer of the Company, beneficially owns or controls directly or indirectly, more than 10% of the Company’s common shares and no affiliate of any such persons or companies has or had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company.

TRANSFER AGENT AND REGISTRAR

Transfer Agent and Registrar

The registrar and transfer agent of the Company is Computershare Investor Services Inc. 3 rd Floor, 510 Burrard St., Vancouver, B.C. V6C 3B9.

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MATERIAL CONTRACTS

Material Contracts

The Company entered into an agreement with related party Manex Resource Corp. ("Manex") in June 2008 whereby Manex provides administrative, accounting, and secretarial services to the Company. Manex is a private company controlled by Lawrence Page, a director and officer of the Company. The basic fee for office space and office infrastructure is $12,500 per month and other services rendered are based on hourly rates specified in the agreement. The Company also reimburses Manex for office supplies including paper, courier, postage, parking, filing fees and other out-of-pocket expenses. During the year ended December 31, 2010 the Company paid $501,350 to Manex.

INTERESTS OF EXPERTS

Names of Experts

The following persons, firms and companies are named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 Continuous Disclosure Obligations by the Company during, or relating to, the Company's most recently completed financial year and whose profession or business gives authority to the statement, report or valuation made by the person, firm or company.

Name	Description
Smythe Ratcliffe LLP	Independent Auditors' report dated March 24, 2011, in respect of the Company's consolidated financial statements for the years ended December 31, 2010, 2009 and 2008.
John W. Rozelle, P.G. Tetra Tech	Technical Report dated March 19, 2009 titled "MacArthur Copper Project NI 43- 101 Technical Report Lyon County, Nevada, USA Technical Report dated January 21, 2011 titled "MacArthur Copper Project NI 43-101 Technical Report Lyon County, Nevada U.S.A.
Michelle Stone, Ph.D P.Geo. Caracle Creek International Consulting Inc.	Technical Report dated May 8, 2009 "Independent Technical Report The Nieves Silver Project Zacatecas State, Mexico" Technical Report dated September 10, 2010 - "Independent Technical Report The Nieves Silver Project Zacatecas State, Mexico"

To the best of Quaterra's knowledge, neither John W. Rozelle nor Michelle Stone have any interest in nor hold any securities of the Company.

Smythe Ratcliffe LLP are independent in accordance with the auditor's Rules of Professional Conduct of the Institute of Chartered Accounts of British Columbia.

Additional Information

Audit Committee Charter

A copy of the charter of the audit committee is available at www.quaterra.com.

Composition of the Audit Committee

The audit committee consists of three directors. The following table sets out their names and whether they are 'independent' and 'financially literate' for the purposes of National Instrument 52-110:

Name of Member	Independent (1)	Financially Literate (2)
Robert Gayton	Yes	Yes
John Kerr	Yes	Yes
LeRoy Wilkes	Yes	Yes

(1) To be considered to be independent, a member of the audit committee must not have any direct or indirect 'material relationship' with the Company. A material relationship is a relationship which could, in the view of the board of directors of the Company, reasonably interfere with the exercise of a member's independent judgment.

(2) To be considered financially literate, a member of the audit committee must have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected in the Company's financial statements.

Relevant Education and Experience

The Committee is comprised of Robert Gayton (Chair), John Kerr and LeRoy Wilkes. All three members are independent and are financially literate, as described in National Instrument 52-110. See "Director and Officers" section for detailed description of each member's relevant education and experience.

Pre-approved Policies and Procedures

All non-audited services are pre-approved by the audit committee. Before approval is given, the audit 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.

External Auditor Service Fees

Financial Year Ending	Audit Fees(1)	Audit Related Fees(2)	Tax Fees	All other Fees	Total
December 31, 2010	$123,500	$4,000	$2,800	NIL	$130,300
December 31, 2009	$80,000	$5,000	$2,800	NIL	$87,800

(1) The aggregate audit fees include the audit of the Company's consolidated financial statements and the audit of ICFR. (2) The aggregate fees billed for audit related services that are reasonably related to the performance of the audit of the Company's consolidated financial statements, which are not included under the heading "Audit Fees".

General

Additional information relating the Company can be found on SEDAR 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, 2010 can also be found on SEDAR.

Additional information relating to the Company and its corporate governance policies can be found on the Company's web site at www.quaterra.com



(An Exploration Stage Company)

Audited Consolidated Financial Statements
December 31, 2010

(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting - Canada

The accompanying consolidated financial statements have been prepared by the management of Quaterra Resources Inc. in accordance with Canadian generally accepted accounting principles ("GAAP") and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements include amounts that are based on the best estimates and judgment of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three independent directors who are not involved in the daily operations of the Company. The functions of the Audit Committee include the review of the quarterly and annual consolidated financial statements, review of the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters, and recommending the appointment of the external auditors. The Audit Committee meets at least quarterly with management to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, Smythe Ratcliffe LLP, conducted an independent examination, and expressed their opinion on the consolidated financial statements. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

"Thomas C. Patton" (signed)

Thomas C. Patton
President and Chief Executive Officer

"Scott Hean" (signed)

Scott Hean
Chief Financial Officer

Vancouver, Canada
March 24, 2011

Management's Report on Internal Control over Financial Reporting – United States

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of the internal controls over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2010. Based on management's assessment and those criteria, management has concluded that the internal control over financial reporting as at December 31, 2010 was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by Smythe Ratcliffe LLP, independent auditors, as stated in their report.

"Thomas C. Patton" (signed)

Thomas C. Patton
President and Chief Executive Officer

"Scott Hean" (signed)

Scott Hean
Chief Financial Officer

Vancouver, Canada
March 24, 2011

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Quaterra Resources Inc.
(An Exploration Stage Company)

We have audited the accompanying consolidated financial statements of Quaterra Resources Inc. (an exploration stage company), which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
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 and the standards of the Public Company Accounting Oversight Board (Untied States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Quaterra Resources Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in accordance with Canadian generally accepted accounting principles.

Smythe Ratcliffe LLP is a member firm of both the **PKF** International Limited network and **PKF** North America, which are, respectively, a network and an association of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

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Vancouver, BC V6C 2G8
Tel: 604 687 1231
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smytheratcliffe.com

Other Matter
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as at December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 24, 2011, expressed an unqualified opinion.

Chartered Accountants

Vancouver, British Columbia
March 24, 2011

COMMENTS BY AUDITORS FOR UNITED STATES READERS – U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the change as described in note 17 with respect to the U.S. GAAP reconciliation. Our report to the shareholders dated March 24, 2011 is expressed in accordance with Canadian reporting standards, which do not permit a reference to such changes in accounting principles in the auditors' report when such changes are properly accounted for and adequately disclosed in the financial statements.

Chartered Accountants

Vancouver, Canada
March 24, 2011

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SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Quaterra Resources Inc.
(An Exploration Stage Company)

We have audited Quaterra Resources Inc.'s (the "Company") internal control over financial reporting as at December 31, 2010 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risks. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2010 and 2009 and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2010, and our report dated March 24, 2011 expressed an unqualified opinion.

Chartered Accountants

Vancouver, Canada
March 24, 2011

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Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Balance Sheets
(Expressed in Canadian dollars)

		As at December 31	
		2010	**2009**
Assets			
Current assets:			
Cash and cash equivalents		$ 18,212,215	$ 4,795,220
Restricted cash		45,752	-
Investments	Notes 4 & 6(e)	61,667	26,000
Taxes and other receivables		307,987	60,323
Prepaids and deposits		253,036	177,603
Amounts due from Exploration Partners	Notes 6(a)&(b)	878,770	251,904
		19,759,427	5,311,050
Equipment	Note 5	218,343	163,094
Mineral properties	Note 6	45,085,670	36,091,683
Reclamation bonds		397,483	306,670
		$ 65,460,923	**$ 41,872,497**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 855,343	$ 628,750
Due to related parties	Note 9	41,225	250,637
		896,568	879,387
Shareholders' Equity			
Share capital	Note 8	91,360,190	63,168,843
Contributed surplus		15,643,693	13,453,030
Accumulated other comprehensive loss		(17,199)	(12,866)
Deficit		(42,422,329)	(35,615,897)
		64,564,355	40,993,110
		$ 65,460,923	**$ 41,872,497**

Nature of operations (Note 1)
Commitment (Note 15)
Subsequent events (Note 16)

Approved on behalf of the Board of Directors:

"Thomas Patton" (signed)
Thomas Patton

"Robert Gayton" (signed)
Robert Gayton

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Operations
(Expressed in Canadian dollars)

	Years ended December 31,		
	2010	**2009**	**2008**
General Administrative Expenses			
Administration	$ 152,030	$ 176,280	$ 179,610
Amortization	95,184	72,934	78,023
Consulting	369,779	366,384	740,365
Directors' fees	113,240	117,453	83,791
Investor relations and communications	274,827	171,989	422,467
Office and general	427,002	410,291	582,669
Professional fees	473,532	415,495	800,086
Regulatory fees and taxes	108,895	72,412	175,564
Personnel costs	833,372	427,453	537,267
Stock-based compensation (Note 8(c))	2,251,258	3,419,775	2,958,838
Transfer agent	48,310	41,677	38,790
Travel and promotion	134,443	54,871	139,617
Operating Expenses	(5,281,872)	(5,747,014)	(6,737,087)
Other			
General exploration costs	(794,571)	(423,681)	(633,741)
Foreign exchange gain (loss)	(324,828)	601,384	446,118
Interest income	22,435	3,250	55,555
Interest and financing charges	(11,114)	(593,824)	(33,752)
Exploration Partner administration fees (Notes 6(a) and (b))	155,639	34,003	68,726
Gain on sale of mineral property (Note 4)	50,000	-	-
Warrant modification expense	-	(95,252)	-
Impairment of mineral properties	(622,121)	(767,280)	-
	(1,524,560)	(1,241,400)	(97,094)
Loss for the year	(6,806,432)	(6,988,414)	(6,834,181)
Change in fair value on available-for-sale investment	(4,333)	(12,866)	-
Comprehensive loss for the year	$ (6,810,765)	$ (7,001,280)	$ (6,834,181)
Loss per share - basic and diluted	$ (0.06)	$ (0.08)	$ (0.08)
Weighted average number of common shares outstanding	122,095,093	92,443,572	86,304,153

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended December 31,		
	2010	**2009**	**2008**
Operating Activities			
Net loss for the year	$ (6,806,432)	$ (6,988,414)	$ (6,834,181)
Items not involving cash:			
Amortization	95,184	72,934	78,023
Commitment to issue shares for services	-	-	15,000
Gain on sale of mineral property	(50,000)	-	-
Interest expense on convertible notes	-	-	24,208
Stock-based compensation	2,251,258	3,419,775	2,958,838
Shares issued for services	90,000	90,000	90,000
Warrant modification expense	-	95,252	-
Impairment of mineral properties	622,121	767,280	-
Foreign exchange (gain) loss	(23,689)	132,304	(501,383)
Changes in non-cash working capital			
Taxes and other receivables	(247,664)	67,567	116,494
Prepaid and deposits	(75,433)	12,271	(81,721)
Accounts payable and accrued liabilities	15,551	(25,361)	63,103
Due to related parties	(209,412)	201,459	(37,213)
Cash used in operating activities	(4,338,516)	(2,154,933)	(4,108,832)
Financing Activities			
Shares issued for cash, net of share issue costs	27,685,252	9,975,207	10,972,246
Net proceeds from convertible notes	-	1,410,432	3,188,326
Repayment of promissory note	-	-	(270,050)
Cash provided by financing activities	27,685,252	11,385,639	13,890,522
Investing Activities			
Expenditures on mineral properties	(9,049,566)	(4,630,243)	(13,366,464)
Due from Exploration Partners	(626,866)	(163,794)	493,014
Purchase of equipment	(150,433)	(28,006)	(105,592)
Refund (purchase) of reclamation bonds	(90,813)	11,034	(178,212)
Proceeds from sale of mineral property	10,000	-	-
Restricted cash	(45,752)	56,028	(56,028)
Cash used in investing activities	(9,953,430)	(4,754,981)	(13,213,282)
Effect of foreign exchange on cash	23,689	(205,095)	566,282
Increase (decrease) in cash during the year	13,416,995	4,270,630	(2,865,310)
Cash and cash equivalents, beginning of year	4,795,220	524,590	3,389,900
Cash and cash equivalents, end of year	$ 18,212,215	$ 4,795,220	$ 524,590

Supplemental cash flow information (Note 12)

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares		Equity Component of	Contributed		Accumulated Other	
	Shares	Amount	Convertible Notes	Surplus	Deficit	Comprehensive Loss	Total
Balance at December 31, 2007	83,167,005	$ 36,875,448	$ -	$ 7,409,795	$ (21,793,302.00)	$ -	$ 22,491,941
Common shares issued during the year:							
Shares issued for cash, net of issue costs	3,482,500	10,414,556					10,414,556
Exercise of options	749,000	557,690					557,690
Shares issued for services	64,978	90,000					90,000
Commitment to issue shares for services				15,000			15,000
Equity portion of convertible notes issued			259,164				259,164
Fair value of options exercised		381,300		(381,300)			-
Stock-based compensation				2,958,838			2,958,838
Net loss for the year					(6,834,181)		(6,834,181)
Balance at December 31, 2008	87,463,483	48,318,994	259,164	10,002,333	(28,627,483)	-	29,953,008
Common shares issued during the year:							
Shares issued for cash, net of issue costs	15,227,410	8,841,083					8,841,083
Exercise of options	60,200	33,220					33,220
Exercise of warrants	1,670,000	1,100,905					1,100,905
Shares issued for services	178,483	90,000		(15,000)			75,000
Shares issued for finders' fees	114,000	(45,150)		45,150			-
Shares issued for convertible notes, net of issue costs	6,545,795	4,583,311	(379,150)	-			4,204,161
Shares issued for property	200,000	137,000					137,000
Commitment to issue shares for services				15,000			15,000
Equity portion of convertible notes issued			119,986				119,986
Fair value of options and warrants exercised		109,480		(109,480)			-
Stock-based compensation				3,419,775			3,419,775
Warrant modification expense				95,252			95,252
Unrealized loss on available-for-sale investment						(12,866)	(12,866)
Net loss for the year					(6,988,414)		(6,988,414)
Balance at December 31, 2009	111,459,371	63,168,843	-	13,453,030	(35,615,897)	(12,866)	40,993,110
Common shares issued during the year:							
Shares issued for cash, net of issue costs	14,725,618	19,955,427		-			19,955,427
Exercise of options	1,230,000	950,700					950,700
Exercise of warrants	8,724,486	6,779,125					6,779,125
Shares issued for services	74,686	90,000					90,000
Fair value of compensation options		(533,480)		533,480			
Shares issued for property (Notes 6(b) and (c))	250,000	355,500					355,500
Fair value of options and warrants exercised		594,075		(594,075)			-
Stock-based compensation				2,251,258			2,251,258
Unrealized gain on available-for-sale investments						(4,333)	(4,333)
Net loss for the year					(6,806,432)		(6,806,432)
Balance at December 31, 2010	**136,464,161**	**$ 91,360,190**	**$ -**	**$ 15,643,693**	**$ (42,422,329)**	**$ (17,199)**	**$ 64,564,355**

(See accompanying notes to consolidated financial statements)

1. NATURE OF OPERATIONS

Quaterra Resources Inc., along with its subsidiary companies (collectively "Quaterra" or "the Company"), is engaged in the acquisition and exploration of precious and base metal mineral properties in the United States and Mexico.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company incurred a net loss of $6,806,432 for the year ended December 31, 2010 (2009 - $6,988,414, 2008 - $6,834,181). As at December 31, 2010, the Company had an accumulated deficit of $42,422,329 (2009 - $35,615,897).

During the year, the Company raised $27,685,252 through private placements and exercise of stock options and share purchase warrants. Management believes that its remaining cash resources, together with the expectation of continuing contributions by its exploration partners demonstrates that the going concern assumption is appropriate for the preparation of these consolidated financial statements.

The business of mining exploration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining operations. The recoverability of amounts shown for mineral properties is dependent on several factors. These include the discovery of economically recoverable reserves, and the ability of the Company to obtain financing to complete exploration and development of its properties, establish future profitable production or receive proceeds from disposition of mineral properties. The carrying value of the Company's mineral properties does not reflect current or future values.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars. As described in Note 17, accounting principles generally accepted in Canada differ in certain material respects from accounting principles generally accepted in the United States ("U.S. GAAP").

These consolidated financial statements include the accounts of the Company, its wholly-owned integrated subsidiaries and its proportionate share of the accounts of its joint venture. The wholly- owned subsidiaries include Quaterra Alaska Inc. - incorporated in the United States, Minera Agua Tierra S.A. de C.V. - incorporated in Mexico, and Quaterra International Limited - incorporated in the British Virgin Islands. All significant inter-company accounts and transactions have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral Properties

The Company defers all costs related to investments in mineral interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred resource property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, a provision is made for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When recoveries exceed the carrying value of the interest, the excess is recognized in the statements of operations.

Asset Retirement Obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements 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 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. At present the Company has determined that it has no material AROs to record in the financial statements.

Cash Equivalents

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. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Revenue Recognition

Exploration partner administration fees and interest income are recognized when earned and reasonable collection is assured.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments over which the Company has no significant influence are classified as available-for-sale and are carried at quoted market value. Resulting unrealized gains or losses are reflected in other comprehensive income, while realized gains or losses are reflected in operations.

Equipment

Equipment is recorded at cost and amortization begins when the asset is substantially put into service. 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.

The Company reviews the carrying value of its equipment on a regular basis and where the carrying value exceeds the estimated undiscounted future net cash flows, a provision for impairment is recorded based on the discounted estimated future cash flows.

Reclamation Bonds

Certain cash is held in long-term reclamation bonds to support future reclamation work in the United States. No interest is earned on these bonds.

Convertible Notes

Convertible notes are split into their corresponding debt and equity components at the date of issue. The debt component is classified as a liability and initially recorded at the present value of the Company's obligation to make future principal and interest payments. The equity component represents the value of the conversion right and attached warrants and is recorded using the residual value approach.

Foreign Currency Translation

The functional and reporting currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

i Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
ii Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
iii. Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options or warrants is measured on the earlier of the date at which the counterparty performance is complete, the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options or warrants is charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

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 substantively enacted. 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.

Use of Estimates

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, the bifurcation of the convertible notes into debt and equity components, the determination of AROs and environmental restoration, 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 could impact future results of operations and cash flows.

Joint Venture

Certain of the Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities. Joint venture accounting, which reflects the Company’s proportionate interest in mineral properties, is applied by the Company only when the parties enter into formal comprehensive agreements for ownership and mining participation terms.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Instruments

Financial instruments are classified as one of the following: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in operations. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company categorizes its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Loss per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Unit Offerings

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of the announcement of the placement and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against share proceeds.

Non-Monetary Transaction

Shares issued for consideration other than cash are valued at the quoted market price at the date of issue.

3. ACCOUNTING CHANGES

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim consolidated financial statements for the three months ended March 31, 2011, which must include the interim results for the prior period ended March 31, 2010 prepared on the same basis. The Company is completing the evaluation of the impact of the conversion on the Company's consolidated financial statements and consideration of accounting policy choices available under IFRS.

Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred.

Section 1601, "Consolidated Financial Statements", replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011.

Section 1602, "Non-Controlling Interests", establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to IFRS on consolidated and separate financial statements. This standard is effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011.

All three sections must be adopted concurrently. The Company will evaluate the impact of the adoption of these sections on the Company's consolidated financial statements in the event of a business combination.

4. INVESTMENTS

The Company obtained common shares in Copper Ridge Exploration Inc. ("Copper Ridge") and Auramex Resource Corp. ("Auramex"), which are classified as available-for-sale. The Copper Ridge shares were obtained in consideration for payments required pursuant to an option agreement on the Duke Island property, located in Alaska, United States (Note 6(e)). The Auramex shares were obtained for part consideration of sale of a property in British Columbia, Canada, which was previously written off in 1999. The Company also received a cash payment of $10,000 for the sale of this property in 2010.

	Cost	Fair Value
Balance December 31, 2008	$ -	$ -
Acquisition, 66,667 Copper Ridge common shares	38,866	38,866
Fair value adjustment	-	(12,866)
Balance December 31, 2009	38,866	26,000
Acquisition, 1,000,000 Auramex Resource common shares	40,000	40,000
Fair value adjustment	-	(4,333)
Balance December 31, 2010	$ 78,866	$ 61,667

5. EQUIPMENT

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

	December 31, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer	$ 37,482	$ 33,842	$ 3,640	$ 37,482	$ 26,685	$ 10,797
Office equipment	93,651	63,679	29,972	81,714	46,788	34,926
Software	59,866	59,866	-	59,866	49,963	9,903
Vehicles	354,228	169,497	184,731	215,732	108,264	107,468
	$ 545,227	$ 326,884	$ 218,343	$ 394,794	$ 231,700	$ 163,094

6. MINERAL PROPERTIES

The total deferred exploration and acquisition costs of mineral properties for 2010 and 2009 were as follows:

	Mexico		United States					
Mineral Properties	**Nieves**	**Other Properties**	**MacArthur**	**Yerington**	**Alaska**	**Uranium Properties**	**Other Properties**	**Total**
Acquisition								
Balance, December 31, 2009	$ 1,413,183	$ 795,977	$ 1,069,819	$ 1,659,336	$ 275,707	$ 3,951,141	$ 2,171,767	$ 11,336,930
Additions during the year	59,713	545,000	661,681	440,897	1,226	507,855	547,672	2,764,044
Impairment during the year	-	-	-	-	-	-	(553,509)	(553,509)
Recoveries	-	(73,089)	-	-	-	-	-	(73,089)
Balance, December 31, 2010	1,472,896	1,267,888	1,731,500	2,100,233	276,933	4,458,996	2,165,930	13,474,376
Exploration								
Balance, December 31, 2009	2,017,463	3,521,777	8,299,960	739,824	2,410,713	7,391,365	373,651	24,754,753
Geological	130,028	929,677	818,559	40,762	4,489	146,931	320,283	2,390,729
Geophysical	128,440	1,177,042	11,741	-	540	3,740	8,938	1,330,441
Geochemical	84,744	236,425	406,841	488	-	2,474	51,942	782,914
Drilling	362,299	1,473,420	1,053,838	-	-	-	299,093	3,188,650
Technical studies	36,545	51,064	25,560	22,750	-	50,328	-	186,247
Other	20,612	140,101	204,297	35,530	-	16,369	20,250	437,159
Additions during the year	762,668	4,007,729	2,520,836	99,530	5,029	219,842	700,506	8,316,140
Impairment during the year	-	-	-	-	-	-	(68,612)	(68,612)
Recoveries	-	(1,390,987)	-	-	-	-	-	(1,390,987)
Balance, December 31, 2010	2,780,131	6,138,519	10,820,796	839,354	2,415,742	7,611,207	1,005,545	31,611,294
Total acquisition and exploration at December 31, 2010	**$ 4,253,027**	**$ 7,406,407**	**$ 12,552,296**	**$ 2,939,587**	**$ 2,692,675**	**$ 12,070,203**	**$ 3,171,475**	**$ 45,085,670**

6. MINERAL PROPERTIES (Continued)

	Mexico		United States					
Mineral Properties	**Nieves**	**Other Properties**	**MacArthur**	**Yerington**	**Alaska**	**Uranium Properties**	**Other Properties**	**Total**
Acquisition								
Balance, December 31, 2008	$ 1,355,726	$ 632,868	$ 812,380	$ 1,338,894	$ 254,772	$ 3,534,618	$ 1,628,601	$ 9,557,859
Additions during the year	57,457	168,052	257,439	320,442	20,935	416,523	568,449	1,809,297
Impairments during the year	-	(4,943)	-	-	-	-	(25,283)	(30,226)
Balance, December 31, 2009	1,413,183	795,977	1,069,819	1,659,336	275,707	3,951,141	2,171,767	11,336,930
Exploration								
Balance, December 31, 2008	1,734,890	3,173,142	7,452,228	689,125	2,357,173	6,982,347	938,307	23,327,212
Geological	53,689	255,987	396,159	49,839	44,336	209,249	66,408	1,075,667
Geochemical	35,113	28,221	102,055	-	-	-	34,303	199,692
Drilling	131,369	6,773	39,192	-	-	33,852	29,916	241,102
Technical Studies	31,379	-	115,069	-	-	-	-	146,448
Other	31,023	65,731	195,257	860	9,204	165,917	33,694	501,686
Additions during the year	282,573	356,712	847,732	50,699	53,540	409,018	164,321	2,164,595
Impairments during the year	-	(8,077)	-	-	-	-	(728,977)	(737,054)
Balance, December 31, 2009	2,017,463	3,521,777	8,299,960	739,824	2,410,713	7,391,365	373,651	24,754,753
Total acquisition and exploration at December 31, 2009	**$ 3,430,646**	**$ 4,317,754**	**$ 9,369,779**	**$ 2,399,160**	**$ 2,686,420**	**$ 11,342,506**	**$ 2,545,418**	**$ 36,091,683**

6. MINERAL PROPERTIES (Continued)

a) Nieves Concessions, Mexico

The Company originally owned a 100% interest in the Nieves silver property located in northern Zacatecas, Mexico. In 2003 the Company entered into an agreement with U.S.-based Blackberry Ventures 1, LLC ("Blackberry"). Pursuant to the terms of the agreement, Blackberry advanced US$1,500,000 to the Company and earned a 50% interest in the property. Accordingly, the Company owns the remaining 50% interest. All work plans are made in consultation with the joint venture partner, Blackberry, which contributes its share of ongoing exploration costs plus a 10% administration fee.

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, retained 2% NSR on certain core claims and 1% on certain peripheral claims. On January 24, 2007, this NSR was purchased by Royal Gold Inc. Commencing January 26, 2004, an annual advance minimum royalty ("AMR") payment of US$75,000 is due to the concession holders until the commencement of commercial production.

During the year ended December 31, 2010, the Company received US$765,358 from Blackberry in respect to its share of ongoing exploration costs that were incurred on the property. As of December 31, 2010, US$354,454 (2009 - US$239,680) was due from Blackberry.

b) Other Properties, Mexico

(i) Goldcorp Inc. ("Goldcorp") - Investment Framework Agreement ("IFA")

On January 29, 2010, the Company entered into an IFA with Goldcorp for its mining properties in central Mexico (except the Nieves property). The IFA provides Goldcorp with an option to acquire an interest in these properties in return for funding a two-year generative exploration program through a private placement investment of US$10 million in the Company; US$4 million was received in February 2010 (Note 8(a)) and US$6 million in February 2011 (Note 16(a)). Each private placement unit consists of one common share and one-half of one common share purchase warrant.

Goldcorp has the right to select any of these properties for advanced exploration (as an "Advanced Property") by giving appropriate notice in writing within three or four years from January 29, 2010 pending determination whether Goldcorp has exercised the warrants.

If Goldcorp does not exercise all of the warrants by January 29, 2012, the generative exploration program will end on that date, but Goldcorp shall retain the right to select an Advanced Property until January 29, 2013. If Goldcorp exercises all of the warrants by January 29, 2012, the generative exploration program will be continued through 2013 and Goldcorp will retain the right to select an Advanced Property until January 29, 2014.

Once a property has been designated as an Advanced Property, Goldcorp must spend a total of US$2 million within two years from the date of the designation and will be entitled to a 2% NSR if that

6. MINERAL PROPERTIES (Continued)

b) Other Properties, Mexico (Continued)

(i) Goldcorp Inc. - Investment Framework Agreement ("IFA") (Continued)

property is relinquished in the future. Goldcorp will relinquish its interest in any Advanced Property should the expenditure requirements not be met.

Upon having spent at least US$2 million on an Advanced Property, Goldcorp shall have the option to earn a 65% interest on that Advanced Property by completing a Feasibility Study, provided that its annual expenditures on the Advanced Property shall exceed US$1 million, inclusive of Feasibility Study costs.

On February 5, 2010, Goldcorp selected the Sierra Sabino property for advanced exploration. The Company has incurred US$1,429,444 in exploration expenditures of which US$508,588 was due from Goldcorp as of December 31, 2010.

(ii) Santo Domingo, Mexico (part of IFA)

On January 6, 2010, the Company entered into an option agreement with La Cuesta International Inc. ("LCI"), pursuant to which the Company has an option to acquire a 100% interest in four mineral concessions located in Durango, Mexico, known as the Santo Domingo prospect. Total consideration consists of US$7.5 million in cash payments, including NSR royalties, 100,000 common shares of the Company and $50,000 (incurred) in work expenditures as follows:

(i) US$10,000 and 100,000 common shares on January 6, 2010 (paid and issued); and US$10,000 on July 1, 2010 (paid)
(ii) US$15,000 on or before January 1, 2011 (paid) and US$15,000 on or before July 31, 2011
(iii) US$20,000 on or before January 1, 2012 and US$20,000 on or before July 31, 2012
(iv) Commencing January 1, 2013, US$25,000 every six months.

The property is subject to 1% NSR on materials removed from the property, and 0.5% on any properties acquired within a specified area. The Company shall pay a minimum of US$25,000 per calendar quarter or the NSR, whichever is greater, upon commencing mining operations.

(iii) Tecolote (formerly East Durango), Mexico (part of IFA)

On September 30, 2008, the Company and EXMIN Resources Inc. ("EXMIN") entered into an agreement allowing the Company to earn a 75% interest in EXMIN's Tecolote Property, Mexico. Under the terms of the agreement, the Company can earn a 75% interest in the property by spending US$500,000 (US$145,475 incurred) in exploration costs before September 30, 2012 plus making cash payments as follows:

(i) US$20,000 each on or before September 30, 2008 and 2009 (paid)
(ii) US$20,000 on or before September 30, 2010 (paid)
(iii) US$40,000 on or before September 30, 2011.

6. MINERAL PROPERTIES (Continued)

c) MacArthur Claim, United States

Pursuant to an agreement dated September 13, 2005, and as subsequently amended, 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 Mining District of Lyon County, Nevada. The Company may elect to acquire the property by making the following payments:

(i) US$110,000 on or before January 15, 2007 (paid)
(ii) US$100,000 on or before January 15, 2008 (paid)
(iii) US$125,000 on or before January 15, 2009 (paid)
(iv) US$300,000 and 150,000 shares by January 15, 2010 (paid and issued)
(v) US$524,000 on or before January 15, 2011 (paid)
(vi) US$1,048,000 plus interest at the rate of 6% per annum by January 15, 2012 or US$524,000 plus interest by January 15, 2012 and 2013, respectively.

The property is subject to a 2% NSR, which may be reduced to 1% for US$1 million.

d) Yerington, United States

On May 1, 2007, the Company received approval from the appropriate US court for the acquisition of all Arimetco assets in the Yerington Mining District. The purchase price comprises US$500,000 cash and 250,000 common shares of the Company. The original 180-day due diligence review period that began on July 13, 2007 has currently been extended to July 12, 2011. Up to December 31, 2010, the Company paid US$333,350 and issued 250,000 common shares. The Company paid a further US$25,000 in March 2011 and may elect to acquire a 100% interest in the property by making a total further payment of US$141,650 once the due diligence review has been completed.

The property is subject to a 2% NSR to a maximum of US$7.5 million on commencement of commercial production.

e) Alaska Properties (Duke Island and Herbert Glacier), United States

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. To earn a 100% interest, the Company is required to make annual payments of US$12,000 from November 2007 to 2011, US$20,000 from November 2012 to 2017, and US$30,000 from November 2018 and every consecutive anniversary thereafter. Up to December 31, 2010, the Company has paid US$36,000.

The property is subject to a NSR on commencement of commercial production as follows:

(i) 3.0% on gold prices less than US$400/ounce
(ii) 3.5% on gold prices between US$401/ounce and US$500/ounce
(iii) 4.0% on gold prices between US$501/ounce and US$600/ounce
(iv) 5.0% on gold prices above US$601/ounce.

6. MINERAL PROPERTIES (Continued)

e) Alaska Properties (Duke Island and Herbert Glacier), United States (Continued)

On June 17, 2010, the Company signed an option agreement with Grande Portage Resources for the Herbert Glacier property. Under the terms of the agreement, Grande Portage can earn a 51% interest by spending US$750,000 on or before June 15, 2011, and has the option to earn an additional 14% interest by spending US$500,000 on or before June 15, 2012.

If Grande Portage earns an interest, the two parties will form a joint venture to further explore and develop the property. If the interest of either party falls to 10% or less, it will revert to a 1% NSR, which may be acquired by the other party at any time for US$1 million.

On September 29, 2009, the Company signed an option agreement with Copper Ridge for its 100% owned Duke Island property located in southeast Alaska. The agreement provides that Copper Ridge can earn up to a 51% interest by issuing 66,667 common shares (received) and spending US$3 million on exploration by December 31, 2012, with a minimum of US$750,000 to be spent by December 31, 2010. Refer to Note 16(d).

f) Uranium Properties (Arizona, Utah and Wyoming), United States

Pursuant to a June 2005 agreement with North Exploration LLC, the Company acquired an option to purchase mining claims situated in Arizona, Utah and Wyoming. The Company is required to make the following payments and issue common shares as follows:

(i) US$165,000 and 600,000 common shares on or before September 6, 2008 (paid and issued)
(ii) US$135,000 on or before September 6, 2009 (extended to October 6, 2009) (paid)
(iii) US$200,000 on or before September 6, 2010 (paid).

The agreement is subject to a 2% NSR upon commencement of commercial production, which can be reduced to 1% for US$1 million.

Pursuant to an August 2006 agreement, as amended August 14, 2009, with Nustar Exploration LLC (“NuStar”), the Company leased 18 claims in the Arizona Strip District. The Company is required to pay the following:

(i) US$90,000 on or before August 10, 2008 (paid)
(ii) US$100,000 on or before August 10, 2011.

Each group of claims within this agreement is subject to a 4% royalty upon commencement of commercial production of which 3% royalty can be bought back for US$500,000 per claim group.

On March 23, 2007, the Company entered into a Purchase and Royalty Agreement with NuStar to acquire certain unpatented lode mining claims in Mohave County, Arizona, for US$125,000 cash payment. The claims are subject to a 4% royalty of which 75% can be purchased for US$1 million (reduced from 4% to 1%) as it applies to each breccia pipe discovered on the claims

6. MINERAL PROPERTIES (Continued)

f) Uranium Properties (Arizona, Utah and Wyoming), United States (Continued)

The lawsuit filed by three environmental groups in September 2008 against the U.S. Secretary of Interior, the U.S. Department of Interior and U.S. Bureau of Land Management ("BLM") for authorizing uranium exploration on one million acres of public land near Grand Canyon was dismissed on February 22, 2010. Exploration on federal lands in the Arizona Strip is presently restricted by a segregation order that is in force until July 2011 when the Secretary of the Department of the Interior will decide if and what specific areas are to be withdrawn from mineral entry.

During 2010, the Company filed notice of appeal shortly after BLM issued decision to declare null and void certain mining claims owned by the Company. BLM officially rescinded its decision on January 26, 2011.

g) Other Properties, United States

(i) Copper Canyon Project

Pursuant to an agreement in November 2007, as amended October 9, 2009 and October 19, 2010, 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 payments totaling US$625,000 as follows:

(i) Initial payment of US$15,000 (paid) and US$35,000 on or before November 6, 2008 (paid)
(ii) US$35,000 on or before November 6, 2009 (paid)
(iii) Commencing November 6, 2010, US$35,000 (paid) annually through November 6, 2024
(iv) US$15,000 on or before November 6, 2025.

The property is subject to a 2.5% NSR on commencement of commercial production, which can be reduced to 2% for US$500,000. Should the Company decide to commence commercial production, a payment of US$750,000 is due within five business days from the date the decision is made.

(ii) Gray Hills

Pursuant to an agreement made in July 2007, as amended July 24, 2009, the Company entered into a lease with an option to purchase certain mining claims, known as the Gray Hills claims in Lyon County, Nevada. To earn a 100% interest, the Company is required to make payments as follows:

(i) US$60,000 on or before July 11, 2008 (paid)
(ii) US$15,000 on or before July 11, 2009 (paid)
(iii) US$35,000 on or before July 11, 2010 (paid)
(iv) US$40,000 on or before July 11, 2011 and each anniversary.

6. MINERAL PROPERTIES (Continued)

g) Other Properties, United States (continued)

(ii) Gray Hills (continued)

The Company may exercise its option to purchase the property at any time for US$500,000. The property is subject to a 3% NSR on commencement of commercial production, up to 2% of which may be reduced for US$500,000 per 1%.

(iii) South West Tintic and Peg Leg

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 South West Tintic Claims in Juab County, Utah. To earn a 100% interest, the Company was required to make US$1 million option payments (US$60,000 paid) over 10 years.

Effective May 29, 2009, the Company signed an earn-in agreement with Freeport-McMoRan Exploration Corporation ("FMEC") of Phoenix, Arizona, for the property. Under the terms of the agreement, FMEC has the exclusive right and option to acquire a 70% ownership interest in this property by making a US$275,000 property payment (paid) and by spending US$4.725 million on exploration costs over four years.

The property is subject to a 2% NSR on commencement of commercial production, which may be reduced to 1% for US$1 million.

On August 27, 2009, the Company signed an earn-in agreement with FMEC for the Company's Peg Leg copper project in Arizona. FMEC has the exclusive right and option to acquire a 70% interest in the Peg Leg project by spending US$3 million on exploration by December 31, 2012.

(iv) Cave Peak Molybdenum Prospect

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) US$100,000 on or before March 27, 2008 (paid)
(ii) US$60,000 on or before March 27, 2009 (paid)
(iii) US$70,000 on or before March 27, 2010 (paid)
(iv) US$150,000 on or before March 27, 2011 (to be paid by FMEC)
(v) US$220,000 on or before March 27, 2012.

6. MINERAL PROPERTIES (Continued)

g) Other Properties, United States (Continued)

(iv) Cave Peak Molybdenum Prospect (Continued)

On July 24, 2009, the Company acquired a mining lease with the State of Texas for 19 years for a total of US$120,462 (US$30,462 paid) depending on submittal of exploration and mining plan of operations. If production has not commenced before one year of the date of the lease, the lease will be terminated unless delay payments are made on anniversary dates during the lease term as follows:

(i) US$26,190 on July 24, 2010 (paid)
(ii) US$26,190 on each anniversary date between 2011 and 2013
(iii) US$39,280 on each anniversary date between 2014 and 2018
(iv) US$78,560 on each anniversary date between 2019 and 2023
(v) US$104,750 on each anniversary date between 2024 and 2027.

Effective November 1, 2010, the Company entered into an option agreement with FMEC, which allows FMEC to earn 70% of this property by paying future land and lease holding costs and by spending US$5 million in exploration expenditures by December 31, 2015. Except for the 2011 land holding costs, which are a firm commitment, all other exploration expenditures are optional.

This property is subject to a production royalty of 6.25% on commencement of commercial production with an annual AMR of US$500,000.

(v) Willow Creek Molybdenum Prospect

Effective October 11, 2008, as amended October 20, 2009, the Company entered into an option agreement with Willow Creek Discovery Group, LLC to acquire 100% of the Willow Creek porphyry molybdenum prospect in southwestern Montana. The Company has the right to earn a 100% interest in the property by making the following lease payments to Willow Creek Discovery Group, LLC over a six-year period and issuing 200,000 common shares of the Company as follows:

(i) US$75,000 and 100,000 shares on or before October 11, 2008 (paid and issued)
(ii) US$30,000 and 100,000 shares on October 11, 2009 (paid and issued)
(iii) US$150,000 or US$50,000 and additional 100,000 shares by October 11, 2010 (note 16)
(iv) US$150,000 on October 11, 2011
(v) US$350,000 on October 11, 2012
(vi) US$750,000 on October 11, 2013
(vii) US$1,000,000 on October 11, 2014.

6. MINERAL PROPERTIES (Continued)

g) Other Properties, United States (Continued)

(v) Willow Creek Molybdenum Prospect (continued)

A total of US$395,000 annual AMR are required as follows:

(i) US$5,000 on or before September 10, 2008 (paid)
(ii) US$15,000 on or before May 9, 2009 (paid)
(iii) US$20,000 on or before September 10, 2009 (paid)
(iv) US$20,000 on or before March 10, 2010 (paid)
(v) US$40,000 on or before September 10, 2010 (paid)
(vi) US$50,000 on or before September 10, 2011
(vii) US$65,000 on or before September 10, 2012
(viii) US$80,000 on or before September 10, 2013
(ix) US$100,000 on or before September 10, 2014.

The property is subject to a 2% NSR upon commencement of commercial production. In the event royalty payments are imposed by government agencies such that the total royalty exceeds the equivalent of 4% NSR, the Company can exercise the right to reduce the NSR by 1% for US$1 million within one year of commencement of commercial production.

(vi) Klondike and Reveille Properties

Pursuant to an agreement made in August 2010, the Company entered into a lease with an option to purchase certain mining claims, known as the Klondike and Reveille claims in Eureka and Nye County, Nevada, respectively. The total consideration is US$2 million over 10 years as follows:

(i) US$40,000 upon execution (paid)
(ii) US$40,000 on or before July 31, 2011
(iii) US$40,000 on or before July 31, 2012
(iv) US$80,000 on or before July 31, 2013
(v) US$100,000 on or before July 31, 2014
(vi) US$100,000 on or before July 31, 2015
(vii) US$200,000 on or before July 31, 2016
(viii) US$200,000 on or before July 31, 2017
(ix) US$200,000 on or before July 31, 2018
(x) US$500,000 on or before July 31, 2019
(xi) US$500,000 on or before July 31, 2020.

Each property is subject to a 2% NSR on commencement of commercial production of which 1% can be bought down for US$1 million.

6. MINERAL PROPERTIES (Continued)

g) Other Properties, United States (Continued)

(vii) Wassuk Copper Project (formerly Majuba Hill)

On December 19, 2007, the Company entered into a mining lease with option to purchase agreement with Majuba Mining Ltd. to earn an interest in certain unpatented mining claims in Lyon County, Nevada, for US$3 million.

The property was impaired in 2010 due to lack of exploration merits.

h) Realization of Assets

The Company's investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in the assets is dependent on establishing legal ownership of the property interest, on the attainment of successful commercial production or from the proceeds of its disposal. The recoverability of the amounts shown for the mineral property interest is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the property interest, and upon future profitable production or proceeds from the disposition thereof.

i) Title to Mineral Properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history of many mineral properties. Although the Company has taken steps to ensure title to the mineral property in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

j) Environmental Matters

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

7. CONVERTIBLE NOTES

During the year ended December 31, 2009, the Company issued 6,545,795 common shares upon conversion of convertible promissory notes ("Notes") previously issued as part of private placement units amounting to $4,583,311 including accrued interest.

Each unit consisted of one Note and one non-transferable warrant exercisable at a price of US$0.75 for 24 months from the date of issuance. The Notes bore interest at a rate of 10% per annum, maturing 24 months from date of issuance or upon conversion or redemption.

Pursuant to the warrant indenture, the warrants contain a provision that in the event the Company's common shares trade at a closing price of greater than US$1.00 per share for a period of 10 consecutive days at any time after issue of the warrant, the Company may accelerate the expiry date of the warrants by providing notice to the holders thereof and in such case the warrants will expire on the thirtieth day after notice. This provision was met during 2009. The Company accelerated the expiry date of these warrants on April 21, 2010; 6,083,957 warrants were exercised for gross proceeds of $4,798,307 (US$4,562,968) and 37,001 warrants expired unexercised (see Note 8(b)).

Prior to conversion, the net value assigned to the liability component on issuance was calculated as the present value of the principal and interest payments using an effective interest rate of 15% as follows:

		2009
Liability component of convertible notes - beginning of year	$	2,953,370
Present value of convertible notes issued in year		1,356,114
Interest		518,520
Conversion of convertible notes		(4,583,310)
Foreign exchange revaluation		(244,694)
Liability component of convertible notes - end of year	$	-
Equity component of convertible notes - beginning of year	$	259,164
Equity component of convertible notes issued in year		119,986
Conversion of equity component of convertible notes		(379,150)
Equity component of convertible notes - end of year	$	-

8. SHARE CAPITAL

a) **Common Stock**

Authorized - unlimited common shares without par value

On October 27, 2010, the Company completed a brokered private placement of 11,724,200 units at a unit price of $1.45 for gross proceeds of $17,000,090. Each unit consists of one common share and one-half of one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $1.90 on or before October 27, 2012.

8. SHARE CAPITAL (Continued)

a) **Common Stock (Continued)**

Agent compensation with respect to this private placement amounted to $1,020,005 in cash and 703,452 non-transferable compensation options with a fair value of $533,480, which has been recorded as a share issue cost. Each compensation option is exercisable at a price of $1.45 on or before October 27, 2012 (see Note 8(c)).

Other share issuance costs related to the private placements amounted to $256,657.

On February 4, 2010, the Company completed a private placement of 3,001,418 units for gross proceeds of US$4.0 million ($4,231,999) pursuant to the Goldcorp IFA dated January 29, 2010 (Note 6(b)). Each unit consists of one common share and one-half of one share warrant with an exercise price of $1.76 expiring February 4, 2012.

During the year ended December 31, 2010, 74,686 common shares were issued at fair value for financial advisory services of $90,000.

b) **Share Purchase Warrants**

The following summarizes information about the warrants outstanding:

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	21,584,701	$ 0.80	6,104,041	$ 0.85
Issued pursuant to private placements	7,362,809	$ 1.87	15,341,410	$ 0.75
Issued pursuant to convertible notes	-	$ -	1,950,500	$ 0.94
Expired	(37,001)	$ 0.94	(141,250)	$ 0.68
Exercised	(8,724,486)	$ 0.87	(1,670,000)	$ 0.66
Outstanding, end of year	20,186,023	$ 1.16	21,584,701	$ 0.80

On April 21, 2010, the Company accelerated the expiry date of 6,120,958 outstanding warrants related to the convertible notes to May 25, 2010. Of these warrants, 6,083,957 were exercised and 37,001 expired unexercised.

8. SHARE CAPITAL (Continued)

b) **Share Purchase Warrants (Continued)**

The following summarizes information about the warrants outstanding at December 31:

Expiry Date	Exercise Price	2010	2009
November 27, 2010	US $ 0.75	-	1,921,458
December 19, 2010	US $ 0.75	-	2,441,333
January 15, 2011	US $ 0.75	-	1,880,500
September 29, 2011	$ 0.75	7,978,540	9,666,206
October 28, 2011	$ 0.75	4,844,674	5,675,204
February 4, 2012	$ 1.76	1,500,709	-
October 27, 2012	$ 1.90	5,862,100	-
		20,186,023	**21,584,701**

As of December 31, 2010, the aggregate intrinsic value of the outstanding US dollar denominated warrants was $Nil (2009 - $7,242,218) and $16,369,817 (2009 - $19,176,763) for the outstanding Canadian dollar denominated warrants.

c) **Stock Options**

The Company has a stock option plan (the "Plan") allowing for the reservation of common shares issuable under the Plan to a maximum of 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. Stock options are exercisable once they have vested under the terms of the grant. The following summarizes information about the Company's options outstanding and exercisable:

	2010		2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	9,237,000	$ 1.56	7,200,500	$ 2.56
Granted	2,790,000	$ 1.40	4,880,000	$ 1.00
Cancelled (due to modification)	-	$ -	(2,575,000)	$ 3.24
Forfeited	(173,000)	$ 2.25	(158,300)	$ 3.10
Expired	-	$ -	(50,000)	$ 0.62
Exercised	(1,230,000)	$ 0.77	(60,200)	$ 0.55
Outstanding, end of year	10,624,000	$ 1.60	9,237,000	$ 1.56
Exercisable, end of year	10,457,333	$ 1.59	9,237,000	$ 1.56

8. SHARE CAPITAL (Continued)

c) **Stock Options (Continued)**

Price	Expiry Date	2010	2009
$ 0.35	August 9, 2010	-	270,000
$ 0.40	January 29, 2011	-	200,000
$ 1.04	March 27, 2011	-	125,000
$ 1.00	May 19, 2011	50,000	75,000
$ 1.12	June 12, 2011	100,000	100,000
$ 1.55	July 28, 2011	1,364,000	1,431,000
$ 1.55	August 23, 2011	100,000	100,000
$ 1.50	September 25, 2011	100,000	100,000
$ 3.33	July 20, 2012	805,000	836,000
$ 3.45	March 31, 2013	150,000	150,000
$ 3.30	June 19, 2013	945,000	970,000
$ 0.98	November 9, 2014	2,145,000	2,575,000
$ 1.02	November 9, 2014	2,185,000	2,305,000
$ 2.00	January 14, 2015	120,000	-
$ 1.80	April 1, 2015	100,000	-
$ 1.76	April 22, 2015	200,000	-
$ 1.29	August 9, 2015	2,095,000	-
$ 1.55	October 6, 2015	65,000	-
$ 1.51	November 3, 2015	100,000	-
Total options outstanding		10,624,000	9,237,000

The weighted average remaining contractual life of options outstanding at December 31, 2010 was 3.19 years (2009 – 3.55 years).

The weighted average grant date fair value of options granted during the year ended December 31, 2010 was $0.83 (2009 - $0.52) .

The allocation of stock-based compensation included in the statements of operations was as follows:

	2010		2009		2008	
	Number of Options Issued	Stock-based Compensation	Number of Options Issued	Stock-based Compensation	Number of Options Issued	Stock-based Compensation
Consultants	1,460,000	$ 1,175,872	2,520,000	$ 1,661,209	975,000	$ 933,628
Directors and officers	960,000	787,668	1,900,000	1,367,326	1,095,000	1,606,898
Employees	370,000	287,718	460,000	391,240	320,000	418,312
Total	2,790,000	$ 2,251,258	4,880,000	$ 3,419,775	2,390,000	$ 2,958,838

8. SHARE CAPITAL (Continued)

c) **Stock Options (Continued)**

The Company uses the following weighted average assumptions to fair value the options granted using the Black-Scholes option pricing model:

	2010	2009	2008
Risk-free interest rate	4.45%	1.89%	4.57%
Expected share price volatility	91.91%	81.56%	89.42%
Expected option life in years	3.0	3.0	3.0
Forfeiture rate	0%	0%	0%
Expected dividend yield	0%	0%	0%

As of December 31, 2010, the aggregate intrinsic value of the outstanding and exercisable stock options was $6,503,913 (2009 - $6,672,850).

Agent Compensation Options

	2010	
	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	-	$ -
Granted	703,452	$ 1.45
Outstanding, end of year	703,452	$ 1.45

The weighted average remaining contractual life of the agent compensation options outstanding at December 31, 2010 was 1.82 (2009 – nil) years. The weighted average fair value of agent compensation options was $0.76.

The Company uses the following weighted average assumptions to fair value the agent compensation options granted using the Black-Scholes option pricing model:

Risk-free interest rate	2.06
Expected share price volatility	87.83%
Expected option life in years	2
Forfeiture rate	0%
Expected dividend yield	0%

9. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions during the years ended December 31 2010, 2009 and 2008:

a) $501,350 (2009 - $479,014, 2008 - $573,833) was charged by a company of which a director and officer is the principal for administration, professional fees, office and general, and investor relations and communications. As of December 31, 2010, $40,485 (2009 - $31,578) was still owing in due to related parties.

b) $175,000 for personnel costs (2009 - $45,865, 2008 - $69,958) were paid to a company of which an officer is the principal.

c) $7,820 of professional fees (2009 - $10,475, 2008 - $18,802) were charged by a law firm of which a director is the principal. As of December 31, 2010, $739 (2009 - $1,344) was still owing in due to related parties.

d) On March 17, 2009, the Company borrowed US$200,000 from the CEO. The loan bore interest at 4.5% per annum maturing within one year and was unsecured. During the year ended December 31, 2010, the loan plus accrued interest of $10,578 was fully repaid (2009 - US$207,151, $217,715). The CEO took the proceeds and bought shares in the Company on May 23, 2010.

The above transactions are conducted in the normal course of operations and are measured at the amount of consideration established and agreed by the related parties.

10. CAPITAL MANAGEMENT

The Company considers its capital under management to consist of shareholders' equity. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

The Company's objectives of capital management are intended to ensure the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives.

There were no changes in the Company's approach to capital management during the year ended December 31, 2010.

11. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of risks arising from financial instruments. These risks and management's objectives, policies and procedures for managing these risks are disclosed as follows.

The following provides a comparison of the classification of financial instruments as at December 31, 2010 and 2009, respectively.

December 31, 2010	Loans and Receivables	Available-for-Sale	Held-for - Trading	Held-to-Maturity	Other Financial Liabilities	Total Carrying Value
Financial assets						
Cash and cash equivalents	$ -	$ -	$ 18,212,215	$ -	$ -	$ 18,212,215
Restricted cash	-	-	45,752	-	-	45,752
Investments	-	61,667	-	-	-	61,667
Other receivables	34,711	-	-	-	-	34,711
Amount due from Exploration Partners	878,770	-	-	-	-	878,770
Reclamation bonds	-	-	-	397,483	-	397,483
Financial liabilities						
Accounts payable and accrued liabilities	-	-	-	-	855,343	855,343
Due to related parties	-	-	-	-	41,225	41,225
	$ 913,481	$ 61,667	$ 18,257,967	$ 397,483	$ 896,568	$ 20,527,166

December 31, 2009	Loans and Receivables	Available-for-Sale	Held-for-Trading	Held-to-Maturity	Other Financial Liabilities	Total Carrying Value
Financial assets						
Cash and cash equivalents	$ -	$ -	$ 4,795,220	$ -	$ -	$ 4,795,220
Investment	-	26,000	-	-	-	26,000
Other receivables	1,659	-	-	-	-	1,659
Amount due from Exploration Partners	251,904	-	-	-	-	251,904
Reclamation bonds	-	-	-	306,670	-	306,670
Financial liabilities						
Accounts payable and accrued liabilities	-	-	-	-	628,750	628,750
Due to related parties	-	-	-	-	250,637	250,637
	$ 253,563	$ 26,000	$ 4,795,220	$ 306,670	$ 879,387	$ 6,260,840

Fair Value

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investments	$ 61,667	$ -	$ -	$ 61,667

11. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

The recorded amounts for cash and cash equivalents, other receivables, amount due from Exploration Partners, and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. The fair value of the investment is based on active market prices at the year-end date.

The fair value amount due to related party has not been disclosed as the fair value cannot be reliably measured since there is no active market for such instruments. Reclamation bonds are non-interest-bearing, therefore their carrying values approximate their fair values.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk and other price risk.

Currency Risk

The Company operates internationally and is exposed to foreign currency risk from fluctuations in exchange rates between the Canadian dollar and various currencies, primarily US dollars and Mexican pesos. The Company has not hedged its exposure to foreign currency fluctuations.

The Company is exposed to currency risk as follows:

	2010		2009	
	US$	Pesos	US$	Pesos
Cash	$ 1,174,219	$ 60,266	$ 1,593,545	$ 61,683
Other receivables and restricted cash	52,948	3,066,479	-	638,668
Due from Exploration Partners	891,523	-	239,680	-
Reclamation bond	399,641	-	291,789	-
Accounts payable and accrued liabilities	(626,361)	-	(452,444)	-
Due to related parties	-	-	(207,151)	-
Net foreign exchange exposure	$ 1,891,970	$ 3,126,745	$ 1,465,419	$ 700,351

Based on the above net foreign currency exposures as at December 31, 2010, and assuming all other variables remain constant, a 10% weakening or strengthening of the Canadian dollar against a) the US dollar would result in a change of $93,580 (2009 - $161,870) in the Company's loss; and b) the Mexican peso would have no material impact in the Company's loss for the year.

Interest Rate Risk

The Company's cash and cash equivalents are held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair value as of December 31, 2010. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

11. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Other Price Risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from currency risk or interest rate risk. The Company's investments are carried at market value and are therefore directly affected by fluctuations in the market value of the underlying securities. The Company's sensitivity analysis suggests that a 10% change in market prices would have no material impact on the value of the Company's investments.

Credit Risk

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

The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment-grade securities held through large Canadian financial institutions. Included in cash equivalents is $15,000,000 in 30-day cashable guaranteed investment certificates earning interest at rates between 1.15% and 1.25% . The amounts due from exploration partners are not exposed to significant credit risk as the Company has a strong and continuing working relationship with the partners.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. Accounts payable and accrued liabilities of $855,343 (2009 - $628,750) are due in the first quarter of fiscal 2011 and due to related parties of $41,225 (2009 - $250,637) are due on demand.

12. SUPPLEMENTAL CASH FLOW INFORMATION

	2010	2009	2008
Cash Items			
Interest paid	$ 10,578	$ 2,071	$ -
Income tax paid	$ -	$ -	$ -
Non-Cash Items			
Mineral property expenditures included in accounts payable	$ 622,884	$ 411,842	$ 864,514
Non-cash share issue costs	$ 533,480	$ 113,550	$ -
Promissory note paid on behalf of Company for mineral properties	$ -	$ 301,813	$ -
Shares issued for convertible notes	$ -	$ 4,588,555	$ -
Shares received for mineral properties (Note 4)	$ 40,000	$ 38,866	$ -
Shares issued for mineral properties	$ 355,500	$ 137,000	$ -
Cash and cash equivalents comprises			
Cash	$ 3,212,215	$ 1,744,220	$ 524,590
Term deposits and bankers acceptance	15,000,000	3,051,000	-
	$ 18,212,215	$ 4,795,220	$ 524,590

13. INCOME TAXES

As at December 31, 2010, the Company has non-capital losses of approximately $11,505,000, $4,013,000 and $12,252,000 that may be applied against future income for income tax purposes in Canada, United States and Mexico, respectively. The potential future tax benefits of these losses have not been recorded in these consolidated financial statements. The losses expire as follows:

	Canada	US	Mexico
2014	$ 284,000	$ -	$ -
2015	360,000	-	1,600,000
2016	-	-	923,000
2017	-	-	2,034,000
2018	-	-	2,091,000
2019	-	-	1,129,000
2020	-	-	4,475,000
2021	-	50,000	-
2022	-	767,000	-
2023	-	99,000	-
2025	-	15,000	-
2026	700,000	80,000	-
2027	1,985,000	87,000	-
2028	3,017,000	723,000	-
2029	2,228,000	1,032,000	-
2030	2,931,000	1,160,000	-
	$ 11,505,000	$ 4,013,000	$ 12,252,000

13. INCOME TAXES

The future benefits of these losses and deductions have not been recorded in the financial statements as their realization is not more likely than not. A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	2010	2009	2008
Loss for the year	$ (6,806,432)	$ (6,988,414)	$ (6,834,181)
Income tax benefit computed at statutory rates	$ 1,939,833	$ 2,096,524	$ 2,118,596
Foreign tax rates different from statutory rates	54,955	(6,244)	13,351
Temporary differences	1,236,467	128,048	629,532
Stock-based compensation	(641,609)	(1,054,508)	(917,240)
Change in timing differences	(760,634)	(274,475)	(1,299,356)
Rate difference between current and future taxes	(102,592)	(420,418)	(237,603)
Change in valuation allowance	(1,726,420)	(468,927)	(307,280)
	$ -	$ -	$ -

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

	2010	2009
Future income tax assets (liabilities)		
Tax losses carried forward	$ 7,711,658	$ 5,211,599
Book value over tax value of mineral properties	(2,020,786)	(1,057,385)
Tax value over book value of equipment	37,696	34,510
Tax value over book value of investments	3,100	1,576
Share issuance costs	356,272	171,220
Future income tax assets, net	6,087,940	4,361,520
Valuation allowance	(6,087,940)	(4,361,520)
Future income taxes, net	$ -	$ -

14. SEGMENTED INFORMATION

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

	2010			2009		
	Equipment	Mineral Properties	Total Assets	Equipment	Mineral Properties	Total Assets
Canada	$ -	$ -	$ 18,250,564	$ 11,896	$ -	$ 4,648,633
Mexico	118,435	11,659,434	13,000,424	60,909	7,748,400	8,178,767
U.S.A	99,908	33,426,236	34,209,935	90,289	28,343,283	29,045,097
Total	$ 218,343	$ 45,085,670	$ 65,460,923	$ 163,094	$ 36,091,683	$ 41,872,497

15. COMMITMENT

On October 1, 2007, amended on June 8, 2008, the Company entered into a service agreement with Manex Resource Group ("Manex") for its Vancouver head-office administration and corporate secretarial services at a monthly rate of $8,000 plus dedicated office space of $1,500 per office. The Company may terminate the service agreement with 30 days' written notice.

Year ending December 31, 2011	$ 186,000
Year ending December 31, 2012	93,000
	$ 279,000

16. SUBSEQUENT EVENTS

Subsequent to December 31, 2010:

a) Pursuant to the IFA with Goldcorp, the Company closed the second private placement by issuing 3,293,407 units at a price of $1.82 for gross proceeds of US$6.0 million ($5,994,000). Each unit consists of one common share and one-half of one share purchase warrant; each whole warrant is exercisable at $2.27 expiring two years from the date of issuance.

b) 1,850,167 warrants were exercised at a weighted exercise price of $0.75 for gross proceeds of $1,387,625.

c) 200,000 options were exercised at a weighted exercise price of $1.22 for gross proceeds of $244,900.

d) On February 21, 2011, Copper Ridge notified the Company of their termination of the option agreement over the Duke Island property.

e) On March 24, 2011, the Company renegotiated the option agreement with Willow Creek Discovery Group, LLC for the Willow Creek property in Montana. All second anniversary option payments were waived and cancelled providing that all BLM rental payments are made and additional drilling to a minimum of 500 feet is undertaken.

f) 15,306 common shares were issued at a fair value of $1.47 per share for certain financial and advisory services provided to the Company pursuant to an agreement dated April 2, 2009, and as subsequently amended.

g) 355,000 stock options were granted at an exercise price of $1.60 for five years.

17. RECONCILIATION OF CANADIAN AND U.S. GAAP

Canadian GAAP varies in certain significant respects from the principles and practices of U.S. GAAP. The effect of the principal measurement differences on the Company's consolidated financial statements is quantified below and described in the accompanying notes.

a) **Exploration Expenditures**

Under U.S. 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 U.S. GAAP.

b) **Joint Ventures**

Under Canadian GAAP, investments in jointly-controlled entities are permitted to be accounted for using the proportionate consolidation method. Under U.S. GAAP, investments in jointly-controlled entities are accounted for using the equity method. Although there are material differences between these accounting methods, the Company relies on an accommodation of the SEC permitting the Company to exclude the disclosure of such differences, which affect only the display and classification of financial statement items excluding shareholders' equity and net income.

c) **Uncertain Tax Positions**

Under U.S. GAAP, the Company recognizes the impact of a tax position in the financial statements if the position is more likely than not of being sustained on audit, based on the technical merits of the position. These standards require uncertain tax positions to be classified as non-current income tax liabilities unless expected to be paid within one year. U.S. GAAP also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosures.

There were no unrecognized tax benefits as at December 31, 2010 and 2009.

The Company recognizes interest and penalties related to uncertain tax positions, if any, as interest and penalties expenses. As of December 31, 2010, there were no balances of accrued interest and penalties related to uncertain tax positions.

The Company is subject to taxes in Canada and the United States. The Company is not currently under audit by any taxing jurisdiction. The tax years that remain subject to examination as of December 31, 2010 are as follows:

Canada	2005 to 2010
United States	1995 to 2010

17. RECONCILIATION OF CANADIAN AND U.S.GAAP (Continued)

d) **Development Stage Company**

Pursuant to U.S. GAAP, the Company would be subject to the disclosure requirements applicable to a development stage enterprise as the Company is devoting its efforts to establishing commercially viable mineral properties. However, the identification of the Company as such for accounting purposes does not impact the measurement principles applied to these consolidated financial statements. The Company is not required to and has opted not to report cumulative financial reporting information for U.S. GAAP purposes.

e) **Derivative Liability**

On January 1, 2009, the Company adopted the provisions of Emerging Issues Task Force ("EITF") 07-5 (now known as ASC 815-40), "Determining whether an instrument (or embedded feature) is indexed to an entity's own stock". The Company's functional currency is the Canadian dollar and it had issued instruments that have an exercise price denominated in U.S. dollars and has determined that these instruments cannot be classified as equity-based on the evaluation of the instruments' settlement provisions as they were not indexed to the Company's common shares. As a result, these instruments are treated as derivative liabilities carried at fair value as determined by the Black-Scholes option pricing model, for U.S. GAAP purposes with changes in fair values recorded as gains or losses in the statements of operations.

During the year ended December 31, 2010, the Company amended its accounting for the conversion feature of convertible notes previously issued, under U.S. GAAP. The amendment resulted in an increase of interest expense on convertible notes from $52,083 to $135,964, for the year ended December 31, 2009; an increase of the loss on derivative liability from $7,538,664 to $12,121,736, for the year ended December 31, 2009; an increase in the deficit beginning of the year, as restated, from $53,673,208 to $54,347,506, for the year ended December 31, 2009; and an increase in loss per common share, for the year ended December 31, 2009, from $0.18 to $0.23. There was no impact to shareholders' equity as at December 31, 2009.

17. RECONCILIATION OF CANADIAN AND U.S. GAAP (Continued)

f) **Reconciliation of Canadian to U.S. GAAP**

The adjustments to components of the consolidated balance sheets would be as follows:

		2010		2009 (Restated)
Total assets - Canadian GAAP	$	65,460,923	$	41,872,497
Expensed expenditures on mineral properties		(36,075,608)		(27,954,375)
Total assets - U.S. GAAP	**$**	**29,385,315**	**$**	**13,918,122**
Total liabilities - Canadian GAAP	$	896,568	$	879,386
Derivative liability - warrants		-		8,477,944
Total liabilities - U.S. GAAP		896,568		9,357,330
Total shareholders' equity - Canadian GAAP		64,564,355		40,993,111
Expenditures on mineral properties		(36,075,608)		(27,954,375)
Derivative liability - adjustment to warrants		-		(8,477,944)
Total shareholders' equity - U.S. GAAP		28,488,747		4,560,792
Total Liability and Shareholders' Equity - U.S. GAAP	**$**	**29,385,315**	**$**	**13,918,122**

The adjustments to the statements of operations would be as follows:

	Years ended December 31,		
	2010	2009 (Restated)	2008
Loss for the year - Canadian GAAP	$ (6,806,432)	$ (6,988,414)	$ (6,834,181)
Expenditures on mineral properties	(8,121,233)	(2,444,702)	(12,398,924)
Interest expense on convertible notes	-	(135,964)	(4,962)
Loss on derivative liability	-	(12,121,736)	-
Net loss for the year - U.S. GAAP	(14,927,665)	(21,690,816)	(19,238,067)
Deficit, beginning of year - U.S. GAAP	(76,038,322)	(54,142,118)	(34,904,051)
Adjustment on adoption of EITF 07-5	-	(205,388)	-
Deficit, beginning of year as restated - U.S. GAAP	(76,038,322)	(54,347,506)	(34,904,051)
Deficit, end of year - U.S. GAAP	$ (90,965,987)	$ (76,038,322)	$ (54,142,118)
Loss per common share - Canadian GAAP	$ (0.06)	$ (0.08)	$ (0.08)
Loss per common share - U.S. GAAP	$ (0.12)	$ (0.23)	$ (0.22)
Weighted average number of common shares outstanding	122,095,093	92,443,572	86,304,153

17. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP (Continued)

f) **Reconciliation of Canadian to U.S. GAAP (continued)**

The adjustments to the consolidated statements of cash flows would be as follows:

	Years ended December 31,		
	2010	2009	2008
Operating activities - Canadian GAAP	$ (4,338,516)	$ (2,154,933)	$ (4,108,832)
Adjustments for mineral expenditures	(8,121,233)	(2,444,702)	(12,398,924)
Cash used in operating activities - U.S. GAAP	(12,459,749)	(4,599,635)	(16,507,756)
Investing activities - Canadian GAAP	(9,953,430)	(4,754,981)	(13,213,283)
Reclassification of expenditures on mineral properties	8,121,233	2,444,702	12,398,924
Cash used in investing activities - U.S. GAAP	(1,832,197)	(2,310,279)	(814,359)
Cash provided by financing activities - Canadian and U.S. GAAP	27,685,252	11,385,639	13,890,522
Effect of foreign exchange on cash	23,689	(205,095)	566,283
Increase (decrease) in cash during the year	13,416,995	4,270,630	(2,865,310)
Cash, beginning of year	4,795,220	524,590	3,389,900
Cash, end of year - U.S. GAAP	$ 18,212,215	$ 4,795,220	$ 524,590

The derivative liability – warrants would be classified as held-for-trading.

g) **New US GAAP Accounting Pronouncements**

In August 2009, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-05, “Measuring Liabilities at Fair Value”. This update amends ASC 820, “Fair Value Measurements and Disclosure”, in regards to the fair value measurement of liabilities. FASB ASC 820 clarifies that in circumstances in which a quoted price for an identical liability in an active market is not available, a reporting entity shall utilize one or more of the following techniques: (i) the quoted price of the identical liability when traded as an asset; (ii) the quoted price for a similar liability or for a similar liability when traded as an asset; or (iii) another valuation technique that is consistent with the principles of ASC 820. In all instances a reporting entity shall utilize the approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Also, when measuring the fair value of a liability, a reporting entity shall not include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update is effective for the Company in the first quarter of the 2010 fiscal year. The adoption of this update did not have any impact on the Company’s consolidated financial statements.

17. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP (Continued)

g) **New US GAAP Accounting Pronouncements (continued)**

In January 2010, the FASB issued ASU No. 2010-06, "Improving Disclosures about Fair Value Measurements", which requires additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and non-recurring Level 2 and Level 3 measurements. This standard is effective for the Company's interim and annual periods commencing January 1, 2011 and will require additional disclosure such as disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than one net amount.

In April 2010, the FASB issued ASU 2010-13, "Compensation – Stock Compensation (Topic 718)". The objective of this update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. It provides guidance on the classification of a share-based payment award as either equity or a liability. A share-based payment award that contains a condition that is not a market, performance or service condition is required to be classified as a liability. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The amendments in this update should be applied by recording a cumulative-effect adjustment to the opening balance of retained earnings. The cumulative-effect adjustment should be calculated for all awards outstanding as of the beginning of the fiscal year in which the amendments are initially applied, as if the amendments had been applied consistently since the inception of the award. The Company is currently evaluating the impact of this update on the consolidated financial statements.

18. COMPARATIVE FIGURES

Certain of the 2009 and 2008 comparative figures have been reclassified to conform to the current year's presentation.



(An Exploration Stage Company)

Audited Consolidated Financial Statements
December 31, 2009
(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting - Canada

The accompanying consolidated financial statements have been prepared by the management of Quaterra Resources Inc. in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements include amounts that are based on the best estimates and judgment of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three outside directors who are not involved in the daily operations of the Company. The functions of the Audit Committee include the review of the quarterly and annual consolidated financial statements, review of the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters, and recommending the appointment of the external auditors. The Audit Committee meets at least quarterly with management to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, Smythe Ratcliffe LLP, conducted an independent examination, in accordance with Canadian generally accepted auditing standards, and expressed their opinion on the consolidated financial statements. Their examination included tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with Canadian generally accepted accounting principles. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

"Thomas C. Patton" (signed)
Thomas C. Patton
President and Chief Executive Officer

"Scott Hean" (signed)
Scott Hean
Chief Financial Officer

Vancouver, Canada
March 25, 2010

Management's Report on Internal Control over Financial Reporting – United States

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of the internal controls over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2009. Based on management's assessment and those criteria, management has concluded that the internal control over financial reporting as at December 31, 2009 was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by Smythe Ratcliffe LLP, independent auditors, as stated in their report.

"Thomas C. Patton" (signed)
Thomas C. Patton
President and Chief Executive Officer

"Scott Hean" (signed)
Scott Hean
Chief Financial Officer

Vancouver, Canada
March 25, 2010

SmytheRatcliffe
CHARTERED ACCOUNTANTS

REPORT OF THE INDEPENDENT AUDITORS

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, 2009 and 2008 and the consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2009. 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 and the standards of the Public Company Accounting Oversight Board (United States). 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, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as at December 31, 2009 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations for the Treadway Commission and our report dated March 25, 2010 expresses an unqualified opinion.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 25, 2010

COMMENTS BY AUDITORS FOR UNITED STATES READERS – U.S. Reporting Difference

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the Company's financial statements, such as the change as described in note 17(e) to the consolidated financial statements. Our report to the shareholders dated March 25, 2010, is expressed in accordance with Canadian reporting standards, which do not require a reference to such changes in accounting principles in the auditors' report when such changes are properly accounted for and adequately disclosed in the financial statements

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 25, 2010

Smythe Ratcliffe LLP is a member firm of both the **PKF** International Limited network and **PKF** North America, which are, respectively, a network and an association of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

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SmytheRatcliffe
CHARTERED ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of Quaterra Resources Inc.
(An Exploration Stage Company)

We have audited Quaterra Resources Inc.'s (the "Company") internal control over financial reporting as at December 31, 2009 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risks. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as at December 31, 2009, based on the criteria established in Internal Control – Integrated Framework issued by the COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2009 and 2008 and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2009 and our report dated March 25, 2010 expresses an unqualified opinion on those financial statements.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 25, 2010

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Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Balance Sheets
(Expressed in Canadian dollars)

		As at December 31 2009	2008
Assets			
Current assets:			
Cash and cash equivalents		$ 4,795,220	$ 524,590
Restricted cash		–	56,028
Investment	Notes 4 & 6 (e)	26,000	–
Other receivables		60,323	127,890
Prepaids and deposits		177,603	189,874
Amount due from Joint Venture Partner	Note 6 (a)	251,904	88,110
		5,311,050	986,492
Equipment	Note 5	163,094	208,022
Mineral properties	Note 6	36,091,683	32,885,071
Reclamation bonds		306,670	317,704
		$ 41,872,497	**$ 34,397,289**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 628,750	$ 1,106,783
Due to related parties	Note 9	250,637	49,178
Current portion of promissory note	Note 6 (g)(6)	–	334,950
		879,387	1,490,911
Liability component of convertible notes	Note 7	–	2,953,370
		879,387	4,444,281
Shareholders' Equity			
Share capital	Note 8	63,168,843	48,318,994
Equity component of convertible notes	Note 7	–	259,164
Contributed surplus		13,453,030	10,002,333
Accumulated other comprehensive loss		(12,866)	–
Deficit		(35,615,897)	(28,627,483)
		40,993,110	29,953,008
		$ 41,872,497	**$ 34,397,289**

Nature of operations (Note 1)
Commitments (Note 10)

(See accompanying notes to consolidated financial statements)

Approved on behalf of the
Board of Directors:

"Thomas Patton" (signed)
Thomas Patton

"Robert Gayton" (signed)
Robert Gayton

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Operations
(Expressed in Canadian dollars)

	Years ended December 31,		
	2009	**2008**	**2007**
General Administrative Expenses			
Administration	$ 176,280	$ 179,610	$ 170,061
Amortization	72,934	78,023	43,309
Consulting	366,384	740,365	375,452
Directors' and officers' fees	166,318	153,749	87,683
Investor relations and communications	171,989	422,467	344,964
Office and general	410,291	582,669	184,992
Professional fees	415,495	800,086	283,019
Regulatory fees and taxes	72,412	175,564	118,817
Salaries and benefits	378,588	467,309	263,544
Stock–based compensation (Note 8(c))	3,419,775	2,958,838	4,502,163
Transfer agent	41,677	38,790	28,857
Travel and promotion	54,871	139,617	167,998
Operating Expenses	(5,747,014)	(6,737,087)	(6,570,859)
Other			
General exploration costs	(423,681)	(633,741)	(229,334)
Foreign exchange gain/(loss)	601,384	446,118	(778,126)
Interest income	3,250	55,555	248,684
Interest and financing charges	(593,824)	(33,752)	(21,428)
Joint venture administration fee	34,003	68,726	47,859
Warrant modification expense (Note 8(b))	(95,252)	–	–
Write–off of mineral properties	(767,280)	–	–
	(1,241,400)	(97,094)	(732,345)
Loss for the year	(6,988,414)	(6,834,181)	(7,303,204)
Unrealized loss on available–for–sale investment	(12,866)	–	–
Comprehensive loss for the year	$ (7,001,280)	$ (6,834,181)	$ (7,303,204)
Loss per share–basic and diluted	$ (0.08)	$ (0.08)	$ (0.09)
Weighted average number of common shares outstanding	92,443,572	86,304,153	79,971,435

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended December 31,		
	2009	**2008**	**2007**
Operating Activities			
Net loss for the year	$ (6,988,414)	$ (6,834,181)	$ (7,303,204)
Items not involving cash:			
Amortization	72,934	78,023	43,309
Commitment to issue shares for services	–	15,000	–
Stock–based compensation	3,419,775	2,958,838	4,502,163
Shares issued for services	90,000	90,000	67,500
Warrant modification expense	95,252	–	–
Interest expense on convertible notes	–	24,208	–
Write–off of mineral properties	767,280	–	–
Foreign exchange(gain) loss	132,304	(501,383)	757,604
	(2,410,869)	(4,169,495)	(1,932,628)
Changes in non–cash working capital			
Other receivables	67,567	116,494	(212,277)
Prepaid and deposits	12,271	(81,721)	(13,182)
Accounts payable and accrued liabilities	(25,361)	63,103	83,377
Due to related parties	201,459	(37,213)	60,175
Cash used in operating activities	(2,154,933)	(4,108,832)	(2,014,535)
Financing Activities			
Shares issued for cash, net of share issue costs	9,975,207	10,972,246	6,881,465
Net proceeds from convertible notes	1,410,432	3,188,326	–
Repayment of promissory note	–	(270,050)	–
Cash provided by financing activities	11,385,639	13,890,522	6,881,465
Investing Activities			
Expenditures on mineral properties	(4,630,243)	(13,366,464)	(9,132,683)
Due from Joint Venture partner	(163,794)	493,014	(467,694)
Purchase of equipment	(28,006)	(105,592)	(172,187)
Refund (purchase) of reclamation bonds	11,034	(178,212)	(59,594)
Restricted cash	56,028	(56,028)	–
Cash used in investing activities	(4,754,981)	(13,213,282)	(9,832,158)
Effect of foreign exchange on cash	(205,095)	566,282	(757,604)
Increase (decrease) in cash during the year	4,270,630	(2,865,310)	(5,722,832)
Cash and cash equivalents, beginning of year	524,590	3,389,900	9,112,732
Cash and cash equivalents, end of year	$ 4,795,220	$ 524,590	$ 3,389,900

Supplemental cash flow information (Note 13)

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares		Component of Convertible			Accumulated Other	
	Shares	Amount	Notes	Contributed Surplus	Deficit	Comprehensive Loss	Total
Balance at December 31, 2006	78,104,820	$ 27,861,058	$ –	$ 3,709,557	$ (14,490,098)		$ 17,080,517
Common shares issued for cash during the year:							
Exercise of warrants	2,480,785	5,581,766					5,581,766
Exercise of options	2,108,500	1,288,515					1,288,515
Shares issued for mineral property acquisitions	200,000	586,000					586,000
Allotted for mineral property acquisitions	250,000	695,000					695,000
Shares issued for services	22,900	67,500					67,500
Fair value of options and warrants exercised		801,925		(801,925)			–
Share issue costs, net of future income taxes		(6,316)					(6,316)
Stock–based compensation				4,502,163			4,502,163
Net loss for the year					(7,303,204)		(7,303,204)
Balance at December 31, 2007	83,167,005	36,875,448	–	7,409,795	(21,793,302)	–	22,491,941
Common shares issued during the year:							
Shares issued for cash, net of issue costs	3,482,500	10,414,556					10,414,556
Exercise of options	749,000	557,690					557,690
Shares issued for services	64,978	90,000					90,000
Commitment to issue shares for services				15,000			15,000
Equity portion of convertible notes issued			259,164				259,164
Fair value of options exercised		381,300		(381,300)			–
Stock–based compensation				2,958,838			2,958,838
Net loss for the year					(6,834,181)		(6,834,181)
Balance at December 31, 2008	87,463,483	48,318,994	259,164	10,002,333	(28,627,483)	–	29,953,008
Common shares issued during the year:							
Shares issued for cash, net of issue costs	15,227,410	8,841,083					8,841,083
Exercise of options	60,200	33,220					33,220
Exercise of warrants	1,670,000	1,100,905					1,100,905
Shares issued for services	178,483	90,000		(15,000)			75,000
Shares issued for finders' fees	114,000	(45,150)		45,150			–
Shares issued for convertible notes, net of issue costs	6,545,795	4,583,311	(379,150)	–			4,204,161
Shares issued for property (Note 6(g) (3))	200,000	137,000					137,000
Commitment to issue shares for services				15,000			15,000
Equity portion of convertible notes issued			119,986				119,986
Fair value of options and warrants exercised		109,480		(109,480)			–
Stock–based compensation				3,419,775			3,419,775
Warrant modification expense				95,252			95,252
Unrealized loss on available–for–sale investment						(12,866)	(12,866)
Net loss for the year					(6,988,414)		(6,988,414)
Balance at December 31, 2009	**111,459,371**	**$ 63,168,843**	**$ –**	**$ 13,453,030**	**$ (35,615,897)**	**$ (12,866)**	**$ 40,993,110**

(See accompanying notes to consolidated financial statements)

1. NATURE OF OPERATIONS

Quaterra Resources Inc., along with its subsidiary companies (collectively "Quaterra" or "the Company"), is engaged in the acquisition and exploration of precious and base metal mineral properties in the United States and Mexico.

The Company incurred a net loss of $6,988,414 for the year ended December 31, 2009 (2008 - $6,834,181; 2007 - $7,303,204). As at December 31, 2009, the Company had an accumulated deficit of $35,615,897 (2008 - $28,627,483) and working capital of $4,431,663 (2008 - $504,419 deficiency).

The ability of the Company to continue as a going concern and 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. The Company intends to fund its plan of operations from working capital and the proceeds of financings. Future financings are expected to be obtained through joint ventures, exercise of warrants and options, equity financing or other means.

The business of mining exploration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining operations. The recoverability of amounts shown for mineral properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of its explorations, establish future profitable production or receive proceeds from disposition of mineral properties. The carrying value of the Company's mineral properties does not reflect current or future values.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars. As described in Note 17, accounting principles generally accepted in Canada differ in certain material respects from accounting principles generally accepted in the United States ("U.S. GAAP").

These consolidated financial statements include the accounts of the Company, its wholly-owned integrated subsidiaries and its proportionate share of the accounts of the joint venture. The wholly-owned subsidiaries include Quaterra Alaska Inc. - incorporated in the United States, Minera Agua Tierra S.A. de C.V. - incorporated in Mexico, and Quaterra International Limited - incorporated in the British Virgin Islands. All significant inter- company accounts and transactions have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mineral Properties

The Company defers all costs related to investments in mineral interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred resource property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, a provision is made for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When recoveries exceed the carrying value of the interest, the excess is recognized in the statements of operations.

Asset Retirement Obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements 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 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. At present the Company has determined that it has no material AROs to record in the financial statements.

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. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Equipment

Equipment is recorded at cost and amortization begins when the asset is substantially put into service. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment (Continued)

The Company reviews the carrying value of its equipment on a regular basis and where the carrying value exceeds the estimated undiscounted future net cash flows, a provision for impairment is recorded based on the discounted estimated future cash flows.

Reclamation Bonds

Certain cash is held in long-term reclamation bonds to support future reclamation work in the United States. No interest is earned on these bonds.

Convertible Notes

The Company's convertible notes are split into their corresponding debt and equity components at the date of issue. The debt component is classified as a liability and recorded at the present value of the Company's obligation to make future principal and interest payments. The equity component represents the value of the conversion right and attached warrants and is recorded using the residual value approach.

Foreign Currency Translation

The functional and reporting currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

i Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
ii Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
iii. Interest income and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the transaction date.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options or warrants is measured on the earlier of the date at which the counterparty performance is complete, the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options or warrants is charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 substantively enacted. 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.

Use of Estimates

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, the bifurcation of the convertible notes into debt and equity components, the determination of AROs and environmental restoration, 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 could impact future results of operations and cash flows.

Financial Instruments

Financial instruments are classified as one of the following: held–for–trading, held–to–maturity, loans and receivables, available–for–sale financial assets or other financial liabilities. Financial assets and liabilities held-for- trading are measured at fair value with gains and losses recognized in net income (loss). Financial assets held-to- maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti- dilutive.

Share Capital

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of the announcement of the placement and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against share proceeds.

Non-Monetary Transaction

Shares issued for consideration other than cash are valued at the quoted market price at the date of issue.

3. ACCOUNTING CHANGES

Changes in Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this section had no effect on the Company's consolidated financial statements.

Recent Accounting Pronouncements

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

3. ACCOUNTING CHANGES (Continued)

Business Combinations (Continued)

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred.

Section 1601, "Consolidated Financial Statements", replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011.

Section 1602, "Non-Controlling Interests", establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to International Financial Reporting Standards ("IFRS") on consolidated and separate financial statements. This standard is effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011.

All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections in the Company's consolidated financial statements.

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim consolidated financial statements for the three months ended March 31, 2011, which must include the interim results for the prior period ended March 31, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. INVESTMENT

The Company acquired common shares in Copper Ridge Exploration Inc. ("Copper Ridge"), which are classified as available-for-sale. The Copper Ridge shares were obtained in consideration for payments required pursuant to a property option agreement on the Duke Island property, located in Alaska, United States (Note 6(e)).

	Cost	Fair Value
Balance December 31, 2008	$ –	$ –
Acquisition, 66,667 Copper Ridge common shares	38,866	38,866
Fair value adjustment	–	(12,866)
Balance December 31, 2009	$ 38,866	$ 26,000

5. EQUIPMENT

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

	December 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer	$ 37,482	$ 26,685	$ 10,797	$ 37,482	$ 17,568	$ 19,914
Office equipment	81,714	46,788	34,926	81,714	32,408	49,306
Software	59,866	49,963	9,903	52,452	37,313	15,139
Vehicles	215,732	108,264	107,468	195,140	71,477	123,663
	$ 394,794	$ 231,700	$ 163,094	$ 366,788	$ 158,766	$ 208,022

6. MINERAL PROPERTIES

The total deferred exploration and acquisition costs of mineral properties for 2009 and 2008 were as follows:

	Mexico			United States					
Mineral Properties	**Nieves**	**Mirasol–Americas**	**Crestones**	**MacArthur**	**Yerington**	**Alaska**	**Uranium Properties**	**Other Properties**	**Total**
Acquisition									
Balance, December 31, 2008	$ 1,355,726	$ 349,961	$ 84,334	$ 812,380	$ 1,338,894	$ 254,772	$ 3,534,618	$ 1,827,174	$ 9,557,859
Additions during the year	57,457	31,749	4,775	257,439	320,442	20,935	416,523	699,977	1,809,297
Write–offs during the year	–	–	–	–	–	–	–	(30,226)	(30,226)
Balance, December 31, 2009	1,413,183	381,710	89,109	1,069,819	1,659,336	275,707	3,951,141	2,496,925	11,336,930
Exploration									
Balance, December 31, 2008	1,734,890	1,679,426	1,392,870	7,452,228	689,125	2,357,173	6,982,347	1,039,153	23,327,212
Assays and surveys	35,113	21,230		102,055			–	41,294	199,692
Camp costs	8,829	18,620	87	91,928		1,787	35,652	37,370	194,273
Drilling services	131,369	6,773	–	39,192			33,852	29,916	241,102
Equipment rental	–	–	–	11,934			1,889	243	14,066
Exploration support	5,674	13,112	124	153,565	182	5,759	88,720	4,349	271,485
Field supplies	4,837	7,052	–	5,983			1,068	–	18,940
Geological services	60,810	99,183	–	349,260	35,426	41,336	154,359	185,826	926,200
Project management	24,258	27,466	392	46,899	14,413	3,000	54,890	9,528	180,846
Travel	3,134	3,592	29	6,537	141	1,658	13,723	2,490	31,304
Vehicle expenses	8,549	8,776	36	40,379	537		24,865	3,545	86,687
Additions during the year	282,573	205,804	668	847,732	50,699	53,540	409,018	314,561	2,164,595
Write–offs during the year	–	–	–	–	–	–	–	(737,054)	(737,054)
Balance, December 31, 2009	2,017,463	1,885,230	1,393,538	8,299,960	739,824	2,410,713	7,391,365	616,660	24,754,753
Total acquisition and exploration, December 31, 2009	**$ 3,430,646**	**$ 2,266,940**	**$ 1,482,647**	**$ 9,369,779**	**$ 2,399,160**	**$ 2,686,420**	**$ 11,342,506**	**$ 3,113,585**	**$ 36,091,683**

6. MINERAL PROPERTIES (Continued)

	Mexico								
Mineral Properties	**Nieves**	**Mirasol–Americas**	**Crestones**	**MacArthur**	**Yerington**	**Alaska**	**Uranium Properties**	**Other Properties**	**Total**
Acquisition									
Balance, December 31, 2007	$ 1,302,933	$ 314,742	$ 78,097	$ 525,713	$ 979,078	$ 185,344	$ 2,956,192	$ 1,495,339	$ 7,837,438
Additions during the year	52,793	35,219	6,237	286,667	359,816	69,428	578,426	331,835	1,720,421
Balance, December 31, 2008	1,355,726	349,961	84,334	812,380	1,338,894	254,772	3,534,618	1,827,174	9,557,859
Exploration									
Balance, December 31, 2007	1,102,956	367,322	1,368,426	2,407,015	277,000	1,833,592	3,519,528	841,429	11,717,268
Assays and surveys	89,906	226,481	–	700,550	127,130	183,892	45,677	38,930	1,412,566
Camp costs	19,963	45,951	3,504	226,979	5,924	11,807	99,797	8,274	422,199
Drilling services	351,521	676,870	–	2,081,016	–	36,549	2,086,088	–	5,232,044
Equipment rental	–	8,104	–	187,446	–	839	12,774	33	209,196
Exploration support	15,982	136,315	1,375	307,150	4,932	78,510	107,750	4,380	656,394
Field supplies	16,421	2,777	1,520	117,603	–	2,366	17,207	33,201	191,095
Geological services	33,869	24,516	3,321	1,146,140	258,363	191,304	860,505	75,728	2,593,746
Project management	91,204	147,262	9,089	93,749	1,362	3,913	90,845	26,707	464,131
Travel	2,878	20,547	55	37,875	2,766	12,679	41,054	2,888	120,742
Vehicle expenses	10,190	23,281	5,580	146,705	11,648	1,722	101,122	7,583	307,831
Additions during the year	631,934	1,312,104	24,444	5,045,213	412,125	523,581	3,462,819	197,724	11,609,944
Balance, December 31, 2008	1,734,890	1,679,426	1,392,870	7,452,228	689,125	2,357,173	6,982,347	1,039,153	23,327,212
Total acquisition and exploration, December 31, 2008	**$ 3,090,616**	**$ 2,029,387**	**$ 1,477,204**	**$ 8,264,608**	**$ 2,028,019**	**$ 2,611,945**	**$ 10,516,965**	**$ 2,866,327**	**$ 32,885,071**

6. MINERAL PROPERTIES (Continued)

(a) Nieves Concessions, Mexico

The Company originally owned a 100% interest in the Nieves silver property located in northern Zacatecas, Mexico. In 2003 the Company entered into an agreement with the U.S.-based Blackberry Ventures 1, LLC ("Blackberry"). Pursuant to the terms of the agreement, Blackberry advanced US$1,500,000 to the Company and earned a 50% interest in the property. Accordingly, the Company owns the remaining 50% interest. All work plans are made in consultation with the joint venture partner Blackberry, which contributes its share of ongoing exploration costs plus a 10% administration fee.

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$2,000,000. 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. 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. On January 24, 2007, this NSR was purchased by Royal Gold Inc.

During the year ended December 31, 2009, the Company received US$175,104 from Blackberry in respect to its share of ongoing exploration costs that were incurred on the property. As of December 31, 2009, $251,904 (2008 - $88,110) was due from Blackberry. On February 5, 2010, the Company received $251,904 from Blackberry.

(b) Mirasol, Americas and Crestones Property, Mexico

The Mirasol and Americas projects are located in the Municipality of Simon Bolivar, Durango, Mexico. The two projects consist of 13 exploration concessions that total 82,926 hectares.

Crestones property is composed of three concessions. The Company holds a 100% interest in a certain mineral concession located in northern Durango, Mexico.

(c) MacArthur Claim, United States

Pursuant to an agreement entered into in October 2005, as amended January 9, 2010, 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 may elect to acquire the property by making the following payments:

(i) US$110,000 on or before January 15, 2007 (paid)
(ii) US$100,000 on or before January 15, 2008 (paid)
(iii) US$125,000 on or before January 15, 2009 (paid)
(iv) US$300,000 (paid) and 150,000 shares (subject to regulatory approval) on or before January 15, 2010
(v) US$1,770,000 (less the market value of the above 150,000 shares) on or before January 15, 2011

The property is subject to a 2% NSR, which may be reduced to 1% for US$1,000,000.

6. MINERAL PROPERTIES (Continued)

(d) Yerington, United States

On May 1, 2007, the Company received approval from the appropriate US court for the acquisition of all Arimetco assets in the Yerington Mining District. The purchase price comprises US$500,000 cash and 250,000 common shares of the Company. The original 180-day due diligence review period that began on July 13, 2007 was extended to June 14, 2010. Up to December 31, 2009, the Company had paid a US$250,000 non-refundable deposit and issued 250,000 common shares (issued), and may elect to acquire a 100% interest in the property by making a further payment of US$250,000 on closing once the due diligence review has been completed.

The property is subject to a 2% NSR to a maximum of US$7,500,000 on commencement of commercial production.

(e) Alaska Properties (Duke Island and Herbert Glacier), United States

On September 29, 2009, the Company signed an option agreement with Copper Ridge for its 100% owned Duke Island property located in southeast Alaska. The agreement provides that Copper Ridge can earn up to a 51% interest by issuing 66,667 common shares (issued) and spending $3,000,000 on exploration by December 31, 2012, with a minimum of $750,000 to be spent by December 31, 2010. Copper Ridge may increase its interest in the property to 65% by spending an additional $2,000,000 on exploration by December 31, 2013.

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. To earn a 100% interest, the Company is required to make annual payments of US$12,000 from November 2007 to 2011, US$20,000 from November 2012 to 2017, and US$30,000 from November 2018 and every consecutive anniversary thereafter. Up to December 31, 2009, the Company has paid US$36,000.

The property is subject to a NSR as follows:

(i) 3.0% on gold prices less than US$400
(ii) 3.5% on gold prices between US$401 and US$500
(iii) 4.0% on gold prices between US$501 and US$600
(iv) 5.0% on gold prices above US$601

(f) Uranium Properties (Arizona, Utah and Wyoming), United States

Pursuant to a June 2005 agreement with North Exploration LLC, the Company acquired an option to purchase mining claims situated in Arizona, Utah and Wyoming. The Company is required to make the following payments and issue common shares as follows:

(i) US$90,000 and issue 600,000 shares on or before September 6, 2007 (paid and issued)
(ii) US$75,000 on or before September 6, 2008 (paid)
(ii) US$135,000 on or before September 6, 2009 (paid)
(iv) US$200,000 on or before September 6, 2010

6. MINERAL PROPERTIES (Continued)

(f) Uranium Properties (Arizona, Utah and Wyoming), United States (Continued)

The agreement is subject to a 2% NSR payable upon commencement of commercial production, which can be reduced to 1% for US$1,000,000.

Pursuant to an August 2006 agreement, as amended August 14, 2009, with Nustar Exploration LLC, the Company leased 18 claims in the Arizona strip district. The Company is required to pay the following:

(i) US$50,000 on or before August 10, 2007 (paid)
(ii) US$40,000 on or before August 10, 2008 (paid)
(iii) US$100,000 on or before August 10, 2011

This agreement is subject to a 4% royalty payable upon commencement of commercial production of which 3% royalty can be bought back for US$500,000.

In September 2008, three environmental groups filed a lawsuit against the U.S. Secretary of Interior, the U.S. Department of Interior and U.S. Bureau of Land Management for authorizing uranium exploration on one million acres of public land near Grand Canyon. On February 22, 2010, the lawsuit was dismissed and the Company's rights to explore and develop its uranium claims on Arizona strip were unaffected.

(g) Other Properties

(1) Tecolote (formerly East Durango), Mexico

On September 30, 2008, the Company and EXMIN Resources Inc. entered into an agreement allowing the Company to earn a 75% interest in EXMIN's Tecolote Property, Mexico. Under the terms of the agreement, the Company can earn a 75% interest in the property by spending US$500,000 in exploration costs before September 30, 2012 plus make payments as follows:

(i) US$20,000 on September 30, 2008 (paid)
(ii) US$20,000 on September 30, 2009 (paid)
(iii) US$20,000 on September 30, 2010
(iv) US$40,000 on September 30, 2011

(2) Cave Peak Molybdenum Prospect, United States

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

6. MINERAL PROPERTIES (Continued)

(g) Other Properties (Continued)

(2) Cave Peak Molybdenum Prospect, United States (Continued)

(iv) US$70,000 on or before March 27, 2010
(v) US$150,000 on or before March 27, 2011
(vi) US$220,000 on or before March 27, 2012

This property is subject to a royalty of 6.25% on commencement of commercial production.

(3) Willow Creek Molybdenum Prospect, United States

On October 11, 2008, as amended October 26, 2009, the Company secured an option with the Willow Creek Discovery Group, LLC to acquire 100% of the Willow Creek porphyry molybdenum prospect in southwestern Montana. The Company has the right to earn a 100% interest in the property by making the following AMR payments to the Willow Creek Discovery Group totalling US$2,505,000 over a six-year period and issuing 200,000 common shares of the Company:

(i) Initial payment of US$75,000 and 100,000 shares on October 11, 2008 (paid and issued)
(ii) US$30,000 and 100,000 shares on October 11, 2009 (paid and issued)
(iii) US$150,000 or US$50,000 and 100,000 shares on October 11, 2010
(iv) US$150,000 on October 11, 2011
(v) US$350,000 on October 11, 2012
(vi) US$750,000 October 11, 2013
(vii) US$1,000,000 October 11, 2014

The agreement is subject to a 2% NSR payable upon commencement of commercial production. In the event royalty payments are imposed by government agencies such that the total royalty exceeds the equivalent of 4% NSR, the Company can exercise the right to reduce the NSR to the optionor by 1% for $1,000,000 within one year of commencement of commercial production.

(4) Copper Canyon Project, United States

Pursuant to an agreement in November 2007, as amended October 9, 2009, 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 payments totaling US$625,000 as follows:

(i) Initial payment of US$15,000 (paid)
(ii) US$35,000 on or before November 6, 2008 (paid)
(iii) US$35,000 on or before November 6, 2009 (paid)
(iv) US$190,000 on or before November 6, 2010
(v) US$350,000 on or before November 6, 2011

6. MINERAL PROPERTIES (Continued)

(g) Other Properties (Continued)

(4) Copper Canyon Project, United States (Continued)

The property is subject to a 2.5% NSR, which can be reduced to 2.0% for US$500,000.

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

(5) Gray Hills, United States

Pursuant to an agreement made in July 2007, as amended July 24, 2009, the Company entered into a lease with an option to purchase certain mining claims, known as the Gray Hills claims in Lyon County, Nevada. To earn a 100% interest, the Company is required to make 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 (paid)
(iv) US$15,000 on or before December 31, 2009 (paid)
(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 property is exercised by the Company or the optionee chooses to withdraw from the lease

The Company may exercise its option to purchase the property at any time, for US$500,000. The property is subject to a 3% NSR, up to 2% of which may be reduced by the Company for US$500,000 per 1%.

(6) South West Tintic and Peg Leg, United States

On May 29, 2009, the Company signed an earn-in agreement with Freeport-McMoRan Exploration Corporation of Phoenix, Arizona (“FMEC”) for the Company’s South West Tintic project in Utah. Under the terms of the agreement, FMEC has the exclusive right and option to acquire a 70% ownership interest in this property by making a US$275,000 property payment and by spending US$4,725,000 on exploration costs over four years. To keep the option in good standing, FMEC must make a minimum expenditure of US$750,000 by August 29, 2010.

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 South West Tintic Claims in Juab County, Utah. To earn a 100% interest, the Company is required to make payments to the original vendors as follows:

(i) US$20,000 on March 15, 2007 (paid)
(ii) US$20,000 on or before February 15, 2008 (paid)
(iii) US$20,000 on or before February 15, 2009 (paid)

6. MINERAL PROPERTIES (Continued)

(g) Other Properties (Continued)

(6) South West Tintic and Peg Leg, United States (Continued)

(iv) US$40,000 on or before February 15, 2010 (paid by FMEC)
(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, 2016

Alternatively, the Company may acquire the property at any time by paying US$1,000,000 less any previously paid amounts. The property is subject to a 2% NSR, which may be reduced to 1% for US$1,000,000.

Pursuant to another agreement made in August 2007, the Company is required to make a payment of US$259,410 (paid) and advance a US$550,000 promissory note to earn an interest in further unpatented mining claims, which also form part of the South West Tintic Claims.

The US$550,000 promissory note has a term of two years, with no interest. The Company repaid US$275,000 by August 29, 2008, and the remaining US$275,000 was paid by FMEC by August 29, 2009.

On August 27, 2009, the Company signed an earn-in agreement with FMEC for the Company's Peg Leg copper project in Arizona. FMEC has the exclusive right and option to acquire a 70% interest in the Peg Leg project by spending US$3,000,000 on exploration by December 31, 2012.

(7) Wassuk Copper Project (formerly Majuba Hill), United States

Pursuant to an agreement made in December 2007, as amended December 2, 2009, 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 payments totaling US$2,930,000 by December 10, 2015 as follows:

(i) Initial payment of US $100,000 (paid)
(ii) US$100,000 on or before December 10, 2008 (paid)
(iii) US$30,000 on or before December 10, 2009 (paid)
(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

6. MINERAL PROPERTIES (Continued)

(g) Other Properties (Continued)

(7) Wassuk Copper Project (formerly Majuba Hill), United States (Continued)

The Company must also incur US$1,000,000 cumulative 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, which may be reduced to 2% for US$1,000,000.

During the year ended December 31, 2009, the Company wrote off its inactive properties including Big Bar and Carbon County properties in the US, and La Reforma property in Mexico. All the other properties are in the initial stages of exploration.

(h) Realization

The Company's investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in the assets is dependent on establishing legal ownership of the property interest, on the attainment of successful commercial production or from the proceeds of its disposal. The recoverability of the amounts shown for the mineral property interest is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the property interest, and upon future profitable production or proceeds from the disposition thereof.

(i) Title

Although the Company has taken steps to ensure the title to the mineral property in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(j) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

6. MINERAL PROPERTIES (Continued)

(j) Environmental (Continued)

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

7. CONVERTIBLE NOTES

The Company completed the third tranche of a private placement of 1,950,500 units at US$0.60 per unit on January 15, 2009 for gross proceeds of US$1,170,300 ($1,476,100) (2008 – 4,362,792 units; US$2,619,673; $3,188,326). Cash finders' fees were $65,668 for net proceeds of $1,410,432.

Each unit comprises one convertible promissory note ("Notes") and one common share purchase warrant maturing 24 months from the date of issuance or upon redemption. The Notes bear interest at a rate of 10% per annum, maturing 24 months from date of issuance or upon conversion or redemption. The Notes provide the following terms as to conversion or redemption:

Conversion by Holder

At any time after four months from the date of issue, the Notes are convertible by the holder into common shares in the ratio of US$0.60 of Note converted into one common share. Any interest payable will be converted into common shares of the Company at a rate equal the US dollar equivalent to the market price for such shares on the date of such conversion.

Redemption by Company

(a) If at any time starting four months after the issuance of the Notes and prior to the date of redemption or conversion, the Company's common shares shall have achieved or exceeded a closing price of US$0.75 for a 10-day consecutive trading period, the Notes outstanding shall automatically be deemed to have been redeemed and converted into common shares in the ratio of US$0.60 of Note redeemed to one common share. Any interest payable will be converted into common shares of the Company at market price for such shares on the date of such redemption; or

(b) The Company may at any time prior to conversion redeem the Notes by paying to the holders the principal amount of a Note together with interest at 15% to the date of such redemption.

One whole non-transferable warrant allows the holder the right to purchase one common share at a price of US$0.75. The warrants expire 24 months from date of issuance. The warrants contain a provision that in the event the Company's common shares trade at a closing price of greater than US$1.00 per share for a period of 10 consecutive days at any time after issue of the warrant, the Company may accelerate the expiry date of the warrants by providing notice to the holders thereof and in such case the warrants will expire on the thirtieth day after notice. While this provision was met during 2009, the Company did not accelerate the expiry date of these warrants as of December 31, 2009.

7. CONVERTIBLE NOTES (Continued)

During the year ended December 31, 2009, the entire notes and interest payable were converted. As a result, 6,545,795 common shares were issued.

The net value assigned to the liability component on issuance was calculated as the present value of the principal and interest payments using an effective interest rate of 15% is as follows:

	December 31, 2009	December 31, 2008
Liability component of convertible notes – beginning of year	$ 2,953,370	$ –
Present value of convertible notes on issue	1,356,114	2,404,894
Interest	518,520	24,209
Conversion of convertible notes	(4,583,310)	–
Foreign exchange revaluation	(244,694)	524,267
Liability component of convertible notes – end of year	$ –	$ 2,953,370
Equity component of convertible notes – beginning of year	$ 259,164	$ –
Equity component of convertible notes on issue	119,986	259,164
Conversion of equity component of convertible notes	(379,150)	–
Equity component of convertible notes – end of year	$ –	$ 259,164

Of the $65,668 finders' fees paid for the issuance of the convertible notes, $60,423 was included in the initial carrying value of the liability component and $5,245 was included in the equity component of the convertible notes.

8. SHARE CAPITAL

(a) Common stock

Authorized - unlimited common shares without par value.

During the year ended December 31, 2009, the Company completed two private placements by issuing 15,227,410 units at $0.60 per unit for gross proceeds of $9,136,446. Each unit consists of one common share and one non-transferable share warrant at an exercise price of $0.75 for a period of two years. Related to these private placements, 114,000 units and cash of $141,222 were paid as finders' fees, and a $45,150 expense was recorded to contributed surplus for the value of the warrants portion using the Black-Scholes option pricing model with the following weighted average assumptions: volatility of 98.1%, risk-free interest rate of 1.37%, expected life 2.0 years and expected dividend yield 0%.

Other share issuance costs related to the private placements amounted to $154,141.

During the year ended December 31, 2009, 178,483 common shares (2008 – 64,978) were issued for financial advisory services of $90,000 (2008 - $90,000). The value of the shares were at market price on date payment was due, with an agreed upon discount as allowed by the TSX Venture Exchange.

8. SHARE CAPITAL (Continued)

(a) Common stock: authorized - unlimited common shares without par value (Continued)

On April 16, 2008 the Company completed a non-brokered private placement of 3,482,500 units at US$3.20 per unit for total proceeds of US$11,144,000. US$546,000 was paid as a finder's fee. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at US$0.60 (modified) per warrant share until October 17, 2009. In the event the Company's shares trade at a closing price of greater than US$0.75 (modified) per share for a period of 15 consecutive days at any time after six months from April 16, 2008, the Company may accelerate the expiry date of the warrants by providing notice to the shareholders thereof, and in such case the warrants will expire on the thirtieth day after the date on which such notice is given.

(b) Share Purchase Warrants

The following summarizes information about the warrants outstanding:

	December 31, 2009		December 31, 2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of the year*	6,104,041	$ 0.85	–	$ –
Issued:				
Private placements	15,341,410	$ 0.75	1,741,250	$ 4.13
Convertible notes	1,950,500	$ 0.94	4,362,791	$ 0.91
Expired	(141,250)	$ 0.68	–	$ –
Exercised	(1,670,000)	$ 0.66	–	$ –
Outstanding, end of the year	21,584,701	$ 0.80	6,104,041	$ 1.83

* Exercise price of 1,741,250 warrants was modified in 2009

On June 15, 2009, the Company amended the exercise price of 1,741,250 warrants issued in April 2008 from US$4.20 to US$0.60. Of these warrants, 1,600,000 were exercised for proceeds of US$960,000 ($1,100,905) and the balance expired. As a result of the re-pricing, $95,252 expense was recorded with a corresponding credit to contributed surplus using the Black-Scholes option pricing model with the following weighted average assumptions: volatility 60.4%, risk-free interest rate 1.05%, expected life 0.33 years and expected dividend yield 0%.

The following summarizes information about the warrants outstanding at December 31, 2009:

Expiry Date	Exercise Price	December 31, 2009	December 31, 2008
October 17, 2009	$ 0.60 US	–	1,741,250
November 27, 2010	$ 0.75 US	1,921,458	1,921,458
December 19, 2010	$ 0.75 US	2,441,333	2,441,333
January 15, 2011	$ 0.75 US	1,880,500	–
September 29, 2011	$ 0.75	9,666,206	–
October 28, 2011	$ 0.75	5,675,204	–
		21,584,701	**6,104,041**

8. SHARE CAPITAL (Continued)

(b) Share Purchase Warrants (Continued)

The aggregate intrinsic value of warrants is calculated as the difference between the exercise price of the warrant and the fair value of the underlying shares.

At December 31, 2009, the aggregate intrinsic value of the outstanding warrants with US dollar exercise prices is $7,242,218 (2008 - $Nil) and the aggregate intrinsic value of the outstanding warrants with Canadian dollar exercise prices is $19,176,763 (2008 - $Nil).

(c) Stock Options

The Company has 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. Stock options are exercisable once they have vested under the terms of the grant. The following summarizes information about the Company's options outstanding:

	December 31, 2009		December 31, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of the year	7,200,500	$ 2.56	5,559,500	$ 1.99
Granted	4,880,000	$ 1.00	2,390,000	$ 3.31
Cancelled (due to modification)	(2,575,000)	$ 3.24	–	$ –
Expired	(50,000)	$ 0.62	–	$ –
Forfeited	(158,300)	$ 3.10	–	$ –
Exercised	(60,200)	$ 0.55	(749,000)	$ 0.74
Outstanding, end of the year	9,237,000	$ 1.56	7,200,500	$ 2.56

The weighted average remaining contractual life of options outstanding at December 31, 2009 was 3.55 years (2008 – 3.40 years; 2007 – 3.65 years).

The weighted average grant date fair value of options outstanding at December 31, 2009 was $0.93 (2008 - $1.57; 2007 - $1.30) .

At December 31, 2009, the aggregate intrinsic value of the outstanding and exercisable stock options is $6,672,850 (2008 - $116,152).

8. SHARE CAPITAL (Continued)

(c) Stock Options (Continued)

The allocation of stock-based compensation included in the statements of operations was as follows:

	December 31, 2009		December 31, 2008		December 31, 2007	
	Number of Options Issued	Stock–based Compensation	Number of Options Issued	Stock–based Compensation	Number of Options Issued	Stock–based Compensation
Consultants	2,520,000	$ 1,661,209	975,000	$ 933,628	1,155,000	$ 2,260,416
Directors and officers	1,900,000	1,367,326	1,095,000	1,606,898	855,000	1,745,631
Employees	460,000	391,240	320,000	418,312	251,000	496,116
Total	4,880,000	$ 3,419,775	2,390,000	$ 2,958,838	2,261,000	$ 4,502,163

The Company used the following weighted average assumptions to fair value the options granted using the Black-Scholes option pricing model.

	December 31, 2009	December 31, 2008	December 31, 2007
Risk–free interest rate	1.89%	3.84%	4.57%
Expected share price volatility	81.56%	85.79%	89.42%
Expected option life in years	3.0	3.0	3.0
Forfeiture rate	0%	0%	0%
Expected dividend yield	0%	0%	0%

During the year ended December 31, 2009, the Company modified the existing stock options with an exercise price of over $1.55 for its employees and consultants. As a result, 2,575,000 options were granted at an exercise price of $0.98 for five years. The incremental stock-based compensation expense relating to the modification of $1,844,466 was expensed in the statement of operations and is included in the total stock-based compensation of $3,419,775 in 2009.

8. SHARE CAPITAL (Continued)

(c) Stock Option (Continued)

The following summarizes information about the stock options outstanding and exercisable at December 31, 2009:

Exercise Price	Grant Date Fair Value	Expiry Date	Balance December 31, 2009	Balance December 31, 2008
$ 0.62	$ 0.43	March 25, 2009	–	95,000
$ 0.35	$ 0.20	August 9, 2010	270,000	285,200
$ 0.40	$ 0.30	January 9, 2011	200,000	200,000
$ 1.04	$ 0.81	March 27, 2011	125,000	125,000
$ 1.00	$ 1.24	May 19, 2011	75,000	75,000
$ 1.12	$ 1.16	June 12, 2011	100,000	100,000
$ 1.55	$ 1.17	July 28, 2011	1,431,000	1,439,300
$ 1.55	$ 1.17	August 23, 2011	100,000	100,000
$ 1.50	$ 1.00	September 25, 2011	100,000	100,000
$ 2.05	$ 1.67	December 18, 2011	–	100,000
$ 2.65	$ 1.71	January 11, 2012	–	75,000
$ 2.70	$ 1.71	February 21, 2012	–	25,000
$ 3.33	$ 1.98	July 20, 2012	836,000	2,011,000
$ 3.33	$ 1.83	August 7, 2012	–	80,000
$ 3.45	$ 2.05	March 31, 2013	150,000	200,000
$ 3.30	$ 1.87	June 19, 2013	970,000	2,190,000
$ 0.98	$ 0.52	November 9, 2014	2,575,000	
$ 1.02	$ 0.51	November 9, 2014	2,305,000	
			9,237,000	**7,200,500**

The aggregate intrinsic value of stock options exercised during the year ended December 31, 2009 was $12,532 (2008 - $1,903,797).

9. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions during the years ended December 31:

(a) $479,014 (2008 - $573,833, 2007 - $321,358) was charged by a company of which a director and officer is the principal for administration, professional fees, office and general, and investor relations and communications. As of December 31, 2009, $31,578 (2008 - $47,218) was still owing in due to related parties (Note 10(b)).

(b) $45,865 of consulting fees (2008 - $69,958, 2007 - $39,000) were paid to a company of which an officer is the principal.

9. RELATED PARTY TRANSACTIONS (Continued)

(c) $10,475 of professional fees (2008 - $18,802, 2007 - $11,202) were charged by a law firm of which a director is the principal. As of December 31, 2009, $1,344 (2008 - $1,960) was still owing in due to related parties.

(d) On March 17, 2009, the Company borrowed US$200,000 from the CEO at an annual interest rate of 4.5% due within one year and unsecured. As of December 31, 2009, the principal and interest owing was US$207,151 ($217,715, 2008 - $Nil).

The above transactions are conducted in the normal course of business and were measured at the amount of consideration established and agreed by the parties.

10. COMMITMENTS

The Company has the following annual commitments in respect to mineral option payments, office leases and service agreements:

	Mineral Property (cash payment) (a)	Office Lease (b)	Total
2010	1,721,738	150,000	1,871,738
2011	3,170,867	150,000	3,320,867
2012	1,334,770	75,000	1,409,770
2013	1,550,225	–	1,550,225
2014	1,833,995	–	1,833,995
2015	888,095	–	888,095
2016	152,395	–	152,395
2017	152,395	–	152,395
2018	162,905	–	162,905
	$ 10,967,385	$ 375,000	$ 11,342,385

(a) The Company is required to make option payments and other expenditure commitments to maintain the properties and continue to earn its interest. In addition to the cash payment, the Company is required to issue 150,000 common shares for the MacArthur property, due January 15, 2010.

(b) During 2007, the Company entered into a service agreement with Manex Resource Group (“Manex”) for its Vancouver office space, administration and corporate secretarial services at a monthly rate of $12,500. The agreement can be cancelled at anytime upon one year’s notice. The current expiry date is June 30, 2012 (Note 9(a)). The Company also has one office lease in Kanab, Utah, and Yerington, Nevada, United States.

(c) In January 2007, the Company engaged Roman Friedrich & Company Ltd. to provide financial and advisory services to the Company. The retainer fee was $15,000 per month of which 50% was paid in cash and 50% was payable in common shares of the Company. The agreement was amended to $7,500 per month commencing September 1, 2009 until terminated, payable solely in shares of the Company. As of December 31, 2009, $15,000 was due in shares of the Company.

11. CAPITAL MANAGEMENT

The Company considers its capital under management to consist of shareholders' equity and convertible notes. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

The Company's objectives of capital management are intended to ensure the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties, and support any expansionary plans.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company ensures that there are sufficient committed loan facilities to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

The Company's capital under management includes:

	December 31, 2009	December 31, 2008
Convertible notes	$ –	$ 2,953,370
Shareholders' equity		
Share capital	$ 63,168,843	$ 48,318,994
Equity component of convertible notes	$ –	$ 259,164

There were no changes in the Company's approach to capital management during the year ended December 31, 2009. The Company is not subject to external restrictions on its capital.

12. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company's activities expose it to a variety of risks arising from financial instruments. These risks and management's objectives, policies and procedures for managing these risks are disclosed as follows.

Fair Value

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Investment	$ 26,000	$ –	$ –	$ 26,000

12. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

The following provides a comparison of carrying and fair values of each classification of financial instruments as at December 31, 2009 and 2008, respectively.

December 31, 2009	Loans and Receivables	Available–for–Sale	Held–for–Trading	Held–to–Maturity	Other Financial Liabilities	Total Fair Value	Total Carrying Value
Financial assets							
Cash and cash equivalents			$ 4,795,220			$ 4,795,220	$ 4,795,220
Investment		$ 26,000				$ 26,000	$ 26,000
Other receivables	$ 1,659					$ 1,659	$ 1,659
Amount due from Joint Venture Partner	251,904					$ 251,904	$ 251,904
Financial liabilities							
Accounts payable and accrued liabilities					$ 628,750	$ 628,750	$ 628,750
	$ 253,563	$ 26,000	$ 4,795,220	$ –	$ 628,750		

December 31, 2008	Loans and Receivables	Available–for–Sale	Held–for–Trading	Held–to–Maturity	Other Financial Liabilities	Total Fair Value	Total Carrying Value
Financial assets							
Cash and cash equivalents			$ 524,590			$ 524,590	$ 524,590
Restricted cash			56,028			$ 56,028	$ 56,028
Other receivables	$ 784					$ 784	$ 784
Amount due from Joint Venture Partner	88,110					$ 88,110	$ 88,110
Financial liabilities							
Accounts payable and accrued liabilities					$ 1,106,783	$ 1,106,783	$ 1,106,783
Promissory note				334,950		$ 334,950	$ 334,950
Convertible notes				2,953,370		$ 2,953,370	$ 2,953,370
	$ 88,894		$ 580,618	$ 3,288,320	$ 1,106,783		

The recorded amounts for cash and cash equivalents, other receivables, amount due from Joint Venture Partner, and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The fair value of the investment is based on active market prices at the year-end date.

The fair value amount due to related party has not been disclosed as the fair value cannot be reliably measured since there is no active market for such instruments.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: currency risk, interest rate risk and other price risk.

12. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Currency Risk

The Company operates internationally and is exposed to foreign exchange risk from fluctuations in exchange rates between the Canadian dollar and various currencies, primarily US dollars and Mexican pesos. The Company has not hedged its exposure to foreign currency fluctuations.

The Company is exposed to currency risk as follows:

	December 31, 2009		December 31, 2008	
	US$	Pesos	US$	Pesos
Cash	$ 1,593,545	$ 61,683	$ 308,664	$ 1,207,389
Other receivable and restricted cash	–	638,668	46,249	1,158,753
Joint Venture due	239,680	–	72,340	–
Reclamation Bond	291,789	–	260,841	–
Accounts payable and accrued liabilities	(452,444)	–	(749,517)	–
Due to related party	(207,151)	–	–	–
Promissory note	–	–	(275,000)	–
Convertible notes	–	–	(2,410,347)	–
Net foreign exposure	$ 1,465,419	$ 700,351	$ (2,746,770)	$ 2,366,142

Based on the above net foreign currency exposures as at December 31, 2009, and assuming all other variables remain constant, a 10% weakening or strengthening of the Canadian dollar against a) the US dollar would result in an increase/decrease of $161,870 (2008 - $407,490) in the Company's loss; and b) the Mexican peso would have no material impact in the Company's loss for the year.

Interest Rate Risk

The Company's cash and cash equivalents are held in bank accounts that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair value as of December 31, 2009. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

Other Price Risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from currency risk or interest rate risk. The Company's investment is carried at market value, and is therefore directly affected by fluctuations in the market value of the underlying securities. The Company's sensitivity analysis suggests that a 15% change in market prices would change the value of the investment by $4,000.

12. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Credit Risk

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

The Company manages credit risk, in respect of cash and cash equivalents by purchasing highly liquid, short-term investment-grade securities held through large Canadian financial institutions. Included in cash equivalents is $3,051,000 in guaranteed investment certificates earning interest at $0.60% cashable at any time. The amount due from Joint Venture Partner is not exposed to significant credit risk as the Company has a strong and continuing working relationship with the joint venturer.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. Accounts payable and accrued liabilities of $628,750 (2008 - $1,106,783) are due in the first quarter of fiscal 2010.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2009	December 31, 2008	December 31, 2007
Cash Items			
Interest paid	$ 2,071	$ –	$ –
Income tax paid	$ –	$ –	$ –
Share issue costs	$ 300,607	$ 555,319	$ 6,316
Non–Cash Items			
Mineral property expenditures included in accounts payable	$ 411,842	$ 864,514	$ 900,613
Non–cash share issue costs	$ 113,550	$ –	$ –
Promissory note paid on behalf of Company for mineral properties	$ 301,813	$ –	$ –
Shares issued for convertible notes	$ 4,588,555	$ –	$ –
Shares received for mineral properties (Note 4)	$ 38,866	$ –	$ –
Shares issued for mineral properties	$ 137,000	$ –	$ 1,281,000
Cash and cash equivalents comprises			
Cash	$ 1,744,220	$ 524,590	$ 2,411,052
Term deposits and bankers acceptance	3,051,000	–	978,848
	$ 4,795,220	$ 524,590	$ 3,389,900

14. INCOME TAXES

As at December 31, 2009, the Company has non-capital losses of approximately $8,800,000 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:

	Canada	US	Mexico
2010	$ 228,000		
2014	284,000		
2015	360,000		$ 1,700,000
2016			976,000
2017			2,149,000
2018			2,210,000
2019			1,193,000
2021		$ 53,000	
2022		810,000	
2023		104,000	
2025		16,000	
2026	700,000	84,000	
2027	1,985,000	112,000	
2028	3,017,000	487,000	
2029	2,228,000	362,000	
	$ 8,802,000	$ 2,028,000	$ 8,228,000

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

	2009	2008	2007
Loss for the year	$ (6,988,414)	$ (6,834,181)	$ (7,303,204)
Statutory income tax rate	30%	31%	34.12%
Income tax benefit computed at statutory rates	$ 2,096,524	$ 2,118,596	$ 2,491,853
Foreign tax rates different from statutory rate	(6,244)	13,351	(5,780)
Temporary differences	128,048	629,532	17,903
Stock–based compensation	(1,054,508)	(917,240)	(1,536,138)
Change in timing differences	(274,475)	(1,299,356)	171,021
Rate difference between current and future taxes	(420,418)	(237,603)	–
Change in valuation allowance	(468,927)	(307,280)	(1,138,859)
	$ –	$ –	$ –

14. INCOME TAXES (Continued)

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

	2009	2008
Future income tax assets (liabilities)		
Tax losses carried forward	$ 5,211,599	$ 4,750,565
Book value over tax value of mineral properties	(1,057,385)	(1,057,787)
Tax value over book value of equipment	34,510	11,168
Tax value over book value of investment	1,576	–
Share issuance costs	171,220	188,647
Future income tax assets, net	4,361,520	3,892,593
Valuation allowance	(4,361,520)	(3,892,593)
Future income taxes, net	$ –	$ –

15. SEGMENTED INFORMATION

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

	December 31, 2009				December 31, 2008		
	Equipment	Mineral Properties	Total Assets		Equipment	Mineral Properties	Total Assets
Canada	$ 11,896	$ –	$ 4,648,633	**Canada**	$ 9,563	$ –	$ 293,696
Mexico	60,909	7,748,400	8,178,767	**Mexico**	59,875	6,873,055	7,341,231
U.S.A.	90,289	28,343,283	29,045,097	**U.S.A.**	138,584	26,012,016	26,762,362
Total	$ 163,094	$ 36,091,683	$ 41,872,497	**Total**	$ 208,022	$ 32,885,071	$ 34,397,289

16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 25, 2010 and provides disclosure as follows:

(a) The Company has entered into a binding option agreement with GoldCorp Inc. ("GoldCorp"). According to the terms of the agreement, GoldCorp will provide US$10 million through a private placement to fund a two-year generative exploration program in Mexico. The first US$4.0 million private placement was closed in February 2010 and the Company issued 3,001,418 units at a price of US$1.41 per unit. Each unit consists of one common share and one-half of one share purchase warrant, each whole warrant is exercisable at US$1.76 expiring two years from the date of issuance. The second unit placement of US$6.0 million is due on January 29, 2011. Each unit consists of one common share and one-half of one share purchase warrant. If Goldcorp executes both placements and exercises all associated warrants, the generative exploration program will be extended by one year.

(b) The Company has entered into an option agreement with La Cuesta International, Inc. ("LCI") to acquire a 100% interest in the Santo Domingo prospect located in Durango, Mexico. The consideration consists of an aggregate of US$7.5 million cash payments in accordance with the agreement ($10,000 paid), 100,000 common shares of the Company (issued) and $50,000 in work expenditures by December 31, 2010. This prospect is included in the Goldcorp Accord.

(c) 1,041,833 warrants were exercised for total proceeds of $781,375.

(d) 25,000 options were exercised for total proceeds of $25,000.

(e) The Company granted 170,000 options at an exercise price of $2.00 per share to consultants and 106,000 options were cancelled at a weighted average price of $2.48 per share.

(f) The Company issued 19,565 common shares at a fair value of $22,500 for financial advisory services received from November 2009 to January 2010 (Note 10(c)).

17. RECONCILIATION OF CANADIAN AND U.S.GAAP

Canadian GAAP varies in certain significant respects from the principles and practices generally accepted in the United States ("U.S. GAAP"). The effect of the principal measurement differences on the Company's consolidated financial statements is quantified below and described in the accompanying notes.

(a) Exploration Expenditures

Under U.S. 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 U.S. GAAP.

17. RECONCILIATION OF CANADIAN AND U.S.GAAP (Continued)

(b) Convertible Notes

Under U.S. GAAP, convertible debt instruments are classified as debt until converted to equity, whereas under Canadian GAAP, the proceeds of the convertible debt instrument have been allocated to both debt and equity components. In addition, under U.S. GAAP, debt instruments issued with detachable warrants would be allocated to debt and equity components based on the relative fair value of each component, whereas under Canadian GAAP the residual method has been adopted. Any resulting debt component is accreted over time to its face value with the interest and accretion expense charged to the statements of operations.

Under U.S. GAAP, a value is assigned to the conversion feature only if the effective conversion rate is less than the market price of the common stock at the commitment date. Under U.S. GAAP no value has been assigned to the conversion feature of the convertible note although a value has been assigned to the detachable warrants and thus, there is a difference in values assigned to the debt and equity components between Canadian and U.S. GAAP of the units issued.

Accordingly, an additional $52,083 was recorded as interest expense (2008 - $4,962).

(c) Uncertain Tax Positions

On January 1, 2008, the Company adopted the U.S. GAAP standards regarding uncertain tax positions. The adoption did not result in any adjustment to opening retained earnings. These standards require uncertain tax positions to be classified as non-current income tax liabilities unless expected to be paid within one year. Upon adoption, there was no recognition of tax liabilities for uncertain tax positions and no reclassification of income tax liabilities from current to non-current on the Company's balance sheet.

There were no unrecognized tax benefits as at December 31, 2009 and 2008.

The Company recognizes interest and penalties related to uncertain tax positions, if any, as interest and penalties expenses. As of December 31, 2009, there were no balances of accrued interest and penalties related to uncertain tax positions.

The Company is subject to taxes in Canada and the United States. The Company is not currently under audit by any taxing jurisdiction. The tax years that remain subject to examination as of December 31, 2009 are as follows:

Canada	2004 to 2009
United States	1994 to 2009

(d) Development stage company

Pursuant to U.S. GAAP, the Company would be subject to the disclosure requirements applicable to a development stage enterprise as the Company is devoting its efforts to establishing commercially viable mineral properties. However, the identification of the Company as such for accounting purposes does not impact the measurement principles applied to these consolidated financial statements.

17. RECONCILIATION OF CANADIAN AND U.S. GAAP (Continued)

(e) Derivative liability

On January 1, 2009, the Company adopted the provisions of Emerging Issues Task Force ("EITF") 07-5 (now known as ASC 815-40), *Determining whether an instrument (or embedded feature) is indexed to an entity's own stock* , resulting in the share purchase warrants issued with the convertible notes (Note 7) being classified as a derivative liability, as they were not indexed to the Company's common shares.

The Company's functional currency is the Canadian dollar and it has issued and outstanding warrants that have an exercise price that is denominated in U.S. dollars and has determined that these warrants cannot be classified as equity based on the evaluation of the warrant's settlement provisions. As a result, these warrants are treated as derivative liabilities carried at fair value as determined by the Black-Scholes option pricing model, for U.S. GAAP purposes with changes in fair values recorded as gains or losses in the statement of operations.

Accordingly, for U.S. GAAP purposes the Company reclassified the carrying value of warrants from equity to liability in the amount of $1,408,190 and recorded a cumulative adjustment of $468,910 to deficit on January 1, 2009 to record the incremental fair value of the derivative liability using the Black-Scholes option pricing model with the following weighted average assumptions: Volatility of 89.5%, risk-free interest rate of 1.44%, expected life 1.6 years and expected dividend yield 0%.

During the year-ended December 31, 2009, the fair value of the warrants increased to $8,477,944 using the Black-Scholes option pricing model with the following weighted average assumptions: Volatility of 108.4%, risk- free interest rate of 1.46%, expected life 1.0 year and expected dividend yield 0%. As a result, the Company recorded a fair value charge of $7,538,644 in the statements of operations.

The adjustments to components of the consolidated balance sheets would be as follows:

	As at December 31	
	2009	**2008**
Total assets – Canadian GAAP	$ 41,872,497	$ 34,397,289
Expensed expenditures on mineral properties	(27,954,375)	(25,509,673)
Total assets – U.S. GAAP	**$ 13,918,122**	**$ 8,887,616**
Total liabilities – Canadian GAAP	$ 879,386	$ 4,444,281
Derivative liability – warrants	8,477,944	–
Liability component of convertible notes	–	(176,961)
Total liabilities – U.S. GAAP	9,357,330	4,267,320
Total shareholders ' equity – Canadian GAAP	40,993,111	29,953,008
Equity component of convertible notes	–	176,961
Expenditures on mineral properties	(27,954,375)	(25,509,673)
Derivative liability – adjustment to warrants	(8,477,944)	–
Total shareholders ' equity under U.S. GAAP	4,560,792	4,620,296
Total Liabilities and Shareholders' Equity per U.S. GAAP	**$ 13,918,122**	**$ 8,887,616**

17. RECONCILIATION OF CANADIAN AND U.S. GAAP (Continued)

The adjustments to the statements of operations would be as follows:

	Years ended December 31,		
	2009	2008	2007
Loss for the year – Canadian GAAP	$ (6,988,414)	$ (6,834,181)	$ (7,303,204)
Expenditures on mineral properties	(2,444,702)	(12,398,924)	(7,914,384)
Interest expense on convertible notes	(52,083)	(4,962)	–
Unrealized loss on derivative liability	(7,538,664)	–	–
Net loss and comprehensive loss for the year – U.S. GAAP	(17,023,863)	(19,238,067)	(15,217,588)
Deficit, beginning of year – U.S. GAAP	(54,142,118)	(34,904,051)	(19,686,463)
Adjustment on adoption of EITF 07–5	468,910	–	–
Deficit, beginning of year, as restated – U.S. GAAP	(53,673,208)	(34,904,051)	(19,686,463)
Deficit, end of year – U.S. GAAP	$ (70,697,071)	$ (54,142,118)	$ (34,904,051)
Loss per common share – Canadian GAAP	$ (0.08)	$ (0.08)	$ (0.09)
Loss per common share – U.S. GAAP	$ (0.18)	$ (0.22)	$ (0.19)
Weighted average number of shares outstanding	92,443,572	86,304,153	79,971,435

The adjustments to the consolidated statements of cash flows would be as follows:

	Years ended December 31,		
	2009	2008	2007
Operating activities – Canadian GAAP	$ (2,154,933)	$ (4,108,832)	$ (2,014,535)
Adjustments for mineral expenditures	(2,444,702)	(12,398,924)	(7,914,384)
Cash used in operating activities – U.S. GAAP	(4,599,635)	(16,507,756)	(9,928,919)
Investing activities – Canadian GAAP	(4,754,981)	(13,213,283)	(9,832,158)
Reclassification of expenditures on mineral properties	2,444,702	12,398,924	7,914,384
Cash used in investing activities – U.S. GAAP	(2,310,279)	(814,359)	(1,917,774)
Cash provided by financing activities – Canadian and U.S. GAAP	11,385,639	13,890,522	6,881,465
Effect of foreign exchange on cash	(205,095)	566,283	(757,604)
(Decrease) increase in cash during the year	4,270,630	(2,865,310)	(5,722,832)
Cash ,beginning of year	524,590	3,389,900	9,112,732
Cash, end of year – U.S. GAAP	$ 4,795,220	$ 524,590	$ 3,389,900

17. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP (Continued)

The Company's financial assets measured at fair value by level within the fair value hierarchy would be as follows:

	Level 1	Level 2	Level 3	Total
Investment	$ 26,000	$ –	$ –	$ 26,000
Derivative liability – warrants	$ –	$ 8,477,944	$ –	$ 8,477,944

The derivative liability – warrants (Note 17(e)) would be classified as held-for-trading.

Changes in Accounting Policies

(a) Hierarchy of General Accepted Accounting Principles

In June 2009, the Financial Accounting Standards Board ("FASB") issued new standards for *The Hierarchy of Generally Accepted Accounting Principles*. These standards, ASC 105, culminated a multi-year project to replace the previous GAAP hierarchy and established *Accounting Standard Codification* (the "Codification"). The Codification does not change U.S. GAAP, but combines all authoritative standards into a comprehensive, topically organized online database. After the launch of the Codification on July 1, 2009, only one level of authoritative U.S. GAAP for non-governmental entities exists, other than guidance issued by the SEC. This statement was adopted effective as of September 30, 2009. The adoption of this new standard only had the effect of amending references to authoritative accounting guidance in the Company's consolidated financial statements.

(b) Business Combinations

In December 2007, the FASB revised its accounting standards for *Business Combinations*. The standard, ASC 805, requires the acquiring entity to recognize and measure in its financial statements all the assets acquired, the liabilities assumed, any non-controlling interest in the acquired entity and the goodwill acquired and establishes the acquisition- date fair value as the measurement objective for all assets acquired and liabilities assumed. Furthermore, acquisition- related and other costs will now be expensed rather than treated as cost components of the acquisition. ASC 805 also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination.

The revision to this guidance applies prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The adoption of this new standard had no impact on the Company's consolidated financial statements.

17. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP (Continued)

Changes in Accounting Policies (Continued)

(c) Fair Value Measurement and Disclosures

In October 2008, FASB amended accounting standards for *Fair Value Measurements and Disclosures*. The amended standard, ASC 820, clarifies the application of fair value measurements in a market that is not active. The amendment is intended to address the following application issues: (a) how the reporting entity's own assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist; (b) how available observable inputs in a market that is not active should be considered when measuring fair value; and (c) how the use of market quotes (for example, broker quotes or pricing services for the same or similar financial assets) should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. The changes were effective on issuance, including prior periods. The adoption of this new standard had no impact on the Company's consolidated financial statements.

(d) Investments – Other

In January 2009, FASB amended accounting standards for *Investments – Other*. The amended standard, ASC 325, addresses certain practices or issues related to the recognition of interest income and impairment on purchased beneficial interests and beneficial interests that continue to be held by a transferor in securitized financial assets, by making its other-than-temporary impairment ("OTTI") assessment guidance consistent with the accounting standards for *Investments – Debt and Equity Securities*. The amendment removes the reference to the consideration of a market participant's estimates of cash flows and instead requires an assessment of whether it is probable, based on current information and events, that the holder of the security will be unable to collect all amounts due according to the contractual terms. If it is probable that there has been an adverse change in estimated cash flows, an OTTI is deemed to exist, and a corresponding loss shall be recognized in earnings equal to the entire difference between the investment's carrying value and its fair value at the balance sheet date of the reporting period for which the assessment is made. This amendment became effective for interim and annual reporting periods ending after December 15, 2008, and is to be applied prospectively. The adoption of this new standard had no impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

(a) Subsequent Events

In May 2009, FASB amended the accounting standard for *Subsequent Events*. The updated standard, ASC 855, established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The revisions should not result in significant changes in the subsequent events that an entity reports, either through recognition or disclosure in its financial statements. It does require disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. As a result of the adoption of this new standard, the Company evaluated subsequent events to March 25, 2010, the date these consolidated financial statements were available to be issued.

17. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP (Continued)

(b) Measuring Liabilities at Fair Value

In August 2009, FASB issued ASU No. 2009-05, *Measuring Liabilities at Fair Value*. This update amends ASC 820, *Fair Value Measurements and Disclosure,* in regards to the fair value measurement of liabilities. FASB ASC 820 clarifies that in circumstances in which a quoted price for an identical liability in an active market is not available, a reporting entity shall utilize one or more of the following techniques: (i) the quoted price of the identical liability when traded as an asset; (ii) the quoted price for a similar liability or for a similar liability when traded as an asset; or (iii) another valuation technique that is consistent with the principles of ASC 820. In all instances a reporting entity shall utilize the approach that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Also, when measuring the fair value of a liability, a reporting entity shall not include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. This update is effective for the Company in the first quarter of the 2010 fiscal year. The adoption of this update is not expected to have any impact on the Company's consolidated financial statements.

18. COMPARATIVE FIGURES

Certain of the 2008 and 2007 comparative figures have been reclassified to conform to the current year's presentation.



Consolidated Financial Statements
December 31, 2008
(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting - Canada

The accompanying consolidated financial statements have been prepared by the management of Quaterra Resources Inc. in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these consolidated financial statements are the responsibility of management.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safeguarding of assets. The consolidated financial statements include amounts that are based on the best estimates and judgment of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Board of Directors exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three outside directors who are not involved in the daily operations of the Company. The functions of the Audit Committee include the review of the quarterly and annual consolidated financial statements, review of the adequacy of the system of internal controls, review any relevant accounting, financial and security regulatory matters, and recommend the appointment of the external auditors. The Audit Committee meets at least quarterly with management to satisfy itself that management's responsibilities are properly discharged and to review the consolidated financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, Smythe Ratcliffe LLP, conducted an independent examination, in accordance with Canadian generally accepted auditing standards, and expressed their opinion on the consolidated financial statements. Their examination included tests and procedures to provide reasonable assurance that the consolidated financial statements are, in all material respects, presented fairly and in accordance with Canadian generally accepted accounting principles. The external auditors have free and full access to the Audit Committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

"Thomas C. Patton" (signed)
Thomas C. Patton
President and Chief Executive Officer

"Scott Hean" (signed)
Scott Hean
Chief Financial Officer

Vancouver, Canada
March 24, 2009

Management's Report on Internal Control over Financial Reporting – United States

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management conducted an evaluation of the effectiveness of the internal controls over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as at December 31, 2008. Based on management's assessment and those criteria, management has concluded that the internal control over financial reporting as at December 31, 2008 was effective.

The effectiveness of the Company's internal control over financial reporting has been audited by Smythe Ratcliffe LLP, independent auditors, as stated in their report.

"Thomas C. Patton" (signed)
Thomas C. Patton
President and Chief Executive Officer

"Scott Hean" (signed)
Scott Hean
Chief Financial Officer

Vancouver, Canada
March 24, 2009

SmytheRatcliffe
CHARTERED ACCOUNTANTS

REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders of Quaterra Resources Inc.

We have audited the consolidated balance sheets of Quaterra Resources Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, cash flows and shareholders' equity for the years ended December 31, 2008, 2007 and 2006. 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 and the standards of the Public Company Accounting Oversight Board (United States). 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, 2008 and 2007 and the results of its operations and its cash flows for the years ended December 31, 2008, 2007 and 2006 in conformity with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations for the Treadway Commission and our report dated March 24, 2009 expresses an unqualified opinion.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 24, 2009

COMMENTS BY AUDITORS FOR UNITED STATES READERS – US Reporting Difference

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 24, 2009, 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 24, 2009

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Quaterra Resources Inc.

We have audited Quaterra Resources Inc.'s (the "Company") internal control over financial reporting as of December 31, 2008 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risks. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control – Integrated Framework issued by the COSO. We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2008 and 2007 and the related consolidated statements of operations, shareholders' equity and cash flows for the years ended December 31, 2008, 2007 and 2006 and our report dated March 24, 2009 expresses an unqualified opinion on those financial statements.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants
Vancouver, Canada
March 24, 2009

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Balance Sheets
(Expressed in Canadian dollars)

		December 31, 2008	December 31, 2007
Assets			
Current assets:			
Cash and cash equivalents		$ 524,590	$ 3,389,900
Restricted cash	Note 5	56,028	-
Other receivables		152,375	268,869
Prepaid and deposits		165,389	62,854
Amount due from Joint Venture Partner	Note 7(a)	88,110	581,124
		986,492	4,302,747
Prepaid and deposits		-	20,814
Equipment	Note 6	208,022	180,452
Mineral properties	Note 7	32,885,071	19,554,706
Reclamation bonds		317,704	139,492
		$ 34,397,289	**$ 24,198,211**
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 1,106,783	$ 1,079,779
Due to related parties	Note 10	49,178	86,391
Current portion of promissory note	Note 7(h)	334,950	270,050
		1,490,911	1,436,220
Promissory note	Note 7(h)	-	270,050
Liability component of convertible notes	Note 8	2,953,370	-
		4,444,281	1,706,270
Shareholders' Equity			
Share capital	Note 9	48,318,994	36,875,448
Equity component of convertible notes	Note 8	259,164	-
Contributed surplus		10,002,333	7,409,795
Deficit		(28,627,483)	(21,793,302)
		29,953,008	22,491,941
		$ 34,397,289	**$ 24,198,211**

Nature of operations and going concern (Note 1)
Commitments (Note 11)

(See accompanying notes to consolidated financial statements)

Approved on behalf of the
Board of Directors:

"Thomas Patton" (signed)
Thomas Patton

"Robert Gayton" (signed)
Robert Gayton

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Operations
(Expressed in Canadian dollars)

	Years ended December 31,		
	2008	2007 (Note 18)	2006 (Note 18)
General Administrative Expenses			
Administration	$ 247,110	$ 116,000	$ 60,000
Amortization	78,023	43,309	9,991
Consulting	783,750	472,356	105,815
Directors and officers fees	83,791	48,683	5,625
Investor relations and communications	427,497	324,214	160,380
Office and general	515,169	206,420	161,940
Professional fees	826,709	299,926	139,712
Regulatory fees and taxes	175,564	118,817	16,723
Salaries and benefits	449,549	263,544	60,984
Stock-based compensation (Note 9(c))	2,958,838	4,502,163	3,045,004
Transfer agent	38,790	28,857	15,567
Travel and promotion	152,297	167,998	71,679
Operating Expenses	(6,737,087)	(6,592,287)	(3,853,420)
Other			
General exploration costs, net of recoveries	(633,741)	(229,334)	(185,526)
Foreign exchange gain (loss)	446,118	(778,126)	79,449
Interest income	55,555	248,684	85,988
Interest and financing costs	(33,752)	-	-
Joint venture administration fee (Note 7(a))	68,726	47,859	42,975
	(97,094)	(710,917)	22,886
Loss and comprehensive loss for the year	$ (6,834,181)	$ (7,303,204)	$ (3,830,534)
Loss per share - basic and diluted	$ (0.08)	$ (0.09)	$ (0.05)
Weighted average number of shares outstanding	86,304,153	79,971,435	69,964,072

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended December 31, 2008	2007 (Note 18)	2006 (Note 18)
Operating Activities			
Net loss for the year	$ (6,834,181)	$ (7,303,204)	$ (3,830,534)
Items not involving cash:			
Amortization	78,023	43,309	9,991
Commitment to issue shares for services	15,000	-	-
Stock-based compensation	2,958,838	4,502,163	3,045,004
Shares issued for services	90,000	67,500	-
Interest accrued on convertible notes	24,208	-	-
Unrealized foreign exchange (gain) loss	(501,383)	757,604	(504)
	(4,169,495)	(1,932,628)	(776,043)
Changes in non-cash working capital			
Accounts receivable	116,494	(212,277)	5,614
Prepaid and deposits	(81,721)	(13,182)	(70,486)
Accounts payable and accrued liabilities	63,103	83,377	(219,639)
Due to related parties	(37,213)	60,175	13,206
Cash used in operating activities	(4,108,832)	(2,014,535)	(1,047,348)
Financing Activities			
Shares issued for cash, net of issue costs	10,972,246	6,881,465	11,715,138
Proceeds from convertible notes	3,188,326	-	-
Repayment of promissory note	(270,050)	-	-
Cash provided by financing activities	13,890,522	6,881,465	11,715,138
Investing Activities			
Restricted cash	(56,028)	-	-
Expenditures on mineral properties	(13,366,464)	(9,132,683)	(3,335,212)
Due from Joint Venture partner	493,014	(467,694)	64,369
Purchase of equipment	(105,592)	(172,187)	(30,180)
Purchase of reclamation bonds	(178,212)	(59,594)	(40,837)
Cash used in investing activities	(13,213,283)	(9,832,158)	(3,341,860)
Effect of foreign exchange on cash	566,283	(757,604)	504
(Decrease) increase in cash during the year	(2,865,310)	(5,722,832)	7,326,434
Cash and cash equivalents, beginning of year	3,389,900	9,112,732	1,786,298
Cash and cash equivalents, end of year	$ 524,590	$ 3,389,900	$ 9,112,732

Supplemental cash flow information - Note 13

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
(An Exploration Stage Company)
Consolidated Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares		Convertible	Contributed		
	Shares	Amount	Notes	Surplus	Deficit	Total
Balance at December 31, 2005	65,522,200	$ 15,172,975	$ -	$ 1,013,998	$ (10,659,564)	$ 5,527,409
Common shares issued for cash during the year:						-
Warrants and options exercised	6,643,281	2,582,171				2,582,171
Private placements, net of issue costs	5,247,855	8,640,370				8,640,370
Shares issued for mineral property acquisitions	400,000	606,000				606,000
Shares issued for finders' fees	291,484	510,097				510,097
Fair value of options and warrants exercised		349,445		(349,445)		-
Stock-based compensation				3,045,004		3,045,004
Net loss for the year					(3,830,534)	(3,830,534)
Balance at December 31, 2006	78,104,820	27,861,058	-	3,709,557	(14,490,098)	17,080,517
Common shares issued for cash during the year:						
Warrants and options exercised	4,589,285	6,863,965				6,863,965
Shares issued for mineral property acquisitions	200,000	586,000				586,000
Alloted for mineral property acquisitions	250,000	695,000				695,000
Shares issued for services	22,900	67,500				67,500
Fair value of options and warrants exercised		801,925		(801,925)		-
Stock-based compensation				4,502,163		4,502,163
Net loss for the year					(7,303,204)	(7,303,204)
Balance at December 31, 2007	83,167,005	36,875,448	-	7,409,795	(21,793,302)	22,491,941
Common shares issued during the year:						
Shares issued for cash, net of issue costs	3,482,500	10,414,556				10,414,556
Exercise of options	749,000	557,690				557,690
Shares issued for services	64,978	90,000				90,000
Commitment to issue shares for services				15,000		15,000
Equity portion of convertible note			259,164			259,164
Fair value of options exercised		381,300		(381,300)		-
Stock-based compensation				2,958,838		2,958,838
Net loss for the year					(6,834,181)	(6,834,181)
Balance at December 31, 2008	87,463,483	$ 48,318,994	$ 259,164	$ 10,002,333	$ (28,627,483)	$ 29,953,008

(See accompanying notes to consolidated financial statements)

1. NATURE OF OPERATIONS AND GOING CONCERN

Quaterra Resources Inc. (the "Company"), an exploration stage company, was incorporated under the laws of British Columbia on May 11, 1993. The Company and its subsidiaries are engaged in the acquisition and exploration of mineral properties in the United States and Mexico.

The Company's financial statements have been prepared on a going concern basis, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a net loss of $6,834,181 for the year ended December 31, 2008 (2007 - $7,303,204, 2006 - $3,830,534). As at December 31, 2008, the Company had an accumulated deficit $28,627,483 (2007 - $21,793,302) with a working capital deficiency of $504,419.

The ability of the Company to continue as a going concern and 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. Management is planning to raise additional capital to finance operations and expected growth, if necessary, or alternatively to dispose of its interests in certain properties. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will be required to curtail the Company's operations.

The business of mining exploration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining operations. The Company has no source of revenue, and has significant cash requirements to meet its administrative overhead, pay its debts and liabilities, and maintain its mineral interests. The recoverability of amounts shown for mineral properties is dependent on several factors. These include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. The carrying value of the Company's mineral properties does not reflect current or future values.

These financial statements do not indicate any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that of the previous year except as described in Note 3. The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements:

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation and Consolidation

These consolidated financial statements include the accounts of the Company, its wholly-owned integrated subsidiaries and its proportionate share of the accounts of the joint venture. The wholly-owned subsidiaries include Quaterra Alaska Inc. - incorporated in the United States, Minera Agua Tierra S.A. de C.V. - incorporated in Mexico, and Quaterra International Limited - incorporated in the British Virgin Islands. All significant inter- company accounts and transactions have been eliminated on consolidation.

Mineral Properties

The Company capitalizes all costs related to the acquisition and exploration of mineral properties on a property by property basis, net of recoveries 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 deferred 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 deferred 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.

Impairment of Long-Lived Assets

Long-lived assets, such as equipment and deferred exploration, are reviewed for impairment at each reporting period or more frequently as economic events indicate that the carrying amount of an asset may not be recoverable.

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 deferred 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

The Company follows the temporal method of accounting for the translation of foreign currency amounts into Canadian dollars. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the consolidated balance sheet date. All other assets and liabilities are translated at rates prevailing when the assets were acquired or liabilities incurred. Income and expense items are translated at the exchange rates in effect on the date of the transaction. Resulting exchange gains or losses are included in the determination of loss for the period.

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.

Convertible Notes

The Company's convertible notes are split into their corresponding debt and equity components at the date of issue. The debt component is classified as a liability and recorded at the present value of the Company's obligation to make future principal and interest payments. The equity component represents the value of the conversion right and attached warrants and is recorded using the residual value approach.

Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value-based method with respect to all stock- based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

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 incorporates the dilutive effect of options, warrants and similar instruments. As the effects of outstanding options and warrants are anti-dilutive, diluted loss per share is equivalent to basic loss per share.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, the bifurcation of the convertible notes into debt and equity components 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 could impact future results of operations and cash flows.

Financial Instruments

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.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

3. ACCOUNTING CHANGES

Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the following amended and new Canadian Institute of Chartered Accountants ("CICA") accounting pronouncements:

- Section 1400 (amended) – General Standards of Financial Statement Disclosure
- Section 1535 - Capital Disclosure
- Section 3862 – Financial Instruments – Disclosure
- Section 3863 – Financial Instruments – Presentation

The amendments to Section 1400 were in connection with the requirements to assess and disclose an entity's ability to continue as a going concern. The Company's accounting policies were already in accordance with the requirements of the amended section and there was no effect on the Company's financial statement disclosure, or on its consolidated financial position or its consolidated results of operations.

Section 1535 requires a company to disclose information that enables users of its financial statements to evaluate the company's objectives, policies and procedures for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. Sections 3862 and 3863 require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how a company manages these risks.

These accounting policy changes were adopted on a prospective basis with no restatement of prior period consolidated financial statements and they do not have a material impact on the Company's operations.

Recent Accounting Pronouncements

The CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition, and for intangible assets, subject to certain exceptions. Section 1000, "Financial Statements Concepts" was also amended to provide consistency with this new standard. These standards are effective for the Company beginning January 1, 2009. The Company does not expect the adoption of these changes to have an impact on its consolidated financial statements.

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim consolidated financial statements for the three months ended March 31, 2011, which must include the interim results for the prior period ended March 31, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures. While the Company has begun assessing the adoption of IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company has classified cash and cash equivalents, and restricted cash as held-for-trading; other receivables and amount due from Joint Venture Partner as loans and receivables; accounts payable and accrued liabilities and due to related parties as other financial liabilities; promissory note and convertible notes as held-to-maturity.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Fair Value

As at December 31, 2008, the recorded amounts for cash and cash equivalents, restricted cash, other receivables, accounts payable and accrued liabilities, and due to related party approximate their fair value due to their short- term nature.

The fair value of the Company's promissory note approximates its carrying value. The fair value of the convertible notes was estimated using the discounted cash flow analysis based on the Company's incremental borrowing rates at that time for similar types of arrangements.

Currency Risk

The Company operates internationally and is exposed to foreign exchange risk from fluctuations in exchange rates between the Canadian dollar and various currencies, primarily US dollars and Mexican pesos. The Company has not hedged its exposure to foreign currency fluctuations.

As at December 31, 2008, the Company is exposed to currency risk as follows:

	US$	Peso
Cash	308,664	1,207,389
Restricted cash	46,000	–
Other receivable	249	1,158,753
Joint Venture due	72,340	–
Bonds	260,841	–
Accounts payable and accrued liabilities	(749,517)	–
Promissory note	(275,000)	–
Convertible notes	(2,410,347)	–
Net foreign exposure	(2,746,770)	2,366,142

Based on the above net foreign currency exposures as at December 31, 2008, and assuming all other variables remain constant, a 10% weakening or strengthening of the Canadian dollar against a) the US dollar would result in an increase/decrease of $407,490 in the Company's loss; and b) the Mexican peso would result in a decrease/increase $1,850 in the Company's loss for the year.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Interest Rate Risk

The Company's cash held in bank accounts earn interest at variable interest rates and the restricted cash is held in a guaranteed investment certificate ("GIC"). Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair value as of December 31, 2008. The convertible notes are not subject to interest rate risk as the interest is at a fixed rate, but are subject to interest rate price risk as the market rate of interest changes.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of due from its Joint Venture Partner for shared exploration costs and cash and cash equivalents. The Company has mitigated the risks by holding the property as collateral for amount due from Joint Venture Partner and placing its cash and cash equivalents or short-term investments with Canadian chartered banks and U.S. commercial banks with a DBRS, Standard and Poor's and/or Moody's rating of single A or better.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. Accrued liabilities are due within the current operating period.

5. RESTRICTED CASH

The Company has US$46,000 ($56,028) (2007 - $nil) of cash on hand which is restricted as collateral for corporate credit cards with the Bank of Montreal. The US$46,000 was invested in a one-year GIC at an interest rate of 1.7% maturing June 12, 2009.

6. EQUIPMENT

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

		Cost		Accumulated Amortization		Net Book Value
Computer	$	37,482	$	17,568	$	19,914
Equipment		42,327		21,242		21,085
Furniture		39,387		11,166		28,221
Software		52,452		37,313		15,139
Vehicles		195,140		71,477		123,663
December 31, 2008	$	366,788	$	158,766	$	208,022

		Cost		Accumulated Amortization		Net Book Value
Computer	$	23,249	$	6,916	$	16,333
Equipment		34,780		14,511		20,269
Furniture		27,045		2,463		24,582
Software		35,829		22,066		13,763
Vehicles		140,293		34,788		105,505
December 31, 2007	$	261,196	$	80,744	$	180,452

7. MINERAL PROPERTIES

The Company has interests in several mineral resources properties in Mexico and the United States. The total capitalized deferred exploration and acquisition costs of mineral properties for 2008 and 2007 were as follows:

	Mexico			United States					
Mineral Properties	**Nieves**	**Mirasol - Americas**	**Crestones**	**Uranium Properties**	**MacArthur**	**Alaska**	**Yerington**	**Other Properties [1]**	**Total**
Acquisition									
Balance, December 31, 2007	$ 1,302,933	$ 314,742	$ 78,097	$ 2,956,192	$ 525,713	$ 185,344	$ 979,078	$ 1,495,339	$ 7,837,438
Additions during the year	52,793	35,219	6,237	578,426	286,667	69,428	359,816	331,835	1,720,421
Balance, December 31, 2008	1,355,726	349,961	84,334	3,534,618	812,380	254,772	1,338,894	1,827,174	9,557,859
Exploration									
Balance, December 31, 2007	1,102,956	367,322	1,368,426	3,519,528	2,407,015	1,833,592	277,000	841,429	11,717,268
Assays and surveys	89,906	226,481	-	45,677	700,550	183,892	127,130	38,930	1,412,566
Camp costs	19,963	45,951	3,504	99,797	226,979	11,807	5,924	8,274	422,199
Drilling services	351,521	676,870	-	2,086,088	2,081,016	36,549	-	-	5,232,044
Equipment rental	-	8,104	-	12,774	187,446	839	-	33	209,196
Exploration support	15,982	136,315	1,375	107,750	307,150	78,510	4,932	4,380	656,394
Field supplies	16,421	2,777	1,520	17,207	117,603	2,366	-	33,201	191,095
Geological services	33,869	24,516	3,321	860,505	1,146,140	191,304	258,363	75,728	2,593,746
Project management	91,204	147,262	9,089	90,845	93,749	3,913	1,362	26,707	464,131
Travel	2,878	20,547	55	41,054	37,875	12,679	2,766	2,888	120,742
Vehicle expenses	10,190	23,281	5,580	101,122	146,705	1,722	11,648	7,583	307,831
Additions during the year	631,934	1,312,104	24,444	3,462,819	5,045,213	523,581	412,125	197,724	11,609,944
Balance, December 31, 2008	1,734,890	1,679,426	1,392,870	6,982,347	7,452,228	2,357,173	689,125	1,039,153	23,327,212
Total acquisition and exploration at December 31, 2008	**$ 3,090,616**	**$ 2,029,387**	**$ 1,477,204**	**$ 10,516,965**	**$ 8,264,608**	**$ 2,611,945**	**$ 2,028,019**	**$ 2,866,327**	**$ 32,885,071**

1) Other properties include Willow Creek, Cave Peak, Wassuk Copper, Copper Canyon, Gray Hills, Big Bar, Carbon County, SW Tintic, Peg Leg, Jaboncillos, Cerro Blanco, East Durango, Inde, La Reforma, Carolina, and Azafranes.

7. MINERAL PROPERTIES (Continued)

	Mexico			United States					
Mineral Properties	**Nieves**	**Mirasol - Americas**	**Crestones**	**Uranium Properties**	**MacArthur**	**Alaska**	**Yerington**	**Other Properties [1]**	**Total**
Acquisition									
Balance, December 31, 2006	$ 1,244,464	$ 230,782	$ 71,696	$ 1,125,438	$ 170,324	$ 112,285	$ -	$ 242,597	$ 3,197,586
Additions during the year	58,469	83,960	6,401	1,830,754	355,389	73,059	979,078	1,252,742	4,639,852
Balance, December 31, 2007	1,302,933	314,742	78,097	2,956,192	525,713	185,344	979,078	1,495,339	7,837,438
Exploration									
Balance, December 31, 2006	656,291	8,820	462,590	1,079,859	80,591	1,625,551	-	744,544	4,658,246
Assays and surveys	14,190	81,847	65,393	24,379	298,485	82,958	-	26,824	594,076
Camp costs	7,014	17,820	17,223	90,757	101,672	9,137	25,610	1,230	270,463
Drilling services	328,429	-	552,764	1,143,327	1,138,897	-	-	-	3,163,417
Equipment rental	590	10,074	224	168	94,239	2,414	601	278	108,588
Exploration support	10,253	14,865	7,549	(37,441)	75,574	36,133	16,829	2,166	125,928
Field supplies	19,656	49,038	100,055	26,926	62,132	13,336	18,034	3,807	292,984
Geological services	21,995	48,429	45,332	968,200	376,295	48,525	196,410	55,025	1,760,211
Project management	37,001	113,188	84,855	157,701	101,871	5,564	-	4,951	505,131
Travel	3,860	8,672	10,076	12,502	34,367	9,141	3,810	515	82,943
Vehicle expenses	3,677	14,569	22,365	53,150	42,892	833	15,706	2,089	155,281
Additions during the year	446,665	358,502	905,836	2,439,669	2,326,424	208,041	277,000	96,885	7,059,022
Balance, December 31, 2007	1,102,956	367,322	1,368,426	3,519,528	2,407,015	1,833,592	277,000	841,429	11,717,268
Total acquisition and exploration at December 31, 2007	**$ 2,405,889**	**$ 682,064**	**$ 1,446,523**	**$ 6,475,720**	**$ 2,932,728**	**$ 2,018,936**	**$ 1,256,078**	**$ 2,336,768**	**$ 19,554,706**

1) Other properties include Cave Peak, Wassuk Copper, Copper Canyon, Gray Hills, Big Bar, Carbon County, SW Tintic, Peg Leg, Jaboncillos, Cerro Blanco, Inde, La Reforma, Carolina, and Azafranes.

7. MINERAL PROPERTIES (Continued)

(a) Nieves Concessions, Mexico

The Company originally owned a 100% interest in the Nieves silver property located in northern Zacatecas, Mexico. In 2003 the Company entered into an agreement with the US-based Blackberry Ventures 1, LLC ("Blackberry"). Pursuant to the terms of the agreement, Blackberry advanced US$1,500,000 to the Company and earned a 50% interest in the property. Accordingly, the Company owns the remaining 50% interest. All work plans are made in consultation with the Joint Venture Partner, Blackberry, which will continue to contribute its share of ongoing exploration costs and 10% administration fees on its portion of exploration costs.

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$2,000,000. 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. 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. On January 24, 2007, this NSR was purchased by Royal Gold Inc.

During the year ended December 31, 2008, the Company received US$1,234,230 from Blackberry in respect to its share of ongoing exploration costs that were incurred on the property. As of December 31, 2008, $88,110 (2007 - $581,124) was due from Blackberry.

(b) Mirasol and Americas, Mexico

The Mirasol and Americas projects are located in the Municipality of Simon Bolivar, Durango, Mexico. The two projects consist of 13 exploration concessions that total 82,926 hectares.

(c) Crestones Property, Mexico

Crestones is composed of three concessions. The Company holds a 100% interest in a certain mineral concession located in northern Durango, Mexico. Title is pending on two concessions.

(d) Uranium Properties (Arizona, Utah and Wyoming), United States

Pursuant to a June 2005 agreement with North Exploration LLC, the Company acquired an option to purchase mining claims situated in Arizona, Utah and Wyoming. Up to December 31, 2008, the Company had paid US$165,000 and issued 600,000 common shares. The Company is required to pay the following:

(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 (paid)
(v) US$135,000 on or before September 6, 2009
(vi) US$200,000 on or before September 6, 2010

7. MINERAL PROPERTIES (Continued)

(d) Uranium Properties (Arizona, Utah and Wyoming), United States (Continued)

The agreement is subject to a 2% NSR payable upon commencement of commercial production, which can be reduced to 1% for US$1,000,000.

Pursuant to an August 2006 agreement with Nustar Exploration LLC, the Company leased 18 claims in the Arizona strip district. The Company is required to pay the following:

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

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

In September 2008, three environmental groups filed a lawsuit against the U.S. Secretary of Interior, the U.S. Department of Interior and U.S. Bureau of Land Management for authorizing uranium exploration on one million acres of public land near Grand Canyon. If successful, this legal action could affect the Company's rights to explore and develop its uranium claims on Arizona strip and economic viability of the Company's Arizona uranium project. While the Company is not a defendant in the lawsuit, it believes the lawsuit is without legal merit and is pursuing other procedures to protect its interests.

(e) MacArthur Claim, United States

Pursuant to an agreement entered into in 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. Up to December 31, 2008, the Company has paid US $210,000 and incurred US $500,000 in exploration expenditures by January 15, 2008 and may elect to acquire the property by making the following:

(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 (US$65,200 was paid; the balance was renegotiated and due July 15, 2009)
(vi) US$2,070,000 on or before January 15, 2010

The property is subject to a 2% NSR, 1% of which can be purchased for US$1,000,000.

7. MINERAL PROPERTIES (Continued)

(f) Alaska Properties (Duke Island and Herbert Glacier), United States

The Company owns a 100% interest in the Duke Island property located in southeast Alaska.

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

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 US$600
(iv) 5.0% on gold price above US$601

(g) Yerington, United States

On May 1, 2007, the Company received approval from the appropriate US court for the acquisition of all Arimetco assets in the Yerington Mining District. The purchase price comprises US$500,000 cash and 250,000 common shares of the Company. The original 180-day review period, which began on July 13, 2007, was extended up to June 17, 2009. Up to December 31, 2008, the Company had paid a US$175,000 non- refundable deposit and issued 250,000 common shares (allotted from treasury but not distributed), and may elect to acquire a 100% interest in the property by making a further payment of US$325,000.

The property is subject to a 2% NSR capped at US$7,500,000 on commencement of commercial production.

7. MINERAL PROPERTIES (Continued)

(h) Other Properties

i. East Durango, Mexico

On September 30, 2008, the Company and EXMIN Resources Inc. entered an agreement allowing the Company to earn a 75% interest in EXMIN's East Durango Property, Mexico.

Under the terms of the agreement, the Company can earn 75% interest in the East Durango property by spending US$500,000 in exploration before September 30, 2012 plus the following payments:

(i) US$20,000 in September 30, 2008 (paid)
(ii) US$20,000 in September 30, 2009
(iii) US$20,000 in September 30, 2010
(iv) US$40,000 in September 30, 2011

ii. Cave Peak Molybdenum Prospect

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 (paid)
(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

This property is subject to a production royalty of 6.5% .

iii. Willow Creek Molybdenum Prospect

On November 24, 2008, the Company secured an option with the Willow Creek Discovery Group, LLC to acquire 100% of the Willow Creek porphyry molybdenum prospect in south western Montana. The Company has the right to earn a 100% interest in the property by making the following AMR payments to the Willow Creek Discovery Group totalling US$2,605,000 over a six-year period and issuing 200,000 common shares of the Company:

(i) Initial payment of US$75,000 on October 11, 2008 (paid)
(ii) US$130,000 on October 11, 2009
(iii) US$150,000 on October 11, 2010
(iv) US$150,000 on October 11, 2011
(v) US$350,000 on October 11, 2012
(vi) US$750,000 October 11, 2013
(vii) US$1,000,000 October 11, 2014

7. MINERAL PROPERTIES (Continued)

(h) Other Properties (Continued)

iv. 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 (paid)
(iii) US$75,000 on or before November 6, 2009
(iv) US$150,000 on or before November 6, 2010
(v) U $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 US$750,000 is due within five business days from the date the decision is made.

v. 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 Lyon 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 (paid)
(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%.

7. MINERAL PROPERTIES (Continued)

(h) Other Properties (Continued)

vi. South West Tintic

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$1,000,000 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 (paid)
(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 US$1,000,000 less any previously paid amounts. The property is subject to a 2% NSR, 1% of which the Company may purchase for US $1,000,000.

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) U $275,000 promissory note on or before August 29, 2008 (paid)
(iv) US$275,000 promissory note on or before August 29, 2009

The US$550,000 promissory note has a term of two years, with no interest. The Company has guaranteed full payment of this note. The Company repaid US$275,000 on August 29, 2008. The remaining US$275,000 ($334,950) is due on August 29, 2009.

7. MINERAL PROPERTIES (Continued)

(h) Other Properties (Continued)

vii. Wassuk Copper Project (formerly 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 (US$55,000 was paid; the balance was renegotiated and due June 30, 2009)
(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 cumulative 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.

In addition, other properties include Big Bar, Carbon County, and Peg Leg properties in the United States, and Jaboncillos, Cerro Blanco, Inde Durango, La Reforma, Carolina, and Azafranes properties in Mexico. All these properties are in the initial stages of exploration.

(i) Realization

The Company's investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in the assets is dependent on establishing legal ownership of the property interest, on the attainment of successful commercial production or from the proceeds of its disposal. The recoverability of the amounts shown for the mineral property interest is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of the property interest, and upon future profitable production or proceeds from the disposition thereof.

(j) Title

Although the Company has taken steps to ensure the title to the mineral property in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures may not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

7. MINERAL PROPERTIES (Continued)

(k) Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral property interest, the potential for production on the property may be diminished or negated.

8. CONVERTIBLE NOTES

On November 27 and December 19, 2008, the Company closed the first and second tranches of a private placement of units, each unit comprising one convertible promissory note ("Notes") and one common share purchase warrant for gross proceeds of US$2,619,673 ($3,188,326). The Notes bear interest at a rate of 10% per annum payable, maturing 24 months from date of issuance or upon conversion or redemption. The Notes provide the following terms as to conversion or redemption:

Conversion by Holder

At any time after four months from the date of issue, the Notes are convertible by the holder into common shares in the ratio of US$0.60 of Note converted into one common share. Any interest payable will be converted into common shares of the Company at a rate equal the US dollar equivalent to the market price for such shares on the date of such conversion.

Redemption by Company

(a) If at any time starting four months after the issuance of the Notes and prior to the date of redemption or conversion, the Company's common shares shall have achieved or exceeded a closing price of US$0.75 for a 10-day consecutive trading period, the Notes outstanding shall automatically be deemed to have been redeemed and converted into common shares in the ratio of US$0.60 of Note redeemed to one common share. Any interest payable will be converted into common shares of the Company at market price for such shares on the date of such redemption; or

(b) The Company may at any time prior to conversion redeem the Notes by paying to the holders the principal amount of a Note together with interest at 15% to the date of such redemption.

One whole non-transferable warrant allows the holder the right to purchase one common share at a price of US$0.75. The warrants expire 24 months from date of issuance. The warrants contain a provision that in the event the Company's common shares trade at a closing price of greater than US$1.00 per share for a period of 10 consecutive days at any time after issue of the warrant, the Company may accelerate the expiry date of the warrants by providing notice to the holders thereof and in such case the warrants will expire on the thirtieth day after notice.

As of December 31, 2008, 4,362,791 of the above warrants were issued of which 1,921,458 expire on November 27, 2010 and 2,441,333 expire on December 18, 2010.

8. CONVERTIBLE NOTES (Continued)

The net value assigned to the liability component on issuance was $2,929,161, calculated as the present value of the principal and interest payments using an effective interest rate of 15% is as follows:

		December 31, 2008
Present value of convertible notes on issue	$	2,929,161
Interest on debt		17,567
Additional debt accretion		6,642
Liability component of convertible notes	$	2,953,370
Equity component of convertible notes	$	259,164

9. SHARE CAPITAL

(a) Common stock: authorized - unlimited common shares without par value.

On April 16, 2008 the Company completed a non-brokered private placement of 3,482,500 units at price of US$3.20 per unit for total proceeds of US$11,144,000 ($10,969,875). Finders' fees of US$546,000 ($555,319) were paid. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of US$4.20 per common share until October 17, 2009. In the event the Company's shares trade at a closing price of greater than US$5.50 per share for a period of 15 consecutive days at any time after six months from April 16, 2008, the Company may accelerate the expiry date of the warrants by providing notice to the shareholders thereof, and in such case the warrants will expire on the thirtieth day after the date on which such notice is given.

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 share issuance costs of $543,376, including 291,484 common shares issued for finders' fees valued at $510,097, resulting in net proceeds of $8,640,370 from the private placement.

9. SHARE CAPITAL (Continued)

(b) Share Purchase Warrants

	December 31, 2008		December 31, 2007	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of the year	–	$ –	2,623,928	$ 2.25
Issued pursuant to				
Private placement	1,741,250	$ 4.13	–	$ –
Convertible notes	4,362,791	$ 0.91	–	$ –
Cancelled or expired	–	$ –	(143,143)	$ 2.25
Exercised	–	$ –	(2,480,785)	$ 2.25
Outstanding, end of the year	6,104,041	$ 1.83	–	$ –

(c) Stock Options

As at December 31, 2008 and 2007, 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. Stock options are exercisable once they have vested under the terms of the grant. A summary of the Company's options is presented below:

	December 31, 2008		December 31, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	5,559,500	$ 1.99	5,427,000	$ 0.92
Granted	2,390,000	$ 3.31	2,261,000	$ 3.29
Exercised	(749,000)	$ 0.74	(2,108,500)	$ 0.84
Forfeited	–	$ –	(20,000)	$ 3.33
Outstanding, end of year	7,200,500	$ 2.56	5,559,500	$ 1.99

9. SHARE CAPITAL (Continued)

(c) Stock Option (Continued)

The following summarizes information about the stock options outstanding and exercisable at December 31, 2008:

Options Outstanding				Options Exercisable		
Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Expiry Date	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
95,000	$ 0.62	0.23	March 25, 2009	95,000	$ 0.62	0.23
285,200	$ 0.35	1.60	August 9, 2010	285,200	$ 0.35	1.60
200,000	$ 0.40	2.02	January 9, 2011	200,000	$ 0.40	2.02
125,000	$ 1.04	2.23	March 27, 2011	125,000	$ 1.04	2.23
75,000	$ 1.00	2.38	May 19, 2011	75,000	$ 1.00	2.38
100,000	$ 1.12	2.44	June 12, 2011	100,000	$ 1.12	2.44
1,439,300	$ 1.55	2.57	July 28, 2011	1,439,300	$ 1.55	2.57
100,000	$ 1.55	2.64	August 23, 2011	100,000	$ 1.55	2.64
100,000	$ 1.50	2.73	September 25, 2011	100,000	$ 1.50	2.73
100,000	$ 2.05	3.22	December 18, 2011	100,000	$ 2.05	3.22
75,000	$ 2.65	3.03	January 11, 2012	75,000	$ 2.65	3.03
25,000	$ 2.70	3.14	February 21, 2012	25,000	$ 2.70	3.14
2,011,000	$ 3.33	3.55	July 20, 2012	2,011,000	$ 3.33	3.55
80,000	$ 3.33	3.60	August 7, 2012	80,000	$ 3.33	3.60
200,000	$ 3.45	4.25	March 31, 2013	200,000	$ 3.45	4.25
2,190,000	$ 3.30	4.47	June 19, 2013	887,500	$ 3.30	4.47
7,200,500	$ 2.56	3.40		5,898,000	$ 2.40	3.40

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

	Years ended December 31,		
	2008	2007	2006
Risk–free interest rate	3.84%	4.57%	4.02%
Expected share price volatility	85.79%	89.42%	121.60%
Expected option life in years	3.0	3.0	3.5
Forfeiture rate	0%	0%	0%
Expected dividend yield	0%	0%	0%

9. SHARE CAPITAL (Continued)

(c) Stock Option (Continued)

The number of options issued and the fair value of options expensed included in the statements of operations are as follows:

	December 31, 2008		December 31, 2007		December 31, 2006	
	Number of Options Issued	Stock–based Compensation	Number of Options Issued	Stock–based Compensation	Number of Options Issued	Stock–based Compensation
Consulting	975,000	$ 933,628	1,155,000	$ 2,260,416	1,315,000	$ 1,476,044
Directors and officers	1,095,000	1,606,898	855,000	1,745,631	725,000	749,697
Employees	320,000	418,312	251,000	496,116	870,000	819,263
Total	2,390,000	$ 2,958,838	2,261,000	$ 4,502,163	2,910,000	$ 3,045,004

10. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions during the year ended December 31, 2008:

(a) $573,833 service charges (2007 - $321,358, 2006 - $173,768) were paid to a private firm of which a director is the principal for administration, accounting, office space, and corporate development services. As of December 31, 2008, $47,218 (2007 - $77,391) was still owing (Note 11 (b)).

(b) $69,958 consulting fees (2007 - $39,000, 2006 - $17,325) were paid to a company of which an officer is the principal.

(c) $18,802 legal fees (2007 - $11,202, 2006 - $nil) were paid to a law firm of which a director is the principal. As of December 31, 2008, $1,960 (2007 - $nil) was still owing.

(d) $32,500 investor relations (2007 - $28,500, 2006 - $17,500) were paid to a consulting firm of which a former officer is the principal.

The above transactions are conducted in the normal course of business and were measured at the amount of consideration established and agreed by the parties.

11. COMMITMENTS

The Company has the following commitments in respect to mineral option payments, office leases and service agreements:

	Mineral Property – Cash [(a)]	Office Lease [(b)]	Service Agreement [(c)]	Total
Year ending December 31, 2009	$ 2,115,362	$ 183,777	$ 15,000	$ 2,314,139
Year ending December 31, 2010	3,741,696	150,000		3,891,696
Year ending December 31, 2011	1,360,506	150,000		1,510,506
Year ending December 31, 2012	1,479,870	75,000		1,554,870
Year ending December 31, 2013	1,760,010	–		1,760,010
Year ending December 31, 2014	2,064,510	–		2,064,510
Year ending December 31, 2015	1,090,110	–		1,090,110
Year ending December 31, 2016	420,210	–		420,210
Year ending December 31, 2017	420,210	–		420,210
Year ending December 31, 2018	127,890	–		127,890
	$ 14,580,374	$ 558,777	$ 15,000	$ 15,154,151

(a) The Company is required to make option payments and other expenditure commitments to maintain the properties and earn its interest. In addition to the cash payment, the Company is required to issue 100,000 common shares for the Willow Creek property in each of 2009 and 2010.

(b) During 2007, the Company entered into a service agreement with Manex Resource Group (“Manex”) for its Vancouver office space, administration, and corporate development. The agreement can be cancelled at anytime upon one year’s notice. The current expiry date is June 30, 2012 (Note 10(a)). The Company also had two office leases in Kanab, Utah and Yerington, Nevada United States.

(c) In January 2007, the Company engaged Roman Friedrich & Company Ltd. (“Roman”) to provide financial and advisory services to the Company. The retainer fee is $15,000 per month of which $7,500 is to be paid in cash and the remaining $7,500 is payable in common shares of the Company subject to regulatory approval. As of December 31, 2008, $15,000 is to be paid in shares for services received from November to December 2008.

12. CAPITAL MANAGEMENT

The Company’s objective in managing its capital is to maintain the ability to continue as a going concern and to continue to explore on various properties for the benefits of its stakeholders.

The Company’s capital includes the component of shareholders’ equity and convertible notes. Capital requirements are driven by the Company’s exploration activities on its mineral property interests. To effectively manage the Company’s capital requirements, the Company has a planning and budgeting process in place setting out the expenditures required to meet its strategic goals. The Company compares actual expenses to budget on all exploration projects and overhead to manage costs, commitments and exploration activates.

12. CAPITAL MANAGEMENT (Continued)

As the Company is in the exploration stage, its operations have been and may continue to be funded by the sale of equity to investors. Although the Company has been successful in raising funds in the past through issuing common shares and convertible notes, it is uncertain whether it will continue this financing due to difficult conditions.

13. SUPPLEMENTAL CASH FLOW INFORMATION

		2008		2007		2006
Cash Items						
Interest received	$	54,808	$	263,818	$	70,999
Interest paid	$	–	$	–	$	–
Income tax paid	$	–	$	–	$	–
Share issue costs	$	555,319	$	6,316	$	61,524
Non–Cash Items						
Mineral property expenditures included in accounts payable	$	864,514	$	900,613	$	155,522
Non–cash share issue costs	$	–	$	–	$	482,154
Shares issued for finders' fees	$	–	$	–	$	510,097
Shares issued for mineral properties	$	–	$	1,281,000	$	606,000
Cash and cash equivalents						
Cash	$	524,590	$	2,411,052	$	414,933
Term deposits and bankers acceptance		–		978,848		8,697,799
	$	524,590	$	3,389,900	$	9,112,732

14. INCOME TAXES

As at December 31, 2008, the Company has non-capital losses of approximately $6,790,000 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:

	2008
2009	$ 235,000
2010	228,000
2014	284,000
2015	360,000
2026	698,000
2027	1,985,000
2028	3,000,000
	$ 6,790,000

In addition, the Company has tax losses of approximately $7,540,000 that may be applied against future taxable income in Mexico, which expire in stages over a 10-year period; and tax losses of approximately $2,200,000 that may be applied against future taxable income in the United States over a 20-year period.

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

	2008	2007 (Note 18)	2006 (Note 18)
Loss for the year	$ (6,834,181)	$ (7,303,204)	$ (3,830,534)
Statutory income tax rate	31%	34.12%	34.12%
Income tax benefit computed at statutory rates	$ 2,118,596	$ 2,491,853	$ 1,306,881
Foreign tax rates different from statutory rates	13,351	(5,780)	(97)
Exploration expense	530,356	(15,782)	(43,452)
Stock–based compensation	(917,240)	(1,536,138)	(1,038,955)
Share issuance costs	73,671	43,190	42,759
Other differences	25,743	(9,505)	(2,487)
Unrecognized tax losses	(1,844,477)	(967,838)	(264,649)
	$ –	$ –	$ –

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

14. INCOME TAXES (Continued)

	2008	2007	2006
Future income tax assets			
Tax losses carried forward	$ 4,750,565	$ 6,629,549	$ 3,305,438
Book value over tax value of mineral properties	(1,057,787)	(3,155,277)	(1,026,786)
Tax value over book value of equipment	11,168	7,906	2,786
Share issuance costs	188,647	103,135	165,016
Future income tax assets	3,892,593	3,585,313	2,446,454
Valuation allowance for future income tax assets	(3,892,593)	(3,585,313)	(2,446,454)
Future income tax liabilities, net	$ –	$ –	$ –

15. SEGMENTED INFORMATION

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

	December 31, 2008				December 31, 2007			
	Equipment	Mineral Property	Reclamation Bond	Total	Equipment	Mineral Property	Reclamation Bond	Total
Canada	$ 9,563	$ –	$ –	$ 9,563	$ 22,335	$ –	$ –	$ 22,335
Mexico	59,875	6,873,055	–	6,932,930	56,276	4,693,257	–	4,749,533
U.S.A	138,584	26,012,016	317,704	26,468,304	101,841	14,861,449	139,492	15,102,782
Total	$ 208,022	$ 32,885,071	$ 317,704	$ 33,410,797	$ 180,452	$ 19,554,706	$ 139,492	$ 19,874,650

16. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP

These consolidated financial statements have been prepared in accordance with Canadian GAAP, which differ from those principles generally accepted in the United States, as described below:

(a) 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 EITF 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.

(b) Under US GAAP, convertible debt instruments are classified as debt until converted to equity, whereas under Canadian GAAP, the proceeds of the convertible debt instrument have been allocated to both debt and equity components. In addition, under US GAAP, debt instruments issued with detachable warrants would be allocated to a debt and equity component based on the relative fair value of each component, whereas under Canadian GAAP the residual method has been adopted. Any resulting debt component is accreted over time to its face value with the interest and accretion expense charged to the statement of operations.

Under US GAAP, a value is assigned to the conversion feature only if the effective conversion rate is less than the market price of the common stock at the commitment date. Under US GAAP no value has been assigned to the conversion feature of the convertible note although a value has been assigned to the detachable warrants and thus, there is a difference in values assigned to the debt and equity components between Canadian and US GAAP of the units issued. Accordingly, accretion expense would increase by $4,962.

The effect of the principle measurement differences on the Company's consolidated financial statements is quantified below:

16. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP (Continued)

		December 31, 2008		December 31, 2007
Total assets – Canadian GAAP	$	34,397,289	$	24,198,211
Expensed expenditures on mineral properties		(25,509,673)		(13,110,749)
Total Assets – US GAAP	**$**	**8,887,616**	**$**	**11,087,462**
Total liabilities – Canadian GAAP	$	4,444,281	$	1,706,270
Liability component of convertible notes		(176,961)		–
Total liabilities – US GAAP		4,267,320		1,706,270
Total shareholders' equity – Canadian GAAP		29,953,008		22,491,941
Equity component of convertible notes		181,923		–
Accretion expense on convertible notes		(4,962)		–
Expenditures on mineral properties		(25,509,673)		(13,110,749)
Total shareholders' equity – US GAAP		4,620,296		9,381,192
Total Liability and Shareholders[1] Equity – US GAAP	**$**	**8,887,616**	**$**	**11,087,462**

	Years ended December 31,		
	2008	2007	2006
Loss for the year – Canadian GAAP	$ (6,834,181)	$ (7,303,204)	$ (3,830,534)
Expenditures on mineral properties	(12,398,924)	(7,914,384)	(2,646,351)
Accretion expense on convertible notes	(4,962)	–	–
Net loss for period – US GAAP	(19,238,067)	(15,217,588)	(6,476,885)
Deficit, beginning of year – US GAAP	(34,904,051)	(19,686,463)	(13,209,578)
Deficit, end of year – US GAAP	$ (54,142,118)	$ (34,904,051)	$ (19,686,463)
Net loss per share – Canadian GAAP	$ (0.08)	$ (0.09)	$ (0.05)
Net loss per share – US GAAP	$ (0.22)	$ (0.19)	$ (0.09)
Weighted average number of share outstanding	86,304,153	79,971,435	69,964,072

16. RECONCILIATION OF CANADIAN AND UNITED STATES GAAP (Continued)

	Years ended December 31,		
	2008	2007	2006
Operating activities – Canadian GAAP	$ (4,108,832)	$ (2,014,535)	$ (1,047,348)
Adjustments for expenditures on mineral properties	(12,398,924)	(7,914,384)	(2,646,351)
Cash used in operating actitivies – US GAAP	(16,507,756)	(9,928,919)	(3,693,699)
Investing activities – Canadian GAAP	(13,213,283)	(9,832,158)	(3,341,860)
Reclassification of expenditures on mineral properties	12,398,924	7,914,384	2,646,351
Cash used in investing actitivies – US GAAP	(814,359)	(1,917,774)	(695,509)
Cash provided by financing activities – Canadian & US GAAP	13,890,522	6,881,465	11,715,138
Effect of foreign exchange on cash	566,283	(757,604)	504
(Decrease) increase in cash during the year	(2,865,310)	(5,722,832)	7,326,434
Cash, beginning of year	3,389,900	9,112,732	1,786,298
Cash, end of year – US GAAP	$ 524,590	$ 3,389,900	$ 9,112,732

Recent Accounting Pronouncements

(a) In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 141(R), Business Combinations (SFAS 141(R)), which replaces SFAS 141. SFAS 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. The Company does not expect any impact to its consolidated financial statements.

(b) 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.

17. SUBSEQUENT EVENTS

(a) On January 15, 2009, the Company closed its third tranche of a private placement of units, each unit comprising one convertible promissory note and one common share purchase warrant for additional proceeds of US$1,170,300. Accordingly, total proceeds from the offering were US$3,787,973 and a total of 6,313,291 warrants were issued (Note 8).

(b) US$230,200 property option payments were made for Willow Creek, MacArthur, South West Tintic, Yerington and Wassuk Copper.

(c) 10,000 options were cancelled and 20,000 options were exercised at a weighted average exercise price of $0.42.

18. COMPARATIVE FIGURES

Certain of the 2007 and 2006 comparative figures have been reclassified to conform to the current year's presentation.



Management's Discussion and Analysis

For the Year Ended December 31, 2010

Dated: March 24, 2011

Introduction

This Management's Discussion and Analysis ("MD&A") of Quaterra Resources Inc. ("Quaterra" or the "Company") has been prepared by management in accordance with the requirements under National Instrument 51-102 as of March 24, 2011, and provides comparative analysis of Quaterra's financial results for the years ended December 31, 2010 and 2009.

The following information should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009 and the related notes thereto. The Company reports its financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles ("GAAP"). A reconciliation of Canadian GAAP to United States GAAP is disclosed in Note 17 of the financial statements. All amounts contained herein are in Canadian dollars, unless otherwise indicated

Quaterra is a Canadian-based, junior exploration company focused on making significant mineral discoveries in North America. It is currently exploring for copper, precious metals, molybdenum, and uranium in the United States and Mexico. The Company's preference is to acquire a 100% interest in properties on reasonable terms and maintain this interest through initial evaluation.

The Company's shares are listed on the TSX Venture Exchange under the symbol "QTA" and NYSE AMEX under the symbol "QMM". Additional information related to Quaterra is available on the Company's website at www.quaterraresources.com, on SEDAR at www.sedar.com or the United States Securities and Exchange Commission www.sec.gov.

Certain forward-looking statements are discussed in the MD&A with respect to the Company's activities and future financial results. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, as they are subject to significant risks and uncertainties that may cause projected results or events to differ materially from actual results or events.

Dr. Thomas C. Patton, P. Geo., the President and Chief Executive Officer, and Mr. Eugene Spiering, Vice President Exploration of the Company are the qualified persons responsible for the preparation of the technical information included in this MD&A.

Overall Performance

Corporate Development

On February 4, 2011, the Company closed its second financing with Goldcorp Inc. ("Goldcorp") pursuant to the Investment Framework Agreement ("IFA") signed on January 29, 2010. The private placement consisted of 3,293,407 units at $1.82 for gross proceeds of US$6.0 million. Each unit comprised one common share of the Company and one-half of a share purchase warrant exercisable at $2.27 per share for a period of two years.

The first US$4.0 million private placement with Goldcorp was closed in February 2010. 3,001,418 common shares and 1,500,709 two-year share purchase warrants were issued at price of $1.41 and $1.76, respectively. The funds were used in the Company's generative exploration program in central Mexico.

On October 27, 2010, the Company closed a brokered private placement by issuing 11,724,200 units at a unit price of $1.45 raising gross proceeds of $17,000,090. 5,862,100 warrants were issued at an exercise price of $1.90 expiring October 27, 2012. GMP Securities L.P. ("GMP"), as sole agent, received a 6.0% cash commission totaling $1,020,005 and 703,452 compensation options exercisable at $1.90 for two years after the closing.

On April 21, 2010, the Company accelerated the expiry dates to May 25, 2010 for the US dollar share purchase warrants related to the convertible notes of the Company issued on November 27, 2008, December 19, 2008 and January 15, 2009. On May 25, 2010, 6,083,957 of these accelerated warrants were exercised. US$4.6 million proceeds were received and were used to continue exploration and update the resource estimates for the Company's MacArthur copper project, Nieves silver properties and for general administration.

Mr. Gerald Prosalendis was appointed as Vice President, Corporate Development of the Company in March 2010. Mr. Prosalendis has held similar positions in other companies including Western Silver Corporation which was sold to Glamis Gold Ltd. for $1.6 billion in 2006. Mr. Prosalendis will bring his experience in corporate strategy, markets, shareholder relations and communications to the Company.

Corporate Development - Property

Earn-in Agreement in Texas: on November 24, 2010, the Company signed an earn-in agreement with Freeport-McMoRan Mineral Properties Inc. (Freeport) for its Cave Peak molybdenum property in Texas. Freeport has the right and option to acquire a 70% ownership interest in this property by paying 2011 land holding costs on behalf of the Company and by spending US$5 million on exploration over four years ending in 2015.

Upon Freeport earning a 70% interest, the parties have agreed to joint venture further exploration and, if warranted, development of the property on a 70/30 basis, with Freeport either funding the Company's share of costs through to delivery of a bankable feasibility study or converting its interest to a 1% net smelter return royalty ("NSR") if it determines not to deliver such a feasibility study.

Option Agreement in Alaska: on June 17, 2010, the Company signed an option agreement with Grande Portage Resources Ltd. ("Grande Portage") for its Herbert Glacier gold property located 20 miles north of Juneau, Alaska. Grande Portage may earn up to a 65% interest in the property by spending US$1.25 million over two years.

In the first year Grande Portage earns a 51% interest in the property by spending US$750,000 on or before June 15, 2011. In the second year Grande Portage has the option to earn an additional 14% interest by spending US$500,000 on or before June 15, 2012.

If Grande Portage earns the interest, the two parties will form a joint venture for the further exploration and development of the property, with each party bearing its proportionate share of costs. If the interest of either party falls to 10% or less, it will revert to a 1% NSR, which may be acquired by the other party at any time for US$1 million.

Goldcorp Investment Framework Agreement (IFA): The Company entered into an agreement with Goldcorp of Vancouver, B.C. on January 29, 2010. Goldcorp has an opportunity to acquire an interest in certain mining properties held by the Company in central Mexico, in return for funding a two-year generative exploration program by Quaterra through the private placement of US$10 million in the Company, US$4 million in 2010 and US$6 million in 2011. All funds have been received by the Company.

In the aggregate, the number of shares acquired by Goldcorp shall not total more than 9.9% of the issued and outstanding shares of the Company. In the event that this restriction would prevent the purchase of the full amount of the second placement shares, or exercise of any of the warrants by Goldcorp, the Company may either:

a) Consent in writing to Goldcorp owning more than 9.9% of the issued and outstanding shares of the Company; or

b) Extend the warrants if applicable; or

c) Cause a third party, or the Company, to buy the shares which would put Goldcorp higher than the 9.9% ownerships limitation.

Goldcorp has an option to acquire up to 65% in any property in the central Mexico area of interest, with the exception of Nieves, by spending US$2 million over a two-year period on advanced exploration and by completing a bankable feasibility study. Thereafter, Goldcorp will solely fund operations at the property until a production decision is made, at which point Quaterra will be responsible for contributing its proportionate share of expenditures.

On February 5, 2010, Goldcorp selected the Company's Sierra Sabino property as its first advanced project.

Santo Domingo, Mexico - On January 13, 2010, the Company finalized an option agreement with La Cuesta International, Inc. ("LCI") to acquire a 100% interest in the Santo Domingo prospect located in Durango, Mexico about 120 kilometers west-northwest of Torreon.

Quaterra has the right to earn a 100% interest in the property by paying LCI a total consideration of US$7.5 million, which includes semi-annual lease/pre-production payments and a 1% NSR payment. Quaterra also issued 100,000 common shares to LCI.

This property is included in the Goldcorp IFA agreement.

Exploration

On December 15, the Company released the results of the updated NI43-101 compliant independent resource estimate for the MacArthur Copper Project, based on an additional 42,579 feet of exploration drilling conducted by Quaterra during 2009 and 2010. The estimate by Tetra Tech, Inc. of Golden, Colorado, gives the project a base case measured and indicated oxide/chalcocite resource of 143.7 million tons averaging 0.192% total copper (TCu) containing 551.6 million pounds of copper. The inferred oxide/chalcocite resource was estimated at 215.0 million tons averaging 0.197% TCu containing 846.8 million pounds of copper. An inferred primary sulfide resource of 74.1 million tons averaging 0.256% TCu contains 379.5 million pounds of copper. The updated resource uses base case cutoff grades of 0.12% (TCu) for the leachable (oxide/chalcocite) resources and 0.15% TCu for primary sulfide resources.

On September 9, 2010, the Company announced the results of 21,143 feet of reverse circulation drilling in 37 holes at the MacArthur copper property. The program has confirmed the continuity of acid-soluble copper mineralization over a strike distance of 12,000 feet between the MacArthur pit and the Gallagher area. The mineralization remains open to the south, east and west. Drilling in the Northwest Target area of the property has encountered numerous new intercepts of "porphyry copper type" chalcopyrite mineralization over a strike length of 4,600 feet that may represent the fringe of a major porphyry copper deposit.

On August 5, the Company and 50% joint-venture partner Blackberry Ventures 1, LLC (Blackberry Ventures) announced the results of NI 43-101 compliant independent resource estimate for the Nieves silver property. Using a reporting cut-off grade of 45 g/t Ag, Caracle Creek International Consulting Inc. of Toronto, Canada estimated the Nieves´ indicated resource at 4.5 million tonnes averaging 103.4 g/t silver (3.02 oz/ton) containing 15.26 million ounces of silver. The inferred resources at La Quinta and North total over 14.5 million tonnes averaging 83.8 g/t silver (2.45 oz/ton) containing an additional 39.1 million ounces of silver.

On June 16, 2010, the Company announced commencement of drilling at South West Tintic, Duke Island and Willow Creek projects. Copper Ridge advised the Company that it has terminated its interest in the Duke Island property effective February 21, 2011. The Company awaits information from Freeport - McMoRan with regard to South West Tintic and assay labs with regard to Willow Creek.

On April 21, 2010, the Company announced that drilling at MacArthur copper project in the Yerington District, Nevada has expanded the extent of copper mineralization. A total of 19,110 feet drilled in 32 reverse circulation holes and three deep core holes has tested undrilled areas north and west of the pit; expanded the partially explored Gallagher area; and has begun to delineate the extent of mineralization in the Northwest Target area located 2,500 feet northwest of the pit. The mineralized zone remains open for continued expansion on three sides.

On April 20 and February 17, 2010, the Company and Blackberry Ventures announced the results from the in-fill drilling program at its Nieves silver property in Zacatecas, Mexico. All 29 holes totaling 6,118.7 meters were drilled within the La Quinta stockwork veinlet deposit, a series of veins and veinlets located along the Concordia-Gregorio Vein. The purpose was to in-fill the core area of the known deposit for 200 meters along strike and up to 200 vertical meters below surface. Holes were drilled on 25-meter centers between existing holes drilled on 50-meter centers. Results confirm the continuity of both high-grade and bulk mineable mineralization at the La Quinta deposit, which remains open along strike and at depth. La Quinta stockwork mineralization has now been traced by drilling for almost 1,000 meters along strike and has been tested by close-spaced drilling for over 200 meters of this distance. The shallow and uniform nature of mineralization makes it attractive for possible open pit mining.

Update on Mineral Properties

MacArthur Property – Nevada

The Company's MacArthur project is a secondary copper deposit with the potential of sustaining a large run-of-mine heap leach operation using a solvent extraction/electrowinning (SXEW) process for low cost production. The Company initiated exploration drilling in April 2007 and by September 2010, completed a total of 122,100 feet of drilling in 249 holes on the property. The drilling program delineated a widespread blanket of acid soluble copper oxide and chalcocite mineralization above primary copper mineralization that may represent the fringes of a major copper porphyry system.

Quaterra's 2009-2010 drilling program at MacArthur completed a total of 37,418 ft. of reverse circulation (RC) drilling in 73 holes and 4,550 ft. of core drilling in 3 deep holes. The drilling program tested the northern extension of higher grade acid soluble copper mineralization on 500 foot centers northwest of the pit (where QM-60 intercepted 260 ft. averaging 0.38% Cu at a depth of 140 ft.) and in-filled on 500 ft centers an undrilled area west of the pit (where QM-67 intercepted 50 ft. averaging 0.42% Cu at a depth of 175 ft.). In the southern Gallagher area, the drilling confirmed a band of continuous near surface oxide mineralization ranging in thickness from 15 to 60 feet over a distance of 1,900 feet between holes QM-155 and 156. Hole QM-141 intercepted 60 feet of 0.33% TCu from 0 to 60 feet.

The program's three deep holes tested three of five prospective IPR anomalies to the north and northwest of the MacArthur pit. Hole QM-100, located 1,400 feet north of QM-68, intercepted porphyry-style chalcopyrite/biotite-chlorite veining at a depth 1,203 feet that assayed 0.58% copper over a thickness of 65 feet below the shallowly-dipping MacArthur fault zone. QM-109, spotted on an IPR anomaly, failed to reach projected depth due to fractured, caving ground while QM-99 intersected massive pyrite impregnated breccia and scattered zones of secondary biotite and chlorite alteration; common elements of a porphyry system.

An IPR survey over a total of 14.7 miles on the project was conducted during November and December, 2009 to extend historical IP coverage on the MacArthur project in all directions and to greater depths. The survey consisted of 7 north-south lines of which 4 lines were surveyed using the pole-dipole array and 3 employed the dipole-dipole method. At shallower depths, the survey results compared favorably with the historic IP data, but the new survey indicated that many IP anomalies have not been tested with deeper drilling. The IP anomaly delineated within the existing MacArthur pit extends to a significant depth and has not been tested with any drill holes. Obviously this is a high priority target in the exploration for high grade primary-sulfide ore.

IP anomalies were also defined in North Porphyry target and the Gallagher area that are coincident with magnetic highs. The North Porphyry target has been tested by a total of 12 drill-holes exceeding a depth of 750 feet and 2 holes exceeding 1,500 feet. Although several intersected primary-sulfide porphyry copper mineralization, the strongest IP anomalies with coincident magnetic highs have not yet been tested by drilling. Similarly, the northern edge of the Gallagher target has a number of strong IP anomalies of which only drill-hole QM-049 tested the south edge of this zone.

Alteration and copper mineralization with coincident high magnetic susceptibility and IP response continue to the contact with post-mineral Tertiary volcanic rocks in the western portion of Quaterra's claim block. The new IPR survey identified two areas, northwest and north of the Gallagher deposit that represent possible copper mineralization beneath post-mineral volcanic rocks at reasonable depths. Moderate IP anomalies have been detected in both areas. A 'constrained' 3d inversion of the magnetic data is planned early in 2011 in an attempt to 'see' below the highly magnetic volcanic rocks.

Planned drilling at MacArthur will test several remaining deep targets for primary porphyry copper mineralization. The North Porphyry target, now supported by significant intercepts in four drill holes over an area of 3000 feet by 1000 feet, remains open in three directions and to depth. Four IPR targets, located north or west of the existing drilling, have yet to be tested. Significant porphyry-style alteration including potassic feldspar flooding-pyrite veining, particularly around the ore intercept of hole QM-100, indicate that Quaterra's exploration program is penetrating the margins of a previously unrecognized porphyry center.

Mineral Resources

Tetra Tech, Inc. of Golden, Colorado completed an updated NI43-101 compliant independent resource estimate and technical report for the MacArthur Copper Project in January 2011. The Tetra Tech report concludes that the MacArthur project contains a measured and indicated oxide/chalcocite resource of 143.72 million tons averaging 0.192% total copper (TCu) that contains 551.6 million pounds of copper; an inferred oxide/chalcocite resource of 215.0 million tons averaging 0.197% TCu that contains 846.8 million pounds of copper; and an inferred primary sulfide resource of 74.1 million tons averaging 0.256% TCu that contains 379.5 million pounds of copper. The tables below summarize measured, indicated and inferred resources of the MacArthur project at various cutoff grades.

MacArthur Copper Project
Oxide and Chalcocite Material

Cutoff Grade (%TCu)	Tons (x1000)	Average Grade (%TCu)	Contained Copper (lbs x 1000)
Measured and Indicated Copper Resources			
0.12	143,721	0.192	551,601
0.20	46,027	0.263	241,918
0.25	17,676	0.330	116,803
Inferred Copper Resources			
0.12	215,043	0.197	846,839
0.20	63,538	0.306	389,234
0.25	30,740	0.397	243,953

MacArthur Copper Project
Primary Material

Cutoff Grade (%TCu)	Tons (x1000)	Average Grade (%TCu)	Contained Copper (lbs x 1000)
Measured and Indicated Copper Resources			
0.15	1,448	0.218	6,325
0.20	639	0.269	3,443
0.25	353	0.309	2,179
Inferred Copper Resources			
0.15	74,090	0.256	379,489
0.20	39,476	0.328	259,120
0.25	28,347	0.370	209,995

The resources quoted in the table above are based on a three-year average copper price of US$3.03 per pound. For the leachable, SX/EW recoverable resources a base case cutoff grade of 0.12 percent TCu has been applied. For the sulfide resources that would be recoverable by conventional flotation methods, a base case cutoff grade of 0.15 percent TCu has been applied. These cutoff grades have been developed based on average mining costs for similar sized operations and from cost estimation services, using a metallurgical recovery of 90% of the oxide copper grades for the SX/EW material and a metallurgical recovery of 88% for the conventional flotation material, and a smelter charge of US$0.50 per pound for processing conventional flotation concentrates.

The 2009-2010 drilling program added 8,547 copper assays to the 26,554 existing copper assays that were used in the 2009 report. The 2010 updated resource model used the same kriged estimation parameters as were developed and reported in the 2009 technical report, with the exception of the increase in the physical block model due to the new drilling, an update in the interpretation of the various mineralized zones and slight modifications in the search parameters for the inferred class.

The copper resources were estimated using whole block kriging techniques and oriented search ellipsoids based on the individual variograms and were then classified into measured, indicated, and inferred categories by a combination of jackknifing and kriging error analysis. The rock model was then assigned a tonnage factor based on the historic information that indicates an average in-place bulk density of 12.5 cubic-feet per ton. The individual blocks of the model measure 25 by 25 feet by 20 feet high.

The location of the various categories of resource blocks in the estimate reflects the density of drill holes on the project. Measured and indicated resource blocks are predominantly in or adjacent to the MacArthur pit where the drill hole spacing is the tightest. Inferred resource blocks trace the wider-spaced, 500 foot by 500 foot drilling pattern to the north and west of the pit. Several isolated areas containing indicated resource blocks are also estimated where one or more angle holes have been drilled from the same location in the wider spaced pattern.

The technical report concludes that significant potential for development of additional mineral resources are present within and adjacent to the current drill-hole pattern at MacArthur. The report recommends a completion of infill drilling to an approximate average drillhole spacing of 250 feet to allow re-classification of inferred category resources into measured and indicated categories in areas that are currently under-drilled and continued efforts to enlarge the oxide and chalcocite/oxide mix resource areas. The report also recommends continued drilling to investigate the potential primary sulfide mineralization at depth.

The Tetra Tech resource estimate is included with a description of the project history, geology, mineralization, sampling procedures, and laboratory Quality Assurance/Quality Control procedures. The NI43-101 Technical Report is available at www.sedar.com. The Qualified Person for the MacArthur Copper Project resource estimate and the technical report is Mr. John W. Rozelle, P.G., Principal Geologist for Tetra Tech, Golden Colorado.

Future Work Plans

Quaterra's future plans for the MacArthur project include; infill drilling to upgrade the status of existing resources, step-out drilling to delineate the outer margins of the deposit, deep drilling to explore for primary copper sulfide mineralization, and large diameter (PQ) core drilling to obtain adequate sample material for metallurgical leach column tests. Data from these programs will be incorporated into a preliminary scoping study to guide additional definition drilling on the project.

Yerington – Nevada

The Arimetco assets in the Yerington Mining District have been under review since Quaterra received approval of the U.S. court to acquire the property in May 2007. The original 180 day review year has been extended until July 12, 2011. A series of environmental, legal and technical due diligence studies have been completed.

The Chambers Group Inc. and Golder Associates Inc. completed a Phase 1 Environmental Site Assessment Report ("ESA") in April 2009 to identify conditions indicative of releases or threatened releases of hazardous substances. The report identifies some environmental concerns related to the project, but nothing extraordinary for operations of similar size and vintage. The study allows the Company to establish liability protection as a bona fide prospective purchaser and must be updated prior to closing the transaction. SRK Consulting (U.S.), Inc. completed an update on January 11, 2010 and a subsequent update in March, 2011.

Legal due diligence has addressed most of the issues related to the Arimetco assets with a few items pending near term completion. A legal description of the property has been completed including a chain of title report. Water rights for the mine have been extended and assigned to the property. Further extensions will require the Company to show that substantial work has been accomplished toward the goal of putting the water rights to full beneficial use. The most important remaining issues are completing agreements to define, limit and protect the Company from existing liabilities on the property. Numerous meetings have taken place with city, county, State and Federal representatives to explain and clarify the Company's positions regarding work plans, site logistics and timing of possible remedial actions.

Technical due diligence has concentrated on reviewing and compiling a wealth of historical data in the Anaconda Library in Laramie, Wyoming. To assist in the review, numerous reports, maps and historical drilling data have been scanned and entered into an internal data base. An initial review has been completed of both past production and remaining mineralization in and around the Yerington pit.

Although the process has been slow, the Arimetco assets merit the efforts required for acquisition. The Yerington mine is the center of a prolific copper district and can provide Quaterra not only with additional exploration targets but increased flexibility when considering production alternatives. Subject to successful completion of due diligence, Quaterra plans to explore the property as part of its ongoing exploration 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 only partially explored, including the area of the Bear deposit.

Acquisition costs incurred to December 31, 2010 were $2,100,233 and exploration expenditures were $839,354 for a total of $2,939,587. Acquisition costs incurred to December 31, 2009 were $1,659,336 and exploration expenditures were $739,824 for a total of $2,399,160.

Alaska Properties

Duke Island – Alaska

The Duke Island project consists of 129 unpatented federal claims and 11 state claims located 30 miles south of Ketchikan. The claims were acquired following the discovery of nine occurrences of Cu-Ni-PGE mineralization in mafic/ultramafic rocks that appear to have the principal ingredients necessary to host a large copper/nickel sulfide deposit.

Several high priority copper/nickel sulfide targets have been delineated by Quaterra's exploration at Duke Island. Geological mapping, sampling, airborne and ground geophysical surveys, and two phases of drilling defined the presence of mineralized sill-like intrusions that form magma conduits for large volumes of mafic magmas on the property. Surface rock samples from the occurrences contain up to 1.95% copper, 0.25% nickel and 1 gpt combined PGEs.

On September 29, 2009, the Company signed an option agreement with Copper Ridge Exploration Inc. (Copper Ridge). The Agreement provides that Copper Ridge can earn up to a 65% interest in the Duke Island project through expenditures on the property totaling $5 million.

Copper Ridge drilled 1,537 meters in five holes to test the Duke Island targets during the 2010 field season. The best results from the program included .294% copper and .075% nickel over 4.9m and .148% copper and ..039% nickel over 13.4 m over two separate intervals in hole DK10-08. Despite drilling to depths of up to 468 m, the targeted basal contact of the mineralized intrusion was not encountered. The drilling determined that zoning within the ultramafic complex is more complex than anticipated and that what had been thought to be the basal contact, as interpreted through several geophysical techniques, was in fact rafts of partially assimilated sedimentary rocks. The combination of high sulfide content and graphite related to the sediments produced strong electromagnetic conductors.

Copper Ridge advised the Company that it is terminating its interest in the property effective February 21, 2011.

Herbert Glacier Gold Project – Alaska

The Herbert Glacier project is an early stage, partially drill tested, gold mineralized mesothermal quartz vein system in the historic Juneau Gold Belt of southeast Alaska. Consisting of 91 unpatented lode claims located 20 miles north of Juneau and 25 miles south of Couer's new Kensington gold mine, the property covers a series of parallel vein structures exposed at the toe of a retreating glacier.

Quaterra signed an option agreement with Grande Portage Resources Ltd. (Grande Portage) on June 17, 2010. Grande Portage can earn a 65% interest in the Herbert Glacier property by spending US$1.25 million in two stages.

Grande Portage started a diamond core drilling program at the Herbert Glacier during the quarter that is expected to complete 15 holes prior to the end of the 2010 drilling campaign. On October 22, 2010, Grand Portage announced that the initial results of the program confirmed the major elements of a complex mesothermal gold-quartz system with numerous targets.

Detailed geologic mapping and analysis of aerial photographs has been completed over about the southern two-thirds of the most intensely mineralized part of the property. Three master vein-faults of approximate EW strike and steep N dip have been identified as the Floyd, Deep Trench, and Main structures. The Deep Trench and Main structures have been mapped over strike-lengths of about 2100 meters and vertical distances of several hundred meters. Grand Portage reported that subsidiary structures such as the Ridge vein are sub parallel to the main structures and are themselves attractive targets for mineralization.

Reconnaissance mapping has identified at least two more master vein-faults, tentatively named Goat Creek and North, to the north of the detailed studied area.

During the 2010 field season, Grand Portage conducted a drilling program as an initial test the Main, Ridge, and Deep Trench Veins from 5 platforms. Highlights of the program include an intercept in the Main Vein of 1.14 m assaying 17.1 g/t Au in hole 10C-1. The hole also intersected a new vein of about 0.86 m thickness that contained 6.17 g/t Au. Drill hole 10D-2 intercepted a quartz-sulfide vein of about 4 meters true thickness with an intercept of 6.55 g/t Au over 1.15 m. Other significant intercepts were reported in the Ridge Vein (0.85 m averaging 6.85 g/t Au in hole 10A-4) and in the Deep Trench Vein (0.52 meters averaging 9.4 g/t Au in hole 10B-1). Drilling from Platforms A, C and D track Herbert's Main Vein for about 750 m intercepting the vein at three general locations.

Grand Portage believes the mineralization on the Herbert Glacier project is more than a series of gold enriched quartz veins. The Main Vein remains underexplored and deserves more drill testing especially to the west where free gold in quartz veins is exposed in the outcrop. Furthermore, two veins identified only in reconnaissance, North and Goat Creek, should also be tested. Grand Portage intends to carry forward the Herbert Glacier exploration program in 2011.

Total acquisition costs incurred to December 31, 2010 for both Duke Island and Herbert Glacier properties were $276,933 and exploration expenditures were $2,415,742 for a total of $2,692,675. Acquisition costs incurred to December 31, 2009 were $275,707 and exploration expenditures were $2,410,713 for a total of $2,686,420.

Uranium Project – Arizona, Utah and Wyoming

Quaterra's Arizona Strip uranium project includes some of the most prospective uranium properties in the northern district. Now totaling approximately 38 square miles with more than 200 VTEM geophysical anomalies, the Company's land position controls much of the future production potential of the northern district. Quaterra's assets include 3 mineralized breccia pipes; one (A-20) which could be among the larger identified in the district, 4 drill-defined pipe structures that remain untested in the favorable horizon for uranium mineralization, and 5 possible structures that have been defined by shallow drilling or have collapse structures clearly visible at the surface.

Exploration on federal lands in the Arizona Strip is presently restricted by a segregation order that is in force until July of 2011 when the Secretary of the Department of the Interior will decide if and what specific areas are to be withdrawn from mineral entry. Quaterra's activities have strong local and state support and the Company is optimistic that efforts to withdraw federal lands will not be successful. The uranium of this prolific district represents an enormous domestic supply of clean energy and many jobs at a time when both are critical to the needs of the country.

Although the segregation restricts exploration on federal lands, the regulations do not affect exploration activity or access to conduct exploration on Arizona State lands in the district. The Company's land position now includes 6.9 square miles of Arizona State Mineral Exploration Permits within the heart of the district where 16 high and moderate priority geophysical anomalies have been identified by the Quaterra's airborne VTEM survey. In contrast to the segregated area, exploration on state mineral properties is encouraged and permitting is relatively easy.

Acquisition costs incurred to December 31, 2010 were $4,458,996 and exploration expenditures were $7,611,207 for a total of $12,070,203. Acquisition costs incurred to December 31, 2009 were $3,951,141 and exploration expenditures were $7,391,365 for a total of $11,342,506.

Nieves Property – Mexico

The Company and Blackberry Ventures, completed a successful 29 hole, 6,118.7 meter in-fill drilling program during the fourth quarter of 2009 and the first quarter of 2010. All holes were drilled within the La Quinta stockwork veinlet silver deposit, a series of veins and veinlets located along the Concordia-Gregorio Vein. The purpose of the program was to in-fill the core area of the known La Quinta deposit for 200 meters along strike and up to 200 vertical meters below surface. Holes were drilled on 25-meter centers between existing holes drilled on 50-meter centers.

Almost all of the holes intersected relatively shallow zones of continuous silver mineralization ranging between 30 and 70 meters in thickness and between one and three ounces in grade, often including narrower intervals of higher grade silver mineralization ranging between 15 and 38 meters in thickness and 3.2 to 9.5 ounces in grade. La Quinta stockwork mineralization has now been traced by drilling for almost 1,000 meters along strike and has been tested by close-spaced drilling for over 200 meters of this distance. The shallow and uniform nature of mineralization makes it possible for open pit mining.

The extensive and consistent silver values have provided impetus to expedite metallurgical testing, an induced polarization survey and updated NI43-101 resource estimate by Caracle Creek International Consulting Inc., all aimed at evaluating the possibility of open pit mining.

The La Quinta stockwork deposit remains open along strike and at depth. The Concordia vein is only one of several veins on the Company's claim group known to contain high grade silver. In addition, several untested geophysical anomalies may represent additional sites of mineralization. Specific work plans will be developed following completion of the work described above.

The Company and Blackberry Ventures, announced on August 5, 2010, the completion by Caracle Creek International Consulting Inc. of Toronto, Canada of an updated NI43-101 compliant independent resource estimate for its Nieves silver property in northern Zacatecas, Mexico.

Concordia and San Gregorio vein systems, Nieves Property

Estimated mineral resources[1]

Vein	Zone	Classification	Tonnes (t)	Au (g/t)	Ag (g/t)	Au (oz) [2]	Ag (oz) [2]
Concordia	La Quinta	Indicated	4,589,800	0.104	103.446	**15,347**	**15,265,294**
Concordia	La Quinta	Inferred	10,516,387	0.079	85.527	**26,711**	**28,917,951**
San Gregorio	North	Inferred	4,005,417	0.15	79.41	**19,446**	**10,226,479**

1) Prepared by Michelle Stone, P.Geo., Caracle Creek International Consulting Inc., an independent Qualified Person within the meaning of NI 43-101, using a reporting cut-off grade of 45 g/t Ag.
2) 1 troy ounce = 31.103 grams.

Nieves' **indicated resource** of 4.5 million tonnes averaging 103.4 g/t silver (3.02 oz/ton) contains 15.26 million ounces of silver. The **inferred resources** at La Quinta and North total 14.5 million tonnes averaging 83.8 g/t silver (2.45 oz/ton) containing an additional 39.1 million ounces of silver.

The Caracle Creek report concludes that the resource displays strong continuity along strike and down dip and that mineralization continues beyond the extent of current drilling. The report recommends additional drilling to the west and east along both the Concordia and San Gregorio veins.

An induced polarization/resistivity (IPR) survey conducted on the Nieves property during May and August, 2010 indicates a continuation of mineralization well beyond the extent of current drilling. The survey totaled 36,300 meters in 27 lines that covered each of the target areas including Concordia-San Gregorio-Dolores vein system, Santa Rita vein system, California vein system and two additional target areas; the Manto-1 target and the El Rosario mercury occurrence.

A 6,000 meter drill program began on September 23rd to test the east and west extensions of the Concordia and San Gregorio veins, and selected targets along the California and Santa Rita veins. The program completed 19 holes prior to the end of 2010. Eight holes testing the Gregorio North vein (QTA 112-118, QTA 122) traced the Gregorio North vein for an additional 500 meters to the west. The vein now has a known strike length of approximately 1,000 meters. The two best holes (QTA 115-116) are on the extreme east end and will be offset further eastward. The decrease in grade and thickness to the west (QTA 122) will also be evaluated with further drilling.

Three holes (QTA 119-120, QTA 123) drilled west of the La Quinta zone tested the Concordia West vein. The program intersected significant mineralization and demonstrated that La Quinta remains open in this direction. Hole QTA 123 contains 78.1 meters of 69 g/tonne silver beginning at a downhole depth of 103.6 meters, including a 13.85 meter interval averaging 290 g/tonne silver (8.5 oz/ton).

Three holes tested the California vein (QTA 127-128 and QTA 130) and demonstrated that silver mineralization continues over a minimum distance of 350 meters. Hole QTA 130, near the east end of known mineralization, intersected several zones of shallow, stockwork style mineralization, including eight meters of 79 g/tonne silver beginning at a depth of 22 meters. Additional drilling will be necessary to determine if the vein continues westward beyond this hole.

Since inception to December 31, 2010, the Company had incurred $1,472,896 for acquisition costs and $2,780,131 for exploration expenditures giving a total of $4,253,027 for its 50% interest in Nieves. The Company's joint venture partner, Blackberry had spent, including the Company's administration fee, US$4,406,526 for its 50% interest in Nieves.

Other Mexico Properties – Goldcorp IFA

The IFA currently includes 12 properties covering over 950 square miles with exploration focused on discovering large Peñasquito-style gold-silver deposits. Work is in progress on the following properties:

- **Mirasol**. Nine core holes (4,052 meters) have been completed. Drilling at the Aguila prospect targeting epithermal gold mineralization has failed to find the feeder zone. Testing of several
  induced polarization anomalies has intersected weak sedex copper mineralization in an isolated black shale basin.

- **Americas**. Nine lines of IP defined an anomalous IP zone that has a strike length of 2500 meters (strongest part is 1500 meters), a near vertical dip and a width of about 500 meters. Quaterra discovery drill hole AMD-3, which intersected 12 meters averaging 59g/tonne silver, appears to have just cut the very top part of the anomalous body. Eleven holes have been completed.
- **Sierra Sabino.** Goldcorp has designated this property as an Advanced Project under the terms of the IFA. A core drilling program began in July to test at least four separate targets identified by mapping, geochemistry and IP. Seven holes had been completed by year-end with drilling continuing.
- **Santo Domingo.** Mapping is complete on this large copper- gold target. A five line induced polarization survey was completed in October, 2010. Drilling began on February 16, 2011.**Reconnaissance. Five blocks covering 3,665 line kilometers were flown by HeliTem during December. Interpretation is in progress.**

Other Properties – United States

The Company did an impairment test for its mineral properties in 2010. As a result, Wassuk property was written down to nil due to lack of exploration merits. See Note 6 in the consolidated financial statements for the year ended December 31, 2010 for discussion on other properties being explored by the Company.

Mineral Property Expenditure

During the year ended December 31, 2010, the Company incurred $8,993,987 on mineral property expenditures. The total mineral properties expenditure was allocated as follows: 35.4% on MacArthur, 34.3% on Mexico properties except Nieves, 9.1% on Nieves, 6.0% on Yerington, 8.1% on Uranium properties, and 7.0% on other properties, in the United States.

A summary of all mineral property expenses by property can be found in Note 6 of the consolidated financial statements dated December 31, 2010.

The deferred mineral property costs as at December 31, 2010 were as follows:

All Mineral Properties	Balance December 31, 2009	Additions Q1	Q2	Q3	Q4	Change during the Year	Balance December 31, 2010
Summary by Expenditures							
Total acquisition	$ 11,336,930	$ 924,020	$ 402,942	$ 1,083,917	$ (273,433)	$ 2,137,446	$ 13,474,376
Total exploration	24,754,753	1,932,931	1,920,709	1,314,015	1,688,886	6,856,541	31,611,294
Total	$ 36,091,683	$ 2,856,951	$ 2,323,651	$ 2,397,932	$ 1,415,453	$ 8,993,987	$ 45,085,670
Summary by Property							
Nieves, net of cost recovery	$ 3,430,646	$ 254,337	$ 87,765	$ 153,796	$ 326,483	$ 822,381	$ 4,253,027
Other properties, Mexico	4,317,755	1,062,626	919,508	215,529	890,989	3,088,652	7,406,407
MacArthur copper	9,369,779	1,295,164	880,217	658,830	348,306	3,182,517	12,552,296
Yerington copper	2,399,160	64,813	168,568	163,862	143,184	540,427	2,939,587
Alaskan properties	2,686,420	1,690	3,956	608	-	6,254	2,692,674
Uranium properties	11,342,506	57,298	73,150	464,801	132,448	727,697	12,070,203
Other properties, US	2,545,417	121,023	190,487	740,506	(425,957)	626,059	3,171,476
Total	**$ 36,091,683**	**$ 2,856,951**	**$ 2,323,651**	**$ 2,397,932**	**$ 1,415,453**	**$ 8,993,987**	**$ 45,085,670**

Review of Financial Results

For the year ended December 31, 2010 ("2010"), the Company reported a net loss of $6,806,432 compared to a net loss of $6,988,414 in the previous year ("2009"). A comparison of general administration expenses for the year ended December 31, 2010 and 2009 is provided in the table below:

General Administrative Expenses

General administrative expenses include overheads associated with administering the Company's regulatory requirements and supporting the exploration activities.

	Years ended December 31, 2010	2009	Increase (decrease)
General and administrative expenses			
Administration and general office expenses	$ 579,032	$ 586,571	$ (7,539)
Consulting	369,779	366,384	3,395
Directors' fees	113,240	117,453	(4,213)
Investor relations and communications	274,827	171,989	102,838
Professional fees	473,532	415,495	58,037
Personnel costs	833,372	427,453	405,919
Transfer agent, regulatory fees and taxes	157,205	114,089	43,116
Travel & promotion	134,443	54,871	79,572
	$ 2,935,430	$ 2,254,305	$ 681,125

General administrative expenses increased by $681,125, or 30%, (excluding non-cash items), reflecting the Company's increased activities in 2010.

An analysis of the changes is outlined below:

a) Administration and general office general expenses decreased by $7,539 from $586,571 in 2009 to $579,032 in 2010 reflecting the renegotiated administration fees with a related party. The decrease was partially offset by increased office expenses.

b) Investor relations and communications increased by $102,838 from $171,989 in 2009 to $274,827 in 2010 resulting from increased investor relation activities and material printing for the Annual General Meeting in 2010.

c) Professional fees increased by $58,037 from $415,495 in 2009 to $473,532 in 2010 resulting primarily from the increased fees relating to accounting, auditing and tax matters.

d) Personnel costs increased by $405,919 from $427,453 in 2009 to $833,372 in 2010 resulting from the reinstatement of executive officers' contracted salaries and appointment of VP Corporate Development in April 2010. In 2009, the salaries were voluntarily reduced by the officers.

e) Transfer agent, regulatory fees and taxes increased by $43,116 from $114,089 in 2009 to $157,205 in 2010 due to taxes in Mexico and fees related to the annual general meeting.

f) Travel and promotion increased by $79,572 from $54,871 in 2009 to $134,443 in 2010 reflecting resumed promotional activities and conferences.

Other and Non-Cash Expenses (Income)

	Years ended December 31, 2010	2009	Increase (decrease)
Other expenses (income) and non-cash items:			
General exploration costs	$ 794,571	$ 423,681	$ 370,890
Gain on sale of mineral property	(50,000)	-	(50,000)
Amortization	95,184	72,934	22,250
Foreign exchange loss (gain)	324,828	(601,384)	926,212
Warrant modification expense	-	95,252	(95,252)
Interest and financing costs	11,114	593,824	(582,710)
Interest income	(22,435)	(3,250)	(19,185)
Exploration partner administration fees	(155,639)	(34,003)	(121,636)
Stock-based compensation	2,251,258	3,419,775	(1,168,517)
Impairment	622,121	767,280	(145,159)
	$ 3,871,002	$ 4,734,109	$ (863,107)

a) General exploration costs: These costs represent expenditures to undertake and support exploration activities on the Company's properties. If the expenditures are deemed not to be specifically related to individual properties or not recoverable, they are expensed as incurred. Exploration costs increased by $370,890 due to the increased exploration activities for the current year.

b) Foreign exchange: The Company recognized a foreign exchange loss of $324,828 in 2010 compared to a gain of $601,384 in 2009 due to the fluctuation of Canadian dollar. Volatility in the foreign exchange rate could continue to result in foreign exchange gains or losses. The Company does not actively hedge its exposure to changes in the value of the Canadian dollar.

c) Stock-based compensation decreased by $1,168,517 from $3,419,775 in 2009 to $2,251,258 in 2010. The values of stock-based compensation were determined by the Black-Scholes option pricing model.

d) Higher interest and financing costs in 2009 are the result of the effective interest cost and finders' fees on the convertible notes. All notes were converted in November 2009.

e) The Company charges a 10% administration fee on its Nieves joint venture partner's shared exploration costs and 5% on its central Mexico properties under Goldcorp agreement.

Selected Annual Information

The following table sets forth a comparison of financial data for the pervious three most recently completed fiscal years:

	December 31,		
	2010	2009	2008
Interest income and exploration partner administration fees	$ 178,074	$ 37,253	$ 124,281
Net loss for the year	(6,806,432)	(6,988,414)	(6,834,181)
Basic and diluted loss per share	(0.06)	(0.08)	(0.08)
Total assets	65,460,923	41,872,497	34,397,289
Long-term financial liability	-	-	2,953,370
Cash dividends declared	-	-	-

Quarterly Information Trends

The following quarterly information is derived from the Company's consolidated financial statements:

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
General administrative expenses	(799,058)	$ (675,229)	$ (848,023)	$ (707,749)
Interest earned	12,489	4,533	929	4,484
Exploration partner administration fees	57,941	41,650	30,614	25,434
Foreign exchange	(106,236)	(226,066)	187,015	(179,541)
General exploration	(379,923)	(103,971)	(251,264)	(59,413)
Operating loss	(1,214,787)	(959,083)	(880,729)	(916,785)
Financing and interest costs	(1,898)	(1,853)	(3,019)	(4,899)
Stock-based compensation	(214,380)	(1,626,918)	(201,598)	(208,362)
Gain on sale of mineral property	50,000	-	-	-
Impairment	(622,121)	-	-	-
Net loss	(2,003,186)	(2,587,854)	(1,085,346)	(1,130,046)
Unrealized gain (loss) on investments	10,230	(6,000)	1,334	(9,897)
Basic loss per share	(0.02)	$ (0.02)	$ (0.01)	$ (0.01)

	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
General administrative expenses	$ (427,667)	$ (627,501)	$ (540,287)	$ (731,784)
Interest earned	2,375	522	71	282
Exploration partner administration fees	23,033	3,604	2,621	4,745
Foreign exchange	(86,918)	505,089	409,851	(226,638)
General exploration	(95,890)	(165,668)	(38,899)	(123,224)
Operating loss	$ (585,067)	(283,954)	(166,643)	(1,076,619)
Financing and interest costs	(108,636)	(150,128)	(163,173)	(171,887)
Stock-based compensation	(2,437,134)	(192,378)	(382,776)	(407,487)
Share purchase warrants modified	(11,137)	-	(84,115)	-
Impairment	(767,280)	-	-	-
Net loss	$ (3,909,254)	(626,460)	(796,707)	(1,655,993)
Unrealized gain (loss) on investment	(12,866)	-	-	-
Basic loss per share	$ (0.04)	$ (0.01)	$ (0.01)	$ (0.02)

The Company's results have been largely driven by the level of its exploration activities and fluctuations in the metal prices and foreign exchange rates. The Company has had no revenue from mining operations since its inception. Major variations in costs are summarized below:

- Mineral property expenditures can vary widely from quarter to quarter depending on the timing of option payments and the stages and priorities of the exploration program.
- The Company receives management fees on the Blackberry joint venture and other Mexico properties under the Goldcorp IFA agreement, the amount of which varies dependent on the level of project expenditures.
- Foreign exchange gains and losses arise because the Company conducts certain of its activities and holds financial assets in the US and Mexico in US dollars and Mexican Pesos, but reports its financial results in Canadian dollars.
- Stock based compensation amounts can vary widely from quarter to quarter based on the timing, amount and tenure of stock option awards.
- Interest earned and financing costs vary based on the timing, type and amount of debt and equity placements and resultant fluctuations in cash.

During the fourth quarter, the Company's general exploration increased to $379,923 due to increased exploration work carried out in MacArthur and Nieves properties. Interest earned increased to $12,489 resulting from the $17 million private placement closed in October 2010.

In October 2010, the Company completed a sale of its previous mineral property in British Colombia for $10,000 cash and one million shares of the purchaser. The property was written down to nil in 1999.

Related Party Information and Commitment

Manex Resource Group ("Manex"), a private company controlled by a director of the Company, provides comprehensive management, administration, equipped office space, investor relations and corporate secretarial services to the Company. These services were provided in the normal course of operations for consideration established and accepted by the Company and Manex, which management believes was reasonable and cost-effective under the circumstances. The committed costs for 2011 and 2012 to Manex are $186,000 and $93,000, respectively. The current expiry date is June 30, 2012. Please see consolidated financial statements Note 9 for more detailed information.

The Company is party to an agreement dated March 27, 2006, subsequently amended, with Atherton Enterprises Ltd. to retain the services of Mr. Scott Hean as Chief Financial Officer at $175,000 per annum.

Financial Conditions, Liquidity and Capital Resources

The Company finances its operations by raising capital in the equity markets. On October 27, 2010, the Company closed a brokered private placement and received gross proceeds of $17,000,090. As at March 24 2011, the Company has cash and cash equivalents of $22 million, of which $20 million has been invested in low risk guaranteed investment certificates ("GIC's").

The Company will need to rely on the sale of equity and/or the optioning of its mineral property interests via 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.

During the year ended December 31, 2010, the Company received net proceeds of $19,955,427 from private placements, $6,779,125 from the exercise of warrants, $950,700 from the exercise of stock options.

In year ended December 31, 2010, the Company used cash in operating activities of $4,338,516 (2009 -$2,154,933) and $9,049,566 (2009 - $4,630,243) in mineral property exploration and acquisition. The Company received US$765,357 shared exploration costs from Blackberry Ventures and US$920,855 exploration recovery from Goldcorp for the advanced property.

Outstanding Shares, Stock Options and Share Purchase Warrants

As at March 24, 2011, 141,823,041 common shares were issued and outstanding, 19,982,559 warrants were outstanding at a weighted average exercise price of $0.75 and 10,779,000 stock options were outstanding and 10,257,333 exercisable at a weighted average exercise price of $1.59.

Off Balance Sheet Arrangements

None

Disclosure Controls and Internal Control over Financial Reporting

Management has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded based on its evaluation that they are effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of the Company's internal control over financial reporting using the framework designed as described above and based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting was effective as of December 31, 2010 and there have been no significant changes to internal control over financial reporting in the year ended December 31, 2010.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future years are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit Committee of the Company has reviewed this MD&A, and the consolidated financial statements for the year ended December 31, 2010, and the Board of Directors approved these documents prior to their release.

Transition to International Financial Reporting Standards ("IFRS")

The Company continues to monitor the deliberation and progress on its plan to adopt IFRS. Differences between Canadian GAAP and IFRS will impact the Company's activities to varying degrees, some of which are dependent on policy choice decisions. The Company's main objective in the selection of IFRS policies and transition elections is to ensure that meaningful and transparent information is provided to stakeholders.

The major differences between the current accounting policies of the Company and those the Company expects to apply in preparing IFRS financial statements are included below. These differences do not represent a complete list of expected changes under IFRS.

Key areas	Canadian GAAP	IFRS	Analysis
Capital assets	Capital assets are recorded at cost.	Under IFRS 1, capital assets can be recorded at historical cost or at fair value. The carrying value must be assessed annually or when events or circumstances occur which could impair the carrying value.	The Company will continue to record its capital assets at cost due to the complexity and the resources required to reassess fair value on an on- going basis.
Mineral properties and deferred exploration costs	Exploration, evaluation and development costs can be either capitalized or expensed when incurred.	IFRS provides only limited guidance on this topic and currently allows the Company to continue its current treatment.	The existing policy of capitalizing exploration costs will be maintained.

Impairment of long-lived assets	Mineral properties, capital assets and deferred exploration costs are tested for impairment on an annual basis or when there are indicators of impairment.	Same as Canadian GAAP.	The use of discounted future cash flows as an indicator of impairment may increase the likelihood of write downs in the future.
Functional currency	The Company has determined that the Canadian dollar is its functional currency of the parent company. Functional currency is determined by the reference to the following: The currency used in day- to-day operations; and The currency used for labor, materials and other costs of the product or service.	IFRS provides more guidance in determining functional currency. Functional currency is defined as the currency of the primary economic environment in which the entity operates. IFRS provides additional factors to consider in determining functional currency.	The Company is in the process of analyzing its functional currency under IFRS. It is likely that the Company's functional currency will remain the Canadian dollar.
Warrants	US dollar-denominated warrants are accounted as equity instruments.	Warrants denominated in a currency other than the functional currency of the Company (Canadian dollar) will need to be reclassified as liabilities and recognized at fair value, with changes in value being recorded in the statements of operations and the opening adjustment to be recorded to opening retained earnings.	Quantification of this impact is not expected to be materially different from the United States GAAP adjustment at December 31, 2009 with a total reclassification of liability value of approximately $8.5 million.
Stock-based compensation	Stock-based compensation is determined using the Black Scholes option pricing model. Allows use of the straight-line method or accelerated method to account for graded-vesting features.	Stock-based compensation is determined using the Black Scholes option pricing model. For graded-vesting features, each installment or vesting period is treated as a separate share option grant, and hence the fair value of each vesting period will differ.	The recognition of the value of stock-based compensation will be higher in early vesting periods and will decrease as options approach the final vesting period.

The Company is currently working through the implementation phase. Draft IFRS financial statements are being developed and are about to undergo a thorough review process with the involvement of the Company's auditors. Significant differences between Canadian GAAP and IFRS impacting the Company's opening balance sheet for January 1, 2010 are in process of being finalized.

The audit committee of the Company is kept informed of management's decision on accounting policy choices under IFRS.

Business Combinations

In January 2009, the Canadian Institute of Chartered Accountants issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred.

Section 1601, "Consolidated Financial Statements", replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011.

Section 1602, "Non-Controlling Interests", establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to IFRS on consolidated and separate financial statements. This standard is effective for the Company's interim and annual consolidated financial statements beginning on January 1, 2011.

All three sections must be adopted concurrently. The Company will evaluate the impact of the adoption of these sections on the Company's consolidated financial statements in the event of a business combination.

Financial and other Instruments

The Company's activities expose it to a variety of risks arising from financial instruments. Please refer to Note 11 in the consolidated financial statements December 31, 2010 for detailed discussions.

The Company's investment as at December 31, 2010 was carried at fair value. In the year ended December 31, 2010, the Company reported an unrealized loss of $4,333 from mark-to-market adjustments on the investments.

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 generate any revenues from production. The Company's success will depend largely upon management's ability to discover and develop 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 obtain required permits and construct mining and processing facilities. Because of these uncertainties, no assurance can be given that the 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 a number of factors including 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.

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.

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 laws.

For ease of reference, the following information is provided:

Canadian Dollars per U.S. Dollar		
	December 31, 2010	**December 31, 2009**
Rate at end of year	0.9946	1.0510
Average rate	1.0303	1.1420
High	1.0745	1.2991
Low	0.9946	1.0259

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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	Gram s/Tonne

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			

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

CERTIFICATION OF THE 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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the 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 information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 30, 2011

/s/ Thomas Patton
Thomas C. Patton
Chief Executive Officer

CERTIFICATION OF THE 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(s) 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the 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 information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: March 30, 2011

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

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER FURNISHED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the annual report of Quaterra Resources Inc. (the "Company") on Form 40-F for the period ended December 31, 2010 (the "Report"), I, Thomas C. Patton, Chief Executive Officer of the Company, certify solely for the purposes of 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my 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 results of operations of the Company.

Date: March 30, 2011

/s/ Thomas Patton
Thomas C. Patton
Chief Executive Officer

This certification 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 Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER FURNISHED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the annual report of Quaterra Resources Inc. (the "Company") on Form 40-F for the period ended December 31, 2010 (the "Report"), I, Scott B. Hean, Chief Financial Officer of the Company, certify solely for the purposes of 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my 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 results of operations of the Company.

Date: March 30, 2011

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

This certification 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 Act of 1934 (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Annual Report on Form 40-F of Quaterra Resources Inc. (the "Company") for the fiscal year ended December 31, 2010 of our report dated March 24, 2011, relating to the Company's consolidated financial statements and the effectiveness of internal control over financial reporting and to the reference to us under the heading "Interest of Experts" in the Company's Annual Information Form for the year ended December 31, 2010, dated March 30, 2011.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 30, 2011

CONSENT OF GEOLOGIST

[Letterhead of CARACLE CREEK INTERNATIONAL CONSULTING INC.]

I, Michelle Stone, a qualified person within the meaning of the National Instrument 43-101, do hereby consent to reference to my name in connection with the following report, which is incorporated by reference into the annual report on Form 40-F for the fiscal year ended December 31, 2010 of Quaterra Resources Inc. filed with the United States Securities and Exchange Commission.

The technical report dated May 8, 2009, titled “Independent Technical Report, Nieves Property, Zacatecas State, Mexico” prepared by Michelle Stone, P. Geo of Caracle Creek International Consulting Inc.

Dated at Burlington, Ontario, this 30th day of March, 2011.

/s/ Michelle Stone

Michelle Stone, Ph.D., P.Geo,
Caracle Creek International Consulting Inc.

CONSENT OF GEOLOGIST

[Letterhead of CARACLE CREEK INTERNATIONAL CONSULTING INC.]

I, Michelle Stone, a qualified person within the meaning of the National Instrument 43-101, do hereby consent to reference to my name in connection with the following report, which is incorporated by reference into the annual report on Form 40-F for the fiscal year ended December 31, 2010 of Quaterra Resources Inc. filed with the United States Securities and Exchange Commission.

The technical report dated September 17, 2010 (effective date August 5, 2010) titled “Independent Technical Report, Nieves Property, Zacatecas State, Mexico” prepared by Michelle Stone, P. Geo of Caracle Creek International Consulting Inc.

Dated at Burlington, Ontario, this 30th day of March, 2011.

/s/ Michelle Stone

Michelle Stone, Ph.D., P.Geo,
Caracle Creek International Consulting Inc.

CONSENT OF GEOLOGIST

[Letterhead of TETRA TECH]

I, John W. Rozelle, do hereby consent to references to my name in connection with the following reports, which is incorporated by reference into the annual report on Form 40-F for the fiscal year ended December 31, 2010 of Quaterra Resources Inc. filed with the United States Securities and Exchange Commission.

The technical report dated January 21, 2011 entitled “MacArthur Copper Project NI 43-101 Technical Report Lyon County, Nevada, USA” and dated March 19, 2009 titled “MacArthur Copper Project NI 43-101 Technical Report Lyon County, Nevada, USA” prepared by John W. Rozelle, P. Geo. for Tetra Tech.

Dated this 8th day of March 2011

/s/ John W. Rozelle

John W. Rozelle, P.G.