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, 2011**

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 LLC**

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: **152,353,283 common shares**

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 that is permitted under a multi-jurisdictional disclosure system adopted by the United States, to prepare its annual report pursuant to Section 13 of the Securities Exchange Act of 1934 (the "Exchange Act") on Form 40-F in accordance with disclosure requirements in effect in Canada. 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 under the Exchange Act.

DIFFERENCES IN UNITED STATES AND CANADIAN REPORTING PRACTICES

The Company prepares its financial statements, which are filed as Exhibit 99.2 to this annual report on Form 40-F, in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, which may not be comparable to financial statements of United States companies.

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 99.1 to this annual report on Form 40-F.

FORWARD-LOOKING STATEMENTS

This annual report on Form 40-F 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 that relate to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events, or future performance may be forward-looking statements. Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", "plan" or similar words.

You are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are subject to inherent risks and uncertainties which could cause actual events or results – such as, among other things, results of exploration, reclamation, capital costs, and the Company's financial condition and prospects – to differ from those reflected in a forward-looking statement. These risk and uncertainties include 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; changes in mineral resource estimates resulting from updated testing and technical reports; the impact of governmental regulations, including environmental regulations; and commodity price fluctuations. This list is not exhaustive of the factors that may affect the Company's forward-looking statements. Further information regarding these and other factors, are included in this AIF filed as Exhibit 99.1 to this annual report on Form 40-F under the heading "Risk Factors" and in the Company's filings with securities regulatory authorities.

The forward-looking statements contained in the exhibits incorporated by reference into this annual report on Form 40-F 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, except in accordance with applicable securities laws.

ANNUAL INFORMATION FORM

The Company's AIF for the fiscal year ended December 31, 2011 is filed as Exhibit 99.1 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, 2011 and 2010, including the report of the independent auditors with respect thereto, are filed as Exhibit 99.2 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, 2011 is filed as Exhibit 99.3 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, 2011, 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, 2011 as filed as Exhibit 99.2 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, 2011 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, 2011 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 on 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, 2011.

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 currently is composed of Robert Gayton, John Kerr and LeRoy Wilkes. The Company's Board of Directors has determined that each of Messrs. Gayton, Kerr, and Wilkes are independent (as determined under Rule 10A-3 of the Exchange Act and Section 803 of the NYSE Amex LLC Company Guide) and are financially literate. Please refer to the Directors and Officers section in the AIF filed as Exhibit 99.1 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 LLC 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	**2011**
Audit Fees	CDN$123,500	CDN$113,500
Audit-Related Fees	CDN$4,000	NIL
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, 2011 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 99.2.

	Payments due by Period				
Contractual Obligations	*Total*	*2012*[*]	*2013 – 2014*	*2015 – 2016*	*2017 and future years*
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$1,048,000	US$524,000*	US$524,000	-	-
Agreement to acquire right to earn interest in Southwest Tintic claims in Juab County, Utah (3)	US$850,000	US$50,000*	US$200,000	US$350,000	US$250,000
Agreement to acquire right to earn interest in Herbert Glacier in Mineral County, Alaska (4)	US$150,000+	US$20,000	US$40,000	US$40,000	US$50,000+

Option to acquire prospect permits in Texas Cave Peak property (5)	US$220,000	US$220,000		-	-
Agreement to acquire right to earn interest in Copper Canyon Project in Mineral County, Nevada (6)	US$470,000	US$35,000	US$70,000	US$70,000	US$295,000
Agreement to acquire right to earn interest in Reveille project in Nye County, Nevada (7)	US$960,000	US$20,000	US$90,000	US$150,000	US$700,000
Option to purchase Butte Valley claims in White Pine County, Nevada (8)	US$980,000	US$20,000	US$60,000	US$100,000	US$800,000
Option to purchase Goldfield East claims in Esmeralda County, Nevada (9)	US$980,000	US$20,000	US$60,000	US$100,000	US$800,000
Option to purchase Wassuk claims in Lyon County, Nevada (10)	US$1,470,000	US$130,000	US$230,000	US$310,000	US$800,000
Agreement to acquire right to earn interest in Missouri Flat prospect in Lyon County, Nevada (11)	US$125,000	US$5,000*	US$40,000	US$50,000	US$30,000
Agreement to acquire right to earn interest in Microondas prospect in Mexico (12)	US$270,000+	US$25,000	US$95,000	US$100,000	US$50,000+
Agreement to acquire right to earn interest in Santo Domingo project in Mexico (13)	US$290,000	US$40,000*	US$100,000	US$100,000	US$50,000+

Agreement to pay advanced minimum royalty in Nieves Concessions (14)	US$450,000+	US$75,000	US$150,000	US$150,000	US$75,000+
Office lease (15)	US$7,621	US$7,621	-	-	-
TOTAL	US$8,370,621+	US$1,291,621*	US$1,659,000	US$1,520,000	US$3,900,000+

* Indicates that some or all payments under contractual obligations due in 2012 have been paid as of the date of this annual report on Form 40-F. Refer to the footnote below which corresponds to the relevant contractual obligation.

\+ Indicates that payments due under contractual obligation continue annually beyond 2017. Refer to the footnote below which corresponds to the relevant contractual obligation.

(1) Pursuant to an August 2006 agreement, as amended August 14, 2009 and August 3, 2011, 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 10, 2012.

(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 (paid); (v) US$524,000 plus interest at the rate of 6% per annum by January 15, 2012 (paid); and (vi) US$524,000 plus interest by January 2013. The 2012 and 2013 payments reflect 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 Southwest 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 (paid by FMEC); (vi) US$50,000 on or before February 15, 2012 (paid); (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 (paid) and by spending US$4,725,000 on option payments and exploration costs over four years.

(4) 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); (v) US$12,000 on or before November 19, 2011(paid); (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 earned a 65% interest by spending US$1,250,000 in exploration activities.

(5) 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 (to be paid by FMEC). 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(paid) 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.

(6) 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.

(7) 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 Reveille property in Nye County, Nevada. The total consideration is US$1,000,000 over 10 years as follows: (i) US$20,000 upon execution (paid); (ii) US$20,000 on or before July 31, 2011 (paid); (iii) US$20,000 on or before July 31, 2012; (iv) US$40,000 on or before July 31, 2013; (v) US$50,000 on or before July 31, 2014; (vi) US$50,000 on or before July 31, 2015; (vii) US$100,000 annually from July 31, 2016 to July 31, 2018; (viii) US$250,000 each from July 31, 2019 to July 31, 2020.

(8) Pursuant to an agreement made on January 1, 2011 with North Exploration, Quaterra acquired the right to earn an interest in 41 mining claims known as Butte Valley property in White Pine County, Nevada. The total consideration is US$1,000,000 as follows: (i) US$20,000 upon execution (paid); (ii) US$20,000 on or before January 1, 2012 (paid); (iii) US$20,000 on or before January 1, 2013; (iv) US$40,000 on or before January 1, 2014; (v) US$50,000 each on or before January 1, 2015 and 2016; (vi) US$100,000 each on or before January 1, 2017 to 2019; (vii) US$250,000 each on or before January 1, 2020 and 2021.

(9) Pursuant to an agreement made on June 15, 2011 with Nevada Alaska Mining Co., Inc., Quaterra acquired the right to earn an interest in certain mining claims in Esmeralda County, Nevada. The total consideration is US$1,000,000 as follows: (i) US$20,000 upon execution (paid); (ii) US$20,000 each on or before June 15, 2012 and 2013; (iii) US$40,000 on or before June 15, 2014; (iv) US$50,000 each on or before June 15, 2015 and 2016; (v) US$100,000 each on or before June 15, 2017 to 2019; (vi) US$250,000 each on or before June 15, 2020 and 2021.

(10) Pursuant to an agreement made on May 26, 2011 with Majuba Mining Ltd., Quaterra acquired certain unpatented mining claims in Lyon County, Nevada. The total consideration is US$1,600,000 as follows: (i) US$140,000 upon execution (paid); (ii) US$130,000 on or before May 26, 2012; (iii) US$120,000 on or before May 26, 2013; (iv) US$110,000 each on or before May 26, 2014 and 2015; (v) US$200,000 each on or before May 26, 2014 and 2015; (vi) US$200,000 each on or before anniversary date till May 26, 2020. Quaterra is required to incur a total of US$300,000 exploration work ($67,250 incurred as of December 31, 2011) on or before May 26, 2014 and any difference between the actual expenditures and US$300,000 is required to be paid in the event that less than US$300,000 is so incurred.

(11) Pursuant to an agreement made on August 1, 2011 with a private owner, Quaterra acquired certain mining claims in Lyon County, Nevada. The total consideration is US$500,000 as follows: (i) US$5,500 upon execution (paid); (ii) US$5,000 on or before January 1, 2012 (paid); (iii) US$10,000 each on or before January 1 and July 15 from 2013 to 2015; (iv) US$15,000 each on or before January 1 and July 15 from 2016 to 2017.

(12) Pursuant to a letter of intent agreement made on April 8, 2011 with La Cuesta International Inc. (“LCI”), Quaterra acquired the right to earn a 100% interest in six mineral concessions in the Microondas prospect in Mexico. To earn the 100% interest, Quaterra is required to make payments as follows: (i) US$5,000 each on or before June 1 and December 1, 2011 (paid); (ii) US$10,000 on or before June 1, 2012 and 20,000 common shares of the Company; however, the Company may elect to make a one-time cash payment equal to the value of 20,000 shares of its common stock based on the share price at the close of trading on May 15, 2012; (iii) US$15,000 on or before December 1, 2012; (iv) US$20,000 on or before June 1, 2013; (v) US$25,000 on or before December 1, 2013; and (vi) US$25,000 each six months thereafter.

(13) Pursuant to a January 6, 2010 agreement with 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 (paid); (iv) US$20,000 each on or before January 6, 2012 (paid) and July 31, 2012 respectively; and (v) commencing January 1 , 2013, US$25,000 every six months.

(14) Pursuant to a March 1999 agreement with Western Silver Corporation, 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 the concession holders until the commencement of commercial production.

(15) 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$15,241 based upon the Bank of Canada exchange rate on December 31, 2011). Manex Resource Group is a private company controlled by Lawrence Page, a director of the Company. The agreement can be cancelled at any time upon one year's notice. The current expiry date is June 30, 2012. On February 9, 2012, the Company renewed its service agreement with Manex for its Vancouver office for a monthly fee of $19,250 effective June 30, 2012 and expiring August 31, 2017.

NYSE AMEX CORPORATE GOVERNANCE

The Company's common shares are listed on NYSE Amex LLC ("NYSE Amex"). Section 110 of the NYSE Amex Company Guide permits the 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 on 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, 2011, 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, 2012

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

EXHIBIT INDEX

Annual Information

99.1.	Annual Information Form for the fiscal year ended December 31, 2011
99.2.	Audited annual consolidated financial statements and notes thereto for the fiscal years ended December 31, 2011 and 2010 together with the reports of the auditors thereon
99.3.	Management's Discussion and Analysis for the fiscal year ended December 31, 2011

Certifications

99.4.	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
99.5.	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002
99.6.	Certification of the Principal Executive Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.7.	Certification of the Principal Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Consents

99.8.	Consent of Independent Registered Public Accounting Firm
99.9.	Consent of Caracle Creek International Consulting Inc.
99.10.	Consent of Tetra Tech, Inc.
99.11.	Consent of Rex Clair Bryan, Tetra Tech, Inc.



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, 2011

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PRELIMINARY NOTES

Date of Information

All information in this Annual Information Form ("AIF") is at March 30, 2012 **,** unless otherwise indicated**.**

Financial Statements

All financial information in this AIF is prepared in accordance with International Financial Reporting Standards, ("IFRS") as issued by International Accounting Standards Board. In 2010, the CICA Handbook was revised to incorporate IFRS, and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Quaterra Resources Inc. (the "Company" or "Quaterra") has commenced reporting on this basis. The term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

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, 2011. The consolidated 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 IFRS.

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 ("NI 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

This AIF contains “forward-looking statements”. Statements that are not historical fact and that relate to predictions, expectations, beliefs plans, projections, objectives, assumptions, future events, or future performance may be forward-looking statements. Forward-looking statements may be identified by such terms as “believes”, “anticipates”, “expects”, “estimates”, “may”, “could”, “would”, “will”, “plan” or similar words.

You are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are subject to inherent risks and uncertainties which could cause actual events or results – such as, among other things, results of exploration, reclamation, capital costs, and the Company’s financial condition and prospects – to differ from those reflected in a forward-looking statement. These risks and uncertainties include 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; changes in resource estimates resulting from updated testing and technical reports; the impact of governmental regulations, including environmental regulations; and commodity price fluctuations. This list is not exhaustive of the factors that may affect the Company’s forward-looking statements. Further information regarding these and other factors, are included in this AIF under the “Risk Factors” heading and in the Company’s filings with securities regulatory authorities.

The forward-looking statements contained in this AIF are based on the beliefs, expectations, and opinions of management on the date the statements are made. The Company undertakes no obligation to update any forward-looking statement should circumstances or estimates or opinions change, 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, and 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
NI 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 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.

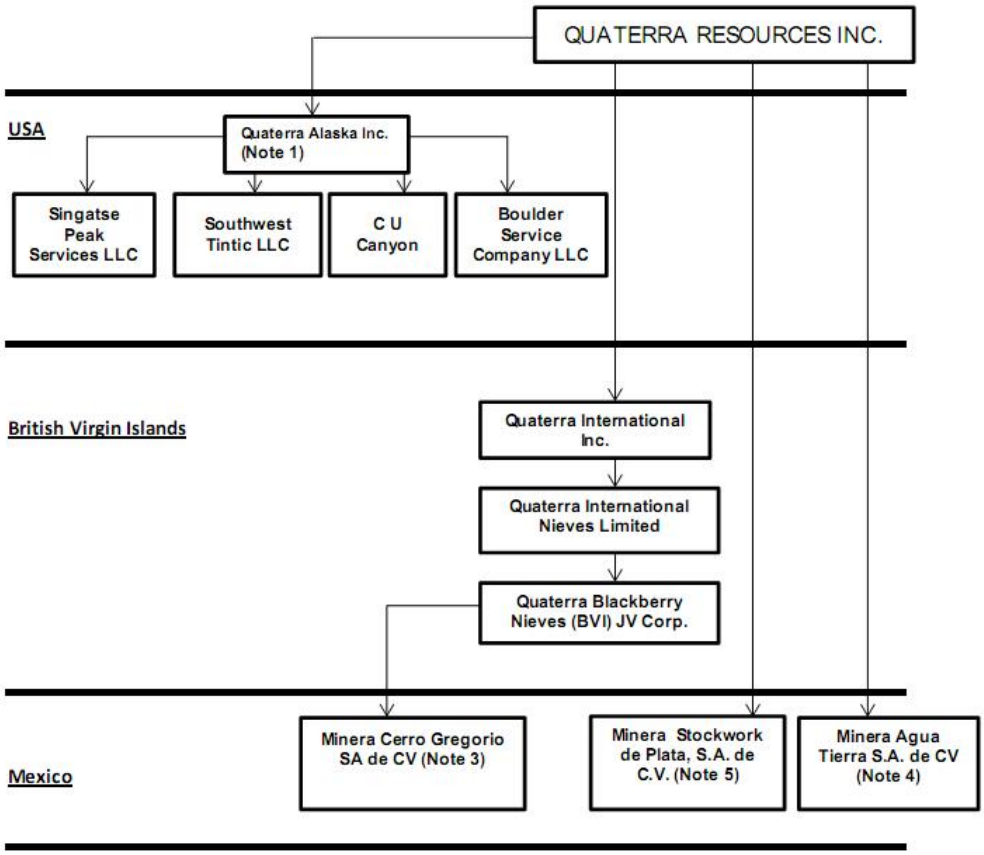
On April 25, 2005, the Company completed the transition procedures in accordance with the Business Corporations Act (British Columbia), (the "New Act").

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, Canada 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 Arizona, Wyoming and Utah Uranium properties, MacArthur, Yerington, Butte Valley, SW Tintic, Copper Canyon, Missouri Flat, Herbert Glacier, Reveille, Goldfield, Cave Peak, and Wassuk Copper.

Note 2: Quaterra Blackberry Nieves (BVI) JV Corp., 50% owned by Quaterra Resources Inc., holds 100% of the Nieves Property.

Note 3: Minera Cerro Gregorio SA de CV holds 100% of the Nieves mineral claims and is indirectly owned as to 50% by Quaterra Resources Inc.

Note 4: Minera Agua Tierra S.A. de C.V. is 100% owned by Quaterra Resources Inc.

Note 5: Minera Stockwork de Plata, S.A. de C.V. is 100% owned by Quaterra Resources Inc., and holds the following claims: Reduccion Crestones, Las Americas, Americas, Mirasol, Cerro Blanco, Jaboncillo, Tian, Lupita, Carolina, Falcon, Los Azafranes, Sara, Onix, Marijo, Coyote 4, Tajo, Calvo, Crestones, Inde, San Domingo, Sierra Sabino, El Calvo, Microondas.

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 that the Company believes has 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 May 29, 2009, Quaterra 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, which Quaterra subsequently has paid, 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 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. FMEC returned the property in the first quarter of 2011.

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. 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. The option may be exercised by Quaterra for a total consideration of US$7.5 million in cash, 100,000 shares of the Company and $50,000 in work expenditure. As of the date of this AIF, Quaterra has paid US$70,000, issued the required 100,000 shares and made the required US$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, Quaterra completed a private placement of 3,001,418 units for gross proceeds of US$4.0 million ($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 which expired February 4, 2012 unexercised.

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

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. In the first quarter Klondike was deemed to be impaired due to lack of exploration merits.

On October 27, 2010, Quaterra completed a brokered private placement of 11,724,200 units for gross proceeds of $17,000,090. Each unit consisted 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. The Company also issued 703,452 non-transferable compensation options to the agent at an exercise price of $1.45 per unit with the same terms.

On January 1, 2011, the Company entered into an option agreement with North Exploration LLC to acquire 41 mining claims in White Pine County, Nevada, known as Butte Valley property. The Company can earn a 100% interest in the claims by making staged payments totaling US$1 million. As of the date of this AIF, the Company has made US40,000 in payments. The Company has an option at any time to purchase the property for the difference between US$1 million and the sum of amounts previously paid or if the full amounts have been paid under the above the sum of US$1. The property is subject to 2.5% NSR upon commencement of commercial production of which 1% can be bought down for US$1 million.

On February 7, 2011 Quaterra 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.

On April 27, 2011, Quaterra completed the purchase of the Yerington property from Arimetco, Inc. Assets purchased include 4.2 square miles of patented claims and fee mineral properties centered on the former Anaconda open pit copper mine containing an historic resource estimate in excess of four billion pounds of copper, and 8,600 acre feet per year of water rights. This property, together with 9.3 and 13.2 square miles of unpatented claims at Yerington and nearby MacArthur respectively, provides the Company with a significant land position in the center of a copper camp. Quaterra has paid the remaining cash acquisition cost and has released 250,000 common shares of the Company stock previously issued and under escrow.

On May 12, 2011, pursuant to its January 1, 2011 option, Quaterra announced its acquisition of the Butte Valley porphyry copper prospect, located in White Pine County, Nevada. The property consists of approximately 45 square miles of mineral rights obtained by optioning and staking a total of 1,483 unpatented U.S. lode claims.

On May 26, 2011, the Company entered into a mining lease with an option to purchase agreement with Majuba Mining Ltd. to earn an interest in certain unpatented mining claims in Lyon County, Nevada, for US$1.61 million. The company is required to incur a total of US$300,000 exploration work on or before the third anniversary. As of the date of this AIF, the Company has incurred CDN$67,250. Any difference between the actual expenditures and US$300,000 is required to be paid in the event that less than US$300,000 is so expended. The project is subject to 3% NSR upon commencing commercial production of which 1% can be bought at US$1,500,000.

On June 15, 2011, the Company entered into an option agreement with Nevada Alaska Mining Co., Inc. to acquire a 100% interest in certain mining claims in Esmeralda County, Nevada for US$1 million over ten years. A 2% NSR is required upon commercial production.

On July 4, 2011, Quaterra announced that it has finalized an option agreement with La Cuesta International, Inc. (LCI) to acquire a 100% interest in the Microondas prospect located in Zacatecas State, Mexico, about 17 kilometers south-southeast of Rio Grande. Quaterra has the right to earn a 100% interest in the property by making semi-annual lease/pre-production payments and paying a 1% Net Smelter Return royalty (“NSR”) payment that is capped at US$5 million. As of the date of this AIF, Quaterra has made US$10,000 semi-annual lease/pre-production payments. A portion of the property carries an uncapped 2% NSR royalty. Quaterra, at its option, may issue to LCI 20,000 common shares or its cash equivalent on or before June 12, 2012.

On August 1, 2011, the Company entered into an option agreement with a private owner to acquire a 100% interest in certain mining claims situated in Lyon County, Nevada for US$500,000. The Company has an option at any time to purchase the property for the difference between US$500,000 and the sum of the amount previously paid.

On October 20, 2011, Quaterra added two properties to the Goldcorp IFA: El Calvo gold, located in the central Mexican state of San Luis Potosi, and Microondas gold-silver, located in Zacatecas State, Mexico. Quaterra began drilling in November, 2011.

On October 26, 2011, as contemplated by their June 17, 2010 agreement, Quaterra entered into a joint venture agreement with Grande Portage Resources Ltd. for the Herbert Glacier gold project located near Juneau, Alaska. Grande Portage has acquired a 65% interest and the Company retains a 35% interest in this project. Each party has agreed to bear its proportionate share of costs for the further exploration and development of the project.

GENERAL DEVELOPMENT OF THE BUSINESS

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 6,172 hectares. These concessions are registered in the name of Minera Cerro Gregorio. 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, 2011, the Company had incurred $1,535,959 (2010 - $1,472,896) for acquisition costs and $3,920,039 (2010 - $2,780,131) for exploration expenditures giving a total of $5,455,998 (2010 - $4,253,027) for its interest in Nieves. The Company's joint venture partner, Blackberry JV had spent, including the company's administration fee, US$5,749,673 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 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.

Systematic drilling of the property began after Quaterra received the Nieves property rights from Western in 1999. From 1999 through 2011 55,727m of drilling has been completed in 184 holes, all but ten holes during the Quaterra/Blackberry earn-in and JV.

An initial mineral resource estimate was prepared in 2009 by Caracle Creek International Consulting Inc. of Toronto, Ontario ("Caracle Creek"). The resource was updated and enlarged in a 2010 NI 43-101 compliant independent report by Caracle Creek based on an additional 6,118.7m of drilling in 29 holes targeting the La Quinta stockwork veinlet zone along a section of the Concordia vein. The results of Caracle Creek's independent technical reports are discussed under "Mineral Resource" below. Caracle Creek is currently conducting work on a third resource estimate, scheduled for completion in April 2012, based on completion of an additional 73 holes totaling 18,547m. An updated independent technical report by Caracle Creek may produce different resource estimates than the 2010 and 2009 independent technical reports by Caracle Creek. Upon its completion, the results of any updated independent technical report by Caracle Creek will be publicly disclosed by Quaterra

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 principal 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) with minor 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 184 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.

An initial mineral resource estimate was prepared in 2009 by Caracle Creek. 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. A program of step out and infill drilling was recommended to better define high grade resources within the area modeled.

In 2009 and 2010, drilling focused on the defining the continuity of higher grade Ag mineralization. Prior to the submission of the updated NI 43-101 compliant independent resource estimate on September 17, 2010 by Caracle Creek, 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 September 7, 2010 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. These resources were reported with a 45 g/t cut off. The estimated Mineral Resources for both zones displays strong continuity along strike and down dip and mineralization is interpreted to continue beyond the extent of current drilling as suggested by recent geophysical surveying (induced polarization or “IP”).

From September 2010 to October 2011, the Quaterra/Blackberry JV drilled an additional 73 holes totaling 18, 547 meters to test numerous IP anomalies on several separate vein systems and to determine the limits and updip extensions of mineralization along the Concordia and Gregorio North vein systems. Principal conclusions are as follows:

- The Concordia vein, including the La Quinta zone, has been drilled on a minimum spacing of 100 meters over a strike length of 1,000 meters. It appears to be cut off on the west and thins substantially to the east.
- The Gregorio North vein extends an additional 500 meters to the west, but at reduced thicknesses and grades.
- The California vein shows somewhat erratic zones of both high and low grade mineralization over a strike length of approximately 350 meters. At this time it is not a standalone target but more drilling is warranted.
- The Santa Rita vein was tested systematically over a distance of 500 meters along strike. Although thick intervals of low grade silver mineralization were intersected, grades are insufficient to represent a stand-alone target.

Caracle Creek is currently conducting additional work on the Nieves silver project. Quaterra expects that Caracle Creek will complete a further updated independent technical report in April 2012. An updated independent technical report may produce different resource estimates than Caracle Creek’s 2010 and 2009 technical reports. See “Mineral resource estimates are subject to updates which may differ from prior estimates and adversely affect the value of the Company’s properties” under the “Risk Factors” heading in this AIF. Immediately after the completion of Caracle Creek’s updated independent technical report, Quaterra expects that a preliminary economic assessment will be completed by M3 Engineering and Technology Corp. of Tucson, Arizona.

Sampling, Analysis and Security of Samples

Quaterra and Quaterra jointly with Blackberry have drilled 184 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). The Company is unaware of any known drilling, sampling or recovery factors that could materially impact the accuracy and reliability of the results. The Company believes 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 2011 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 September 17, 2010, Caracle Creek submittted an updated NI 43-101 compliant independent resource estimate for Nieves silver property. 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. 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 (g/t) Range	Vein	Zone	Classification	Tonnes (t)	Au (g/t)	Ag (g/t)	Au [2] (oz)	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
	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	Inferred	6,319,000	0.09	107.8	18,285	21,901,045

Ag Range (g/t)	Vein	Zone	Classification	Tonnes (t)	Au (g/t)	Ag (g/t)	Au [2] (oz)	Ag (oz) [2]
	San Gregorio	Quinta 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 Mineral Resources classification.

The analysis 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 Mineral Resources 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 Mineral Resource to Indicated Mineral Resource.

Specific recommendations by Caracle Creek 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

Caracle Creek is currently conducting additional work on the Nieves silver project. Quaterra expects that Caracle Creek will complete a further updated independent technical report in April 2012. An updated independent technical report may produce different resource estimates than Caracle Creek's 2010 and 2009 technical reports. See "Mineral resource estimates are subject to updates which may differ from prior estimates and adversely affect the value of the Company's properties" under the "Risk Factors" heading in this AIF. Immediately after completion of Caracle Creek's updated technical report, Quaterra expects that a preliminary economic assessment will be completed by M3 Engineering and Technology Corp. of Tucson, Arizona.

MacArthur, Nevada, USA

Acquisition and Staking of Mineral Claims

The MacArthur property consists of 472 unpatented lode claims totaling approximately 9,752 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 second of these three annual payments was paid January 11, 2012. 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 is in good standing.

Expenditures to Date

Acquisition costs incurred by the Company to December 31, 2011 were $2,358,534 (2010 - $1,731,500) and exploration expenditures were $ 17,144,368(2010 - $10,820,796) for a total of $19,502,902 (2010 - $12,552,296).

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 740 holes totaling approximately 282,000 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 Quaterra’s belief in the 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 November 2011, completed a total of 203,775 feet of drilling in 402 holes on the property. The drilling program has 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), 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.

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 forming 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 $CuSiO_3.2H_20$ along with black neotocite, aka copper wad (Cu, Fe, Mn) SiO_2, 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 ($CuFeO_2$). Chalcocite has been identified in drill holes below the MacArthur pit and in drilling throughout the property. The sulfides digenite (Cu_9S_5) 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 exhibits a generally flat-lying geometry extending with good continuity 150 feet below surface and less continuously up to 600 feet below surface. Chalcocite mineralization generally occurs as flat-lying zones 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.

Porphyry copper style sulfide mineralization below the low-angle MacArthur fault zone at the North Porphyry Target has been defined over a distance of 2,500 feet between holes QM-68 and QM-164. Veinlet and disseminated primary chalcopyrite mineralization intercepted at a depth of 485 feet in QM-68 assayed 1.19% copper over a thickness of 110 feet. The same zone in QM-70 averaged 0.82% copper over a thickness of 60 feet at a depth of 420 feet and correlates to a thickness of 15 feet averaging 1.20% at a depth of 770 feet in hole QM-72. QM-100 intersected the sulfide mineralization with 0.58% copper over 65 feet. Approximately 1,000 feet to the north, hole QM-164 intercepted 64 feet of disseminated chalcopyrite mineralization in sodic altered granodiorite averaging 1.31% copper at a depth of 1,673 feet. The intercept includes a high grade zone of 29 feet averaging 2.21% . Mineralized zones within potassic halos in holes QM-165 to the west and in QM-163 to the east are consistent with those that could fringe a porphyry copper center.

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 NI 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 to Quaterra that the MacArthur deposit could have a 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 28 th 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 strength IP anomalies have been detected in both areas.

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 2011 drilling program was the most extensive yet conducted on the project. A total of 81,560 feet were drilled in 153 holes including 69,890 feet in 147 RC holes and 11,760 feet in 6 core holes. The program had the twin goals of enlarging and upgrading the status of the inferred resources through step-out and infill drilling and exploring for primary sulfide mineralization related to a copper porphyry system at depth.

The RC drilling program was initiated with step-out and infill holes along the western and northern margins of the deposit. The results confirmed that MacArthur remains open for the definition of additional acid-soluble copper mineralization. As the program progressed to the east, several holes encountered high grades of continuous chalcocite and copper oxide mineralization in zones averaging 40 feet or more in thickness in the area now referred to as the “Ridge Zone”.

The extent and continuity of the mineralization in the Ridge Zone had been uncertain because a number of marginally mineralized vertical holes in the initial 500-foot spaced drilling program encountered a system of barren hornblende dikes that cross-cut the area. To address the uncertainty and to test high-angle northeast and northwest trending mineralized structures that form an important component of the acid-soluble copper deposit, an infill drilling program was completed on 250-foot centers in the principle areas with higher grade potential.

The 2011 RC program encountered some of the highest grades and best intercepts of acid soluble copper mineralization ever drilled on the property. Hole QM-187, drilled 2,000 feet north of the MacArthur pit, intersected 90 feet of predominantly chalcocite mineralization averaging 1.66% total copper (TCu) starting at a depth of 310 feet. This intercept includes 40 feet assaying 3.49% TCu. Hole QM-180 along the northwestern margin of the zone intercepted 40 feet averaging 1.37% TCu at a depth of 360 feet. To the south near the northern pit outline, hole QM-193 intercepted 150 feet averaging 0.62% TCu at a depth of 60 feet. The results of the 2011 drilling program will be incorporated into an updated 43-101 compliant resource estimate in early Q2 2012.

Exploration for a deep porphyry system at MacArthur completed 11,287 feet of drilling in 5 holes during the 2011 program. The last hole of the program, QM-164, intercepted one of the best primary copper intercepts yet identified on the project with 64 feet of disseminated chalcopyrite mineralization in sodic altered granodiorite averaging 1.31% TCu at a depth of 1,673 feet. The intercept includes a high grade zone of 29 feet averaging 2.21% TCu. QM-164 also intercepted a shallower zone of both vein and disseminated chalcopyrite at a depth of 685 feet that averages 0.34% TCu over a thickness of 96.5 feet. QM-164 extended the mineralized zone identified in QM-100 a distance of 1,000 feet to the north where it remains open for extension.

Metallurgical Drilling

A total of 3,758 feet were drilled in 27 large diameter (PQ) holes to provide samples for column leach tests during 2011. The material was shipped to METCON Research of Tucson, Arizona, for column leach testing. The preliminary test results together with the results of a limited program of bottle roll tests and historic metallurgical studies will be used to estimate cost and recoveries for the MacArthur block model to be used in the MacArthur Preliminary Economic Assessment (PEA).

Future Plans

Future Plans for the MacArthur project include the completion of an updated NI 43-101 compliant resource estimate and PEA which will incorporate the results the 2011 drilling program and metallurgical testing. The PEA results will be used to determine what additional drilling may be required to bring the project to prefeasibility status and to evaluate the potential to integrate it into a larger operation that includes the Yerington Copper property. This stage of a project generally includes additional infill and sterilization drilling, metallurgical testing and geotechnical work as well as environmental studies, permitting and engineering. M3 Engineering and Technology Corp. of Tucson, Arizona has been contracted to complete the MacArthur PEA.

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, where 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	3 81	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	2 3,365	0.263	122,947
	0.18	3 0,914	0.245	151,664
	0.15	4 1,544	0.225	186,865
	0.12	4 8,337	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	0.50	4,967	0.820	81,479

Material (MinZone 10 and 20)	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 January 2011 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 recommended 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.

Yerington Copper Project – Nevada, USA

Acquisition and Staking of Claims

The Yerington Copper project property totals approximately 19 square miles. The project mineral rights consist of 2,768 acres of fee mineral properties and patented mining claims as well as 457 unpatented lode claims totaling approximately 9,442 acres on lands administered by the US Department of Interior, Bureau of Land Management (BLM).

On May 1, 2007, Quaterra's wholly owned subsidiary, Singatse Peak Services LLC (SPS) received the bankruptcy court approval for the acquisition all assets of Arimetco, Inc. (Arimetco) in the Yerington Mining District, subject to completion of due diligence. The purchase price comprised 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.

Private land, patented claims, and 23 unpatented mining claims related to the Yerington Copper project were acquired by SPS from the Arimetco bankruptcy court in April, 2011. The acquisition followed three years of due-diligence studies and negotiations with state and federal agencies and the receipt of Bona Fide Prospective Purchaser (BFPP) letters from the US Environmental Agency (EPA), the Nevada Division of Environmental Protection (NDEP) and the BLM to protect SPS from liability emanating from activities of the former mine owners and operations.

Private properties related to the Arimetco acquisition are located in Township 13 North, Range 25 East in Sections 4, 5, 8, 9, 16, 17, and 21, and patented claims are located within Township 13 North, Range 25 East in Sections 16, 17, 19, 21, 31, and 32 and in Township 13 North, Range 24 East in Sections 22-25 and 36. An additional 434 unpatented claims in Sections 1, 2, 11-13, 22- 27, 35, and 36 Township 13 North, Range 24 East and in Sections 4- 9, 16- 21, and 30-32 Township 13 North, Range 25 East, Mount Diablo Base & Meridian were staked prior to or subsequent to the acquisition by SPS.

Expenditures to Date

Acquisition costs incurred by the Company to December 31, 2011 were $ 2,803,906 (2010 - $2,100,233) and exploration expenditures were $3,623,164 (2010 - $839,354) for a total of $6,427,070 (2010 - $2,939,587).

Location, Access and Infrastructure

The Yerington Copper Property is located near the geographic center of Lyon County, Nevada, US, along the eastern flank of the Singatse Range. The property centers on the historical Yerington open pit mine, flanked on the west by Weed Heights, Nevada (a small private community; the original company town of The Anaconda Company) and on the east by the town of Yerington, Nevada. The property is easily accessed from Yerington by a network of paved roads that were used as principal transportation and access routes during the former operating period of the Yerington Mine. SPS controls approximately 8,600 acre feet of groundwater rights and the Yerington pit contains an estimated 37,000 acre feet of water. Power is available on site at the Yerington Mine area. Nevada Energy operates a 30 million kW propane-fired, electrical generating power plant within ten miles of the site. The power infrastructure at the Yerington Mine site is expected to be readily available for a future mining operation due to the historical mine operations at the site. Topographic coverage is on US Geological Survey “Yerington” and “Mason Butte” 7.5’ topographic quadrangles. The nearest major city is Reno, Nevada, approximately 80 miles to the northwest.

History

Recorded production in the Yerington mining district dates back to 1883 (Moore, 1969) as prospectors were attracted to and investigated colorful oxidized copper staining throughout the Singatse Range. Knopf (1914) reported that oxidized copper cropped out at the historic Nevada-Empire mine located above the south center of the present-day Yerington open pit. Knopf does not show or reference other mines or prospects that are underlain by the Yerington open pit footprint, as gravel and alluvial cover obscure bedrock over an approximate 0.75 mile radius around the Nevada-Empire Mine.

Information is sparse for the period from Knopf’s reporting in 1914 until World War II, although it is likely that lessees worked the Nevada-Empire during spikes in the copper price. Private reports (Hart, 1915 and Sales, 1915) describe ore shipments and planned underground exploration from a northwest striking, southwest dipping structure at the historic Montana-Yerington Mine area located approximately one mile west of the present-day Yerington pit.

During the 1940s, The Anaconda Company (Anaconda), at that time one of world’s major copper producers, outlined a 60-million-ton resource over the Yerington pit. During the early 1950s, the US government, citing the need for domestic copper production, offered “start-up” subsidies to Anaconda to open a copper mine in the Yerington district. Anaconda sank two approximately 400-foot-deep shafts in the present-day open pit and drove cross cuts to obtain bulk samples of oxidized rock for metallurgical study. Anaconda began operating the Yerington Mine in 1952 and mined continuously through 1979, producing approximately 1.744 billion pounds of copper from an ore body that contained 162 million tons averaging 0.54% Cu. Approximately 104 million tons of this total were oxidized copper ore that was “vat-leached” with sulfuric acid in 13,000-ton cement vats on a seven day leach cycle. Sulfide ores were concentrated on site in a facility that was dismantled and sold following termination of mining in 1979.

In 1976, all assets of The Anaconda Company, including the Yerington Mine, were purchased by the Atlantic Richfield Company (ARCO) who in 1979 shut down dewatering pumps in the pit and closed the Yerington Mine due to low copper prices. In 1982, ARCO sold the entire Yerington Mine complex and Weed Heights town site to Mr. Don Tibbals of Yerington, Nevada, who scrapped the plant and equipment. At closure, before dewatering pumps were shut off, the Yerington mine plan hosted a pre-stripped, non NI 43-101 compliant reserve of 98 million tons averaging 0.36% Cu containing approximately 696 million pounds of copper (Howard, 1979) within their ultimate pit design. An additional 22.8 million tons of material containing 136.8 million pounds copper was identified adjacent to the pit in this historic estimate.

In 1989, Arimetco Inc. (Arimetco) purchased the mine property from Tibbals, commissioned a 50,000-pound-per-day solvent extraction/electrowinning plant, and began heap leaching “sub-grade” dump rock stripped from the Yerington pit by Anaconda. Arimetco also added an unknown tonnage of “vat leach tailings” (minus 3/8 inch oxidized tailings leached during Anaconda’s operation) to some heap leach pads (HLP's) as well as trucking oxidized ore from the MacArthur property located approximately five miles north of the Yerington mine site. Arimetco produced some 95 million pounds of copper from 1989 to 1999 before declaring bankruptcy due to low copper prices and abandoning the property.

Soil and groundwater contamination, alleged to stem from the former mining operations at Yerington, have been identified on the property. As a result, a portion of the property acquired by SPS in 2011 is now under the jurisdiction of the EPA. Liability for the contamination on site is the responsibility of a third party which is actively engaged in remedial investigation and remediation activities under the supervision of the EPA.

In order to establish SPS's position and rights, the acquisition by SPS of the Arimetco properties required a series of rigorous environmental, legal, and technical due diligence studies. The Chambers Group Inc. and Golder Associates Inc. completed a Phase 1 Environmental Site Assessment Report to allow SPS to establish liability protection as a bona fide prospective purchaser (BFPP). Prior to closing on the property, SPS received letters from the Nevada Department of Environmental Protection (NDEP), US Bureau of Land Management (BLM) and the USEPA indicating the post-closing requirements then applicable to the Site for SPS to maintain its defense to liability as a BFPP regarding the activities of the former mine owners and operators.

Geology and Mineralization

The Yerington property includes both the Yerington Deposit (Yerington Mine) and a portion of the Bear Deposit which represent two of three known porphyry copper deposits in the Yerington copper district. The porphyry systems are hosted in middle Jurassic intrusive rocks of the Yerington Batholith. Unless noted otherwise, the following discussions refer to the Yerington Deposit

Mineralized porphyry dikes associated with three phases of intrusive activity related to the Yerington Batholith form an elongate body of mineralization that extends 6,600 feet along a strike of N118ºE. The mineralization has an average width of 2,000 feet and has been defined by drilling to an average depth of 250 feet below the Yerington Mine pit bottom at the 3,800-ft elevation. Because of the economic constraints of low copper prices at the time, many of the 558 historic Anaconda drill holes used in the SPS study were stopped in mineralization and very few were drilled below the 3,400-ft level where the porphyry system remains nearly unexplored.

Only four historic holes have actually explored the deep vertical projection of copper mineralization in the pit. Three of the holes were drilled along a single N-S oriented section through the center of the pit. According to M. T. Einaudi in an internal 1970 Anaconda report. the deep drilling program defined a series of nested, concave upward, grade shells that are elongated down the N 70º dip of the dikes with the 0.2% Cu zone extending to approximately the 2,600-ft level; an overall dip distance of 2,200 feet. Although the program encountered an increasing ratio of pyrite to chalcopyrite, there was no indication of a "barren core", the porphyry dikes showed a "remarkable continuity" down dip and molybdenum mineralization became more abundant with increasing depth.

The orientation of the Yerington Deposit is due to mid-Tertiary extensional faulting that rotated the near vertically-emplaced batholith 60° to 90° westerly. The west to east dilation-displacement positioned the porphyry copper deposit on its side, resulting in a cross section of the of the porphyry system visible in the pit with its top toward the west end. Mining has revealed an alteration geometry displaying the original pyrite-rich cap (present-day leached sericite-limonite on the west end of the Yerington pit, grading downward easterly to quartz-sericite-pyrite alteration and potassic alteration in the central portion of the pit, continuing to a soda-flooded root zone at the eastern end).

Secondary oxide copper formed much of the upper Yerington Deposit. Chrysocolla was the dominant copper oxide mineral, occurring as fracture coatings and fillings to a depth of approximately 400 feet below the surface. Below the 4,100-ft level, chalcopyrite is the dominant copper sulfide mineral with minor bornite primarily hosted in A-type quartz veins in the older porphyry dikes. The un-mined mineralized material below the current pit bottom is primarily of chalcopyrite mineralization.

The Bear Deposit, located partially in the northeast corner of the Yerington Mine property, was discovered in 1961 by Anaconda during condemnation drilling in the sulfide tailings disposal area. The program identified chalcopyrite mineralization hosted in a porphyry system below 500 to 1,000 feet of valley fill and unmineralized bedrock. The mineralization is related to micaeous veining rather than A-type quartz veining common in the Yerington Mine porphyry system. Historic (not NI 43-101-compliant) resources estimated for the Bear Deposit are more than 500 million tons of material averaging 0.4% copper (Dilles, 1995). The deposit is known to extend beyond the boundaries of SPS properties and the percentage of the estimated resource controlled by SPS is unknown.

Exploration and Drilling Results

Exploration work on the Yerington Copper project commenced with a technical review of all available historical information relating to mineralization in and around the Yerington pit. A huge inventory of Anaconda data was available at the Anaconda Collection – American Heritage Center, University of Wyoming at Laramie. Approximately 10,000 pages of drill hole records from the library were scanned. The records included drill hole lithology, assays, and/or survey coordinates for almost 800 drill holes. Although some holes contained only lithologic or assay summary information, 558 holes contained adequate detailed assay, hole location and orientation information to be used in a resource estimation. Core from historical drilling left on site by Anaconda was photographed, described and selected intervals from 45 Anaconda core holes were shipped to Skyline Labs for re-assay.

Information obtained from the review of historical information was used to guide a two-pronged program of drilling during the last half of 2011. A total of 21,856 feet were drilled in 42 holes. The core holes and four RC holes were drilled to twin Anaconda core holes, while the remaining RC holes were targeted for expansion of mineralization laterally and below historic drill intercepts along the perimeter of the Yerington pit to support a NI 43-101 compliant resource estimate and technical report.

The data review and drilling results of the 2011 program clearly indicated that mineralization at Yerington is open to depth and along strike. Many of the historic holes in the pit were stopped in mineralization. Drill hole intercepts along the western edge of the pit are some of the best in the SPS database. Twin hole SP-04, drilled by SPS at the northwest end of the pit, intercepted 524.5 feet averaging 0.35%TCu starting at a depth of 228 feet including 88 feet of 0.69%TCu at a depth of 265 feet. Exploration hole SP-36, located along south central margin of the pit intercepted 95 feet averaging 0.28% TCu at a depth of 230 feet. Details of the drilling program are in the NI 43-101 compliant technical report for the Yerington Copper Project completed by Tetra Tech, Inc. of Golden, Colorado in February 2012.

Future Work Plans

Quaterra believes the Yerington Copper Project has potential for significant additional copper resources. Historic and current drilling data indicate that limits to the mineralization at the Yerington Mine have not yet been found, both horizontally and vertically. The Company is planning additional exploration and in-fill drilling to both expand and upgrade the current NI 43-101 compliant copper resources of the project. Future drilling will target the pit area below the 3,000 feet level where only four deep historic holes (D158, D152, D174, and V2-28-33) have actually explored the deep vertical projection of mineralization. Three of five holes drilled along a N-S oriented section through the pit during the period of 1969 -1970 defined a series of nested, concave upward, grade shells that are elongated down the N 70º dip of the dikes with the 0.2% Cu zone extending to approximately the 2,600 level; an overall dip distance of 2,200 feet. Although the program encountered an increasing ratio of pyrite to chalcopyrite, there was no indication of a “barren core”, and the porphyry dikes showed a “remarkable continuity” down dip. The drilling data also established a 250 to 500 foot thick zone of fracture hosted and disseminated molybdenum mineralization that wraps around the sulfide zone near the chalcopyrite/ chalcopyrite-pyrite transition.

Historic resources in the residuals (dumps and tailings) of the Yerington Copper Project also reflect a notable potential that need to be more fully evaluated in order to bring those resources into NI 43-101 compliant standards. A sonic drilling program is planned to sample and characterize the residuals on the property. A historically estimated 124 million tons of mineralized material remains at the Yerington minesite from previous operations in low grade stockpiles, heap leach pads and piles of vat leach tails.

Metallurgical testing is planned for both the residuals and core from sulfide mineralized zones below the pit and oxide copper mineralization in the vicinity of the mine. The test results will be used in an economic assessment of the property and an assessment of the merits of a possible integration of the MacArthur and Yerington operations.

The Bear porphyry deposit also remains unconstrained by drilling. Although it contains no NI 43-101 compliant resources, historical drilling has indicated a large footprint for copper mineralization that will ultimately need delineation by additional drilling.

Sampling, Analysis and Security of Samples

Tetra Tech's review of sample preparation, handling, analyses, and security procedures for the Yerington drilling and sampling program has determined that the Company's current practices meet NI 43-101 and CIM defined requirements.

Samples taken during the period from 1952 to 1979, when Anaconda operated the Yerington Mine, including samples used for the determination of mine head grades, lithology, densities, and metallurgical performance were determined by Tetra Tech to be representative of the deposit. While no details are available regarding Anaconda's exact assaying protocol and quality control during the period the Yerington copper mine was operating, public records of profit and cost confirmed that the techniques and procedures implemented conformed to industry standards for that era.

SPS explored the Yerington Mine Copper property with both RC and diamond core drilling methods. The drilling program was supervised in the field by the project geologist for monitoring recovery, proper sample handling and accuracy in labeling. Approximately 4,300 samples were collected during the 2011 program and shipped for sample analyses. The samples were analyzed for total copper (TCu), gold, and a 47 element trace element package. Samples representing oxide mineralization and acid soluble sulfide copper were also analyzed for acid soluble copper and for ferric sulfate soluble copper. Rock quality designations (RQD) and magnetic susceptibility measurements were taken on all core which was photographed following geologic logging.

The RC samples are collected in a conventional manner via a cyclone and standard wet splitter, placed in cloth bags that are pre-marked by SPS personnel at five-foot intervals and include a numbered tag inserted into a plastic bag bearing the hole number and footage interval. Collected samples, weighing approximately 15 to 20 pounds each, are wire tied and then loaded onto a ten-foot trailer with wood bed allowing initial draining and drying. Each day SPS personnel or the drillers at the end of their shift, haul the samples to SPS's secure sample preparation warehouse in Yerington, Nevada where the samples are dried, loaded on plastic lined pallets, weighed, and trucked by Skyline Assayers & Laboratories (Skyline) personnel to Skyline's sample preparation facility in Battle Mountain, Nevada. A chain of custody form accompanies all shipments from Yerington to Battle Mountain. Once Skyline preps each sample in its Battle Mountain facility, approximately 50 gram sample pulps are air-freighted to Skyline's analytical laboratory in Tucson, Arizona for analyses and assay.

Samples from the core drilling program are handled in a similar manner. Core samples with a diameter of approximately 2.75 -inches (HQ) are placed in wax-impregnated, ten-foot capacity cardboard boxes and delivered to SPS's secure sample warehouse in Yerington, Nevada by the drill crew following each 12-hour shift. The core is logged by a SPS geologist who marks appropriate sample intervals (one to nominal five feet) with colored flagging tape. Lines are marked along the length of core with red wax crayons to indicate where the core piece should be sawed. Each core box, bearing a label tag showing drill hole number, box number, and box footage interval, is then photographed. Rock quality designations (RQD), magnetic susceptibility, and recovery measurements are taken. Core is then loaded on a pallet, shrink wrapped, and secured with wire bands for trucking by Skyline personnel to Skyline's sample preparation facility in Battle Mountain, Nevada. The core is sawed in half by Skyline personnel, one half designated for sample preparation/assay, the second half placed in its core box for return to SPS. Chain of custody procedures for core shipments picked up by Skyline at the SPS core shed follow the format for RC samples.

Drilling samples from the Yerington Copper Project were analyzed by Skyline in Tucson, Arizona, which is accredited by the American Association for Laboratory Accreditation (A2LA - certificate no. 2953.01) and by ISO17025-compliant ALS Minerals Laboratories in Sparks, Nevada. SPS implements a quality assurance and quality control assay protocol whereby either one blank or one standard is inserted with every ten samples into the assay stream. Rejects from the previously analyzed samples are sent to ALS Minerals in Reno, Nevada for check assays.

Mineral Resources

Tetra Tech, Inc. of Golden, Colorado completed a NI43-101 compliant independent resource estimate and technical report for mineralization in and around the historic Yerington Mine in February 2012. Using a cutoff of 0.2% TCu, the Yerington Mine's measured and indicated primary copper resource totals 71.8 million tons averaging 0.30% TCu and contains 430 million pounds of copper. An inferred primary copper resource of 63.9 million tons averaging 0.25% TCu contains 323 million pounds of copper. Acid-soluble oxide/chalcocite mineralization includes a measured and indicated resource of 9.4 million tons averaging 0.30% TCu (57 million pounds of copper) and an inferred resource of 8.6 million tons averaging 0.28% TCu (47 million pounds of copper).

Yerington Copper Project - Measured Copper Resources – January 2012

	Cut off Grade	Tons	Average Grade	Contained Copper
	%T Cu	(x1 000)	% TCu	(lbs x 1000)
Oxide and Chalcocite Material	0.5	248	0.67	3,342
	0.4	463	0.57	5,250
	0.3	1,143	0.43	9,917
	0.25	1,754	0.38	13,253
	0.2	2,853	0.32	18,122
	0.15	4,850	0.26	25,065
	0.12	6,006	0.23	28,192
Primary Material	0.5	1,692	0.64	21,691
	0.4	4,974	0.51	50,665
	0.3	12,931	0.41	105,258
	0.25	19,160	0.36	139,446
	0.2	25,866	0.33	169,629
	0.15	31,804	0.30	190,570
	0.12	34,108	0.29	196,871

Yerington Copper Project - Indicated Copper Resources – January 2012

	Cut off Grade	To ns	Average Grade %	Contained Copper
	% TCu	(x 1000)	TCu	(lbs x 1000)
Oxide and Chalcocite Material	0.5	339	0.65	4,410
	0.4	767	0.53	8,167
	0.3	2,188	0.41	17,845
	0.25	3,809	0.35	26,701
	0.2	6,592	0.3	39,117
	0.15	10,293	0.25	52,041
	0.12	12,386	0.23	57,719
Primary Material	0.5	648	0.62	8,046

	0.4	2,946	0.48	27,993
	0.3	14,607	0.37	106,865
	0.25	27,831	0.32	179,176
	0.2	45,914	0.28	260,332
	0.15	62,089	0.26	317,399
	0.12	68,418	0.24	334,564

Yerington Copper Project - Measured + Indicated Copper Resources – January 2012

	Cut off Grade	Tons	Average Grade	Contained Copper
	% TCu	(x1000)	% TCu	(lbs x 1000)
Oxide and Chalcocite Material	0.5	588	0.66	7,765
	0.4	1,230	0.55	13,417
	0.3	3,331	0.42	27,761
	0.25	5,563	0.36	39,953
	0.2	9,445	0.3	57,237
	0.15	15,143	0.25	77,108
	0.12	18,391	0.23	85,886
Primary Material	0.5	2,340	0.64	29,737
	0.4	7,919	0.5	78,652
	0.3	27,539	0.39	212,160
	0.25	46,991	0.34	318,599
	0.2	71,781	0.3	429,968
	0.15	93,893	0.27	507,961
	0.12	102,526	0.26	531,495

	Cut off Grade	Tons	Average Grade	Contained Copper
	% TCu	(x 1000)	% TCu	(lbs x 1000)
Oxide and Chalcocite Material	0.5	209	0.58	2,407
	0.4	724	0.48	6,942
	0.3	2,226	0.39	17,167
	0.25	4,215	0.33	28,021
	0.2	8,596	0.28	47,347
	0.15	17,911	0.22	79,525
	0.12	24,703	0.2	97,873
Primary Material	0.5	68	0.61	833
	0.4	703	0.45	6,261
	0.3	9,073	0.34	61,442
	0.25	26,700	0.29	157,103
	0.2	63,918	0.25	322,530
	0.15	123,366	0.21	529,734
	0.12	160,104	0.2	629,209

Based on benchmarking of the Yerington Deposit to similar deposits, Tetra Tech has determined that reasonable base case cutoff grades for the leachable (oxide/chalcocite) SX/EW recoverable copper and for flotation recoverable primary sulfide resources are 0.12% and 0.15% TCu, respectively.

The data show that the possibility exists to expand the resource as mineralization extends beyond the limit of current drilling, particularly below the pit and on its western end.

The results of the NI 43-101-compliant resource estimate compare favorably to the noncompliant estimates of copper remaining in and around the Yerington pit after the mine shut down (K. L. Howard, Jr., Anaconda Internal Memo, 1979). The 1979 estimate contained no classification for measured, indicated, or inferred, so direct comparison can only be made when considering all classes of the current estimate.

Using the same 0.2% TCu cutoff, the Tetra Tech estimate is 127% of the total tonnage, 81% of the average grade, and 104% of the total pounds of contained copper in the 1979 Anaconda estimate of 121 million tons with an average grade of 0.34% Cu containing approximately 831 million pounds of copper. The lower grade and higher tonnage of the Tetra Tech estimate are attributed to the effects of the kriging estimation method used for modern resource estimates. A nearest neighbor model run by Tetra Tech to test the results raised the average grade of the deposit to 0.32% TCu.

The 1979 estimate cited approximately 84% of the total contained copper (696 million pounds of copper in 97.8 million tons with an average grade of 0.356% Cu) as being within the original Anaconda pit design, suggesting that a significant portion of the Yerington resource may be mined without a pushback or major changes to the upper walls of the Anaconda pit.

The current Tetra Tech resource estimate is based upon SPS's 2011 drilling as well as historic drill holes taken from scanned pages of assay and/or geologic data which were reviewed and digitally recorded by SPS personnel. The digital data entry was validated by Tetra Tech against historic sections and was considered to be compliant, based upon results of 18 twin holes and 5,446 feet of core from Anaconda holes which were assayed by SPS. The twinned drill intercepts statistically confirmed that the new compliant data support use of the historical data, as did the new core assays which were well within the expected norms for corroborating the old with new data.

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 NI 43-101 Technical Report is available at www.sedar.com. The Qualified Person for the Yerington Copper Project resource estimate and the technical report is Rex Clair Bryan, Ph.D., Sr. Geostatistician for Tetra Tech, Golden Colorado.

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 acquired a 100% interest in 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 acquisition also included 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.

A subsequent review of all the Company’s assets was conducted 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. 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 in total covered approximately 21,000 acres. The optimized land position controlled 195 VTEM anomalies that include Quaterra’s best breccia pipe targets with a maintenance cost that could 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 5.9 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 covered approximately 38 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.

On January 9, 2012, the DOI announced a Public Land Order to withdraw approximately one million acres of Federal land for a twenty year period. The stated effect of the withdrawal order is to withdraw the acreage from new mining claims and sites under the 1872 Mining Law, subject to valid existing rights and does not prohibit previously approved uranium mining, or development of new projects that could be approved on claims and sites with valid existing rights. The withdrawal order affects all 1,000 of Quaterra’s unpatented claims on federal lands but does not affect future exploration or development on the Company’s 5.9 square miles of State leases.

Expenditures to Date

Acquisition costs incurred to December 31, 2011 were $4,761,909 (2010 - $4,175,454) and exploration expenditures were $7,728,123 (2010 - $7,368,733) for a total of $ 12,490,032 (2010 - $11,544,187).

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.

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 U_3O_8 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.

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 based upon past experience of Energy Fuels. 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 cannot 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 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

On January 9, 2012, the DOI announced a Public Land Order to withdraw approximately one million acres of federal land for a twenty year period. The stated effect of the withdrawal order is to withdraw the acreage from new mining claims and sites under the 1872 Mining Law, subject to valid existing rights and does not prohibit previously approved uranium mining, or development of new projects that could be approved on claims and sites with valid existing rights.

Since the commencement of the withdrawal process in 2009, our Company has not expended material amounts of money on the Arizona uranium claims pending the withdrawal decision.

The withdrawal order affects all 1,000 of Quaterra's unpatented claims on federal lands but does not affect future exploration or development on the Company's 5.9 square miles of state leases.

On state land unaffected by the federal withdrawal, the Company has mineral exploration permits over a total of 3,781 acres. It includes 9 separate blocks that control a total of 20 breccia pipe targets including 15 high and moderate priority VTEM anomalies. Nine targets have State approved permits for drilling.

On federal land, now subject to the withdrawal order, the Company has 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 to the prospective value of the many anomalies remaining to be tested on the Company's properties.

Because 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, the DOI decision to withdraw federal lands in the district has become the subject of litigation.

The Nuclear Energy Institute, together with the National Mining Association, filed a lawsuit in U.S. Federal District Court in Arizona on February 27, 2012 seeking to reverse the withdrawal order. The lawsuit argues that the DOI "lacks legal authority to make withdrawals of public lands exceeding 5,000 acres" and that the land withdrawal is an "arbitrary agency action" under the Administrative Procedure Act.

The Northwest Mining Association filed a separate complaint on March 6, 2012 relating to violations of the Federal Land Policy and Management Act (FLPMA), the National Forest Management Act (NFMA), NEPA and the unconstitutional violation of the Presentment Clause of the U.S. Constitution. The complaint requests the Federal District Court in Arizona to declare the DOI's actions: "(a) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; (b) contrary to constitutional right, power, privilege, or immunity; (c) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right; and/or (d) without observance of procedure required by law."

Additional litigation is in pending by the Arizona Utah Local Economic Coalition (Coalition), which includes Mohave County, Arizona and Washington, Kane and San Juan Counties, Utah, as co-plaintiffs. The Coalition complaint is expected to focus on the failure of the BLM to coordinate with County governments in the FEIS process.

The stated effect of the withdrawal order is to withdraw the acreage from new mining claims and sites under the 1872 Mining Law, subject to valid existing rights and does not prohibit previously approved uranium mining, or development of new projects that could be approved on claims and sites with valid existing rights. Quaterra has fully bonded and approved Notices of Intent to continue development of 34 targets on withdrawn land.

Quaterra has retained legal counsel to advise upon its appropriate remedies related to the withdrawal order. The Company considers it premature to judge the effect of the decision on our Federal mining claims until the BLM clarifies the issues of "valid existing rights" which exclude mineral claims from the effect of the withdrawal. Quaterra's exploration and development efforts have enhanced several claims to the category where Quaterra believes they could be developed based upon existing rights.

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% U_3O_8. 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.

Other Properties

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

Copper +/- gold: Yerington District (Wassuk, Missouri Flats, Copper Canyon), Reveille and Goldfield East 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, Microondas, El Calvo);

Molybdenum: Cave Peak, Texas;

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 have been minimal.

RISK FACTORS

Investing in the Company's common stock involves a high degree of risk. Before deciding to purchase, hold or sell the Company's common stock, you should carefully consider the risks described below in addition to the cautionary statements and risks described elsewhere and the other information contained in this AIF and in the Company's other filings with securities regulatory authorities. The risks and uncertainties described below are not the Company's only ones. Additional risks and uncertainties not presently known to the Quaterra or that Quaterra currently deems immaterial may also impair the Company's business operations. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Quaterra, the Company's business, financial condition, results of operations and/or liquidity could be seriously harmed, which could cause the Company's actual results to vary materially from recent results or from the Company's anticipated future results. In addition, the trading price of the Company's common stock could decline due to any of these known or unknown risks or uncertainties, and you could lose all or part of your investment.

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, 2011, the Company had working capital of $10,877,580. 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 $11,264,539 for the year ended December 31, 2011; $2,769,248 for the year ended December 31, 2010 and $15,466,358 for the year ended December 31, 2009. As of December 31, 2011, the Company had an accumulated deficit of $58,127,628. 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 NI 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.

Mineral resource estimates are subject to updates which may differ from prior estimates and adversely affect the value of the Company's properties.

The estimating of mineralization is a subjective process and the accuracy of estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting engineering and geological information. There is significant uncertainty in any mineralization estimate, and the actual deposits encountered and the economic viability of mining a deposit may differ significantly from our estimates. From time to time, Quaterra obtains updated resource estimates and technical reports related to the Company's mineral properties. For example, as of the date of this AIF, Caracle Creek International Consulting, Inc. is conducting work to update its technical reports and resource estimates prepared in 2009 and 2010 relating to the Nieves silver project. Subsequent work performed to estimate mineralization may be unable to confirm previous estimates and may result in different estimates. As a result, future technical reports may adversely differ from previous estimates and negatively affect the value of Quaterra's mineral properties.

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. 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.

The Company's Arizona uranium claims are subject to a U.S. government order withdrawing new mining claims.

On January 9, 2012, the U.S. Department of the Interior announced a Public Land Order to withdraw approximately one million acres of federal land for a twenty year period. The stated effect of the withdrawal order is to withdraw the acreage from new mining claims and sites under the 1872 Mining Law, subject to "valid existing rights" and does not prohibit previously approved uranium mining, or development of new projects that could be approved on claims and sites with "valid existing rights." The withdrawal order affects all of the Company's unpatented Arizona uranium claims on federal lands but does not affect future exploration or development on the Company's 5.9 square miles of state leases in Arizona. Some of the Company's mineral claims on federal lands may be excluded from the withdrawal order depending on how the U.S. Bureau of Land Management interprets and applies "valid existing rights." The Company believes that its exploration and development efforts have enhanced several of claims to the point where they could be developed based upon existing rights. The withdrawal order is subject to various litigation by third parties. Unless it is revoked or overturned, the withdrawal may inhibit the Company's ability to implement its strategy for and adversely affect the value of the Arizona uranium claims.

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, 2012, there were 152,394,949 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, 2011:

Exercise Price	Date	December 31, 2011	December 31, 2010
$ 0.98	November 9, 2014	1,750,000	2,145,000
$ 1.00	May 19, 2011	-	50,000
$ 1.02	November 9, 2014	2,100,000	2,185,000
$ 1.12	June 12, 2011	-	100,000
$ 1.29	August 9, 2015	1,685,000	2,095,000
$ 1.50	September 25, 2011	-	100,000
$ 1.51	November 3, 2015	100,000	100,000
$ 1.55	October 6, 2015	65,000	65,000
$ 1.55	July 28, 2011	-	1,364,000
$ 1.55	August 23, 2011	-	100,000
$ 1.60	March 24, 2016	355,000	-
$ 1.76	April 22, 2015	200,000	200,000
$ 1.80	April 1, 2015	100,000	100,000
$ 2.00	January 14, 2015	40,000	120,000
$ 3.30	June 19, 2013	905,000	945,000
$ 3.33	July 20, 2012	775,000	805,000
$ 3.45	March 31, 2013	150,000	150,000
$ 1.25	August 9, 2016	2,935,000	-
$ 0.90	October 24, 2016	300,000	-
Total stock option outstanding		11,460,000	10,624,000
Total stock option exercisable		11,158,333	10,457,333

Share Purchase Warrants

The following summarizes information about the warrants outstanding at December 31, 2011:

Expiry Date	**Exercise Price**	**December 31, 2010**	**December 30, 2011**
September 29, 2011	$ 0.75	7,978,540	-
October 28, 2011	$ 0.75	4,844,674	-
February 4, 2012	$ 1.76	1,500,709	1,500,709
October 27, 2012	$ 1.90	5,862,100	5,862,100
February 7, 2013	$ 2.27	-	1,646,703
		20,186,023	**9,009,512**

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, 2011:

TSX Venture Exchange (CDN)			
Month	*High*	*Low*	*Volume*
January	*2.08*	*1.72*	*1,085,400*
February	*1.99*	*1.74*	*635,100*
March	*1.90*	*1.52*	*1,526,300*
April	*1.47*	*1.39*	*1,508,800*
May	*1.73*	*1.32*	*453,200*
June	*1.36*	*1.10*	*498,200*
July	*1.61*	*1.10*	*653,900*
August	*1.39*	*1.11*	*344,200*
September	*1.25*	*0.84*	*2,736,000*
October	*0.94*	*0.68*	*1,067,800*
November	*0.93*	*0.70*	*325,900*
December	*0.76*	*0.54*	*764,900*

NYSE Amex (USD)			
Month	*High*	*Low*	*Volume*
January	*2.21*	*1.75*	*5,912,500*
February	*2.04*	*1.75*	*3,136,600*
March	*1.97*	*1.50*	*4,217,700*
April	*1.84*	*1.50*	*3,800,300*
May	*1.75*	*1.35*	*3,212,800*
June	*1.41*	*1.10*	*2,606,800*
July	*1.55*	*1.14*	*4,093,600*
August	*1.45*	*1.10*	*2,612,500*
September	*1.31*	*0.81*	*2,693,300*
October	*0.96*	*0.67*	*5,536,200*
November	*0.92*	*0.67*	*2,049,200*
December	*0.76*	*0.51*	*5,146,700*

Escrowed Securities

As at the date of this AIF the Company has no escrowed securities.

Name, Occupation, and Experience

The following table sets forth all current directors and executive officers as of the date of this AIF. (March 30, 2012)

Name, Jurisdiction of Residence and Position with the Company	Principal Occupation, Business or Employment	Director or Officer 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	190,626
Thomas C. Patton(3) Washington, USA President, CEO and Director	President of the Company	Since 1998	3,216,662
Robert Gayton(1) (2) British Columbia, Canada Director	Financial Consultant	Since 1997	140,023
John Kerr(1)(2)(3) British Columbia, Canada Director	Geological Engineer	Since 1993	43,334
Lawrence Page, Q.C. (3) British Columbia, Canada Corporate Secretary and Director	Lawyer	Since 1995	25,500
Eugene Spiering British Columbia, Canada Vice President, Exploration and Director	Vice President, Exploration of the Company	Since 2006	235,790
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	304,094
Gerald Prosalendis British Columbia, Canada Vice President Corporate Development	Vice President Corporate Development	Since 2010	18,451

Steven Dischler Vice President and General Manager Yerington District- Quaterra Resources Inc. and Singatse Peak Services LLC	Engineer, General Manager – Quaterra Resources Inc and Singatse Peak Services LLC	Since 2011	2,500
Anthony Walsh West Vancouver, Director	Retired	Since 2012	Nil

Notes:
1. Denotes member of the Audit Committee
2. Denotes member of the Corporate Governance Nomination and Compensation Committee
3. Denotes member of the Safety, Health, Environment and Security 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 Price Waterhouse Coopers). 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 nine companies: Amerigo Resources Ltd.; Nevsun Resources Ltd.; Eastern Platinum Limited; Western Copper and Gold.; Silvercorp Metals Inc.; B2Gold Corp; LNG Energy Ltd: Copper North Mining Corporation and North Isle Copper and Gold 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 Bravada Gold Corporation. 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 30 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 the El Valle and Corcoesto gold deposits and completed the final definition of the Carles and Salave gold deposits and the Aguablanca 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 he participated in the discovery of the Arizona 1 and Hermit uranium deposits. His responsibilities with Energy Fuels included drilling supervision, geologic mapping, and ore reserve calculations related to uranium exploration in northern Arizona and gold exploration in the 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 is a Fellow member of the Australasian Institute of Mining and Metallurgy.

LeRoy Wilkes

Mr. Wilkes was President of Washington Group International's mining business unit where he was responsible for the operating and financial performance of the unit's international operations in the coal, metals and industrial minerals markets. He has 37 years of mining experience in the precious metals, coal industrial metals, and base metals mining and processing. Prior to joining the Washington Group, Mr. Wilkes served as executive vice-president and chief operating officer of Santa Fe Pacific Gold Corporation of Albuquerque, New Mexico from 1988 to 1995. Mr. Wilkes also previously served as executive vice-president of Washington Corporation of Missoula, Montana, responsible for merger and acquisition activities. He earlier served as vice-president and general manager of Kennecott Ridgeway Mining Company of Ridgeway, South Carolina, and director of business development of Anaconda Minerals Co. of Denver, Colorado. He has held management and supervisory positions at surface and underground mines producing molybdenum, copper, limestone, lead silver and zinc. Mr. Wilkes has a degree in mining engineering from the Montana School of Mines. 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. Currently, Mr. Hean is director and past chair of the audit committee for Sabina Gold Corp., a TSX listed company and a director of Southern Silver Exploration Corp., Bravo Gold Corp., and Duncastle Gold Corp., all TSX-Venture listed companies. He has been CFO of the Company since 2006. Previously he 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. 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 internationally renowned 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. 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. 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.

Steve Dischler, P.E.

Mr. Dischler graduated from the University of Wisconsin in 1981 (BS) and from the University of Arizona in 1984 (MS). Both of his degrees are in Mining Engineering. From 2007 through 2011, Mr. Dischler was a Project General Manager and Strategy Manager for a global oil company, BP. In his roles at BP he was responsible for managing major capital projects up to $250MM (US) and for managing a portfolio of legacy mining sites across the western US for the company. In prior roles Mr. Dischler was a consultant for 25 years which included permitting and development of major mining sites at numerous locations in the US. Mr. Dischler is a registered Professional Engineer in 8 states and has been a member of the Society of Mining Engineers since 1978

Anthony (Tony) Walsh

Mr. Walsh graduated from Queen's University (Canada) in 1973 and became a member of The Canadian Institute of Chartered Accountants in 1976. Mr. Walsh has over 20 years experience in the field of exploration, mining and development. From 2008 to 2011, Mr. Walsh was President & CEO and a Director of Sabina Gold & Silver Corp. From 1995 to 2007, Mr. Walsh was President and Chief Executive Officer of Miramar, from 1993 to 1995 was the Senior Vice-President and Chief Financial Officer of a computer leasing company and from 1989 to 1992 was Chief Financial Officer and Senior Vice-President, Finance of International Corona Resources Ltd., a gold producer Mr. Walsh is currently Chairman of Stornoway Diamonds Ltd. and serves as a director of several other public companies, namely: Sabino Gold and Silver Ltd., Dunav Resources Ltd. and Avala Resources Ltd.

Control of Securities

The Company's directors and senior officers as a group beneficially own, directly or indirectly, or exercise control or direction over 4,282,408 of the voting securities of the Company as of March 30, 2012.

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.

LeRoy E. Wilkes, a director of Copper Mesa Mining Corporation which had a cease trade order issued against it on April 8, 2009 for failure to file its annual financial statements, accompanying management's discussion and analysis and annual information form (collectively, the "Annual Filings") for its financial year ended December 31, 2008. On June 3, 2009 the British Columbia Securities Commission revoked the cease trade order as the Annual Filings had been filed.

Other than disclosed above, no director or executive office of the Company is, as at March 31, 2012 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 31, 2012 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.

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.

LEGAL PROCEEDINGS

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

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

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

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 $15,500 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, 2011 the Company paid $514,577 to Manex. On February 9, 2012, the Company renewed its service agreement with Manex for its Vancouver office for a monthly fee of $19,250 effective June 30, 2012 and expiring August 31, 2017.

INTERESTS 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 NI 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 27, 2012, in respect of the Company's consolidated financial statements for the years ended December 31, 2011 and 2010 and the Company's Internal Control over Financial Reporting as at December 31, 2011 ;
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.
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 17, 2010 - "Independent Technical Report The Nieves Silver Project Zacatecas State, Mexico"
Rex Clair Bryan, Ph.D, Senior Geostatistician, Tetra Tech, Inc.	Technical Report dated February 17, 2012 titled 43-101 Mineral Resource, Yerington Copper Project, Lyon County, Nevada

To the best of Quaterra's knowledge, neither Tetra Tech, Inc., Caracle Creek International Consulting Inc., nor Rex Clair Bryan 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 NI 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, 2011	$113,500	$nil	$2,800	$nil	$116,300
December 31, 2010	$123,500	$4,000	$2,800	NIL	$130,300

(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 "Audit Fees" column.

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, 2011 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, 2011

(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

The management of Quaterra Resources Inc. is responsible for the integrity and fair presentation of the financial information contained in this annual report. Where appropriate, the financial information, including consolidated financial statements, reflects amounts based on management's best estimates and judgments. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. Financial information presented elsewhere in the annual report is consistent with that disclosed in the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has established and maintains a system of internal accounting control designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, financial information is reliable and accurate and transactions are properly recorded and executed in accordance with management's authorization. This system includes established policies and procedures, the selection and training of qualified personnel and an organization providing for appropriate delegation of authority and segregation of responsibilities. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management has a process in place to evaluate internal control over financial reporting based on the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this assessment, management has concluded that as at December 31, 2011, the Company's internal control over financial reporting was effective.

The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee, which is composed entirely of independent directors. The Audit Committee meets periodically with management and the independent auditors to review the scope and results of the annual audit and to review the financial statements and related financial reporting and internal control matters before the financial statements are approved by the Board of Directors and submitted to the Company's shareholders.

Smythe Ratcliffe LLP, an independent registered public accounting firm, appointed by the shareholders, has audited the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and has expressed its opinion in the independent auditors' report. The effectiveness of the Company's internal control over financial reporting as at December 31, 2011 has also been audited by Smythe Ratcliffe LLP, and their opinion is included in their report.

Thomas C. Patton
President and Chief Executive Officer

Scott Hean
Chief Financial Officer

March 27, 2012
Vancouver, British Columbia, Canada

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., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits 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, 2011, December 31 2010 and January 1, 2010, and its results of operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

Other Matter
We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal controls over financial reporting as at December 31, 2011, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations for the Treadway Commission (COSO) and our report dated March 27, 2012 expresses an unqualified opinion on Quaterra Resources Inc.'s internal control over financial reporting.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 27, 2012

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

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, 2011 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, 2011, 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 International Financial Reporting Standards as issued by the International Accounting Standards Board and the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of the Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and the related consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and our report dated March 27, 2012 expressed an unqualified opinion.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 27, 2012

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Quaterra Resources Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2011	December 31, 2010 (Note 17)	January 1, 2010 (Note 17)
Assets				
Current assets:				
Cash and cash equivalents		$ 12,147,321	$ 18,212,215	$ 4,795,220
Restricted cash		94,638	45,752	-
Amounts due from Exploration Partners	6 (p)&(q)	240,222	878,770	251,904
Taxes and other receivables		15,498	60,882	8,906
Prepaid and deposits		257,488	253,036	177,603
		12,755,168	19,450,655	5,233,633
Non-current assets:				
Marketable securities	4	27,667	61,667	26,000
Taxes and other receivables		919,315	247,105	51,417
Reclamation bonds		519,092	397,483	306,670
Equipment	5	348,795	218,343	163,094
Mineral properties	6	59,040,786	45,085,670	36,091,683
		60,855,655	46,010,268	36,638,864
Total assets		**$ 73,610,822**	**$ 65,460,923**	**$ 41,872,497**
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities		$ 1,829,704	$ 855,343	$ 628,750
Due to related parties	10	47,884	41,225	250,637
Derivative liability - warrants		-	-	8,477,944
		1,877,588	896,568	9,357,331
Shareholders' Equity				
Share capital	7	111,923,521	95,800,950	63,168,843
Share-based payment reserve		17,988,540	15,643,693	13,453,030
Accumulated other comprehensive loss		(51,199)	(17,199)	(12,866)
Deficit		(58,127,628)	(46,863,089)	(44,093,841)
		71,733,234	64,564,355	32,515,166
Total liabilities and shareholders' equity		**$ 73,610,822**	**$ 65,460,923**	**$ 41,872,497**

Approved on behalf of the
Board of Directors:

"Thomas Patton" (signed)
Thomas Patton

"Robert Gayton" (signed)
Robert Gayton

(See the accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

	Note	Years ended December 31, 2011	2010 (Note 17)
General administrative expenses			
Administration and general office expense		$ 701,670	$ 579,032
Consulting		644,757	369,779
Depreciation		149,810	95,184
Directors' fees		110,294	113,240
Investor relations and communications		309,110	274,827
Personnel costs		1,152,792	833,372
Professional fees		429,889	473,532
Share-based payments	8 (a)	2,846,707	2,251,258
Transfer agent and regulatory fees		149,580	157,205
Travel and promotion		203,086	134,443
Loss before other (expenses) income		(6,697,695)	(5,281,872)
Other (expenses) income			
Exploration partner administration income		181,417	155,639
Foreign exchange loss		(189,877)	(324,828)
Fair value gain on derivative liability		-	4,037,184
Gain on sale of mineral property		-	50,000
General exploration costs		(506,297)	(794,571)
Impairments	6 (o)	(4,183,224)	(622,121)
Interest income		169,662	11,321
Write-off of equipment		(38,525)	-
		(4,566,844)	2,512,624
Net loss for the year		(11,264,539)	(2,769,248)
Unrealized loss on marketable securities		(34,000)	(4,333)
Comprehensive loss for the year		$ (11,298,539)	$ (2,773,581)
Loss per share - basic and diluted		$ (0.08)	$ (0.02)
Weighted average number of common shares outstanding		144,227,216	122,095,093

(See the accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended December 31, 2011	2010 (Note 17)
Operating activities		
Net loss for the year	$ (11,264,539)	$ (2,769,248)
Items not involving cash:		
Depreciation	149,810	95,184
Fair value gain on derivative liability	-	(4,037,184)
Foreign exchange (gain) loss	22,210	(23,689)
Gain on sale of mineral property	-	(50,000)
Impairments	4,183,224	622,121
Share-based payments	2,846,707	2,251,258
Shares issued for services	90,000	90,000
Write-off of equipment	38,525	-
	(3,934,063)	(3,821,558)
Changes in non-cash working capital		
Taxes and other receivables	(626,826)	(247,664)
Prepaid and deposits	(4,452)	(75,433)
Accounts payable and accrued liabilities	181,646	15,551
Due to related parties	6,659	(209,412)
Cash used in operating activities	(4,377,036)	(4,338,516)
Financing activity		
Shares issued for cash, net of issue costs	15,530,711	27,685,252
Cash provided by financing activity	15,530,711	27,685,252
Investing activities		
Expenditures on mineral properties, net of recoveries	(17,345,625)	(9,049,566)
Due from Exploration Partners	638,548	(626,866)
Purchase of equipment	(318,787)	(150,433)
Reclamation bonds	(143,425)	(90,813)
Proceeds from sale of mineral property	-	10,000
Restricted cash	(48,886)	(45,752)
Cash used in investing activities	(17,218,175)	(9,953,430)
Effect of foreign exchange on cash	(394)	23,689
(Decrease) increase in cash and cash equivalents during the year	(6,064,894)	13,416,995
Cash and cash equivalents, beginning of year	18,212,215	4,795,220
Cash and cash equivalents, end of year	$ 12,147,321	$ 18,212,215

Supplemental Cash Flow Information (Note 11)

(See accompanying notes to consolidated financial statements)

Quaterra Resources Inc.
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Common Shares		Share-based	Accumulated Other		
	Shares	Amount	payment reserve	Comprehensive Loss	Deficit	Total
Balance at January 1, 2010 (Note 17)	111,459,371	$ 63,168,843	$ 13,453,030	$ (12,866)	$ (44,093,841)	$ 32,515,166
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
Common shares issued for services	74,686	90,000				90,000
Common shares issued for mineral property	250,000	355,500				355,500
Fair value of compensation options		(533,480)	533,480			-
Fair value of options and warrants exercised		594,075	(594,075)			-
Fair value of derivative liability - warrants exercised		4,440,760				4,440,760
Share-based payments			2,251,258			2,251,258
Unrealized loss on available-for-sale marketable securities				(4,333)		(4,333)
Net loss for the year					(2,769,248)	(2,769,248)
Balance at December 31, 2010 (Note 17)	136,464,161	95,800,950	15,643,693	(17,199)	(46,863,089)	64,564,355
Common shares issued during the year:						
Shares issued for cash, net of issue costs	3,293,407	5,918,882				5,918,882
Exercise of options	654,500	723,405				723,405
Exercise of warrants	11,851,232	8,888,424				8,888,424
Common shares issued for services	89,983	90,000				90,000
Fair value of options and warrants exercised		501,860	(501,860)			-
Share-based payments			2,846,707			2,846,707
Unrealized loss on available-for-sale marketable securities				(34,000)		(34,000)
Net loss for the year					(11,264,539)	(11,264,539)
Balance at December 31, 2011	**152,353,283**	**$ 111,923,521**	**$ 17,988,540**	**$ (51,199)**	**$ (58,127,628)**	**$ 71,733,234**

(See the accompanying notes to consolidated financial statements)

1. Nature of operations

Quaterra Resources Inc., ("Quaterra" or "the Company"), is engaged in the acquisition and exploration of precious and base metal mineral properties in the United States and Mexico. Quaterra is a publicly listed company incorporated in Canada under the *Business Corporations Act* (British Columbia). The Company's shares are listed on the Toronto Stock Exchange – Venture ("QTA") and the New York Stock Exchange – Amex ("QMM").

The head office, principal address and records office of the Company are located at 1100 – 1199 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5. The Company's registered office is 950 - 1100 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3T5.

The Company is in the process of exploring its mineral properties and has not yet determined whether its mineral properties contain economically recoverable mineral reserves. The underlying value and the recoverability of the amounts recorded as mineral properties is entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete its acquisition, exploration and development of its mineral properties or receive proceeds from joint venture partners' contributions. The carrying value of the Company's mineral properties does not reflect current or future values.

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company believes that it has sufficient funds to continue operations for at least the next twelve months.

2. Basis of presentation and consolidation

These consolidated financial statements, including comparatives, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The disclosures concerning the transition from Canadian generally accepted accounting principles ("GAAP") to IFRS are included in Note 17.

Subject to certain transition elections disclosed in Note 17, the Company has consistently applied the same accounting policies in its opening IFRS Statement of Financial Position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

These consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). The wholly-owned subsidiaries included *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 intercompany transactions and balances have been eliminated.

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale and derivative financial liability, which have been stated at their fair values. These consolidated financial statements are presented in Canadian dollars, the Company's functional currency.

3. Significant accounting policies

The Board of Directors approved the consolidated financial statements on March 27, 2012. The significant accounting policies used in the preparation of these consolidated financial statements are described below:

a) Mineral properties

The cost of acquiring mineral properties and related exploration and development costs are deferred on an individual area of interest basis until the properties are placed into production, sold or determined to be impaired. Once a licence to explore an area has been secured, directly attributable expenditures on exploration and evaluation activities are capitalized to mineral properties. Costs incurred to acquire an interest in a mineral property are capitalized as a mineral property acquisition cost. Costs incurred prior to obtaining the right to explore are expensed as incurred.

Management reviews the carrying value of capitalized acquisition and exploration costs at least annually to consider whether there are any conditions that may indicate impairment. The impairment review is based on the exploration and evaluation results to date and the Company's intentions for development or sale of the mineral property.

b) Cash and cash equivalents

Cash and cash equivalents includes deposits in banks and 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.

c) Marketable securities

Marketable securities 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 (loss), while realized gains or losses are reflected in net income (loss).

d) Foreign currency translation

Items included in the financial statements of each consolidated entity in the Quaterra group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities are translated at exchange rates prevailing at each reporting date. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined.

3. Significant accounting policies, continued

d) Foreign currency translation, continued

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in net income (loss).

e) Equipment

Equipment is measured at cost less accumulated depreciation and impairment losses. Cost comprises expenditures that are directly attributable to the acquisition of the asset. Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of the equipment, and are recognized net within other items in net income (loss).

Depreciation is calculated over the estimated useful life of the assets using the declining-balance method at an annual rate of 30% for vehicle and field equipment, and up to 75% for computer equipment.

f) Revenue recognition

Revenue comprises interest income and administration fees from exploration partners, which are recognized when earned and collection is reasonably assured.

g) 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.

h) Use of judgments and estimates

The Company makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. Significant areas requiring the use of management estimates relate to depreciation of equipment, the determination of the recoverability of mineral property costs, the recoverability of deferred tax assets, the determination of environmental restoration, and the assumptions about the variables used in the calculation of share-based payments and derivative instruments. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

3. Significant accounting policies, continued

i) Share-based payments

The Company has a stock option plan that is described in Note 8. Share-based payments to employees are measured at the fair value of the equity instruments issued and are amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of the goods or services cannot be reliably measured), and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payment reserve. If and when the stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

j) Income tax

Income tax comprises current and deferred tax. Income tax is recognized in net income (loss), except to the extent related to items recognized directly in equity or in other comprehensive loss.

Deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

k) 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 announcement of the placement and the balance, if any, is allocated to the attached warrants. Share issuance costs are netted against share proceeds.

l) Income (loss) per share

Basic income (loss) per share is calculated using the weighted average number of common shares outstanding during the period. 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 income 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.

3. Significant accounting policies, continued

m) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss ("FVTPL"): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are recorded in net income (loss) in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current except if they are expected to be realized beyond twelve months of the statement of financial position date, where they are classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company's available-for-sale assets are marketable securities.

Available-for-sale investments are recognized at fair value and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as non-current, unless management expects to dispose of them within twelve months.

(iii) Loans and receivables: loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

(iv) Financial liabilities at amortized cost: financial liabilities at amortized cost include accounts payable and accrued liabilities and due to related parties. They are initially recognized on the trade date at fair value when the Company becomes a party to the contractual provisions of the instrument and derecognized when its contractual obligations are discharged or cancelled, or they expire.

3. Significant accounting policies, continued

m) Financial instruments, continued

(v) Derivative financial instruments: the Company's warrants that have an exercise price denominated in U.S. dollars are treated as derivative liabilities at fair value determined using the Black-Scholes option pricing model. Changes in fair values have been recorded as gains or losses in net income (loss).

n) Future accounting changes

IFRS 9 *Financial Instruments* ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces multiple category and measurement models in IAS 39 *Financial Instruments – Recognition and Measurement* for debt instruments with a new mixed measurement model having only two categories: amortized cost and FVTPL. IFRS 9 also replaces the models for measuring equity instruments, and such investments are either recognized at FVTPL or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at FVTPL would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard and amendments or determined whether it will adopt the standard early.

On May 12, 2011, the IASB issued the following statements:

(i) IFRS 10 *Consolidated Financial Statements* ("IFRS 10") (see further details below)
(ii) IFRS 11 *Joint Arrangements* ("IFRS 11") (see further details below)
(iii) IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") (see further details below)
(iv) IAS 27 *Separate Financial Statements* (revised 2011) ("IAS 27") has been amended for issuance of IFRS 10 while maintaining the current guidance for separate financial statements
(v) IAS 28 *Investments in Associates* (revised 2011) ("IAS 28") has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of these standards has an effective date for annual periods beginning on or after January 1, 2013. Early adoption of any of these standards is permitted only if the other standards are also adopted early. The Company has not yet assessed the impact of these standards and amendments or determined whether it will adopt them early.

3. Significant accounting policies, continued

n) Future accounting changes, continued

(i) IFRS 10 establishes control as the single basis for consolidation of entities, regardless of the nature of the investee. An entity has control over an investee when it has power over it; it is exposed, or has the rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect those returns. IFRS 10 replaces IAS 27's guidance that addresses when and how an investor should prepare consolidated financial statements and replaces all of SIC-12.

(ii) IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and the obligations for the liabilities. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The determination of whether a joint arrangement constitutes a joint operation or a joint venture is based on the parties' rights and responsibilities under the arrangement and thus the existence of a separate legal vehicle is no longer the main factor in making such determination. Joint ventures will be accounted for using the equity method of accounting thereby eliminating the option available under existing IFRS to use either the proportionate consolidation method or the equity method. Joint operations are accounted for by a venture by recognizing its share of the assets, liabilities, revenues and expenses of the joint operation.

(iii) IFRS 12 sets out the required disclosures relating to an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that enable users of its financial statements to assess the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial statements.

IFRS 13 *Fair Value Measurement* ("IFRS 13") was issued on May 12, 2011 and establishes a single framework for measuring fair value where it is required by other standards. IFRS 13 applies to all transactions (whether financial or non-financial) for which IFRS requires or permits fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2

Share-based Payment and leasing transactions within the scope of IAS 12 *Leases*, and measurements that have some similarities to fair value but are not fair value such as net realizable value under IAS 2 *Inventories* or value in use under IAS 36 *Impairment of Assets*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price).

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

3. Significant accounting policies, continued

n) Future accounting changes, continued

On June 16, 2011, the IASB issued *Presentation of Items of Other Comprehensive Income* (amendments to IAS 1, *Presentation of Financial Statements*). The amendments require the grouping of items presented in other comprehensive income into items that might be reclassified to profit or loss in subsequent periods and items that will not be reclassified to profit or loss in subsequent periods. The amendments are effective for annual periods beginning on or after July 1, 2012, with full retrospective application. The adoption of this standard will impact the presentation of the statement of other comprehensive income from the date of adoption; the Company has not determined whether it will adopt the standard early.

4. Marketable securities

The following table presents the fair value of the Company's shares of Redtail Metals Corp. (formerly Copper Ridge Exploration Inc.) ("Redtail") and Auramex Resource Corp. ("Auramex")

	December 31, 2011				December 31, 2010			January 1, 2010
	Number of shares	Cost	Accumulated unrealized losses	Carrying value	Cost	Accumulated unrealized gains (losses)	Carrying value	Carrying value
Redtail	666,667	$ 38,866	$ (26,199)	$ 12,667	$ 38,866	$ (22,199)	$ 16,667	$ 26,000
Auramex	1,000,000	40,000	(25,000)	15,000	40,000	5,000	45,000	-
		$ 78,866	$ (51,199)	$ 27,667	$ 78,866	$ (17,199)	$ 61,667	$ 26,000

The fair value of these marketable securities has been determined by reference to their closing quoted share price at the reporting date.

5. Equipment

	Computer equipment	Field Equipment	Vehicles	Total
Cost				
Balance, January 1, 2010	$ 97,348	$ 81,714	$ 215,732	$ 394,794
Additions during the year	-	11,937	138,496	150,433
Balance, December 31, 2010	97,348	93,651	354,228	545,227
Additions during the year	50,683	81,219	186,885	318,787
Disposals	-	-	(59,498)	(59,498)
Balance, December 31, 2011	$ 148,031	$ 174,870	$ 481,615	$ 804,516
Accumulated depreciation				
Balance, January 1, 2010	$ 76,648	$ 46,788	$ 108,264	$ 231,700
Depreciation for the year	17,060	16,891	61,233	95,184
Balance, December 31, 2010	93,708	63,679	169,497	326,884
Depreciation for the year	19,006	32,174	98,630	149,810
Disposals	-	-	(20,973)	(20,973)
Balance, December 31, 2011	$ 112,714	$ 95,853	$ 247,154	$ 455,721
Carrying value				
At January 1, 2010	$ 20,700	$ 34,926	$ 107,468	$ 163,094
At December 31, 2010	$ 3,640	$ 29,972	$ 184,731	$ 218,343
At December 31, 2011	$ 35,317	$ 79,017	$ 234,461	$ 348,795

6. Mineral properties

The total deferred acquisition and exploration costs of mineral properties for December 31, 2011 and December 31, 2010 were as follows:

	United States					Mexico		Total
Mineral Properties	**MacArthur Copper**	**Yerington Copper**	**Alaska**	**Uranium Properties**	**Other Properties**	**Nieves**	**Other Properties**	
Acquisition								
Balance, December 31, 2010	$ 1,731,500	$ 2,100,233	$ 276,933	$ 4,458,996	$ 2,165,930	$ 1,472,896	$ 1,267,888	$ 13,474,376
Additions during the year	627,034	703,673	6,644	302,913	1,075,462	63,063	489,238	3,268,027
Impairments	-		(163,220)	-	(856,932)	-	-	(1,020,152)
Recovery - Goldcorp	-	-	-	-	-	-	(19,204)	(19,204)
Balance, December 31, 2011	2,358,534	2,803,906	120,357	4,761,909	2,384,460	1,535,959	1,737,922	15,703,047
Exploration								
Balance, December 31, 2010	10,820,796	839,354	2,415,742	7,611,207	1,005,545	2,780,131	6,138,519	31,611,294
Geological	911,405	636,992	134,021	99,946	208,468	180,940	1,484,410	3,656,182
Geophysical	172,171	75,661	108,182	-	282,868	12,556	583,421	1,234,859
Geochemical	1,045,297	323,472	10,032	27	17,268	143,686	390,895	1,930,677
Drilling	3,703,192	1,128,462	162,549	-	128,770	718,257	1,914,623	7,755,853
Technical studies	61,995	232,696	1,965	12,075	-	59,112	41,006	408,849
Other	429,512	386,527	-	4,868	4,929	25,357	263,851	1,115,044
Additions during the year	6,323,572	2,783,810	416,749	116,916	642,303	1,139,908	4,678,206	16,101,464
Impairments	-	-	(2,278,372)	-	(884,700)	-	-	(3,163,072)
Recovery - Goldcorp	-	-	-	-	-	-	(1,211,947)	(1,211,947)
Balance, December 31, 2011	17,144,368	3,623,164	554,119	7,728,123	763,148	3,920,039	9,604,778	43,337,739
Total acquisition and exploration December 31, 2011	**$ 19,502,902**	**$ 6,427,070**	**$ 674,476**	**$ 12,490,032**	**$ 3,147,608**	**$ 5,455,998**	**$ 11,342,700**	**$ 59,040,786**

6. Mineral properties, continued

	United States					Mexico		Total
Mineral Properties	**MacArthur Copper**	**Yerington Copper**	**Alaska**	**Uranium Properties**	**Other Properties**	**Nieves**	**Other Properties**	
Acquisition								
Balance, January 1, 2010	$ 1,069,819	$ 1,659,336	$ 275,707	$ 3,951,141	$ 2,171,767	$ 1,413,183	$ 795,977	$ 11,336,930
Additions during the year	661,681	440,897	1,226	507,855	547,672	59,713	545,000	2,764,044
Impairments	-	-	-	-	(553,509)	-	-	(553,509)
Recoveries	-	-	-	-	-	-	(73,089)	(73,089)
Balance, December 31, 2010	1,731,500	2,100,233	276,933	4,458,996	2,165,930	1,472,896	1,267,888	13,474,376
Exploration								
Balance, January 1, 2010	8,299,960	739,824	2,410,713	7,391,365	373,651	2,017,463	3,521,777	24,754,753
Geological	818,559	40,762	4,489	146,931	320,283	130,028	929,677	2,390,729
Geophysical	11,741	-	540	3,740	8,938	128,440	1,177,042	1,330,441
Geochemical	406,841	488	-	2,474	51,942	84,744	236,425	782,914
Drilling	1,053,838	-	-	-	299,093	362,299	1,473,420	3,188,650
Technical studies	25,560	22,750	-	50,328	-	36,545	51,064	186,247
Other	204,297	35,530	-	16,369	20,250	20,612	140,101	437,159
Additions during the year	2,520,836	99,530	5,029	219,842	700,506	762,668	4,007,729	8,316,140
Impairments	-	-	-	-	(68,612)	-	-	(68,612)
Recovery - Goldcorp	-	-	-	-	-	-	(1,390,987)	(1,390,987)
Balance, December 31, 2010	10,820,796	839,354	2,415,742	7,611,207	1,005,545	2,780,131	6,138,519	31,611,294
Total acquisition and exploration December 31, 2010	**$ 12,552,296**	**$ 2,939,587**	**$ 2,692,675**	**$ 12,070,203**	**$ 3,171,475**	**$ 4,253,027**	**$ 7,406,407**	**$ 45,085,670**
Total acquisition and exploration January 1, 2010	$ 9,369,779	$ 2,399,160	$ 2,686,420	$ 11,342,506	$ 2,545,418	$ 3,430,646	$ 4,317,754	$ 36,091,683

6. Mineral properties, continued

a) MacArthur Copper Project, Nevada

Pursuant to an agreement dated September 13, 2005, and as subsequently amended, with North Exploration LLC ("North Exploration"), 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$524,000 plus interest at the rate of 6% per annum by January 15, 2012 (paid in 2012)
(vii) US$524,000 plus interest at the rate of 6% per annum by January 15, 2013.

The property is subject to a 2% net smelter return ("NSR"), which may be reduced to 1% for US$1 million.

b) Yerington Porphyry Copper Project, Nevada

On April 27, 2011, the Company completed the acquisition of the Yerington copper property after more than three years of legal, property-related and environmental due diligence. The purchase price comprises US$500,000 cash, 250,000 of the Company's common shares and a 2% NSR capped at US$7.5 million dollars on commencement of commercial production. The previously issued 250,000 common shares, held under escrow, were released and the remaining acquisition balance of US$141,650 was paid in April 2011.

The Yerington property is a historic mining site formerly owned and operated by Anaconda, Atlantic Richfield (ARC) and Arimetco. The property has a history of confirmed environmental releases and current exposures, which are outlined in an environmental site assessment review undertaken for the Company by the Chambers Group and subsequently updated by SRK Consulting. The Yerington Mine Site is a *Comprehensive Environmental Response Compensation and Liability Act* ("CERLA") site and has not been listed on the National Priorities List.

Prior to closing, the Company obtained Bona Fide Prospective Purchaser ("BFPP") Reasonable Steps letters from the US Environmental Protection Agency, the State of Nevada Department of Environmental Protection and the Bureau of Land Management ("BLM"). These letters define reasonable steps that the Company could take to retain its status as a BFPP.

The property contains substantial mineral resources and 8,000 acre feet water rights annually. ARC is the primary responsible party for the existing contamination at the site due to its ownership of Anaconda and past operations at the site. As of the date of these financial statements, the Company is not aware of any past environmental liabilities that negatively impact the Company.

6. Mineral properties, continued

c) Butte Valley Copper Prospect, Nevada

On January 1, 2011, the Company entered into an option agreement with North Exploration to acquire 41 mining claims in White Pine County, Nevada, known as the Butte Valley property. The Company can earn a 100% interest in the claims by making following staged payments totaling US$1 million:

(i) US$20,000 upon execution (paid)
(ii) US$20,000 each on or before January 1, 2012 (paid in 2011) and 2013
(iii) US$40,000 on or before January 1, 2014
(iv) US$50,000 each on or before January 1, 2015 and 2016
(v) US$100,000 each on or before January 1, 2017, 2018 and 2019
(vi) US$250,000 each on or before January 1, 2020 and 2021.

The Company has an option at any time to purchase the property for the difference between US$1 million and the sum of amounts previously paid or if the full amounts have been paid under the above the sum of US$1. The property is subject to a 2.5% NSR upon commencement of commercial production of which 1% can be bought down for US$1 million.

d) Copper Canyon Project, Nevada

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.

e) Goldfield East Claims, Nevada

On June 15, 2011, the Company entered into an option agreement with Nevada Alaska Mining Co., Inc. to acquire a 100% interest in certain mining claims in Esmeralda County, Nevada, for US$1 million over ten years:

6. Mineral properties, continued

e) Goldfield East Claims, Nevada, continued

(i) US$20,000 upon execution (paid)
(ii) US$20,000 each on or before June 15, 2012 and 2013
(iii) US$40,000 on or before June 15, 2014
(iv) US$50,000 each on or before June 15, 2015 and 2016
(v) US$100,000 each on or before June 15, 2017, 2018 and 2019
(vi) US$250,000 each on or before June 15, 2020 and 2021.

The property is subject to a 2% NSR on commencement of commercial production.

f) Wassuk Copper Project, Nevada

On May 26, 2011, the Company entered into a mining lease with an option to purchase agreement with Majuba Mining Ltd. to earn an interest in certain unpatented mining claims in Lyon County, Nevada, for US$1.61 million:

(i) US$140,000 on or before May 26, 2011 (paid)
(ii) US$130,000 on or before May 26, 2012
(iii) US$120,000 on or before May 26, 2013
(iv) US$110,000 each on or before May 26, 2014 and 2015
(v) US$200,000 each on or before anniversary date until May 26, 2020.

The Company is required to incur a total of US$300,000 exploration work ($67,250 incurred) on or before May 26, 2014 and any difference between the actual expenditures and US$300,000 is required to be paid in the event that less than US$300,000 is so incurred.

The project is subject to a 3% NSR upon commencing commercial production of which 1% can be bought at US$1.5 million.

g) Missouri Flat Prospect, Nevada

On August 1, 2011, the Company entered into an option agreement with a private owner to acquire a 100% interest in certain mining claims situated in Lyon County, Nevada, for US$500,000 as below:

(i) US$5,500 upon execution (paid)
(ii) US$5,000 on or before January 1, 2012 (paid in 2011)
(iii) US$10,000 each on or before January 1, 2013 and July 15, 2013
(iv) US$10,000 each on or before January 1, 2014 and July 15, 2014
(v) US$10,000 each on or before January 1, 2015 and July 15, 2015
(vi) US$15,000 each on or before January 1, 2016 and July 15, 2016
(vii) US$15,000 each on or before January 1, 2017 and July 15, 2017.

The Company has an option at any time to purchase the property for the difference between US$500,000 and the sum of the amount previously paid.

6. Mineral properties, continued

h) South West Tintic, Utah

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 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.

i) Peg Leg, Arizona

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. In first quarter 2011, the property was returned and total exploration expenditures of $257,533 were written off.

j) Herbert Glacier, 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, and subsequent to June 2010 the joint venture between Quaterra and Grande Portage Resources Ltd. ("Grande Portage"), is required to make annual payments of US$12,000 from November 2007 to 2011 (paid), US$20,000 from November 2012 to 2017, and US$30,000 from November 2018 and every consecutive anniversary thereafter.

In June 2010, Grande Portage entered into an agreement with Quaterra to earn up to a 65% interest in Herbert Glacier by spending US$1.25 million by June 15, 2012. As of December 31, 2011, Grande Portage had earned its 65% interest and the Company retains a 35% interest. The two parties formed a joint venture for the further exploration and development of the property, with each party bearing their proportionate share of the costs. If any party does not contribute their proportionate share of such costs, then the joint venture agreement includes a dilution formula whereby if any party's interest is reduced to 10% or less, its interest will be automatically converted into a 1% NSR, which may be acquired by the other party at any time for US$1 million.

6. Mineral properties, continued

j) Herbert Glacier, Alaska, continued

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.

k) Uranium Properties (Arizona, Utah and Wyoming)

Pursuant to a June 2005 agreement with North Exploration, 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 property 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 and August 3, 2011, 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, 2012.

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.

The lawsuit filed by three environmental groups in September 2008 against the U.S. Secretary of Interior, the U.S. Department of Interior and BLM for authorizing uranium exploration on one million acres of public land near Grand Canyon was dismissed on February 22, 2010.

6. Mineral properties, continued

k) Uranium Properties (Arizona, Utah and Wyoming), continued

On January 9, 2012, the Interior Department announced a Public Land Order to withdraw approximately one million acres of federal land in northern Arizona from mineral exploration on new claims for a twenty-year period. Approximately 85% of Quaterra's claims lie within these federal jurisdiction lands and 15% lie within Arizona State lands, which are unaffected by the withdrawal.

The stated purpose of the Order is to withdraw the acreage from the location of new mining claims under the 1872 Mining Law. It does not, however, prohibit exploration and development on existing mining claims that are determined to be valid as of the date of segregation on July 21, 2009. Quaterra has, through exploration and development, identified over 200 targets on these federal lands, which are now subject to a valid existing rights examination.

Quaterra is considering various legal actions which, if not successful, could lead to an impairment write-down of approximately $10 million. The results of legal action are unknown at this time.

l) Cave Peak Molybdenum Prospect, Texas

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 (paid by FMEC)
(v) 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 (US$30,462 paid); US$35,000 is due upon the submittal of an initial plan of operations to conduct exploration; and US$55,000 on submittal of a supplemental plan of operations to conduct mining. 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 (paid) 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, as amended February 3, 2012, 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, 2016. Except for the 2011 land holding costs, which are a firm commitment, all other exploration expenditures are optional.

6. Mineral properties, continued

l) Cave Peak Molybdenum Prospect, Texas, continued

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

m) Reveille Property, Nevada

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 Reveille claims in Nye County, Nevada. The total consideration is US$1 million over 10 years as follows:

(i) US$20,000 upon execution (paid)
(ii) US$20,000 each on or before July 31, 2011 (paid) and 2012
(iii) US$40,000 on or before July 31, 2013
(iv) US$50,000 each on or before July 31, 2014 and 2015
(v) US$100,000 each on or before July 31, 2016 and 2017
(vi) US$100,000 on or before July 31, 2018
(vii) US$250,000 on or before July 31, 2019
(viii) US$250,000 on or before July 31, 2020.

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

n) Willow Creek Molybdenum Project, Montana

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 (year 2010) were waived and cancelled providing that all claim rental payments are made and additional drilling to a minimum of 500 feet is undertaken. The Company terminated the option agreement and recorded an impairment of $1,109,446 in the second quarter of 2011.

o) Impairments

The following mineral properties were deemed to be impaired due to lack of exploration merits. The Company has no further exploration plans for these properties.

Mineral properties	December 31, 2011	December 31, 2010
Duke Island	$ 2,441,592	$ -
Peg Leg, Other properties	257,533	-
Klondike, Other properties	49,809	-
Gray Hills, Other properties	324,844	-
Willow Creek, Other properties	1,109,446	-
Wassuk, Other properties	-	622,121
	$ 4,183,224	$ 622,121

In first quarter 2011, the Duke Island property was returned and total exploration expenditures of $2,441,592 were written off.

6. Mineral properties, continued

p) Nieves Silver 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% 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 a 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 AMR payment of US$75,000 is due to the concession holders until the commencement of commercial production.

q) Goldcorp Inc. ("Goldcorp") – Investment Framework Agreement ("IFA")

On January 29, 2010, the Company entered into an IFA with Goldcorp to fund the Company's mining properties in central Mexico totaling US$10 million. US$4 million and US$6 million from Goldcorp were received in February 2010 and 2011, respectively (note 7). As of December 31, 2011, US$7.8 million had been spent on those properties.

In February 2010, Goldcorp selected Sierra Sabino for advanced exploration. For the year ended December 31, 2011, the Company incurred $2,695,227 in exploration expenditures of which $81,852 was due from Goldcorp including administration fees.

r) Microondas Precious Metal Prospect (part of IFA), Mexico

On April 8, 2011, the Company entered into a letter of intent agreement with La Cuesta International Inc. ("LCI") to acquire a 100% interest in six mineral concessions in Zacatecas, Mexico, in consideration of certain cash payments and the issuance of up to 20,000 common shares of the Company as follows:

(i) US$5,000 on or before June 1, 2011 (paid)
(ii) US$5,000 on or before December 1, 2011 (paid)
(iii) US$10,000 on or before June 1, 2012 and 20,000 common shares of the Company. The Company may elect to make a one-time cash payment equal to the value of 20,000 shares of its common shares based on the share price at the close of trading on May 15, 2012
(iv) US$15,000 on or before December 1, 2012

6. Mineral properties, continued

r) Microondas Precious Metal Prospect (part of IFA), Mexico, continued

(v) US$20,000 on or before June 1, 2013
(vi) US$25,000 on or before December 1, 2013
(vii) US$25,000 each six months thereafter.

The property is subject to a 1% NSR that is capped at US$5 million and a 2% NSR for a portion of the property.

s) Santo Domingo, Mexico (part of IFA)

On January 6, 2010, the Company entered into an option agreement with 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 (paid)
(iii) US$20,000 on or before January 1, 2012 (paid in 2011) 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.

t) 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, and on the attainment of successful commercial production or from the proceeds of disposal. The attainment of commercial production is in turn 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.

u) 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.

6. Mineral properties, continued

v) 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. With the exception of the Yerington property, the Company may also be held liable should environmental problems be discovered that were caused by former owners and operators. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

7. Share capital

The Company has authorized an unlimited number of common shares without par value.

Pursuant to the Goldcorp IFA agreement, the Company issued 3,293,407 common shares in February 2011 for US$6 million ($5,994,000) and 1,646,703 share purchase warrants. The warrants are exercisable at a price of $2.27 expiring February 7, 2013. Similarly in February 2010, the Company issued 3,001,418 units to Goldcorp for gross proceeds of US$4 million ($4,231,999). 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.

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.

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 was 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)).

8. Share-based payments

a) Stock options

The Company has a stock option plan (the “Plan”), which is approved by the shareholders annually. The Plan is designed to attract and retain individuals and to reward them for current and expected future performance. Options generally are granted for a maximum term of five years and expire 90 days following the termination of the optionee’s agreement. The exercise price for the options is set at the closing market price of the common shares on the grant date. The vesting periods of options vary with terms determined by the board of directors. Under the Plan, the Company is authorized to grant stock options of up to 10% of the number of common shares issued and outstanding of the Company at any given time.

8. Share-based payments, continued

a) Stock options, continued

The following table presents changes in stock options for the years ended December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	10,624,000	$ 1.60	9,237,000	$ 1.56
Granted	3,690,000	$ 1.26	2,790,000	$ 1.40
Forfeited	-	$ -	(173,000)	$ 2.25
Expired	(2,199,500)	$ 1.54	-	$ -
Exercised	(654,500)	$ 1.11	(1,230,000)	$ 0.77
Outstanding, end of year	11,460,000	$ 1.53	10,624,000	$ 1.60
Exercisable, end of year	11,158,333	$ 1.53	10,457,333	$ 1.59

The following table summarizes information about the stock options outstanding:

		December 31, 2011	December 31, 2010
Exercise Price	Expiry Date	Number of options	Number of options
$ 0.90	October 24, 2016	300,000	-
$ 0.98	November 9, 2014	1,750,000	2,145,000
$ 1.00	May 19, 2011	-	50,000
$ 1.02	November 9, 2014	2,100,000	2,185,000
$ 1.12	June 12, 2011	-	100,000
$ 1.25	August 9, 2016	2,935,000	-
$ 1.29	August 9, 2015	1,685,000	2,095,000
$ 1.50	September 25, 2011	-	100,000
$ 1.51	November 3, 2015	100,000	100,000
$ 1.55	October 6, 2015	65,000	65,000
$ 1.55	July 28, 2011	-	1,364,000
$ 1.55	August 23, 2011	-	100,000
$ 1.60	March 24, 2016	355,000	-
$ 1.76	April 22, 2015	200,000	200,000
$ 1.80	April 1, 2015	100,000	100,000
$ 2.00	January 14, 2015	40,000	120,000
$ 3.30	June 19, 2013	905,000	945,000
$ 3.33	July 20, 2012	775,000	805,000
$ 3.45	March 31, 2013	150,000	150,000
Total stock options outstanding		11,460,000	10,624,000
Total stock options exercisable		11,158,333	10,457,333

8. Share-based payments, continued

a) Stock options, continued

The weighted average remaining contract life for option outstanding and exercisable on December 31, 2011 was 3.25 (2010 – 3.19) years and 3.22 (2010 - 3.16) years, respectively.

On January 1, 2012, 25,000 stock options at an exercise price of $1.25 expired unexercised.

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

	December 31, 2011	December 31, 2010
Weighted average share price	$ 1.26	$ 1.39
Risk-free interest rate	1.13%	4.45%
Expected share price volatility	88.87%	91.91%
Expected option life in years	4.0	3.0
Forfeiture rate	0%	0%
Expected dividend yield	0%	0%

Volatility was determined based on the historical volatility over the estimated lives of the options.

The share-based payments expense is incurred as follows:

	Years ended December 31, 2011	2010
Consultants	$ 1,078,605	$ 1,175,872
Directors and officers	1,018,476	787,668
Employees	749,626	287,718
	$ 2,846,707	$ 2,251,258

b) Share purchase warrants

The following table presents changes in warrants for the years ended December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	20,186,023	$ 1.16	21,584,701	$ 0.80
Issued	1,646,703	$ 2.27	7,362,809	$ 1.87
Expired	(971,982)	$ 0.75	(37,001)	$ 0.94
Exercised	(11,851,232)	$ 0.75	(8,724,486)	$ 0.87
Outstanding, end of year	9,009,512	$ 1.94	20,186,023	$ 1.16

8. Share-based payments, continued

b) Share purchase warrants, continued

The following summarizes information about the share purchase warrants as of December 31, 2011 and 2010:

		December 31, 2011	December 31, 2010
Expiry date	Exercise price	Number of warrants	Number of warrants
September 29, 2011	$ 0.75	-	7,978,540
October 28, 2011	$ 0.75	-	4,844,674
February 4, 2012	$ 1.76	1,500,709	1,500,709
October 27, 2012	$ 1.90	5,862,100	5,862,100
February 7, 2013	$ 2.27	1,646,703	-
		9,009,512	20,186,023

On February 4, 2012, 1,500,709 warrants at an exercise price of $1.76 expired unexercised.

c) Agent compensation options

The Company issued 703,452 agent compensation options at an exercise price of $1.45 expiring October 27, 2012 in relation to the brokered private placement on October 27, 2010. Each option entitles the agent to acquire one common share of the Company and one-half share purchase warrant exercisable at $1.90 by October 27, 2012.

d) During the year ended December 31, 2011, the Company issued 89,983 (2010 – 74,686) common shares for financial advisory services with a fair value of $90,000 (2010 - $90,000).

9. Compensation of key management

Key management comprises directors and executive officers. Certain executive officers are entitled to termination benefits equal to up to two years' gross salary amounting to $1,712,500 in the event of a change of control. The Company has no post-employment benefits and other long-term employee benefits. Compensation awarded to key management was as follows:

	Year ended December 31,	
	2011	2010
Salaries and employee benefits	$ 805,770	$ 637,500
Directors' fees	110,294	113,240
Share-based payments	1,018,476	787,668
	$ 1,934,540	$ 1,538,408

10. Related party transactions

The Company's related parties consist of companies owned by executive officers or directors. The following fees and expenses were incurred in the normal course of operations:

	Year ended December 31, 2011	2010
Manex Resource Group (a)	$ 514,577	$ 501,350
Lawrence Page, Q.C. Law Corp. (b)	6,410	7,820
Atherton Enterprises Ltd. (c)	175,000	175,000
	$ 695,987	$ 684,170

a) Manex Resource Group ("Manex") is a private company owned by a director that provides general office and administrative services. Please see Note 15 (b). As of December 31, 2011, $47,884 (December 31, 2010 - $40,485, January 1, 2010 - $31,578) was still owing in due to related parties.

b) Lawrence Page, Q.C. Law Corp. is a company owned by a director that provides legal services. As of December 31, 2011, $nil (December 31, 2010 - $739, January 1, 2010 - $1,344) was still owing in due to related parties.

c) Atherton Enterprises Ltd. is a private company owned by an officer that provides CFO service to the Company.

11. Supplemental cash flow information

	2011	2010
Cash Items		
Interest paid	$ -	$ 10,578
Income tax paid	$ -	$ -
Non-Cash Items		
Mineral property expenditures included in accounts payable	$ 1,415,599	$ 622,884
Non-cash share issue costs	$ -	$ 533,480
Shares received for mineral properties	$ -	$ 40,000
Shares issued for mineral properties	$ -	$ 355,500

Cash and cash equivalents comprises	December 31, 2011	December 31, 2010	January 1, 2010
Cash	$ 2,147,321	$ 3,212,215	$ 1,744,220
Term deposits and bankers acceptance	10,000,000	15,000,000	3,051,000
	$ 12,147,321	$ 18,212,215	$ 4,795,220

12. Deferred income taxes

a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

		2011		2010
Loss for the year	$	11,264,539	$	2,769,248
Canadian statutory tax rate		26.5%		28.5%
Income tax benefit computed at statutory rates	$	2,985,103	$	789,236
Foreign tax rates different from statutory rates		266,896		22,335
Temporary differences		311,553		2,228,377
Change in timing differences		(1,316,464)		(960,676)
Rate difference between current and deferred taxes		45,108		38,709
Foreign exchange gains or losses		345,176		(831,885)
Permanent differences		(820,811)		(659,490)
Unused tax losses and tax offsets not recognized in tax asset		(1,816,561)		(626,606)
	$	-	$	-

Effective January 1, 2011, the Canadian federal corporate tax rate decreased from 18.0% to 16.5% and the British Columbia provincial tax rate decreased from 10.5% to 10.0%. The overall reduction in tax rates has resulted in a decrease in the Company's statutory tax rate from 28.5% to 26.5%.

In 2009, the Mexican government approved tax reform that includes a 2% increase in the income tax rate in Mexico from 28% to 30% for a three-year period starting in 2010.

b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income liabilities at December 31, 2011 and 2010 are presented below:

		2011		2010
Deferred tax assets				
Tax losses carried forward	$	4,781,079	$	4,125,125
Tax value over book value of equipment		46,722		21,971
Tax value over book value of investments		4,585		3,885
Deferred tax assets		4,832,386		4,150,981
Deferred tax liability				
Book value over tax value of mineral properties		(4,832,386)		(4,150,981)
Net deferred tax assets	$	-	$	-

12. Deferred income taxes

c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31, 2011	December 31, 2010
Non-capital losses	$ 19,689,000	$ 13,140,000
Share issue costs	1,057,000	1,425,000
Tax value over book value of equipment	3,837,000	3,837,000
Tax value over book value of mineral properties	57,000	55,000
Tax value over book value of investments	16,000	-
Unrecognized deductible temporary differences	$ 24,656,000	$ 18,457,000

The Company's unrecognized unused non-capital losses have the following expiry dates:

	Canada	US	Mexico	**TOTAL**
2014	$ 283,000	$ -	$ -	$ 283,000
2015	359,000	-	1,252,000	1,611,000
2021	-	52,000	-	52,000
2022	-	783,000	-	783,000
2023	-	101,000	-	101,000
2026	699,000	82,000	-	781,000
2027	1,985,000	91,000	-	2,076,000
2028	3,017,000	747,000	-	3,764,000
2029	2,228,000	1,057,000	-	3,285,000
2030	2,855,000	649,000		3,504,000
2031	2,808,000	641,000	-	3,449,000
	$ 14,234,000	$ 4,203,000	$ 1,252,000	$ 19,689,000

13. Commitments

On October 1, 2007, as amended on June 8, 2008, the Company entered into a service agreement with Manex for its Vancouver head office administration and corporate secretarial services at a monthly rate of $8,000 plus dedicated office space of $7,500 expiring June 30, 2012. As of December 31, 2011, the Company was committed to $93,000 for the remaining term of the service agreement. Please see Note 15 (c).

14. Segmented information

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

	December 31, 2011			December 31, 2010		
	Equipment	Mineral Property	Total Assets	Equipment	Mineral Property	Total Assets
Canada	$ -	$ -	$ 11,424,769	$ -	$ -	$ 18,250,564
Mexico	194,290	16,798,700	18,718,032	118,435	11,659,434	13,000,424
U.S.A.	154,505	42,242,086	43,468,021	99,908	33,426,236	34,209,935
Total	$ 348,795	$ 59,040,786	$ 73,610,822	$ 218,343	$ 45,085,670	$ 65,460,923

15. Events after the reporting period

a) 41,666 common shares of the Company were issued at a price of $0.54 per share in consideration of certain financial and advisory services provided to the Company pursuant to an agreement dated April 15, 2011.

b) On February 9, 2012, the Company renewed its service agreement with Manex for its Vancouver office for a monthly fee of $19,250 effective June 30, 2012 and expiring August 31, 2017.

16. Capital management and financial instruments

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, 2011.

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.

16. Capital management and financial instruments, continued

The following provides a comparison of the classification of financial instruments as of December 31, 2011, December 31, 2010 and January 1, 2010:

December 31, 2011	Loans and receivables	Available for sale	Held for trading	Other financial liabilities	Total carrying value
Financial assets					
Cash and cash equivalents	$ -	$ -	$ 12,147,321	$ -	$ 12,147,321
Restricted cash	94,638				94,638
Amount due from Exploration Partners	240,222				240,222
Marketable securities		27,667			27,667
Reclamation bonds	519,092				519,092
Financial liabilities					
Accounts payable and accrued liabilities				(1,829,704)	(1,829,704)
Due to related parties				(47,884)	(47,884)
	$ 853,952	$ 27,667	$ 12,147,321	$ (1,877,588)	$ 11,151,352

December 31, 2010	Loans and receivables	Available for sale	Held for trading	Other financial liabilities	Total carrying value
Financial assets					
Cash and cash equivalents	$ -	$ -	$ 18,212,215	$ -	$ 18,212,215
Restricted cash	45,752				45,752
Amount due from Exploration Partners	878,770				878,770
Other receivables	34,711				34,711
Marketable securities		61,667			61,667
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)
	$ 1,356,716	$ 61,667	$ 18,212,215	$ (896,568)	$ 18,734,030

16. Capital management and financial instruments, continued

January 1, 2010	Loans and receivables	Available for sale	Held for trading	Other financial liabilities	Total carrying value
Financial assets					
Cash and cash equivalents	$ -	$ -	$ 4,795,220	$ -	$ 4,795,220
Marketable securities		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)
	$ 560,233	$ 26,000	$ 4,795,220	$ (879,387)	$ 4,502,066

Fair value

The Company's marketable securities measured at fair value were categorized in Level 1 at $27,667 (December 31, 2010 - $61,667, January 1, 2010 - $26,000).

The recorded amount for cash and cash equivalents, other receivables, amount due from Exploration Partners, amounts due to related parties and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. The fair value of the Company's marketable securities is based on active market prices at the year-end date. The carrying values of the reclamation bonds approximate their fair values as these balances are redeemable on demand.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to 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 U.S. dollars and Mexican pesos. The Company has not hedged its exposure to foreign currency fluctuations.

16. Capital management and financial instruments, continued

The Company is exposed to currency risk as follows:

	December 31, 2011		December 21, 2010	
	US$	Pesos	US$	Pesos
Cash	1,155,138	1,114,735	1,174,219	60,266
Other receivables and restricted cash	69,000	12,614,401	52,948	3,066,479
Due from Exploration Partners	236,206	-	891,523	-
Reclamation bonds	510,415	-	399,641	-
Accounts payable and accrued liabilities	(1,498,898)	(53,726)	(626,361)	-
Net foreign exposure	471,861	13,675,410	1,891,970	3,126,745

Based on the above net foreign currency exposures as at December 31, 2011, 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 $24,402 (2010 - $93,580) 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, 2011. 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 due to 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 $10 million 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.

16. Capital management and financial instruments, continued

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 $1,829,704 are due in the first quarter of fiscal 2012 and due to related parties of $47,884 are due on demand.

17. Transition to IFRS

The consolidated financial statements for the year ended December 31, 2011 are prepared under IFRS. The accounting policies described in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in the consolidated financial statements for year ended December 31, 2010 and the statement of financial position as at January 1, 2010. An explanation of IFRS 1, exemptions applicable to first-time adoption of IFRS, and the required reconciliations between IFRS and Canadian GAAP are described below.

IFRS 1 *First-time Adoption of IFRS* ("IFRS 1")

In preparing these consolidated financial statements, the Company has applied IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional exemptions in certain areas, to the general requirement for full retrospective application of IFRS.

Share-based payments

The Company has elected to not apply IFRS 2 Share-based Payments to equity instruments granted on or before November 7, 2002 and those granted but fully vested before the date of transition of January 1, 2010.

Business combination

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and will apply IFRS 3 to business combinations that occur on or after January 1, 2010.

Reconciliation from previous GAAP on transition to IFRS

Under Canadian GAAP, warrants that have an exercise price denominated in a currency other than the Company's functional currency are accounted for as equity instruments. Under IFRS, such instruments meet the definition of a derivative liability and are recorded as a financial liability and are required to be measured at fair value at each reporting period with gains or losses recognized in net income (loss). The warrants issued on November 27, 2008, December 19, 2008 and January 15, 2009 with respect to the convertible debt financing had an exercise price denominated in U.S. dollars. As a result, these warrants are required to be measured and recognized at fair value with changes subsequent to the initial recognition charged to the net income (loss) until they are fully exercised. The Company has determined the fair value using the Black-Scholes option pricing model. The warrants expired or were exercised completely by May 25, 2010.

17. Transition to IFRS, continued

As at January 1, 2010, the Company recorded an adjustment to recognize the fair value of the warrant liability amounting to $8,477,944 and increased deficit by $8,477,944.

For the year ended December 31, 2010, the Company recorded a warrant revaluation gain of $4,037,184 resulting from the fair value impact of this derivative liability. On exercise of the warrants the associated derivative liability of $4,440,760 was transferred to share capital.

Reconciliation of the consolidated statements of financial position

	December 31, 2010	January 1, 2010
Total assets under Canadian GAAP	$ 65,460,923	$ 41,872,497
Adjustment on adoption of IFRS	-	-
Total assets under IFRS	$ 65,460,923	$ 41,872,497
Total liabilities under Canadian GAAP	$ 896,568	$ 879,387
Derivative liability - warrants	-	8,477,944
Total liabilities under IFRS	$ 896,568	$ 9,357,331
Deficit under Canadian GAAP	$ (42,422,329)	$ (35,615,897)
Derivative liability - warrants	(4,440,760)	(8,477,944)
Deficit under IFRS	$ (46,863,089)	$ (44,093,841)
Share capital under Canadian GAAP	91,360,190	63,168,843
Derivative liability - warrants	4,440,760	-
Share capital under IFRS	$ 95,800,950	$ 63,168,843
Total shareholders' equity under Canadian GAAP	$ 64,564,355	$ 40,993,110
Adjustment on adoption of IFRS	-	(8,477,944)
Total shareholders' equity under IFRS	$ 64,564,355	$ 32,515,166

17. Transition to IFRS, continued

Reconciliation of consolidated comprehensive loss

		Year ended December 31, 2010
Comprehensive loss under Canadian GAAP	$	(6,810,765)
Adjustment for derivative liability		4,037,184
Comprehensive loss under IFRS	$	(2,773,581)

There were no material adjustments or impact on the consolidated statement of cash flows for the year ended December 31, 2010.



(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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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

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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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.



Management's Discussion and Analysis

For the Year Ended December 31, 2011

Dated: March 27, 2012

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 27, 2012, and provides comparative analysis of Quaterra's financial results for the years ended December 31, 2011 and 2010.

The following information should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2011 and 2010 and the related notes thereto. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). A reconciliation of Canadian generally accepted accounting principles ("GAAP") to IFRS 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.quaterra.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

Warrants totaling 7,348,540 and 4,502,692 issued under the private placements closed on September 29, 2009 and October 28, 2009, respectively, were exercised during the year at a price of $0.75 yielding gross proceeds of $8.9 million. Proceeds of the warrant exercise have been used to fund the Company's exploration programs at the MacArthur and Yerington copper projects in Nevada and the Nieves Silver project in Mexico, as well as general and administration expenses.

On September 21, 2011, the Company appointed Mr. Steven Dischler as the Vice President and General Manager at the Yerington project in Nevada. Mr. Dischler has been involved with the permitting and development of several major mining projects across the U.S., including the underground sulfide Crandon Mine in Wisconsin, the underground nickel-copper Eagle Mine in Michigan and the open pit copper Flambeau Mine in Wisconsin. As general manager Mr. Dischler is responsible for moving the Yerington-MacArthur copper mining complex forward towards production.

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 per unit 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 funds were used in the Company's generative exploration program in central Mexico.

Corporate Development - Property

Subsequent to an agreement with Grande Portage Resources Ltd. ("Grande Portage") dated June 16, 2010, on October 26, 2011, the Company entered into a joint venture agreement with Grande Portage Resources Ltd. for the Herbert Glacier gold project located near Juneau, Alaska. Grande Portage acquired a 65% interest and the Company retains a 35% interest in this project. Each party has agreed to bear its proportionate share of costs for the further exploration and development of the project.

On October 20, 2011, the Company added two properties to the Goldcorp IFA: El Calvo gold, located in the central Mexican state of San Luis Potosi, and Microondas gold-silver, located in Zacatecas State, Mexico. Drilling began in November 2011.

On August 1, 2011, the Company entered into an option agreement with a private owner to acquire a 100% interest in certain mining claims situated in Lyon County, Nevada for US$500,000. The Company has an option at any time to purchase the property for the difference between US$500,000 and the sum of the amount previously paid.

On July 4, 2011, the Company announced that it finalized an option agreement with La Cuesta International, Inc. (LCI) to acquire a 100% interest in the Microondas prospect located in Zacatecas State, Mexico, about 17 kilometers south-southeast of Rio Grande.

The property covers an area of 9,057 hectares (35 square miles) and is prospective for vein and stockwork related gold-silver mineralization with bulk tonnage potential. Quaterra´s near-term plans include geologic mapping, sampling and geophysical surveys to define drill targets.

Quaterra has the right to earn a 100% interest in the property by making semi-annual lease/pre-production payments and paying a 1% Net Smelter Return royalty ("NSR") payment that is capped at US$5 million. A portion of the property carries a 2% NSR royalty. Quaterra may issue to LCI 20,000 common shares or, at its option, the cash equivalent on or before May 15, 2012.

On June 15, 2011, the Company entered into an option agreement with Nevada Alaska Mining Co., Inc. to acquire a 100% interest in certain mining claims in Esmeralda County, Nevada for US$1 million over ten years. A 2% NSR is required upon commercial production.

On May 26, 2011, the Company entered into a mining lease with an option to purchase agreement with Majuba Mining Ltd. to earn an interest in certain unpatented mining claims in Lyon County, Nevada, for US$1.61 million. The company is required to incur a total of US$300,000 exploration work on or before the third anniversary and any difference between the actual expenditures and US$300,000 is required to be paid in the event that less than US$300,000 is so expended. The project is subject to 3% NSR upon commencing commercial production of which 1% can be bought at US$1,500,000.

On May 12, 2011, the Company announced its acquisition of the Butte Valley porphyry copper prospect, located in White Pine County, Nevada. The property consists of approximately 45 square miles of mineral rights obtained by optioning and staking a total of 1,483 unpatented U.S. lode claims. To earn a 100% interest, the Company is required to make staged option payments totaling US$1 million over ten years and pay a 2.5% NSR, 1% of which may be purchased for US$ 1million.

On April 27, 2011, the Company completed the purchase of the Yerington property from Arimetco, Inc. Assets purchased include 4.2 square miles of patented claims and fee mineral properties centered on the former Anaconda open pit copper mine containing an historic resource estimate in excess of four billion pounds of copper, and 8,600 acre feet per year of water rights. This property, together with 9.3 and 13.2 square miles of unpatented claims at Yerington and nearby MacArthur respectively, provides the Company with a significant land position in the center of a copper camp.

Update on Mineral Properties

MacArthur Property – Nevada

The Company's MacArthur project is a secondary enriched acid soluble 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 as of December 2011, had completed a total of 203,700 feet of drilling in 402 holes on the property. The drilling program has 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.

Tetra Tech, Inc. ("Tetra Tech") of Golden, Colorado completed an updated NI 43-101 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 143.7 million tons averaging 0.192% total copper (TCu) that contains 551.6 million pounds of copper using a cut-off 0.12% TCu; an inferred oxide/chalcocite resource of 215.0 million tons averaging 0.197% TCu that contains 846.8 million pounds of copper at a cut-off of 0.12% TCu; and an inferred primary sulfide resource of 74.1 million tons averaging 0.256% TCu that contains 379.5 million pounds of copper at a cut-off of 0.15% TCu.

A summary of Tetra Tech's resource estimate is shown below:

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

A total of 81,560 feet were drilled in 153 holes at MacArthur during 2011. The drilling program completed 69,890 feet in 147 RC holes and 11,760 feet in 6 core holes. The program had the twin goals of enlarging and upgrading the status of the inferred resources through step-out and infill drilling and exploring for primary sulfide mineralization related to a copper porphyry system at depth.

The RC drilling program was initiated with step-out and infill holes along the western and northern margins of the deposit. The results confirmed that MacArthur remains open for the definition of additional acid-soluble copper mineralization. As the program progressed to the east, several holes encountered higher grades of continuous chalcocite and copper oxide mineralization in zones averaging 40 feet or more in thickness in the area now referred to as the "Ridge Zone".

The extent and continuity of the mineralization in the Ridge Zone is uncertain because a number of marginally mineralized vertical holes in the initial 500-foot spaced drilling program encountered a system of barren hornblende dikes that cross-cut the area. To address the uncertainty and to test high-angle northeast and northwest trending mineralized structures that form an important component of the acid-soluble copper deposit, an infill drilling program was completed on 250-foot centers in the principal areas with higher grade potential.

The 2011 RC program encountered some of the better grades and intercepts of acid soluble copper mineralization drilled on the property. Hole QM-187, drilled 2,000 feet north of the MacArthur pit, and intersected 90 feet of predominantly chalcocite mineralization averaging 1.66% total copper (TCu) starting at a depth of 310 feet. This intercept includes 40 feet assaying 3.49% TCu. Hole QM-180 along the northwestern margin of the zone intercepted 40 feet averaging 1.37% TCu at a depth of 360 feet. To the south near the northern pit outline, hole QM-193 intercepted 150 feet averaging 0.62% TCu at a depth of 60 feet. The results of the 2011 drilling program will be incorporated into an updated NI 43-101 compliant resource estimate in early Q2 2012.

Exploration for a deep porphyry system at MacArthur completed 11,287 feet of drilling in 5 holes during the 2011 program. The last hole of the program, QM-164, intercepted one of the best primary copper intercepts yet identified on the project with 64 feet of disseminated chalcopyrite mineralization in sodic altered granodiorite averaging 1.31% TCu at a depth of 1,673 feet. The intercept includes a high grade zone of 29 feet averaging 2.21% TCu. QM-164 also intercepted a shallower zone of both vein and disseminated chalcopyrite at a depth of 685 feet that averages 0.34% TCu over a thickness of 96.5 feet. QM-164 extended the mineralized zone identified in QM-100 a distance of 1,000 feet to the north. Mineralized zones within potassic halos in holes QM-165 to the west and in QM-163 to the east are consistent with those that could fringe a porphyry copper center. The North Porphyry mineralization remains open and untested to the north.

In addition to the infill and deep exploratory drilling at MacArthur, a total of 3,758 feet were drilled in 27 large diameter (PQ) holes to provide samples for column leach tests during 2011. The material was shipped to METCON Research of Tucson, Arizona, for column leach testing. The preliminary test results together with the results of a limited program of bottle roll tests and historic metallurgical studies will be used to estimate cost and recoveries for the geological block model to be used in the MacArthur Preliminary Economic Assessment (PEA).

Future plans for the MacArthur project include the completion of an updated NI 43-101 compliant resource estimate and PEA which will incorporate the results of the 2011 drilling program and metallurgical testing. The PEA results will be used to determine what additional drilling may be required to bring the project to a prefeasibility status and to evaluate the potential to integrate it into a larger operation that includes the Yerington Copper property. This stage of a project generally includes additional infill and sterilization drilling, metallurgical testing and geotechnical work as well as environmental studies, permitting and engineering. M3 Engineering and Technology Corp. of Tucson, Arizona has been contracted to complete the PEA.

Acquisition costs incurred to December 31, 2011 were $2,358,534 and exploration expenditures were $17,144,368 for a total of $19,502,902. Acquisition costs incurred to December 31, 2010 were $1,731,500 and exploration expenditures were $10,820,796 for a total of $12,552,296.

Yerington – Nevada

On April 27, 2011, Quaterra's wholly owned subsidiary, Singatse Peak Services LLC. ("Singatse") finalized the acquisition of the Yerington mine through the purchase of all Arimetco assets in the Yerington Mining District. The assets include 2,768 acres of patented claims and fee mineral properties, 8,600 acre feet per year of water rights, and 37,000 acre feet of water in the Yerington pit. A total of 9,442 acres covered by 457 unpatented mining claims staked by the Singatse on surrounding BLM land complete Company's control of approximately 19 square miles that comprise the project's mineral rights.

Tetra Tech, Inc. of Golden, Colorado completed a NI 43-101 compliant independent resource estimate and technical report for mineralization in and around the historic Yerington Mine in February 2012. Using a cutoff of 0.2% TCu, the Yerington Mine's measured and indicated primary copper resource totals 71.8 million tons averaging 0.30% TCu and contains 430 million pounds of copper. An inferred primary copper resource of 63.9 million tons averaging 0.25% TCu contains 323 million pounds of copper. Acid-soluble oxide/chalcocite mineralization includes a measured and indicated resource of 9.4 million tons averaging 0.30% TCu (57 million pounds of copper) and an inferred resource of 8.6 million tons averaging 0.28% TCu (47 million pounds of copper).

A summary of Tetra Techs resource estimate is shown below:

Yerington 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	18,391	0.23	85,886
0.20	9,445	0.3	57,237
0.25	5,563	0.36	39,953
Inferred Copper Resources			
0.12	24,703	0.2	97,873
0.20	8,596	0.28	47,347
0.25	4,215	0.33	28,021

Yerington Copper Project
Primary Material

Cutoff Grade (%TCu)	Tons (x1000)	Average Grade (%TCu)	Contained Copper (lbs x 1000)
Measured and Indicated Copper Resources			
0.15	93,893	0.27	507,961
0.20	71,781	0.3	429,968
0.25	46,991	0.34	318,599
Inferred Copper Resources			
0.15	123,366	0.21	529,734
0.20	63,918	0.25	322,530
0.25	26,700	0.29	157,103

The results of the NI 43-101-compliant resource estimate compare favorably to the noncompliant historical estimates of copper remaining in and around the Yerington pit after the mine shut down (K. L. Howard, Jr., Anaconda Internal Memo, 1979). The 1979 estimate contained no classification for measured, indicated, or inferred, so direct comparison can only be made when considering all classes of the current estimate.

Using the same 0.2% TCu cutoff, the Tetra Tech estimate is 127% of the total tonnage, 81% of the average grade, and 104% of the total pounds of contained copper in the 1979 Anaconda estimate of 121 million tons with an average grade of 0.34% Cu containing approximately 831 million pounds of copper. The lower grade and higher tonnage of the Tetra Tech estimate are attributed to the effects of the kriging estimation method used for modern resource estimates. A nearest neighbor model run by Tetra Tech to test the results raised the average grade of the deposit to 0.32% TCu.

The 1979 estimate cited approximately 84% of the total contained copper (696 million pounds of copper in 97.8 million tons with an average grade of 0.356% Cu) as being within the original Anaconda pit design, suggesting that a significant portion of the Yerington resource may be mined without a pushback or major changes to the upper walls of the Anaconda pit.

The current Tetra Tech resource estimate is based upon Singatse's 2011 drilling as well as historic drill holes taken from scanned pages of assay and/or geologic data which were reviewed and digitally recorded by Singatse personnel. The digital data entry was validated by Tetra Tech against historic sections and was considered to be compliant, based upon results of 18 twin holes and 5,446 feet of core from Anaconda holes which were assayed by Singatse. The twinned drill intercepts statistically confirmed that the new compliant data support use of the historical data, as did the new core assays which were well within the expected norms for corroborating the old with new data.

In addition to the twin holes, the Singatse's 2011 drilling campaign completed 13,100 feet of RC exploration drilling in 24 holes near the Yerington Pit to target possible extension to the mineralization. Hole SP-36, located along south central margin of the pit intercepted 95 feet averaging .28% TCu at a depth of 230 feet.

The data review for the Yerington Technical report indicate that mineralization at Yerington is open to depth and along strike. Many of the historic holes in the pit were stopped in mineralization. Drill hole intercepts along the western edge of the pit are some of the best in the database. Twin hole SP-04 at the northwest end of the pit, intercepted 524.5 feet averaging 0.35%TCu starting at a depth of 228.0 feet including 88 feet of 0.69%TCu at a depth of 265 feet.

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 NI 43-101 Technical Report is available at www.sedar.com. The Qualified Person for the Yerington Copper Project resource estimate and the technical report is Rex Clair Bryan, Ph.D., Sr. Geostatistician for Tetra Tech, Golden Colorado.

Quaterra believes the Yerington Copper Project has potential for significant additional copper resources. Historic and current drilling data indicate that limits to the mineralization at the Yerington Mine have not yet been found, both horizontally and vertically. The Company is planning additional exploration and in-fill drilling to both expand and upgrade the current NI 43-101 compliant copper resources of the project. Future drilling is planned to target the pit area below the 3,000 feet level where only four deep historic holes (D158, D152, D174, and V2-28-33) have actually explored the deep vertical projection of mineralization. Three of five holes drilled along a N-S oriented section through the pit during the period of 1969 -1970 defined a series of nested, concave upward, grade shells that are elongated down the N 70º dip of the dikes with the 0.2% Cu zone extending to approximately the 2,600 level; an overall dip distance of 2,200 feet. Although the program encountered an increasing ratio of pyrite to chalcopyrite, there was no indication of a "barren core", and the porphyry dikes showed a "remarkable continuity" down dip. The drilling data also established a 250 to 500 foot thick zone of fracture hosted and disseminated molybdenum mineralization that wraps around the sulfide zone near the chalcopyrite/ chalcopyrite-pyrite transition.

Historic resources in the residuals (dumps and tailings) of the Yerington Copper Project also reflect a notable potential that need to be more fully evaluated in order to bring those resources into NI 43-101 compliant standards. A sonic drilling program is planned to sample and characterize the residuals on the property. A historically estimated 124 million tons of mineralized material are thought to remain at the Yerington minesite from previous operations in low grade stockpiles, heap leach pads and piles of vat leach tails.

Metallurgical testing is planned for both the residuals and core from sulfide mineralized zones below the pit and oxide copper mineralization in the vicinity of the mine. The test results will be used in an economic assessment of the property and an assessment of the merits of a possible integration of the MacArthur and Yerington operations.

The Bear porphyry deposit also remains unconstrained by drilling. Although it contains no NI 43-101 compliant resources, historical drilling has indicated a large body for copper mineralization that will ultimately need delineation by additional drilling.

Acquisition costs incurred to December 31, 2011 were $2,803,906 and exploration expenditures were $3,623,164 for a total of $6,427,070. Acquisition costs incurred to December 31, 2010 were $2,100,233 and exploration expenditures were $839,354 for a total of $2,939,587.

Herbert Glacier, Alaska

The Herbert Glacier project is an early stage, partially drill-tested, high-grade, gold mineralized mesothermal quartz vein system in the historic Juneau Gold Belt of southeast Alaska, consisting of 105 unpatented lode claims located 30 km north of Juneau and to the south of Coeur Alaska's new Kensington gold mine. The property covers six parallel vein structures exposed at the toe of a retreating glacier.

Grande Portage Resources Ltd., the Company's joint venture partner and operator of the project, has drilled a total of 17,329 feet at the Herbert Glacier project in 30 holes during the 2011 field season; and has reported the intersection of high grade gold mineralization in 5 separate zones, four of which are new discoveries. Grande Portage completed its 2011 fieldwork by identifying numerous deep targets to be drilled in the 2012 season.

Sixteen holes have tested the Deep Trench Vein. Hole 11E-2, drilled at an angle of minus 62 degrees, intersected the vein with a true width of 28.7 feet averaging 1.08 oz/ton gold at a downhole depth of 449.8 feet. The western most platform on Deep Trench vein, the F platform, also showed impressive values in drill hole 11F-3. At a depth of 131 feet, 11F-3 intercepted a brecciated quartz vein that assayed 0.37 oz/ton of gold over 11.5 feet. Significant values were seen in all of the holes testing the vein from the G platform. Trench samples taken from the vein near the E platform encountered strong gold values with assays up to 1.17 oz/ton gold. Grand Portage reports that data collected thus far from E Platform drill-holes and surface exposures show known mineralization in the Deep Trench Vein over a vertical extent of at least 1,300 feet, and remaining open at depth. The vein has a known strike length of almost 3,280 feet.

Hole 11I-4, one of thirteen holes testing the Main and Ridge Vein systems, was drilled at an azimuth of 207 degrees and an angle of -64 degrees to a total depth of 562 feet. The hole intersected the Main Vein with a true thickness of 5.7 feet averaging 0.11 oz/ton gold and 42.7 oz/ton silver at a downhole depth of 506 feet. This intercept occurs near the western limit of exploration on the Main Vein immediately beneath the major contact between the normal host quartz diorite and low-grade metasediments and volcanics. Grand Portage believes that it represents a new target type defined by bonanza grade mineralization produced by the sudden changes in geochemistry, and possibly pressure and temperature at the lithologic contact described above. This hypothesis will be further tested by drilling in 2012.

Grand Portage is planning a drilling program to use two drills throughout the next phase of work on the project. The program is designed to test the Main, Goat, and Deep Trench veins on 500 to 650 foot centers for vein extensions laterally and at depth. Shallower holes are planned for infill with purpose of outlining ore shoots in identified structures.

An independent NI 43-101 compliant resource estimate and technical report for the Herbert Glacier project is expected for completion in Q2 2012. The report will include the results of exploration conducted by Grand Portage during 2010 and 2011.

Acquisition costs incurred to December 31, 2011 were $120,357 and exploration expenditures were $554,119 for a total of $674,476. Acquisition costs incurred to December 31, 2010 were $113,713 and exploration expenditures were $137,370 for a total of $251,083. Grande Portage acquired its 65% joint venture interest by expending $1.25 million.

Arizona Strip Uranium Project – Arizona

Quaterra's Arizona Strip uranium project totals 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 of the Arizona Strip. 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.

On January 9, 2012, the DOI announced a Public Land Order to withdraw approximately one million acres of Federal land for a twenty year period. The stated effect of the order is to withdraw the acreage from new mining claims and sites under the 1872 Mining Law, subject to valid existing rights and does not prohibit previously approved uranium mining, or development of new projects that could be approved on claims and sites with valid existing rights. The withdrawal order affects all 1,000 of Quaterra's unpatented claims on Federal lands but does not affect future exploration or development on the Company's 5.9 square miles of State leases.

On state land unaffected by the federal withdrawal, the Company has mineral exploration permits over a total of 3,773 acres. It includes 9 separate blocks that control a total of 20 breccia pipe targets including 15 high and moderate priority VTEM anomalies. Nine targets have State approved permits for drilling.

Because 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, the DOI's decision to withdraw federal lands in the district has become the subject of litigation. The Nuclear Energy Institute, together with the National Mining Association, filed a lawsuit in U.S. Federal District Court in Arizona on February 27, 2012 seeking to reverse the DOI's withdrawal order. The lawsuit argues that the DOI "lacks legal authority to make withdrawals of public lands exceeding 5,000 acres," and that the land withdrawal is an "arbitrary agency action" under the Administrative Procedure Act

The Northwest Mining Association filed a separate complaint on March 6, 2012 relating to violations of the Federal Land Policy and Management Act (FLPMA), the National Forest Management Act (NFMA), NEPA and the unconstitutional violation of the Presentment Clause of the U.S. Constitution. The complaint requests the Federal District Court in Arizona to "declare the DOI's actions: "(a) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; (b) contrary to constitutional right, power, privilege, or immunity; (c) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right; and/or (d) without observance of procedure required by law."

Additional litigation is in pending by the Arizona Utah Local Economic Coalition (Coalition), which includes Mohave County, Arizona and Washington, Kane and San Juan Counties, Utah, as co-plaintiffs. The Coalition complaint is expected to focus on the failure of the BLM to coordinate with County governments in the FEIS process.

Quaterra has retained legal counsel to advise upon its appropriate remedies related to the withdrawal. The Company considers it premature to judge the effect of the decision on our Federal mining claims until the BLM clarifies the issues of "valid existing rights" as they apply to a number of its mineral claims. Quaterra's past exploration and development work has enhanced several claims to the category where Quaterra believes they could be developed based upon existing rights.

For the past two years, since the commencement of the withdrawal process, the Company has not expended significant amounts of money on the Arizona uranium claims pending the withdrawal decision and has suspended plans to continue to develop uranium claims on Federal land while the issues are resolved politically or judicially.

The Company remains optimistic that efforts to withdraw federal lands will not be successful. The uranium of this district represents significant domestic supply of energy and many jobs at a time when both are critical to the needs of the U.S.

Acquisition costs incurred to December 31, 2011 were $4,761,909 and exploration expenditures were $7,728,123 for a total of $12,490,032. 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.

Nieves Property – Mexico

Quaterra Resources Inc. and 50% joint-venture partner Blackberry Ventures 1, LLC, have completed an additional fifteen holes (QTA 170-QTA 184) totaling 3,415.25 meters at the Nieves silver property in northern Zacatecas, Mexico. These holes, which were drilled during Q4 2011, were designed to test the eastern and western extensions of the La Quinta-Concordia vein system and possible shallow, up-dip extensions of mineralization; and to further evaluate the Santa Rita vein.

Concordia West vein: Concordia vein stockwork mineralization has been delineated on a minimum spacing of 100 meters over a total strike length of 1,000 meters. Mineralization appears to be cut off on the west by holes QTA 166, 173 and 175; and thins markedly to the east in hole QTA 183. All four holes targeting shallow up-dip mineralization (QTA 178, 179, 180, and 182) intersected weak to moderate silver grades, most notably QTA 178 with 36.2 meters averaging 59 g/t silver beginning at a downhole depth of 25.8 meters; and hole QTA 182 with 56.0 meters averaging 26 g/t silver beginning at a downhole depth of 13.0 meters.

Santa Rita vein. Four additional holes (QTA 171, 174, 177 and 181) were unsuccessful in finding areas of higher grade. Drilling has systematically tested the vein over approximately 500 meters along strike but has yielded only thick intervals of low grade silver mineralization.

These holes are the last of a 73- hole program begun in September 2010 totaling 18,547 meters, none of which are included in the 43-101 resource estimate completed by Caracle Creek International Consulting Inc. in August 2010. The objectives of the program were primarily to determine the limits and up dip extensions of mineralization along the Concordia and Gregorio North vein systems; to test numerous IP anomalies on several other vein systems, particularly the Santa Rita and California veins; and to evaluate other interesting targets in the general area.

Principal conclusions are as follows:

- The Concordia vein, including the La Quinta zone, has been drilled on a minimum spacing of 100 meters over a strike length of 1,000 meters. It appears to be cut off on the west and thins substantially to the east.
- The Gregorio North vein extends an additional 500 meters to the west, but at reduced thicknesses and grades.
- The California vein shows somewhat erratic zones of both high and low grade mineralization over a strike length of approximately 350 meters. It does not appear to be a stand alone target but may warrant additional drilling.
- The Santa Rita vein was tested systematically over a distance of 500 meters along strike. Although thick intervals of low grade silver mineralization were intersected, grades are insufficient to represent a stand-alone target.
- Two additional claims covering 12,064 hectares were staked in 2011 to cover possible westward projections of the vein system. Titles are pending. An IP survey has been completed in the area of the new claims and results are expected during Q2 2012.

Caracle Creek is currently conducting additional work on the Nieves silver project. Quaterra expects that Caracle Creek will complete a further updated independent technical report in April 2012. An updated independent technical report may produce different resource estimates than Caracle Creek's 2010 and 2009 technical reports. See "Mineral resource estimates are subject to updates which may differ from prior estimates and adversely affect the value of the Company's properties" under the "Risks and Uncertainties" heading in this MD&A. Immediately after the completion of Caracle Creek's updated independent technical report, Quaterra expects that a preliminary economic assessment will be completed by M3 Engineering and Technology Corp. of Tucson, Arizona.

Since inception to December 31, 2011, the Company had incurred $1,535,959 (December 31, 2010 - $1,472,896) for acquisition costs and $3,920,039 (December 31, 2010 - $2,780,131) for exploration expenditures giving a total of $5,455,998 (December 31, 2010 - $4,253,027) for its 50% interest in Nieves.

Other Mexico Properties – Goldcorp IFA

Quaterra's Investment Framework Agreement (IFA) signed by the companies provides Goldcorp with an option to acquire an interest in any mining properties held by or acquired by Quaterra in central Mexico (except the Nieves silver project) in return for funding a two year generative exploration program through a private placement investment of US$10 million in the Company. The terms of the option allow Goldcorp to acquire up to 65% in any property held by Quaterra by spending an additional US$2 million over a two-year period on advanced exploration on that property and by completing a 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.

During the fourth quarter of 2011, Quaterra initiated drilling on four new properties (Tecolotes, Onix, Microondas and El Calvo) and did follow-up drilling at Santo Domingo. Results are summarized below.

Tecolotes Project, Durango

The Tecolotes mining concession consists of approximately 11,000 hectares located in the southeastern corner of the state of Durango near the Velardeña mining district known for its historic and current production of silver, lead, zinc and copper. Geologic mapping, ground geophysical surveys and geochemical sampling have identified four targets at Tecolotes that form a linear distribution over approximately 6 km of strike length. The targets are aligned in a northwesterly direction that coincides with regional-scale folding and faulting of sedimentary rocks. The folding and faulting deformation has formed a conspicuous structural belt arcing across central Mexico that hosts some of the largest precious-base metal mines in Mexico. Geochemical sampling of Tecolotes outcrops demonstrates widespread distribution of anomalous concentrations of precious, base metals, and trace elements that collectively appear to outline a very large hydrothermal system, and may reflect alteration-mineralization zoning above a projected intrusive body underlying much of the Tecolotes mining concession. Outcrops of rhyolite at the northwestern-most exploration target may be related to the projected intrusive at depth.

A three hole diamond drill program was completed in February near the center of the overall target zone defined by anomalous values in gold, silver, arsenic and antimony along a northeasterly-trending fault zone that crosscuts a regional anticline. The drill holes varied from 351 to 556 m in depth and were inclined at -60 degrees to intercept the fault zone at shallow depths to test for open pit minable mineralization.

The geochemical assay data from all three drill holes is encouraging. Drill hole TEC-01 contains near-surface gold mineralization over 0.19 m averaging 1.9 g/t gold at a depth of approximately 29 m and 15.15 m of 0.104 g/t gold and 16.7 g/t silver from 68.85 to 84.00 m. The highest silver intercepts are at 141.22 to 142.08 m averaging 102 g/t silver and from 231.85 to 232.90 m averaging 94 g/t silver. Drill hole TEC-02 is located about 200 m west of TEC-01, and also encountered near-surface gold and silver mineralization from 78.79 to 81.00 m averaging 0.160 g/t gold and 7.0 g/t silver and 12.85 g/t silver from 114.10 to 114.47 m. Drill hole TEC-03 was drilled about 150 m east of TEC-01 and also intercepted both near-surface and deeper level silver mineralization. The interval from 75.50 to 76.25 m averages 0.103 g/t gold and 128 g/t silver, whereas 0.064 g/t gold and 35.4 g/t silver was penetrated from 76.25 to 77.20 m. At a deeper level, TEC-03 cut silver mineralization from 218.05 to 220.15 m which averages 29.38 g/t silver, and a second interval from 223.7 to 229.9 m that averages 36.2 g/t silver with lead up to 0.45% and zinc up to 1.24% . The combination of anomalous gold, silver, base metals and anomalous amounts of mercury, arsenic and antimony from near-surface to a depth of approximately 230 m suggest a favorable exploration potential related to the fault zone both along strike and at depth. Permits are underway to allow off-set drilling to these drill holes, and to test drill other Tecolotes target areas.

Onix Project, Zacatecas

The Onix Project consists of 34,348 hectares in the northeastern part of the state of Zacatecas about 6 km from the historic mercury mines at San Felipe Nuevo Mercurio. The mining concession is a rather featureless plain with poorly exposed outcrops of Caracol Formation (intercalated sandstone, siltstone and shale. The major structures consist of veins of onyx up to several meters in width. The onyx veins strike approximately north-south in the center of the claim and approximately N30-40W on the eastern side of the claim. There is no evidence of outcropping intrusives but 2 isolated float specimens have been found in the claim in the Cerro Colorado and Field of Dreams areas.

Field mapping and geochemical sampling was started in September. Precious metal values in the geochemical samples taken to date have not shown any anomalous zoning and the airborne geophysical data has not been diagnostic. However, there are some favorable local structures and a distinctive regional structural fabric in the poorly exposed wall rocks, jasperoid breccias, minor shows of base metal mineralization, and locally anomalous heavy metals. Prior mapping in the area of the Field of Dreams identified phyllically altered Caracol sandstone, some with altered clasts of breccia.

In December a nine hole reverse circulation scout drilling program was completed during December 2012. None of the holes contain significant intervals of gold, silver or base metals. However, two hole separated by 550 meters each intersected semi-massive pyrite replacing sandstone-siltstone with milky to smoky quartz and arsenopyrite. Additional drilling will be necessary to evaluate the apparently large sulfide system present under cover. The project has not been explored by modern exploration methods initial work indicates considerable potential for a large hydrothermal ore system on the property.

Microondas Project, Zacatecas

The Microondas gold-silver property consists of 9,057 hectares in Zacatecas State, Mexico, located within the Fresnillo silver trend that has produced several billion ounces of silver. The property is easily accessible by paved highways connecting to the city of Zacatecas, 120 kilometers to the southeast and to the town of Rio Grande, 15 kilometers to the northeast. The initial target is a 1.4 square kilometer area with widespread argillic alteration prospective for a high sulfidation type precious metal system. Quaterra´s surface sampling identified gold values from trace to 0.3 g/tonne and silver values from trace to 29 g/tonne, along with strongly anomalous arsenic, antimony and mercury. A nine diamond drill hole exploration program began in Q4 2011. All nine drill holes have been completed but assay data is still pending for the last two drill holes. The host rock is Caracol Formation, an upper Cretaceous unit consisting of fine to coarse grained sandstone and calcareous shale.

Although the Microondas drill core exhibits conspicuous argillic alteration, silification, brecciation, high pyrite content and structural textures indicative of a potent hydrothermal system, the gold and silver values in these drill holes is not present in significant thicknesses or grades in the first seven drill holes. Likewise copper, lead and zinc are below anomalous values. Trace elements arsenic, mercury and antimony are present in high concentrations from the surface to the lowest levels of drilling. In general these trace elements show similar patterns in the subsurface, with the arsenic halo being the most widespread. The geological and geochemical data, together with drilling results, are being reviewed to determine if additional drilling is warranted.

El Calvo Project, San Luis Potosi

The El Calvo gold property covers 5,830 hectares located in the Altiplano region of the central Mexican state of San Luis Potosí. Multiple sediment-hosted gold targets have been identified by mapping and sampling over a four square kilometer area within an isolated block of sedimentary rocks rising about 150 meters above a flat plain of post-mineral cover. El Calvo sedimentary rocks include favorable lithologic units that host disseminated/stockwork gold mineralization in the Camino Rojo and Peñasquito gold deposits about 100 and 150 kilometers north, respectively. In November 2011 a four drill hole program began at El Calvo. Initial drilling targeted the San Jose prospect where dumps with high-grade gold samples were identified. Three holes did not identify significant gold values but did penetrate a low-angle structure characterized by brecciation, solidification and elevated mercury and antimony values. Elevated arsenic extends upwards from the low-angle structure to the surface.

The data from the initial stage of drilling and mapping are being reviewed to determine possible controls on the surface gold anomalies and how the surface gold occurrences are related to the low-angle structure in the drill core. The results of an induced polarization survey conducted at El Calvo in late 2011 are still being processed and data from that survey may be useful in mapping the silicified low-angle structure in the subsurface. Favorable locations for additional drilling will include structural intersections of the low-angle structure with high-angle structures that contain anomalous gold.

Santo Domingo Project, Durango

The Santo Domingo project, located about 120 kilometers west-northwest of Durango in Durango State, is a copper-gold system hosted by both sedimentary rocks and a quartz porphyry intrusive. Seven widely spaced core holes were drilled during 2011 to test a number of geochemical and geophysical anomalies. Copper mineralization is widespread but low grade. In late 2011 two additional diamond drill holes were completed to test gold potential at depth beneath anomalous surface samples. Neither hole intercepted any significant widths of either gold or silver. The highest value of gold was 1.8 ppm in drill hole SDD-08 and at shallow depth below the surface gold anomalies. Strongly anomalous copper was encountered in both drill holes with the most continuous zone of copper being in SDD-09.

Progress on other prospects under the Goldcorp IFA is summarized below:

Sierra Sabino Project, San Luis Potosi

The Sierra Sabino project is in San Luis Potosí State, Mexico, about 120 kilometers south of Goldcorp´s Peñasquito mine. It is prospective for intrusive-related precious and base metal mineralization and is an Advanced Project as defined in the Goldcorp IFA. A total of 16 core holes have been drilled, primarily to evaluate a northwesterly-trending zone of anomalous gold geochemistry related to jasperoid and silicified limestone close to the western contact of a quartz porphyry stock. None of the 15 holes drilled within this zone intersected significant gold mineralization. One hole drilled into the contact of the quartz porphyry intrusive contains a 24 meter zone beginning at 388 meters of semi-massive to massive sulfide skarn averaging .0021 opt Au; 1.67 opt Ag; 0.33% Cu; 0.1% Pb; 0.23% Zn; 631 ppm W and 12 ppm Mo. Data evaluation is in progress to determine if additional work is warranted.

Americas Project, Durango

The Americas project is located in southern Durango State, close to its border with Zacatecas State and near the small village of Doce de Diciembre. Recent work has focused on the area in and around the Marimar vein, where core hole AMD-03 intersected 2.5 meters averaging 222 g/tonne silver, beginning at a downhole depth of 85.75 meters. As a deeper test, a second drill hole, AMD-11, was drilled in the same plane and below AMD-03. It intersected 1.29 meters of 83 g/tonne silver beginning at a downhole depth of 644 meters. Additional mapping and data review suggest that the most prospective search depth will be within the top 150 meters of the vein. Negotiations are underway to obtain long-term surface access and usage rights to the property and obtain permits to build new drill sites and necessary drill road access.

Mineral Property Expenditure

During the year ended December 31, 2011, the Company experienced a net increase in mineral property costs of $13,995,116. A summary of all mineral property expenditures by property can be found in Note 6 of the consolidated financial statements for the year ended December 31, 2011, a summary of which is presented in the following table:

Summary by Expenditures	December 31, 2010	Additions Q1	Q2	Q3	Q4	Change during the year	December 31,2011
Total acquisition, net of cost recovery	$ 13,474,376	$ 1,312,713	$ 449,230	$ 1,148,942	$ 337,938	$ 3,248,823	$ 16,723,199
Total exploration, net of cost recovery	31,611,294	1,807,977	3,341,417	4,578,474	5,161,649	14,889,517	46,500,811
	45,085,670	3,120,690	3,790,647	5,727,416	5,499,587	18,138,340	63,224,010
Impairments	-	(2,748,934)	(1,434,290)	-	-	(4,183,224)	(4,183,224)
Total	$ 45,085,670	$ 371,756	$ 2,356,357	$ 5,727,416	$ 5,499,587	$ 13,955,116	$ 59,040,786

Summary by Mineral Properties	December 31,2010	Additions Q1	Q2	Q3	Q4	Change during theyear	December 31,2011
Nieves, net of cost recovery	$ 4,253,027	$ 230,096	$ 131,916	$ 696,138	$ 144,821	$ 1,202,971	$ 5,455,998
Other properties in Mexico, net of cost recovery	7,406,407	544,233	620,197	866,919	1,904,944	3,936,293	11,342,700
MacArthur copper	12,552,296	1,560,883	2,179,037	1,627,768	1,582,918	6,950,606	19,502,902
Yerington copper	2,939,587	278,089	361,299	1,545,639	1,302,456	3,487,483	6,427,070
Alaskan properties	2,692,675	(2,440,790)	-	-	422,591	(2,018,199)	674,476
Uranium properties	12,070,203	39,244	75,943	250,310	54,332	419,829	12,490,032
Other properties, US	3,171,475	160,001	(1,012,035)	740,642	87,525	(23,867)	3,147,608
Total	$ 45,085,670	$ 371,756	$ 2,356,357	$ 5,727,416	$ 5,499,587	$ 13,955,116	$ 59,040,786

Review of Financial Results

For the year ended December 31, 2011 ("2011"), the Company reported a net loss of $11,264,539 compared to a net loss of $2,769,248 in the previous year ("2010"). A comparison of general administration expenses for 2011 and 2010 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.

	Year ended December 31, 2011	2010	Increase (decrease)
General and administrative expense			
Administration and general	$ 701,670	$ 579,032	$ 122,638
Consulting	644,757	369,779	274,978
Depreciation	149,810	95,184	54,626
Directors' fees	110,294	113,240	(2,946)
Investor relations and communications	309,110	274,827	34,283
Personnel costs	1,152,792	833,372	319,420
Professional fees	429,889	473,532	(43,643)
Share-based payments	2,846,707	2,251,258	595,449
Transfer agent and regulatory fees	149,580	157,205	(7,625)
Travel & promotion	203,086	134,443	68,643
	$ 6,697,695	$ 5,281,872	$ 1,415,823

General administrative expenses increased by $765,748, or 26%, (excluding non-cash items), reflecting the Company's increased activities in 2011.

An analysis of the changes is outlined below:

a) Administration and general office general expenses increased by $122,638 from $579,032 in 2010 to $701,670 in 2011 reflecting the expanded office operations in Yerington, Nevada.
b) Consulting increased by $274,978 from $369,779 in 2010 to $644,757 in 2011 reflecting the Company's engagement with a local community service provider in Yerington, Nevada regarding the exploration of mining opportunities at its Yerington property.
c) The increases in investor relations and travel & promotion reflect the Company's communications with investors through web/telephone conferences, implementing a new website and advertising in industry newspapers and magazines.
d) Personnel costs increased by $319,420 from $833,372 in 2010 to $1,152,792 in 2011 resulting from the expanded operations noted above.
e) Professional fees reduced by $43,643 from $473,532 in 2010 to $429,889 in 2011 reflecting the reduced legal fees in the current year.
f) Share-based payments increased by $595,449 from $2,251,258 in 2010 to $2,846,707 in 2011. The values of share- based payments were determined by the Black-Scholes option pricing model recognized over the vesting period of options. See Note 8 in the consolidated financial statements for Black Scholes assumptions.
g) Transfer agent and regulatory fees decreased by $7,625 from $157,205 in 2010 to $149,580 in 2011 due to the timing difference in expensing annual regulatory listing fees.

Other Expenses (Income) and Non-Cash Items

	Year ended December 31, 2011	2010	Increase (decrease)
Other (income) expenses and non-cash items:			
Exploration partner administration incom	$ (181,417)	$ (155,639)	$ (25,778)
Foreign exchange loss	189,877	324,828	(134,951)
General exploration costs	506,297	794,571	(288,274)
Gain on sale of mineral property	-	(50,000)	50,000
Impairments	4,183,224	622,121	3,561,103
Interest income	(169,662)	(11,321)	(158,341)
Write-off of equipment	38,525	-	38,525
Fair value gain on derivative liability	-	(4,037,184)	4,037,184
	$ 4,566,844	$ (2,512,624)	$ 7,079,468

a) Exploration partner administration income: The Company charges a 10% administration fee on its Nieves joint venture partner's shared exploration costs and 5% fee on expenditures on its central Mexico properties under the Goldcorp IFA agreement.
b) Foreign exchange: The Company recognized a foreign exchange loss of $189,877 in 2011 compared to $324,828 in 2010 due to the fluctuation of the Canadian dollar against the US dollar. Volatility in the foreign exchange rate could continue to result in significant foreign exchange gains or losses. The Company does not actively hedge its exposure to changes in the value of the Canadian dollar.

c) 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.

d) Impairment: during the year ended December 31, 2011, the Company wrote down the carrying value of the following properties totaling $4,183,224:
   i. $2,441,592 related to Duke Island property
   ii. $257,533 related to Peg Leg property
   iii. $49,809 related to the Klondike property
   iv. $1,109,446 related to Willow Creek property
   v. $324,844 related to Gray Hills property.

e) Interest earned varies based on the timing, type and amount of equity placements and resultant fluctuations in cash.

f) Fair value gain on derivative liability is related to the U.S. dollar denominated warrants issued on November 27, 2008, December 19, 2008 and January 15, 2009 with respect to the convertible debt financings. See Note 17 in the consolidated financial statements for details.

Selected Annual Information

The following table sets forth a comparison of financial data for the previous two most recently completed fiscal years:

	December 31, 2011	December 31, 2010
Total income	$ 351,079	$ 166,960
Net loss for the year 5	(11,264,539)	(2,769,248)
Basic and diluted loss per share	(0.08)	(0.02)
Total assets	73,610,822	65,460,923
Cash dividends declared	-	-

Quarterly Information Trends

The following quarterly information is derived from the Company's consolidated financial statements:

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
General administrative expense	$ (1,188,387)	$ (912,468)	$ (793,952)	$ (956,181)
Exploration partner administration incom	18,358	77,073	38,362	47,624
Foreign exchange gain (loss)	(149,196)	192,862	(15,329)	(218,214)
General exploration costs	(201,479)	(159,568)	(42,382)	(102,868)
Impairments	-	-	(1,434,290)	(2,748,934)
Interest income	118,057	47,012	2,262	2,331
Share-based payments	(265,675)	(2,341,617)	(198,503)	(40,912)
Write-off of equipment	-	-	(38,525)	-
Net loss	(1,668,322)	(3,096,706)	(2,482,357)	(4,017,154)
Basic loss per share	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.03)

	December 31, 2010	September 30, 2010	June 30, 2010	March 31,h2010
General administrative expenses	$ (799,613)	$ (675,229)	$ (848,023)	$ (707,749)
Exploration partner administration in com	57,941	41,650	30,614	25,434
Foreign exchange gain (loss)	(106,236)	(226,066)	187,015	(179,541)
General exploration costs	(379,923)	(103,971)	(251,264)	(59,413)
Gain on sale of mineral property	50,000	-	-	-
Impairments	(622,121)	-	-	-
Interest income (expenses)	11,146	2,680	(2,090)	(415)
Share-based payments	(214,380)	(1,626,918)	(201,598)	(208,362)
Fair value gain on derivative liability	-	-	353,919	3,683,265
Net income (loss)	$ (2,003,186)	(2,587,854)	(731,427)	2,553,219
Basic income (loss) per share	$ (0.02)	$ (0.02)	$ (0.01)	$ 0.02

The Company's results have been largely driven by the level of its exploration activities and foreign exchange rates. The Company has had no revenue from mining operations since its inception. Major variations in costs are summarized below:

- General exploration expenditures can vary widely from quarter to quarter depending on 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.
- Share-based payments 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 hired its Vice President of Yerington Project and granted 300,000 stock options at exercise price of $0.90 for five years. The Company received higher interest resulting from the $8.9 million proceeds of warrants exercised in September and October 2011.

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 cost in 2012 to Manex is $93,000 expiring June 30, 2012. In February 2012, the Company renewed the service agreement for another five years. Please see consolidated financial statements notes 10 and 15 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 Condition, Liquidity and Capital Resources

The Company finances its operations by raising capital in the equity markets. As at March 27, 2012, the Company has cash and cash equivalents of $6.2 million, of which $4 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, 2011, the Company received net proceeds of $5,918,882 from a private placement, $8,888,424 from the exercise of warrants, $723,405 from the exercise of stock options.

During the year ended December 31, 2011, the Company used cash in operating activities of $4,377,036 (2010 - $4,338,516) and had $17,345,625 (2010 - $9,049,566) in mineral property acquisition and exploration costs. The Company received US$1,541,857 shared exploration costs from Blackberry Ventures and US$1,774,711 exploration recovery from Goldcorp for the advanced property. The ability of the Company to continue these activities is dependent on the success of its mineral properties and its ability to generate investor interest.

Outstanding Shares, Stock Options and Share Purchase Warrants

As at March 27, 2012, 152,394,949 common shares were issued and outstanding, 7,508,803 warrants were outstanding at a weighted average exercise price of $1.98 and 11,435,000 stock options were outstanding and 11,133,333 exercisable at a weighted average exercise price of $1.53.

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, 2011 and there have been no significant changes to internal control over financial reporting in the year ended December 31, 2011.

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, 2011, and the Board of Directors approved these documents prior to their release.

Transition to IFRS

The consolidated financial statements for the year ended December 31, 2011 are prepared under IFRS's. The accounting policies described in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in the consolidated financial statements for year ended December 31, 2010 and the consolidated statement of financial position as at January 1, 2010. An explanation of IFRS 1, exemptions applicable to first-time adoption of IFRS, and the required reconciliations between IFRS and Canadian GAAP are described below.

IFRS 1, First-time adoption of IFRS ("IFRS 1")

In preparing these consolidated financial statements, the Company has applied IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 gives entities adopting IFRS for the first time a number of optional exemptions in certain areas, to the general requirement for full retrospective application of IFRS.

Share-based payments

The Company has elected to not apply IFRS 2, *Share-based Payment*, to equity instruments granted on or before November 7, 2002 and those granted but fully vested before the date of transition of January 1, 2010.

Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and will apply IFRS 3 to business combinations that occur on or after January 1, 2010.

Reconciliation from previous GAAP on transition to IFRS

Under Canadian GAAP, warrants that have an exercise price denominated in a currency other than the Company's functional currency are accounted for as equity instruments. Under IFRS, such instruments meet the definition of a derivative liability and are recorded as a financial liability and are required to be measured at fair value at each reporting period with gains or losses recognized in net income (loss). The warrants issued on November 27, 2008, December 19, 2008 and January 15, 2009 with respect to the convertible debt financing had an exercise price denominated in U.S. dollars. As a result, these warrants are required to be measured and recognized at fair value with changes subsequent to the initial recognition charged to the net income (loss) until they are fully exercised. The Company has determined the fair value using the Black-Scholes option pricing model. The warrants expired or were exercised completely by May 25, 2010.

As at January 1, 2010, the Company recorded an adjustment to recognize the fair value of the warrant liability amounting to $8,477,944 and increased deficit by $8,477,944.

For the year ended December 31, 2010, the Company recorded a warrant revaluation gain $4,037,184 resulting from the fair value impact of this derivative liability. On exercise of the warrants the associated derivative liability of $4,440,760 was transferred to share capital.

Reconciliation of the consolidated statements of financial position

	December 31, 2010	January 1, 2010
Total assets under Canadian GAAP	$ 65,460,923	$ 41,872,497
Adjustment on adoption of IFRS	-	-
Total assets under IFRS	**$ 65,460,923**	**$ 41,872,497**
Total liabilities under Canadian GAAP	$ 896,568	$ 879,387
Derivative liability - warrants	-	8,477,944
Total liabilities under IFRS	**$ 896,568**	**$ 9,357,331**
Deficit under Canadian GAAP	$ (42,422,329)	$ (35,615,897)
Derivative liability - warrants	(4,440,760)	(8,477,944)
Deficit under IFRS	**$ (46,863,089)**	**$ (44,093,841)**
Share capital under Canadian GAAP	91,360,190	63,168,843
Derivative liability - warrants	4,440,760	-
Share capital under IFRS	**$ 95,800,950**	**$ 63,168,843**
Total shareholders' equity under Canadian GAAP	$ 64,564,355	$ 40,993,110
Adjustment on adoption of IFRS	-	(8,477,944)
Totals hareholders' equity under IFRS	$ 64,564,355	$ 32,515,166
Total liabilities and shareholders' equity under IFRS	**$ 65,460,923**	**$ 41,872,497**

Reconciliation of consolidated comprehensive loss

	Year ended December 31, 2010
Comprehensive loss under Canadian GAAP	$ (6,810,765)
Adjustment for derivative liability	4,037,184
Comprehensive loss under IFRS	$ (2,773,581)

There were no material adjustments or impact on the consolidated statement of cash flows for the year ended December 31, 2010.

Financial and other Instruments

The Company's activities expose it to a variety of risks arising from financial instruments. Please refer to Note 16 in the consolidated financial statements for the year ended December 31, 2011 for detailed discussions.

The Company's marketable securities as at December 31, 2011 were carried at fair value. During the year ended December 31, 2011, the Company reported an unrealized loss of $34,000 from mark-to-market adjustments on the marketable securities.

Risks and Uncertainties

Investing in the Company's common stock involves a high degree of risk. Before deciding to purchase, hold or sell the Company's common stock, you should carefully consider the risks described below in addition to the cautionary statements and risks described elsewhere and the other information contained in this MD&A and in the Company's other filings with securities regulatory authorities. The risks and uncertainties described below are not the Company's only ones. Additional risks and uncertainties not presently known to the Quaterra or that Quaterra currently deems immaterial may also impair the Company's business operations. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on Quaterra, the Company's business, financial condition, results of operations and/or liquidity could be seriously harmed, which could cause the Company's actual results to vary materially from recent results or from the Company's anticipated future results. In addition, the trading price of the Company's common stock could decline due to any of these known or unknown risks or uncertainties, and you could lose all or part of your investment.

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, 2011, the Company had working capital of $10,777,579. Management believes that its remaining cash resources, together with the continued 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, the issuance of securities convertible into common shares through private placements or public offerings, or the sale of assets. 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. Similarly, the Company cannot predict the value of any asset sale nor its effect on the market price of its common shares.

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 two periods in the amounts of $11,264,539 for the year ended December 31, 2011 and $2,769,248 for the year ended December 31 2010. As of December 31, 2011, the Company had an accumulated deficit of $58,127,628. 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 the Company's 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.

Mineral resource estimates are subject to updates which may differ from prior estimates and adversely affect the value of the Company's properties.

The estimating of mineralization is a subjective process and the accuracy of estimates is a function of the quantity and quality of available data, the accuracy of statistical computations, and the assumptions used and judgments made in interpreting engineering and geological information. There is significant uncertainty in any mineralization estimate, and the actual deposits encountered and the economic viability of mining a deposit may differ significantly from our estimates. From time to time, Quaterra obtains updated resource estimates and technical reports related to the Company's mineral properties. For example, as of the date of this MD&A, Caracle Creek International Consulting, Inc. is conducting work to update its technical reports and resource estimates prepared in 2009 and 2010 relating to the Nieves silver project. Subsequent work performed to estimate mineralization may be unable to confirm previous estimates and may result in different estimates. As a result, future technical reports may adversely differ from previous estimates and negatively affect the value of Quaterra's mineral properties.

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. 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.

The Company's Arizona uranium claims are subject to a U.S. government order withdrawing new mining claims.

On January 9, 2012, the U.S. Department of the Interior announced a Public Land Order to withdraw approximately one million acres of federal land for a twenty year period. The stated effect of the withdrawal order is to withdraw the acreage from new mining claims and sites under the 1872 Mining Law, subject to "valid existing rights" and does not prohibit previously approved uranium mining, or development of new projects that could be approved on claims and sites with "valid existing rights." The withdrawal order affects all of the Company's unpatented Arizona uranium claims on federal lands but does not affect future exploration or development on the Company's 5.9 square miles of state leases in Arizona. Some of the Company's mineral claims on federal lands may be excluded from the withdrawal order depending on how the U.S. Bureau of Land Management interprets and applies "valid existing rights." The Company believes that its exploration and development efforts have enhanced several of claims to the point where they could be developed based upon existing rights. The withdrawal order is subject to various litigation by third parties. Unless it is revoked or overturned, the withdrawal may inhibit the Company's ability to implement its strategy for and adversely affect the value of the Arizona uranium claims.

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 one 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.

Forward-Looking Statements

This MD&A contains "forward-looking statements". Statements that are not historical fact and that relate to predictions, expectations, beliefs plans, projections, objectives, assumptions, future events, or future performance may be forward-looking statements. Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", "plan" or similar words.

You are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are subject to inherent risks and uncertainties which could cause actual events or results – such as, among other things, results of exploration, reclamation, capital costs, and the Company's financial condition and prospects – to differ from those reflected in a forward-looking statement. These risks and uncertainties include 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; changes in resource estimates resulting from updated testing and technical reports; the impact of governmental regulations, including environmental regulations; and commodity price fluctuations. This list is not exhaustive of the factors that may affect the Company's forward-looking statements. Further information regarding these and other factors, are included in this MD&A under the "Risk and Uncertainties" heading and in the Company's filings with securities regulatory authorities.

The forward-looking statements contained in this MD&A are based on the beliefs, expectations, and opinions of management on the date the statements are made. The Company undertakes no obligation to update any forward-looking statement should circumstances or estimates or opinions change, 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, 2011
Rate at end of year	0.9946	1.0170
Average rate	1.0303	0.9891
High	1.0745	1.0630
Low	0.9946	0.9383

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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	Grams/Tonne

Precious metal units andc onversion 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, 2012

/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, 2012

/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, 2011 (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, 2012

/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, 2011 (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, 2012

/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 year ended December 31, 2011 of our reports dated March 27, 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 "Interests of Experts" in the Company's Annual Information Form for the year ended December 31, 2011, dated March 30, 2012.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, Canada
March 30, 2012

CONSENT

[Letterhead of CARACLE CREEK INTERNATIONAL INC.]

We hereby consent to the reference to the following reports in connection with the filing of the annual report on Form 40-F for the fiscal year ended December 31, 2011 of Quaterra Resources Inc. filed with the United States Securities and Exchange Commission:

1. Independent Technical Report, The Nieves Silver Project, Zacatecas State, Mexico dated May 8, 2009; and.
2. Independent Technical Report, Nieves Property, Zacatecas State, Mexico dated September 17, 2010.

Dated this 26th day of March, 2012.

/s/ Robert L. Gordon
Robert L. Gordon, P. Eng. MBA
General Manager

On behalf

Caracle Creek International Consulting Inc.

CONSENT

[Letterhead of Tetra Tech, Inc.]

We hereby consent to the reference to the following reports in connection with the filing of the annual report on Form 40-F for the fiscal year ended December 31, 2011 of Quaterra Resources Inc. filed with the United States Securities and Exchange Commission:

1. MacArthur Copper Project NI 43-101 Technical Report, Lyon County, Nevada, U.S.A. dated January 21, 2011; and
2. MacArthur Copper Project NI 43-101 Technical Report, Lyon County, Nevada, U.S.A. dated March 19, 2009.

Dated this 2nd day of March, 2012.

/s/ D. Erik Spiller, QP

D. Erik Spiller, QP
Vice-President – Principal Metallurgist
Tetra Tech, Inc.

CONSENT OF QUALIFIED PERSON
(Letterhead of Tetra Tech, Inc.)

To: All Applicable Securities Regulatory Authorities

Re: Technical Report on the Yerington Copper Project dated February 17, 2012.

I, Rex C. Bryan, PhD, do hereby consent to references 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, 2011 of Quaterra Resources Inc. filed with the United States Securities and Exchange Commission.

The technical report dated February 17, 2012 entitled “NI 43-101 Technical Report, Mineral Resource, Yerington Copper Project” prepared for Singatse Peak Services prepared by Rex C. Bryan, PhD for Tetra Tech.

Dated this 1st day of March, 2012

TETRA TECH, INC.

/s/ Rex C. Bryan, PhD.

By: Rex C. Bryan, PhD
Title: Senior Geostatistician