PETAQUILLA MINERALS LTD.

For Period Ended – May 31, 2008

Management Discussion and Analysis
Of Results of Operations and Financial Condition

For periods ended May 31, 2008 and April 30, 2007

PETAQUILLA MINERALS LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Petaquilla Minerals Limited ("PTQ" or the "Company") reports the financial results for the thirteen months ended May 31, 2008, which have been prepared on the basis of available information up to August 22, 2008. Management's Discussion and Analysis should be read in conjunction with the audited consolidated financial statements and related notes thereto of the Company, as at and for the Thirteen months ended May 31, 2008 and Fifteen months ended April 30, 2007.

Management's discussion and analysis provides a review of the performance of PTQ's business and compares its performance for the Thirteen months ended May 31, 2008, with the Fifteen month period to April 30, 2007. This discussion also provides an indication of future developments along with issues and risks that can be expected to impact future operations. There is no guarantee of future performance, since actual results could change based on factors and barriers beyond management's control.

OVERALL PERFORMANCE

Business Overview

PTQ is a Canadian-based gold exploration and development company with its development activities located solely in Panama.

PTQ's growth strategy has been to establish a gold production base from the development of its 100% owned Molejon deposit located within the Ley Petaquilla Concession. In addition, PTQ plans to continue to evaluate gold development projects and/or related production possibilities by means of internal development of its mineral assets or growth through acquisition or merger of assets with companies having either production or advanced development stage goldcopper projects.

<u>Plan of Arrangement</u>

- On June 6, 2006, the shareholders of PTQ voted in favor of the May 10, 2006, proposed Plan of Arrangement effected October 18, 2006.

- Subsequently, on June 19, 2006, Supreme Court approval in the Province of British Columbia was obtained for the Plan of Arrangement.

- The result of the Plan of Arrangement was that each shareholder of PTQ received one share of Petaquilla Copper Ltd. ("Copper" or "PTC"), a newly formed company.

- According to the terms of the Plan of Arrangement, PTQ transferred Copper all of the issued shares of its wholly-owned subsidiary, Georecursos Internacional S.A., the holder of the 52% interest in the Ley Petaquilla concession lands.

PTQ retained 100% ownership of the gold and precious metal deposits within the Ley Petaquilla concession as well as all the other concession lands adjacent to the Ley Petaquilla concession.

- As part of the June 2005 Mine Development Plan approved by the Government of Panama in September 2005, Copper would then continue with the development of its interest in the copper based mineral deposits and PTQ would advance the development of its interest in the Molejon deposit, being the first gold and precious metal deposit identified within the Ley Petaquilla concession lands.

- PTQ paid $500,000 to Copper as part of the Plan of Arrangement, in order to acquire 22,189,434 of the issued shares of Copper. This initial 20% equity stake has been and will continue to be diluted upon future share capital financings that are anticipated to be necessary for the ongoing funding of the Copper deposit project.

- As a result of the Plan of Arrangement, the Company now accounts for Copper on an equity basis.

- On December 31, 2007, the common shares of Copper commenced trading on the Toronto Stock Exchange ("TSX") under the stock symbol "PTC".

Significant Accomplishments for the Period

Molejon Gold Deposit Project

- Completed additional meters of trenching and drilling on the Botija Abajo deposit and on the Mestizo deposit.

- Detailed field mapping and surface sampling program is ongoing and a diamond drilling program has commenced on the Lata prospect.

- Completed additional meters of infill diamond drilling between the Molejon Main Zone and the Molejon NW Zone, additional resource drilling, and condemnation holes for the Molejon plant site and related areas area.

- Road access improvements including the ongoing design and commencement of bridge construction for river and stream crossing continues.

- Phase 1 of the upgrade of the government road from La Pintada to Coclesito has been completed.

a) Construction of the 8 kilometer road from the Molejon site to the Colina site is complete. Access by heavier vehicles is possible. Additional culverts will be constructed going forward. This road will be shared by PTQ and Copper.

a) Continued evaluation of short and long term power sources for the future development of the Molejon mine site as well as adjacent areas within the concession lands.

- Acquisition of key mill components.

- Acquired additional mine equipment, vehicles, software and office equipment, as part of ongoing development plans.

- Continued design of the tailings and waste facilities together with the commencement of geotechnical investigations.

- Submission of the updated environmental impact study and evaluation of the hydrological aspects of the Molejon project and geotechnical aspect of the open pit.

- The metallurgical testing program, including crushing, grinding, cyanidation, liquid/soil separation and cyanide detoxification tests is nearing completion.

- Continued delineation of selected areas suitable for a tailings dam and associated infrastructure, subject to fatal flaw analysis (incl. condemnation drilling).

- Survey of the delineation of the plant site has been completed.

- The Company appointed Gaston Araya as project manager of the Molejon gold project. Mr. Araya comes to the Company with over 35 years of mining experience. He has previously worked at Kinross Gold and Glencairn Gold Corp.

Socio / Economic Activities

- Representatives from local communities around the project area continue visits to the mine site offices, the road construction project and the exploration camp. They received information about PTQ's projects and assistance in understanding the project impacts in their respective villages.

- Youths received bursaries, which will support them for three years to attend secondary schooling.

- Medical centre in Coclesito has been assisted with medical supplies and ambulance services.

- Ongoing medical attendance and support to government authorities in transporting critically ill residents of communities near the Molejon mine site to medical centers.

- Donation of school supplies for all the schools in the Donoso District in the Province of Colon.

- Sports training (Little League) program commenced in four communities in the Donoso District.

- In three communities, assistance has been provided with respect to installation and maintenance of the potable water system.

- Started the provision of at least one daily healthy meal for all children in the thirteen closest schools to the Molejon mine site.

- In five communities near the Molejon mine site, work has started on the creation and upgrade of local roads to access the main road presently under construction and to assist in a chicken raising program among 26 families surrounding the project

- As part of projects to create sustainable long-term economic value to the local communities, PTQ has initiated a cattle-breeding program for local cattle ranchers near the mine site.

Optioned Lands

San Juan Concession - Panama

During the period ended April 30, 2007, the Company entered into an agreement with Geneva Gold (formerly Eurogold Mining Inc.), for the exploration and development of the San Juan Concession. The San Juan Property is adjacent to the Company's Molejon gold project and the Petaquilla porphyry copper project in north central Panama. Under the agreement, Geneva Gold may earn a 60% interest in the San Juan Property by incurring exploration expenditures of at least US$6,000,000, by paying Petaquilla Minerals Ltd. US$600,000 in cash and by causing to be issued to Petaquilla Minerals Ltd. 9,000,000 shares of Geneva Gold, over a period of three years. If Geneva Gold acquired a 60% interest in the property, it may increase its interest to 70% by incurring US$3,000,000 in additional exploration expenditures in the fourth year. The Company was to be the operator of the project. The Company received the initial cash option payment of $111,120 (US$100,000).

During the prior period, the Company rescinded the above agreement and returned the initial cash option payment of $111,120 (US$100,000) to Geneva Gold.

Geneva Gold had claimed for loss in share value said to be caused by Petaquilla's news release announcing that the agreement with the company has been rescinded.

The above claim was settled in the fourth quarter of fiscal 2007/2008 with 100,000 Petaquilla Ltd. shares, which had a fair market value of $2.61 per share at the date of settlement. These shares will be released from escrow in four equal monthly tranches. The shares may not be traded until the first pour of gold at the Company's Molejon Property, or December 31, 2008, whichever comes first

Rio Belencillo Concession – Panama

The Company holds various interests in other land concession areas adjacent to the Ley Petaquilla Property in Panama, including the Rio Belencillo and Rio Petaquilla concessions.

By an Agreement dated May 7, 2005 and amended on June 10, 2005, Gold Dragon Capital Management Ltd. ("Gold Dragon"), has an option to purchase all of the Company's interest in the Rio Belencillo and Rio Petaquilla concessions by the expenditure of $100,000 in approved exploration costs by May 7, 2007, an additional $400,000 in approved exploration costs by February 7, 2008 and by then paying the Company $1,152,400. This sum is payable in shares of Gold Dragon.

The payment of $100,000 on account of exploration expenditures has not been made in accordance with the terms and conditions of the May 7, 2005 agreement. The Company is in the process of amending the agreement with Gold Dragon.

The Company's proportionate share of exploration costs totalling $48,872 has been capitalized on the Company's balance sheet.

Private Placement and other Capital Stock-Related Activity

- The Company issued 1,429,278 shares on the exercise of stock options and warrants for proceeds for $1,658,655 and 100,000 shares as legal settlement for an amount of $261,000.

- The Company completed the first tranche of a non-brokered private placement comprising of 1,387,879 units at $2.00 per unit, and 24,033 units at $2.02 per unit, for gross proceeds of $2,824,305. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable into a common share at a price of $3.50 per share for a period of two years following closing of the private placement. The share purchase warrants are subject to an accelerated expiry provision that, if the volume weighted average trading price of the common shares of the Company as traded on the Toronto Stock Exchange exceeds $7.00 per share for at least 30 consecutive trading days, the Company shall have the right, exercisable within 30 days thereafter, to give notice to each warrant holder requiring the exercising of the warrants within a 30 day period. If the Company exercises such right, the warrant will, if not exercised by the warrant holder in accordance with its terms and conditions, expire at the end of such 30 day period. The securities issued under this private placement are subject to a four-month and a day resale restriction in effect until September 10, 2007.

- The Company closed a non-brokered private placement comprising of 2,093,500 units at $3.00 per unit, for gross proceeds of $6,280,500. Each unit consists of one common share and one-half of one common share purchase warrants, with each whole warrant exercisable into a common share at a price of $3.50 per share for a period of two years following closing of the private placement. The securities issued under this private placement are subject to a four-month and a day resale restriction in effect until March 1, 2008. In connection with the closing of the first tranche, the Company has paid finders' fees in the amount of $222,375 cash and has issued 74,125 compensation warrants. The compensation warrants have the same terms as the warrants above.

- The Company completed the second tranche of its non-brokered private placement, issuing a total of 339,000 units at a price of $3.00 per Unit and raising gross proceeds of $1,017,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $3.50 per share for a period of two years from closing. All securities distributed under the private placement are subject to a four-month plus one day hold period expiring on April 20, 2008. In connection with the closing of the second tranche, the Company has paid finders' fees in the amount of $43,500 cash and has issued 12,500 compensation warrants. The compensation warrants have the same terms as the warrants above.

- The Company completed the third and final tranche of its non-brokered private placement, issuing a total of 708,000 Units at a price of $3.00 per unit and raising gross proceeds of $2,124,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at an exercise price of $3.50 per share for a period of two years from closing. All securities distributed under the private placement are subject to a four-month plus one day hold period expiring on May 10, 2008. In connection with the closing of this final tranche, the Company has paid finders' fees in the amount of $105,000 cash and has issued 35,000 compensation warrants. The compensation warrants have the same terms as the warrants above.

- The Company granted an aggregate of 1,375,000 stock options to employees, consultants, a director and an officer with exercise prices between $1.96 to $3.04 and expiry dates between October 19, 2008, and May 5, 2013.

- On May 21 the Company closed $31,746,900 (US$ 32,250,000) the first tranche of its US$60 Million senior secured notes (“Notes”). The Notes bear interest at an annual rate of 15%. The Notes will mature five years from date of issuance at 120% of the principal. The Company has the right to redeem the notes at any item at 120% of the principal amount plus any accrued or unpaid interest on the notes. If the Notes are redeemed within one year of issuance, all prepaid interest is forfeited. After 24 months from the date of issuance of the Notes, holders of the Notes shall have the right to cause the Company to purchase all of its notes then outstanding at a price equal to the sum of:

  (a) 120% of the principal amount of such Notes to be purchased and

  (b) accrued and unpaid interest on the principal amount of the Notes. On an annual basis, the Note holders can cause the company to redeem Notes equal to 35% of free cash flow. Free cash flow is to be defined mutually between the Company and the Note holders. As of May 31, 2008, no definition of free cash flow has been defined.

  Each Note was issued with 382 share purchase warrants. Each warrant entitles the holder to purchase one common share at CDN $2.30 for a period of five years from the date of purchase. The warrants are subject to a weighted average anti-dilution price protection with a floor equivalent to CDN $ 2.15.

FORWARD-LOOKING STATEMENTS

Certain information regarding PTQ as set forth in the MD&A, including management’s assessment of PTQ’s future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control of the Company, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuation, imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of qualified personnel or management, stock market volatility and the ability to access sufficient capital from external or internal sources.

The actual results, performance or achievement could materially differ from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them does, what benefits PTQ will derive there from.

SELECTED ANNUAL INFORMATION

Key Financial Data (in $ thousands)	2008		2007		2006	
Net loss from continuing operations	(4,344)	(1)	(27,962)	(2)	(2,568)	(3)
Net loss for the year	(4,344)	(1)	(27,962)	(2)	(2,568)	(3)
Loss per share – basic and diluted	(0.05)		(0.35)		(0.05)	
Cash outflow from operating activities	(8,678)		(8,980)		(1,758)	
Working (deficit) capital	(3,693)		(4,221)		8,689	
Long term debt and liabilities	56,274		11,744		-	
Total assets	107,482	(6)	46,581	(4)	12,807	(5)

(1) includes $5,754,085 stock-based compensation
(2) includes $20,386,270 stock-based compensation
(3) includes $410,301 stock- based compensation
(4) increase as compared to total assets on January 31, 2006 is primarily a result of mineral property costs that have been deferred during the year.
(5) increase as compared to total assets on January 31, 2005 is primarily a result of cash acquired from issuance of capital stock and mineral property costs less general and administrative expenses during the year.
(6) increase as compared to total assets on April 30, 2007 is primarily a result of cash acquired from issuance of capital stock, and secured note, used to acquire property and equipment which was partially funded through capital leases and mineral property costs that have been deferred during the year

RESULTS OF OPERATIONS – FOR THE FOUR MONTHS ENDED MAY 31, 2008 COMPARED TO THE THREE MONTHS ENDED APRIL 30, 2007

The Company’s consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and all amounts are expressed in Canadian dollars unless otherwise indicated.

The operating results of PTQ reflect its ongoing administrative costs, net of interest and other income. PTQ does not have any operating mining assets. However, significant development work is underway on the Molejon gold deposit with a present targeted production start up for fiscal 2009.

Revenue

Interest and other income in the four months ended May 31, 2008 totaled nil compared to $56,849 in the three months ended April 30, 2007.

Expenses

Expenses for the four months ended May 31, 2008, were $6,541,871, a substantial decrease from $11,891,408 for the three months ended April 30, 2007. The decrease in expenses is mainly due to the Stock-based compensation, a non-cash expense, which decreased to $669,129 compared to $10,378,308 in the three months ended April 30, 2007. This decrease is as a result of deferred options that were vested during the three months ended April 30, 2007 which were previously valued at grant date, and revalued on the date of approval during fiscal year end 2007. Options affected by the Plan of Arrangement, whereby options that were outstanding at October 17, 2006, were rolled back by 40% except for 675,000 options, were revalued at Plan of Arrangement date resulting in an increase in the stock-based compensation expense for these options. This was offset by financing costs of $3,974,266 which was incurred with regards to senior secured notes, nil in the period ended April 30, 2007, wages and benefits of $395,198 compared to $179,317, office administration costs of $408,861 in the four month period to May 31, 2008 compared to $176,097 in the three months ended April 30, 2007.

During the four months ended, PTQ recorded a foreign exchange loss of $91,256 compared to a loss of $877,565 in the three months ended April 30, 2007, mainly due to the fluctuation in the US currency.

The net loss for the four months ended May 31, 2008, was $11,991,311 or ($0.13) per share, compared to $11,370,015 or ($0.14) per share for the three months ended April 30, 2007.

Operating Activities

Corporate and administrative cash costs, offset by interest and other income and changes in non-cash working capital resulted in a cash outflow of $3,193,958 in the four months ended May 31, 2008 compared to $4,850,859 from continuing operating activities in the three months ended April 30, 2007.

Financing Activities

During the four months ended May 31, 2008, the exercise of stock options resulted in net proceeds of $589,676. This compares to $199,642 in the three months ended April 30, 2007. Share subscriptions of nil were received during the four months ended May 31, 2008 compared to $150,000 that were received during the three months ended April 30, 2007, related to a private placement that closed subsequent to the period. Proceeds from the Bank overdraft amounted to $882,438 compared to $1,205,382 in the three months ended April 30, 2007. Proceeds from Senior secured notes in the four months ended May 31, 2008 amounted to $31,746,900 compared to nil in the three months ended April 30, 2007, the issuance costs for these notes were $3,974,266 and nil in the three months ended April 30, 2007. Prepaid interest was paid on these secured notes of $4,762,035 compared to nil in the three months ended April 30, 2007.

Investing Activities

Resource Property Development Agreements

Molejon Gold Deposit

The Company is to recover nil during the four months ended May 31, 2008 compared to $4,582,937 in resource property costs as at April 30, 2007, due to amounts allocated to Copper that related primarily to shared infrastructure costs. A base has been well established at PTQ's advanced stage epithermal Molejon gold deposit in Panama. PTQ continues to drill with both its infill drilling and trenching programs. PTQ is hopeful the ongoing drill program will add both ounces and grade to the published resource estimate for Molejon.

During the four months ended May 31, 2008 $138,974 was spent on vehicles, computer equipment and software, office equipment, land and buildings and general equipment, compared to $4,204,975 in the three months ended April 30, 2007.

Balance Sheet

As at May 31, 2008 PTQ had total assets of $107,482,486 as compared with, $46,581,365 of total assets as of April 30, 2007. This increase is primarily a result of equipment purchases and mineral property expenditures during the year. Working capital deficit as at May 31, 2008 was $3,692,913 compared to $4,220,761 as at April 30, 2007, as a result of operating and capitalized expenditures during the period.

SUMMARY OF QUARTERLY RESULTS

	2008 May 31 4 months	**2008 Jan 31 Q3**	**2007 Oct 31 Q2**	**2007 Jul 31 Q1**
Net income (loss) from continuing operations	(11,991,311)	10,136,528	$ 3,434,611	$ (5,924,128)
Net income (loss)	(11,991,311)	10,136,528	$ 3,434,611	$ (5,924,128)
Earnings (loss) per share from continuing operations – basic	(0.13)	0.11	$ 0.04	$ (0.07)
Earnings (loss) per share – diluted	(0.13)	0.10	$ 0.03	$ (0.07)
	2007 Apr 30 Q5	**2007 Jan 31 Q4**	**2006 Oct 31 Q3**	**2006 July 31 Q2**
Net loss from continuing operations	$ (11,370,015)	$ (3,467,366)	$ (9,237,684)	$ (2,987,297)
Net loss	$ (11,370,015)	$ (3,467,366)	$ (9,237,684)	$ (2,987,297)
Loss per share from continuing operations – basic	$ (0.14)	$ (0.04)	$ (0.12)	$ (0.04)
Loss per share –diluted	$ (0.14)	$ (0.04)	$ (0.12)	$ (0.04)

Income in the quarter ended October 31, 2007 was $3,434,611 mainly due to the gain on dilution of equity of $8,107,807, which more than offset the total expense of $5,446,090 during the period. Income in the quarter ended January 31, 2008 increased to $10,136,528 mainly due to the transfer of human resources of $4,587,320, gain on dilution of equity investment of $4,654,852 and a gain of sale of investment of $4,697,182 which more than offset total expenses of $2,838,140 in the same period. The agreement relating to the transfer of human resources was mutually cancelled in April of 2008.

RESULTS OF OPERATIONS – FOR THE THIRTEEN MONTHS ENDED MAY 31, 2008 COMPARED TO THE FIFTEEN MONTHS ENDED APRIL 30, 2007

Other income (expense)

In the thirteen months ended May 31, 2008, interest and other income, offset by the loss from the equity investment in Petaquilla Copper Ltd. was $15,255,358, compared to $879,333 in the fifteen months ended April 30, 2007.This was mainly due to:-

- During the thirteen months ended May 31, 2008, the Company recorded other income of $128,650 (fifteen months ended April 30, 2007 - $103,348) resulting from asset usage charges to PTC for the use of certain office and mining equipment during the period.

- During the thirteen months ended May 31, 2008, PTQ recorded a foreign exchange gain of $1,670,879 compared to a foreign exchange loss of $836,847 in the fifteen months ended April 30, 2007. This primarily results from amounts owing to PTC being denominated in USD.

- During the thirteen months ended May 31, 2008, PTQ recorded an equity loss of $4,715,413 and a loss of $1,773,000 for the fifteen months ended April 30, 2007 and dilution gain of $13,277,095 and $3,080,000 in the fifteen months ended April 30, 2007 related to its investment in PTC.

- During the thirteen months ended May 31, 2008, PTQ recorded a gain of $4,697,182 on the transfer of 1,815,069 PTC shares back to PTC in settlement of the amount owing to PTC as at December 31, 2007. No similar gain was realized in the same period of the prior year.

- During the thirteen months ended May 31, 2008, PTQ had interest income of $133,245 compared to $352,880 for the fifteen months ended April 30, 2007.

Expenses

Expenses for the thirteen months ended May 31, 2008, were $19,599,658 compared with $28,841,783 for the fifteen months ended April 30, 2007. The decrease in expenses is primarily based on decreases in stock-based compensation by $14,632,185, due to fewer options being granted and the decreasing fair market value of the stock, travel expense by $686,809, due to fewer employees and consultants traveling abroad and an increase in the office administration costs by $1,624,530, due to the increase in insurance expense, rent for new offices in Panama and the donations to the locals which are now being expensed, due to additional employees, increase in accounting and legal by $622,485 due to additional work performed as a result in the increase of activities of the Company, accretion of asset retirement $365,083 and incurred financing costs during the thirteen months ended May 31, 2008 due to the closing of the first tranche financing of the debt financing $3,974,266 in May 2008, nil in the fifteen month period to April 30, 2007.

Stock-based compensation, a non-cash expense, was $5,754,085 compared with $20,386,270 in the fifteen months ended April 30, 2007. Office administration increased to $2,596,466 from $971,936 for the thirteen months ended May 31, 2007 as a result of an increase in the number of operating offices in Panama. Consulting fees decreased to $984,079 during the thirteen months ended May 31, 2008 from $1,077,362 in the fifteen month period of the prior year. This is a result of reduced use of consultants, by employing more people during the period.

The net loss for the thirteen months ended May 31, 2008 was $4,344,300 or ($0.05) loss per basic and diluted share compared to a net loss for the fifteen months ended April 30, 2007 of $27,962,450 or loss of ($0.35) per basic and diluted share. The difference is largely accounted for by the decrease in stock-based compensation, foreign exchange gain, loss from equity investment, the recognition of the equity loss and gain on dilution of the equity investment in Copper and sale of Copper shares in the period.

Cash Flow

Operating Activities

Corporate and administrative cash costs, offset by interest and other income and changes in non-cash working capital resulted in a cash outflow of $8,677,716 from continuing operating activities in the thirteen months ended May 31, 2008. Operating activities in the fifteen-month period ended April 30, 2007, resulted in cash outflows of $8,980,102.

Financing Activities

During the thirteen months ended May 31, 2008, the issuance of capital stock resulted in net proceeds of $13,286,719 compared to $30,039,327 in the fifteen month period of the prior year, while proceeds from long term debt were $nil compared to $1,413,510 in the fifteen month period to April 30, 2007 of the prior year. Proceeds from bank overdraft in the thirteen months to May 31, 2007 was $882,438 compared to $1,205,382 in the thirteen months ended April 30, 2007, proceeds from Senior secured notes in the period to May 31, 2008 was $31,746,900, compared to nil in the fifteen months to April 30, 2007 in the prior period, issuance costs for these notes were $3,974,266, nil in the fifteen months to April 30, 2007 and prepaid interest on the Secured notes is $4,762,035 for the thirteen months ended May 31, 2007 and nil in the fifteen months ended April 30, 2007. Total repayments of capital leases and long term debt totaled $1,367,730 compared to $226,443 in the fifteen month period of the prior year. Advances from Petaquilla Copper Ltd were $18,043,254 compared to Advances to Petaquilla Copper Ltd of ($4,582,937) in the fifteen months ended April 30, 2007.

Investing Activities

Mineral Property Development Agreements

<u>Molejon Gold Deposit</u>

The Company spent $28,011,818 in mineral property costs during the thirteen months ended May 31, 2008 ($19,387,844 in fifteen months ended April 30, 2007). A base camp has been well established at PTQ's advanced stage epithermal Molejon gold deposit in Panama and the development of the mine is well underway.

During the thirteen months ended May 31, 2008, $6,713,118 was spent on mining equipment, vehicles, computer, software and office equipment, compared to $5,942,363 in the fifteen months ended April 30, 2007, reflecting the change towards the gold pre-production phase of the project in the current period.

Disposal of mineral property of $1,058,507 and property and equipment of $2,405,541 compared to nil in the fifteen month period to April 30, 2007.

During the thirteen months ended May 31, 2008 a reduction of the performance bond amounted to $521,738 compared to purchase of $324,800 in the fifteen months ended April 30, 2007.

PTQ intends to focus the first phase of the mine development plan on the Molejon gold deposit, and has begun further exploration and development work on the deposit.

LIQUIDITY AND CAPITAL RESOURCES

PTQ does not currently own or have an interest in any mineral producing properties and has not derived any revenues from the sale of gold or other materials in the last three financial years.

As at May 31, 2008, PTQ had a working capital deficiency of $3,692,913 (April 30, 2007–working capital deficiency of $4,220,761). PTQ will have to raise additional funds to undertake ongoing development and further exploration of the Molejon gold deposit, and to meet its obligations. Management will be pursuing additional sources of financing and while it has been successful in the past there can be no assurance that it will be able to do so in the future.

During the period ended April 30, 2007, the Company deposited $30,000 with HSBC Bank to be used as collateral for the credit card used by the Company to pay ongoing travel and related costs.

During the fifteen months ended April 30, 2007, the Company pledged $471,680 (US$400,000) outstanding by way of a term deposit with the bank as security for financings. As at May 31, 2008, the value of this term deposit is $397,680.

The Company is required to post a performance bond to comply with Environmental law, article 112 in Panama, the Company has posted a term deposit for $198,840 (US$ 200,000) as a guarantee. The Company also posted a term deposit for $39,768 (US$ 40,000) for a performance bond with the Ministry of Commerce and Trade in Panama.

Other than as discussed herein, PTQ is not aware of any trends, demands, commitments, events or uncertainties that may result in PTQ's liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in PTQ's liquidity will be substantially determined by the timing the commencement of commercial production at the Molejon gold project.

CONTRACTUAL AND OTHER OBLIGATIONS

(a) As of May 31, 2008, the Company had a commitment to purchase plant of $1,102,998 (US$1,109,433), generators of $1,423,240 (US$1,431,543), equipment of $1,841,191 (US$1,851,932) and other support equipment of $679,704 (US$683,669).

(b) PTQ has a five-year lease for office premises. PTQ's contractual and other obligations as at May 31, 2008, are summarized as follows:

	Less than 1 Year	**2-3 Years**	**4-5 Years**	**More than 5 Years**
Office Lease	$ 33,120	$ 66,240	$ 8,280	Nil

From October 18, 2006, the office leasing costs have been split equally between the Company and Petaquilla Copper Ltd., consequent to the Plan of Arrangement (see Note 4 Plan of Arrangement and Advances to Petaquilla Copper Ltd.) Therefore the estimated annual cost is $33,120 to the Company.

c) During the period, the Company entered into two capital lease arrangements with Banco Bilbao Vizcaya Argentaria (Panama) S.A. ("BBVA") for the purchase of equipment to advance the Molejon project into production.

The equipment includes but is not restricted to: ball mills, Metso crushing plant, cranes and an aggregate crushing plant.

As a condition of the lease, the equipment will serve as collateral throughout the amortization period and will be registered with the Public Registry of the Republic of Panama. Further, a related company under significant influence has pledged a term deposit in the amount of $2,347,403 (US$ 2,361,098) (April 30, 2007 - Nil) as additional security.

Future minimum lease payments on the capital lease obligation are as follows:

2009	$2,648,121
2010	2,648,121
2011	1,674,278
	6,970,520
Less: Imputed interest of 9%	(839,640)
Total	6,130,880
Current obligation	2,162,289
Long-term obligation	$3,968,591

d) The Company has an operating credit line facility with BBVA up to a maximum of $ 13,301,952 (US 13,379,554) (April 30, 2007 – Nil). The facility is drawdown, reduced and converted to a capital lease on the 25th of each month. The facility has a fixed rate of 9% on

$10,954,549 (US$ 11,018,456) (April 30, 2007 – Nil) and fixed rate of 6% on $ 2,347,403 (US$ 2,361,098) (April 30, 2007 – Nil). The facility is secured by the assets purchased under the facility and are registered with the Public Registry of the Republic of Panama

e) On May 21 the Company closed $31,746,900 (US$ 32,250,000), the first tranche of its US$60 Million senior secured notes ("Notes"). The Notes bear interest at an annual rate of 15%. The Notes will mature five years from date of issuance at 120% of the principal. The Company has the right to redeem the notes at any time at 120% of the principal amount plus any accrued or unpaid interest on the notes. If the Notes are redeemed within one year of issuance, all prepaid interest is forfeited. After 24 months from the date of issuance of the Notes, holders of the Notes shall have the right to cause the Company to purchase all of its notes then outstanding at a price equal to the sum of (a) 120% of the principal amount of such Notes to be purchased and (b) accrued and unpaid interest on the principal amount of the Notes. On an annual basis, the Note holders can cause the Company to redeem Notes equal to 35% of free cash flow. Free cash flow is to be defined mutually between the Company and the Note holders. As of May 31, 2008, no definition of free cash flow has been defined.

Each Note was issued with 382 share purchase warrants. Each warrant entitles the holder to purchase one common share at CDN $2.30 for a period of five years from the date of purchase. The warrants are subject to a weighted average anti-dilution price protection with a floor equivalent to CDN $ 2.15.

f) The Company has long-term debt for various equipment and vehicles. The following table summarizes the loans outstanding as at May 31, 2008:

	May 31, 2008	April 30, 2007
Long-term debt		
Equipment loan #1	$ 125,053	$ 303,203
Vehicle loan #1	27,978	64,061
Equipment loan #2	110,984	218,115
Equipment loan #3	317,324	576,443
Vehicle loan #2	13,907	25,245
	595,246	1,187,067
Less: current portion	(433,621)	(487,882)
	$ 161,625	$ 699,185

g) The Company's asset retirement obligation relates to site-restoration and clean-up costs related to its Molejon gold project located in Panama.

A reconciliation of the provision for asset retirement obligations is as follows:

Beginning balance – January 31, 2006	$ -
Balance – April 30, 2007	4,400,000
Accretion	365,083
Foreign exchange gain on remeasurement	(457,000)
Ending balance – May 31, 2008	$ 4,308,083

The provision for asset retirement obligations is based upon the following assumptions:

a) The total undiscounted cash flow required to settle the obligation is approximately $6,848,000 (US$ 6,225,000);
b) Asset retirement obligation payments are expected to occur during fiscal years 2014 and 2015;

c) A credit adjusted risk-free rate of 7.65% has been used to discount cash flows.

CAPITAL STOCK

Authorized Capital

Unlimited common shares without par value
Unlimited preference shares without par value - rights and privileges conferred on issuance

At the June 6, 2006, Annual and Special Meeting of Shareholders, a special resolution was approved changing the authorized capital of the Company to an unlimited number of common shares without par value and an unlimited number of preference shares without par value.

Issued Capital

As at May 31, 2008, an aggregate of 95,958,641 common shares were issued and outstanding of which 44,200 were repurchased. As of April 30, 2007, 89,876,951 common shares were issued and outstanding with 44,200 common shares being held as treasury stock.

	Number of common Shares	Amount	Contributed Surplus	Warrants
Issued				
Balance as at January 31, 2005	51,264,537	$50,074,079	$887,432	$1,356,713
Non-brokered private placement, net of finders' fees (a)	9,965,670	7,640,341	-	1,292,993
Exercise of stock options	1,465,600	713,008	(241,690)	-
Exercise of warrants	7,550,496	3,295,900	(51,563)	(1,356,713)
Stock-based compensation	-	-	410,301	-
Share issuance costs	-	(39,112)	-	-
Balance as at January 31, 2006	70,246,303	61,684,216	1,004,480	1,292,993
Non-brokered private placement, net of finders' fees (b)	9,400,000	11,717,220	-	9,885,980
Exercise of stock options	5,247,813	12,336,264	(9,435,997)	-
Exercise of warrants	4,982,835	7,272,396	-	(1,292,993)
Stock-based compensation	-	-	20,504,666	-
Share issuance costs	-	(1,414,061)	-	820,518
Balance as at April 30, 2007	89,876,951	91,596,035	12,073,149	10,706,498
Non-brokered private placement, net of finders' fees (c)	4,552,412	10,918,342	-	1,327,463
Exercise of stock options	1,055,883	3,110,114	(2,026,487)	-
Exercise of warrants	373,395	1,153,659	-	(578,617)
Share issue relating to legal settlement	100,000	261,000	-	-
Stock-based compensation	-	-	6,359,356	-
Senior secured notes warrants	-	-	-	808,327
Share issuance costs	-	(1,181,067)	-	713,326
Balance as at May 31, 2008	95,958,641	$105,858,083	$16,406,018	$12,976,997

As at August 18, 2008, 95,958,641 common shares were issued and outstanding of which 44,200 were repurchased.

PTQ had the following Warrants outstanding as at the date of this report:

Number of Warrants Outstanding	Exercise Price	Expiry Date
9,424,605	$1.54	October 17, 2011
705,955	$3.50	May 8, 2009
1,120,875	$3.50	October 31, 2009
182,000	$3.50	December 20, 2009
389,000	$3.50	May 9, 2010
12,319,500	$2.30	May 21, 2013
492,780	$2.30	May 21, 2013
24,634,715		

As at August 18, 2008 35,659,235 share purchase warrants were issued and outstanding.

On October 17, 2006, the Company issued share purchase warrants in connection with the non-brokered private placement which closed during the period. Each warrant entitles the holder to purchase an additional common share of the Company for a period of five years at a price of $3.00 per share. In addition, the Company agreed to issue 398,000 finders' warrants, each finder's warrant entitling the holder to purchase one additional common share of the Company at an exercise price of $3.00 per share for a period of five years.

On the Effective Date of the Plan of Arrangement, the warrant holders received:

a. one share purchase warrant (a "PTQ Warrant"), where each PTQ Warrant entitles the holder to purchase one common share of the Company for a period of five years; and

b. one share purchase warrant (a "Copper Warrant"), where each Copper Warrant entitles the holder to purchase one common share of Copper for a period of five years.

On December 31, 2007, Copper commenced trading on the Toronto Stock Exchange. The respective exercise prices of the PTQ Warrants and the Copper Warrants have been determined to be $1.54 and $1.46 based on $3.00 multiplied by the ratio of the five day weighted average price of each of the PTQ and Copper shares during the first five trading days of Copper.

The following summarizes information about the stock options outstanding as at May 31, 2008:

Number of Shares Outstanding	Exercise Price	Expiry Date
150,000	2.25	October 19, 2008
36,480	0.25 [(1)]	April 21, 2010
193,800	0.25 [(1)]	July 11, 2010
994,200	0.525 [(1)]	February 1, 2011
96,000	0.865 [(1)]	April 27, 2011
5,409,654	2.01	January 15, 2012
200,000	2.22	June 12,2012
500,000	2.25	June 20, 2012
50,000	2.48	July 11, 2012
75,000	2.49	July 12, 2012
50,000	2.54	July 23, 2012
50,000	2.76	September 10, 2012
5,000	3.04	November 15, 2012
75,000	2.70	February 14, 2013
100,000	2.80	February 11, 2013
30,000	1.96	May 5, 2013
100,000	1.96	May 5, 2013
8,115,134		

(1) Exercise price is the aggregate exercise price required to exercise one option of PTQ and one option of Copper with half of the proceeds to be allocated to the Company and half to Copper. Both options must be exercised together.

As at August 18, 2008, 8,090,134 options were granted.

During the thirteen months ended May 31, 2008, PTQ issued 1,429,278 shares for the exercise of stock options and warrants for gross proceeds of $1,658,655 and 4,552,412 shares for gross proceeds of $12,245,805 pursuant to a private placement closed in May 2007, October 2007, December 2007 and May 2008.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the period ended May 31, 2008:

a) The Company paid consulting fees of $108,013 (15 months ended April 30, 2007 - $426,726) to related companies controlled by a director and a former officer.

b) The Company paid consultant fees and wages of $152,635 (15 months ended April 30, 2007 - $Nil) to companies controlled by directors and an officer.

c) The Company paid legal fees of $109,517 (15 months ended April 30, 2007 - $274,584) and share issue costs of $165,836 (15 months ended April 30, 2008 - $219,698) to a law firm controlled by an officer. The Company paid for services and goods of $129,921 (April 30, 2007 - $289,043) to a company controlled by an officer.

d) The Company received $33,120 (15 months ended April 30, 2007 - $16,122) from Copper as payment of office rent.

e) The Company received or accrued $128,650 (15 months ended April 30, 2007 - $103,348) in asset usage fees from Copper for the use of certain office and mining equipment.

f) During the period the Company has a cost sharing arrangement with Copper varying from 50% to 80% of the cost. This arrangement was terminated on September 30, 2007 when the terms of the agreement were fulfilled.

Also during the period, the Company and Copper advanced negotiations with the lessor of the equipment to have the commercial terms of the leasing arrangement correspond with the terms of the Plan of Arrangement made effective on October 18, 2006, such that Copper will ultimately become the lessee of the equipment. The cost recovery arrangement will be subject to review and revision to reflect changes in operations.

Certain employees of the Company with knowledge in mining, government, environmental and community relations were previously employed and trained by the Company. In January 2008, the Company charged Copper for technical know-how and other intellectual property transferred to Copper. The amount of these fees has been determined to be $ 4,587,320 (US$ 4,577,250). In April 2008, the Company and Copper agreed to rescind the agreement and the fees were refunded to Copper.

As at May 31, 2008, the Company has an amount payable to Copper of $1,157,788 (April 30, 2007 – $4,582,937 receivable) resulting from mineral property costs and general and administrative expenses paid by the Company on Copper's behalf. This receivable bears interest at a rate of US prime plus 1% and the Company accrued interest of $2,064 during the period.

The Company posted 5,000,000 common shares of PTC as security of its account payable to PTC. PTC's common shares posted as security were held in escrow pending payment of the account payable and cannot be sold until the account payable has been paid in full pursuant to a Warranty Agreement dated September 30, 2007.

The common shares serving as security are based on a market value of $2.00 per common share. If the market value of the common shares changes, the number of shares required to be posted as security shall be adjusted accordingly.

Effective December 31, 2007, the Company transferred back to Copper 1,815,069 of its Copper shares held as repayment of advances payable to Copper as at December 31, 2007 of $5,608,564. These shares were transferred at a fair market value of $3.09 per share resulting in a gain of $4,697,182

The fair market value of Copper shares transferred back to Copper was calculated in accordance with the Warranty Agreement dated September 30, 2007. As Copper did not publicly trade until December 31, 2007, the fair value was determined using the Black-Scholes options pricing model to determine the fair market value of a Copper common share and half warrant in each unit issued in Copper's first tranche of a non-brokered private placement in December 2007.

The following assumptions were used:

Risk-free interest	3.22
Expected dividend yield	-
Expected stock price volatility	58.49%

Subsequent to the transfer of shares, Copper released to the Company the remaining shares it held in escrow.

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

In September of 2007, the Company entered into an agreement with Copper to sell some of its surplus property and equipment and mineral properties that are no longer required for its current operations. The net book value of these assets is $3,464,048 which approximates their fair market value. The Company did not recognize a gain or loss on this disposal.

On September 30, 2007, Petaquilla Gold S.A. (“Gold”), a subsidiary of the Company entered into a Service Agreement with Petaquilla Copper, S.A. (“Copper”) to provide electric generation, aggregate for construction and the rental of a drill machine (collectively, the “services”) for a 3-year period. In return for receiving certain benefits and assurances, payment for services has been assumed and prepaid by Petaquilla Copper Ltd. in the amount of $4,387,705 (US $4,404,000).

SUBSEQUENT EVENTS

Subsequent to May 31, 2008 the following events took place:

(i) 25,000 stock options held by an individual who ceased to be an employee were cancelled.

(ii) The Company closed the remaining US$ 27,750,000 of its senior secured notes financing. Net proceeds received US$ 20,612,480. 11,024,520 warrants were issued as part of the senior secured notes financing.

(iii) On July 7, 2008 Inmet Mining Corporation made an unsolicited offer for Petaquilla Copper Ltd at $2.00 per share.

(iv) On August 22, 2008 the Company was served by one of its suppliers for a claim in the amount of US$580,398. The Company’s legal counsel has not had an opportunity to asses this claim and as a result the likely outcome is not determinable.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenues and expenses reported during the period. Actual results could differ from these estimates.

Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, recoverability of accounts receivable, investments, estimates of useful life of properties and equipment, the future cost of asset retirement obligations, amount and the likelihood of contingencies, valuation allowance for future income tax assets, accounting for stock-based compensation and warrants.

Mineral Property Costs

Acquisition costs of mineral properties, together with direct exploration and development expenditures incurred thereon, are deferred until the property to which they relate is placed into production, sold or abandoned. The carrying values of mineral properties are, where necessary, written down to the fair value if the carrying value is not recoverable. Costs relating to properties abandoned are written off when the decision to abandon is made.

The Company follows the cost reduction method of accounting for the receipt of property option and similar payments. Cash and other property payments received from the Company's exploration partners are credited to the respective property until all capitalized costs are recovered; thereafter, such payments are included in income. Option payments are exercisable at the discretion of the optionee and are only recognized when received. Management fees earned for the management of properties are included in income.

On an annual basis, the Company reviews the carrying values of deferred mineral property acquisition and exploration expenditures with a view to assessing whether there has been impairment in value. In the event that management determines potential reserves to be insufficient to recover the carrying value of any property, the carrying value will be written down or written off, as appropriate.

Asset Retirement Obligations

The Company will have an obligation to reclaim its properties after the minerals have been mined from the site and will estimate the costs necessary to comply with existing reclamation standards. These estimated costs, referred to as Asset Retirement Obligations, will be recorded as a liability at their fair values in the periods in which they occur, and at each reporting period, are increased to reflect the interest element (accretion expense) considered in the initial fair value measurement of the liabilities. If the estimate of reclamation costs proves to be inaccurate, the Company could be required to increase the provision for site closure and reclamation costs, which would increase the amount of future reclamation expense per ounce, resulting in a reduction in the Company's earnings and net assets. However, the Company continuously reviews its obligation in this regard.

Stock-based Compensation

The Company accounts for all stock-based payments and awards using the fair value-based method. Under the fair value-based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date. Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period.

CHANGES IN ACCOUNTING POLICY

Adoption of new accounting policies

Effective May 1, 2007, the Company has adopted the provisions of the following Canadian Institute of Chartered Accountants (CICA) Handbook Sections:

(a) Section 3855 Financial Instruments – Recognition and Measurement

This section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under the new standard, financial assets will be classified as one of the following: Held-to-maturity; Loans and receivables; Held-for-trading; or Available-for-sale. Financial liabilities will be classified as held-for-trading or other liabilities.

Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale financial instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading on initial recognition. In addition, the Company adopted a policy to expense debt financing costs when they are incurred. This policy has been adopted on a prospective basis

The Company's financial instruments include cash and cash equivalents, receivables, bank overdraft, operating credit line facility and accounts payable and accrued liabilities. Upon adoption of these new standards, the Company designates its cash and cash equivalents as held-for-trading, its receivables, as receivables, and its bank overdraft, operating credit line facility, and accounts payable and accrued liabilities as other financial liabilities. The fair values of these financial instruments approximate their carrying values because of their short-term nature. The fair value of senior secured notes approximate the carrying value as the Company closed notes of the same series for the same consideration. The Company had no held-to-maturity financial assets for the period ended May 31, 2008. In management's opinion the Company is not exposed to significant interest rate, currency exchange rate or credit risk arising from these financial instruments except for the senior secured notes. The Company is exposed to embedded derivative financial instruments. The Company is unable to fair value the embedded derivative component separately in its senior secured notes and thus has classified the combined contract as financial liability that is held for trading, measured at fair value.

The Company has adopted the policies in CICA 3861, CICA 3251, CICA 1651, and CICA 3051. Management has reviewed these standards and does not believe the Company’s financial statements will be impacted.

Comprehensive income represents the change in shareholders’ equity from transactions and other events from non-owner sources. Other comprehensive income refers to items that are recognized in comprehensive income but excluded from net income calculated in accordance with Canadian generally accepted accounting principles until such time as it is considered appropriate to recognize them in net income. The Company had no “other comprehensive income or loss” for the period ended May 31, 2008.

Accounting policies effective June 1, 2008

(a) Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about a company's capital and how it is managed. Under this standard the Company will be required to disclose the following, based on the information provided internally to the Company's key management personnel:

(i) qualitative information about its objectives, policies and processes for managing capital;
(ii) summary quantitative data about what it manages as capital;
(iii) whether during the period it complied with externally imposed capital requirements to which it is subject; and
(iv) when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

Management has reviewed the requirements of the standard and does not believe that the Company's financial statements will be materially affected by the new recommendations. This standard will require additional disclosure in the financial statements.

(b) Section 3031 - Inventories

This Section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. Management has reviewed the requirements of the standard and does not believe that the Company's financial statements will be materially affected by the new recommendations.

(c) Section 3862 & 3863 - Financial Instruments – Disclosure and Presentation

These new standards replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements, and carrying forward unchanged the presentation requirements. Section 3862 requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks. Entities will be required to disclose the measurement basis or bases used, and the criteria used to determine classification for different types of instruments.

The Section requires specific disclosures to be made, including the criteria for:

(i) designating financial assets and liabilities as held for trading;
(ii) designating financial assets as available-for-sale; and
(iii) determining when impairment is recorded against the related financial asset or when an allowance account is used.

Management has reviewed the requirements of the standard and does not believe that the Company's financial statements will be materially affected by the new recommendations.

(d) Section 1400 - General Standards of Financial Statement Presentation

Has been amended to require management to make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern. The amendments apply to interim and annual financial statements relating to fiscal years beginning on or after June 1, 2008. Management has reviewed the requirements and concluded that they do not affect the Company's financial statements. This standard will require additional disclosure in the financial statements

Convergence with International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Canadian GAAP will be converged with IFRS through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS. Also the United States' Financial Accounting Standards Board and the International Accounting Standards Board have completed a joint-project on business combinations and non-controlling interests. As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in new pronouncements that continue to evolve IFRS, and as this Canadian convergence initiative is in an early stage as of the date of these consolidated financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable, long-term debt, restricted cash, and the amount payable from Petaquilla Copper Ltd. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments other than the senior secured notes. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is exposed to interest rate risk on its senior secured notes. These notes bear a fixed interest rate. The Company monitors its exposure to interest rates and is currently comfortable with its exposure.

The Company is subject to financial risk arising from fluctuations in foreign currency exchange rates and changes in. The Company does not use any derivative instruments or hedging activities to reduce its exposure to fluctuations in foreign currency exchange rates.

RISK AND UNCERTAINTIES

The following is a brief discussion of those distinctive or special characteristics of PTQ's operations and industry, which may have a material impact on, or constitute risk factors in respect of PTQ's financial performance.

The next twelve months or more will see the continuation of the ongoing development of the Molejon gold deposit. This includes planned completion of road access with related bridge crossings where needed, evaluation of the optimal short and long term power supply and access to the potential mine site and ongoing engineering evaluation.

Potential delays in the Development of Molejon Gold Deposit and Cost Overruns

Whilst the Molejon gold deposit development is underway, costs for required equipment remain under review and may escalate beyond original estimates. This possible cost escalation, along with other as yet unresolved logistical and engineering issues relating to the Molejon development, all part of a standard building, construction and anticipated start up of a new mining operation, may result in significant cost experiences that differ from present day estimates. These cost concerns are in addition to the tight labor market in the mining industry as well as rising material and fuel costs. There is no guarantee the Molejon gold project will, after more development and engineering work is completed, together with required capital equipment purchases, be an economically feasible production opportunity.

Mining Risks and Insurance

A risk analysis has as yet to be completed for the Molejon deposit. While it is not possible to speculate on possible risks associated with an open pit mining operation in Panama, there may be as yet to be identified significant risk factors. PTQ anticipates the planned Feasibility Study for the Molejon Project will in due course illuminate the knowledge data set on both potential risks and the plans to mitigate same where possible.

Any as yet to be identified risks cannot be completely eliminated and it is possible that the occurrence of one or more of such factors could have a material adverse effect on PTQ's financial condition and results of operations.

The business of gold mining is subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected changes to rock formations, changes in the regulatory environment, cave-ins and flooding and gold bullion losses. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Any payments made with regards to such liabilities may have a material adverse effect on PTQ's financial performance and results of operations. PTQ carries insurance to protect itself against certain risks of mining and processing to the extent that is economically feasible but which may not provide adequate coverage in all circumstances.

Gold Price Volatility

PTQ's development plans are highly sensitive to changes in the price of copper and gold. With the near term focus being on the Molejon gold deposit, ongoing development is highly dependent on gold prices as it affects the ability to raise required financing.

Gold prices fluctuate and are affected by numerous factors, including expectations with respect to the rate of inflation, exchange rates, interest rate, global and regional political and economic crises and governmental policies with respect to gold holdings by central banks. The demand for and supply of gold affects gold prices but not necessarily in the same manner as demand and supply affect the prices of other commodities.

The supply of gold consists of a combination of mine production and existing stocks of bullion and fabricated gold held by governments, public and private financial institution, industrial organization and private individuals. The demand for gold consists of jewelry and investment demand.

Uncertainty of Mineral Reserves

Mineral reserves and mineral resources are estimates of the size and grade of deposits based on limited sampling and on certain assumptions and parameters. No assurance can be given that the present inferred reserves and related grades will eventually be confirmed either in whole or in part, as measured or indicated reserves. Prolonged declines in the market price of gold may render inferred mineral reserves containing relatively lower grades of gold mineralization uneconomic to exploit and could materially reduce the PTQ's reserves. Should such reductions occur, PTQ could be required to delay or discontinue production plans or the development of new projects, resulting in increased net losses and reduced cash flow. Short-term factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may impair the potential economic feasibility of the Molejon gold deposit.

Replacement of Mineral Reserves

There are a number of uncertainties inherent in any program relating to the location of economic mineral reserves, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities and the appropriate financing thereof. Accordingly, there can be no assurance that PTQ's programs will yield new mineral reserves to expand current inferred mineral reserves.

Financing of Exploration Programs

There are inferred mineral reserves on PTQ's Ley Petaquilla concession, but PTQ may carry out further exploration on this property with the objective of establishing additional economic mineral reserves. Exploration for minerals is a speculative business necessarily involving a high degree of risk. It is not known if the expenditures to be made by PTQ on its mineral properties will result in discoveries of commercial mineral reserves. If PTQ's efforts are not successful at individual properties, the expenditures at those properties will be written off. If PTQ's exploration programs are successful, additional funds may be required for the development of economic mineral reserves in order to achieve commercial production. In addition, the exploration and development of PTQ's

properties may depend upon PTQ's ability to obtain financing through the joint venturing of projects, sale of property interests, debt financing, equity financing or other means. There is no assurance that PTQ will be successful in obtaining the required financing, equity financing or other means on commercially reasonable terms, or at all. The inability of PTQ to obtain necessary financing could have a material adverse effect on PTQ's ability to explore and develop its properties.

Government Permits

Further development of the Molejon gold deposit to completion of an economic feasibility study, construction of mill facilities and commencement and continuation of production at the Molejon gold deposit will require additional approvals, permits and certificates of authorization from different government agencies on an on-going basis. Obtaining the necessary governmental permits is a complex and time consuming process involving numerous jurisdictions and may involve public hearings and costly undertakings on the part of PTQ. The duration and success of permitting efforts are contingent upon many variables not within PTQ's control.

Environmental protection permitting, including the approval of reclamation plans, could increase costs and cause delays in the development of the Molejon gold deposit, depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary permits will be obtained and, if obtained, that the costs involved will not exceed those previously estimated by PTQ. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that PTQ would not proceed with the development or operation of a mine or mines.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for the design and maintenance of both internal control systems over financial reporting and disclosure controls and procedures. Disclosure controls and procedures are designed to provide reasonable assurance that relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

Current disclosure controls include meetings with the CEO, chief financial officer and members of the board of directors and audit committee through emails, telephone conferences and informal meetings to review public disclosure. All public disclosures are reviewed by certain members of senior management and of the board of directors and audit committee. The board of directors has delegated the duties to the chief executive officer who is primarily responsible for financial and disclosure controls.

The design of the Company's internal control systems over financial reporting and the effectiveness of its disclosure controls and procedures were reviewed during the period ended May 31, 2008, and determined not to be effective. The audit committee has been provided information on the deficiencies.

The Company has assessed the effectiveness of its disclosure controls and procedures and the design of internal controls over financial reporting and during the process identified material weaknesses in internal controls.

These material weaknesses are as follows:

- The Company does not have sufficient accounting resources at one of its subsidiaries in order to account for and apply internal control to transactions origination at the subsidiary.
- The IT configuration at one of its subsidiaries does not have the appropriate system privileges set up for each job function.
- Lack of detective and preventative controls with regard to oversight of recorded transactions at one of its operating subsidiaries

Management and the board of directors continue to work to mitigate the risk of a material misstatement. Management has identified certain areas where it can improve process controls and intends on incorporating these changes into the control over the financial reporting over the next twelve months. Steps have been taken to mitigate these issues as management has engaged certain specialists in a consulting role to assist on an as required basis.

CAUTIONARY NOTE TO USA READERS

As a British Columbia corporation, PTQ is subject to certain rules and regulations issued by the British Columbia Securities Commission ("BCSC"). PTQ is required to provide detailed information regarding its properties including mineralization, drilling, sampling and analysis, security of samples and mineral resources and mineral reserve estimates. Further, PTQ describes mineral resources associated with its properties utilizing terminology such as "inferred" or "indicated" which are terms recognized by Canadian regulators but not recognized by the United States Securities and Exchange Commission ("SEC").

Cautionary Note to USA Investors Regarding Mineral Resources

The SEC allows mining companies, in their filings with the SEC, to disclose only those mineral deposits they can economically and legally extract or produce. PTQ may use certain terms in this document, such as "mineral resources", "indicated mineral resources" and "inferred resources" that are recognized and mandated by Canadian securities regulators but not recognized by the SEC.

This report may use the term "inferred resources". USA readers are cautioned that while this term is recognized and required by Canadian regulations, the SEC does not recognize it. "Inferred 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 Resources will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. USA Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.

ADDITIONAL INFORMATION

Additional information relating to PTQ, including News Releases, Financial Statements and prior period MD & A filings, PTQ's Annual Information Form, is available on SEDAR at www.sedar.com.