PETAQUILLA MINERALS LTD.

For twelve months ended May 31, 2009 and thirteen months ended May 31, 2008

Management Discussion and Analysis
of Results of Operations and Financial Condition

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 twelve months ended May 31, 2009, which have been prepared on the basis of available information up to August 28, 2009. 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 twelve months ended May 31, 2009 and thirteen months ended May 31, 2008.

Management's discussion and analysis provides a review of the performance of PTQ's business and compares its performance for the twelve months ended May 31, 2009 with the thirteen month-period to May 31, 2008. 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 as actual results could change based on factors beyond management's control.

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 management, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, lack of qualified personnel or management, stock market volatility and the inability to access sufficient capital from external or internal sources. 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 therefrom.

OVERALL PERFORMANCE

Business Overview

PTQ is a Canadian-based junior gold production, exploration and development company with all of its 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 Cerro 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 gold projects.

Significant Accomplishments

Molejon Gold Deposit Project

- Mining has commenced with the first gold pour on April 7, 2009.
- All equipment relating to the electrical and mechanical components of the processing facility has been received and installed.
- The emergency tailings pond has been completed.
- All civil work has been completed.
- Ball mills #2 and #3 were placed in operation. Ball mill # 1 is 90% complete and expected to be placed into operation in the first quarter of fiscal 2010.
- Road access for the starter pit is complete.
- Construction of the bridge connecting the mine to the plant is now complete.
- All work related to the CIP tanks has been completed. The support structure for the agitation mechanism for the leaching tanks has been completed.
- Construction of the mill feed bins is complete.
- The general warehouse, ADR and refinery have been completed.
- The metallurgy lab is complete.
- Tailings pond #2(a) is complete. Tailings pond #2(b) is 80% complete and work on raising the wall of pond #2(a) and #2(b) is currently underway and expected to be completed in the second quarter of fiscal 2010.
- The secondary and tertiary crushing equipment and conveyor systems are 80% complete. The primary crusher is 50% complete. The expected completion date for the secondary and tertiary crushers is the first quarter of fiscal 2010 and the primary crusher will be ready in the second quarter of fiscal 2010.

Environmental Impact Study Approval

On November 26, 2008, the Autoridad Nacional del Ambiente (“ANAM”), the environmental agency of the Government of the Republic of Panama, issued a Resolution approving the Company’s Environmental Impact Study Category III (the “EIS”). The Resolution sets out a number of conditions to be satisfied before the Company can attain full commercial production of the Molejon gold mine in Panama. On detailed review of the Resolution, it became apparent that some of the conditions were not applicable to the Molejon operation, and others had already been satisfied by the Company. The

Petaquilla Minerals Ltd. (in United States dollars, except where noted)

Company therefore established a working group to cooperate with ANAM to ensure that all conditions are satisfied or waived, so that full commercial production in fiscal 2010 will take place without delay.

During the current period, the Company has been subject to regular inspections confirming its full compliance with the applicable environmental regulations. Petaquilla Gold, S.A., the Company's Panama subsidiary which operates the Molejon plant, has provided additional technical documentation on specific procedures related to the monitoring of the environmental impact on water, soil and air as well as various studies on health and migration of populations within the area of influence of the mine project, fully complying with the conditions defined by ANAM for readiness for commercial production. Accordingly, the Company expects to initiate full production as soon as the technical pre-production testing is completed which is expected to occur at or about the same time as approval from the Ministry of Industry and Commerce is obtained.

Several meetings have been held with ANAM personnel and ANAM's appointed independent ITS Consulting and EnviroLAB Laboratories to establish a routine of regular environmental inspections. The Company has retained SGS Panama Control Services Inc., part of the Swiss group SGS – Société Générale de Surveillance, for the process of certification to the international standards on Environmental Management, ISO 14001 and Safety and Occupational Health, OHSAS 18001.

Mill Commissioning and Production

The Company announced wet commissioning on November 28th, 2008, after initiating a pre-production test program; progressively bringing online some of the critical process equipment. During the third quarter, 18,000 tons of low grade ore were used to test the "mine to plant" feed circuitry. Such tests met the requirements of a technical covenant related to the senior secured note financing. This test material did not result in a gold pour.

The Company produced its first gold bar on April 7, 2009.

OPERATING RESULTS

	Q4
Gold production - ounces	2,973
Silver production - ounces	1,109
Gold sales - ounces	703
Silver sales - ounces	114
Average realized gold price (per ounce)	$928.24
Unit cash production cost (per ounce, on a co-product and by-product basis)	$1,793.13

SELECTED ANNUAL INFORMATION

Due to a change in accounting policy related to exploration expenditures, as well as a change in reporting and functional currency, results for 2007 and 2008 have been restated. Refer to "Changes in Accounting Policies" or note 2 of the consolidated financial statements for the twelve months ended May 31, 2009 for details.

Key Financial Data (000's)	**2009**		**2008**		**2007**	
Net loss for the year	(21,100)	(1)	(21,656)		(39,205)	(2)
Loss per share – basic and diluted	(0.22)		(0.23)		(0.49)	
Cash outflow from operating activities						
Working capital (deficit)	(24,386)		(3,714)		(3,897)	
Long term liabilities	60,728	(4)	39,276	(3)	4,608	
Total assets	81,544	(6)	71,208	(5)	24,982	

(1) includes $28,070,280 in losses on senior secured notes, foreign exchange losses of $8,157,720, debt issuance costs of $6,398,825 and a lower gain on dilution of equity investment partially offset by a gain on sale of equity investment of $40,604,938.
(2) includes $17,878,615 in stock-based compensation.
(3) increase as compared to long term liabilities on April 30, 2007 is primarily a result of senior secured note financing with a balance of $26,785,359.
(4) increase as compared to long term liabilities on May 31, 2008 is primarily a result of convertible senior secured note financing with a balance of $34,794,455.
(5) increase as compared to total assets on April 30, 2007 is primarily a result of cash acquired from issuance of capital stock and a senior secured note financing used to finance mineral properties and capital assets.
(6) increase as compared to total assets on May 31, 2008 is primarily a result of cash acquired from a convertible senior secured note financing used to finance mineral properties.

RESULTS OF OPERATIONS – FOR THE TWELVE MONTHS ENDED MAY 31, 2009 COMPARED TO THE THIRTEEN MONTHS ENDED MAY 31, 2008

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and all amounts are expressed in United States 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, development work is nearly complete on the Molejon gold deposit with a present targeted production start up in fiscal 2010.

Other income (expense)

During the twelve months ended May 31, 2009, other income decreased by $5,300,711 to $4,503,845 compared to $9,804,556 in the thirteen months ended May 31, 2008. The decrease in other income is largely due to:

- A loss of $28,070,280 resulting from an increase in the fair value of the senior secured notes ("Notes") due to mark-to-market accounting, a change in the discount rate on the Notes from 26.65% to 20.58% as at February 28, 2009, and the partial redemption of Notes during the twelve months ended May 31, 2009 compared to $nil for the thirteen months ended May 31, 2008.

- A dilution gain of $2,238,492 for the twelve months ended May 31, 2009 compared to $12,582,085 for the thirteen months ended May 31, 2008 related to the Company's investment in Petaquilla Copper Ltd. ("Copper"). The dilution gain resulted from the difference between the Company's carrying cost of Copper and the amount paid up for each Copper share issued. The decrease in the dilution gain is due to the sale of Copper in the second quarter of fiscal 2009.

- A foreign exchange loss of $8,157,720 for the twelve months ended May 31, 2009 compared to a foreign exchange gain of $1,637,501 for the thirteen months ended May 31, 2008. This primarily resulted from the significant decrease in the Canadian dollar, impacting the majority of the Company's liabilities which are denominated in United States dollars coupled with a significant increase in U.S. denominated liabilities (senior secured notes) which occurred during the first nine months of fiscal 2009, prior to the adoption of the U.S. dollar as the functional currency of the Company.

These decreases in other income were partially offset by:

- An equity loss of $2,396,011 for the twelve months ended May 31, 2009 compared to $9,081,217 for the thirteen months ended May 31, 2008 related to the Company's investment in Copper. The equity loss reflects the Company's portion of the losses that are attributed to its percentage ownership in Copper. The decrease in the equity loss is due to the sale of Copper in the second quarter of fiscal 2009.

- A gain on sale of Copper shares of $40,604,938 for the twelve months ended May 31, 2009 compared to $4,347,077 for the thirteen months ended May 31, 2008.

Expenses

Expenses for the twelve months ended May 31, 2009, decreased by $5,856,850 to $25,603,711 compared to $31,460,561 for the thirteen months ended May 31, 2008. The decrease in expenses is primarily due to:

- A decrease of $4,740,683 in stock-based compensation. Stock-based compensation, a non-cash expense, is $898,454 for the twelve months ended May 31, 2009 compared to $5,639,137 for the thirteen months ended May 31, 2008. This decrease is due to a lower number of options vesting during the current year. During fiscal 2009, approximately 2,600,000 options vested compared to approximately 5,000,000 vesting during fiscal 2008.

- A decrease of $4,490,579 in exploration and development costs. Exploration and development costs were $7,761,862 for the twelve months ended May 31, 2009 compared to $12,252,441 for the thirteen months ended May 31, 2008. This was due to the change in activities from exploration and development in 2008 to pre-operations and mill commissioning during the second half of fiscal 2009.

- A decrease of $594,172 in consulting fees. During the twelve months ended May 31, 2009, the Company incurred $370,248 in consulting fees compared to $964,420 for the thirteen months ended May 31, 2008. The decrease is due to fewer consultants being utilized during the period as the Company's efforts were focused on completion of the processing mill. In addition, certain key positions were filled by employees rather than consultants during the current year.

- A decrease of $391,711 in office administration. During the twelve months ended May 31, 2009, the Company incurred $2,152,886 in office administration compared to $2,544,597 for the thirteen months ended May 31, 2008. The decrease is due to the reduction of administrative costs as Copper shared premises and resources during the first two quarters of fiscal 2009.

The decreases in expenses were partially offset by:

- An increase in debt issuance costs of $2,503,952. During the twelve months ended May 31, 2009, the Company incurred debt issuance costs of $6,398,825 compared to $3,894,873 for the thirteen months ended May 31, 2008 as a result of the issuance of the second, third and supplemental tranches of senior secured notes and the issuance of convertible senior secured notes during the current year. Only one tranche of senior secured notes was issued in fiscal 2008.

- An increase in wages and benefits of $1,070,831. During the twelve months ended May 31, 2009, the Company incurred $2,916,615 in wages and benefits compared to $1,845,784 for the thirteen months ended May 31, 2008 due to an increase in senior management and office staff.

- An increase in accounting and legal costs of $621,845. During the twelve months ended May 31, 2009 the Company incurred $1,944,302 in accounting and legal costs compared to $1,322,457 for the thirteen months ended May 31, 2008 due to higher audit fees relating to the Company's year end audit as well as legal costs incurred in relation to the issues surrounding environmental permitting.

Net loss and comprehensive loss for the twelve months ended May 31, 2009 was $21,099,866 or $0.22 per basic and diluted share compared to net loss and comprehensive loss of $21,656,005 or $0.23 per basic and diluted share for the thirteen months ended May 31, 2008.

Cash Flow

Operating Activities

Corporate and administrative cash costs and exploration and development expenditures resulted in a cash outflow of $16,010,085 from operating activities for the twelve months ended May 31, 2009.

Operating activities for the thirteen month period ended May 31, 2008 resulted in a cash outflow of $16,802,176.

Financing Activities

Proceeds from issuance of senior secured notes and convertible senior secured notes were $87,750,000 for the twelve months ended May 31, 2009 compared to $32,250,000 in the thirteen months ended May 31, 2008. Redemption of senior secured notes was $64,238,852 in the twelve months ended May 31, 2009 compared to $nil for the thirteen months ended May 31, 2008. For the twelve months ended May 31, 2009, advances from Petaquilla Copper Ltd. were $nil compared to $17,682,808 for the thirteen months ended May 31, 2008. During the twelve months ended May 31, 2009, the issuance of capital stock resulted in net proceeds of $37,662 compared to $13,767,794 for the thirteen months ended May 31, 2008. Prepaid interest on the senior secured notes and convertible senior secured notes was $13,162,500 compared to $4,837,500 for the thirteen months ended May 31, 2008. Repayment of the bank overdraft was $2,100,000 during the twelve months ended May 31, 2009 compared to proceeds of $864,810 for the thirteen months ended May 31, 2008. Debt issuance costs for the twelve months ended May 31, 2009 were $6,286,138 compared to $3,894,873 for the thirteen months ended May 31, 2008. Net repayments of capital leases and long term debt were $3,260,370 for the twelve months ended May 31, 2009 compared to $1,340,410 in the prior fiscal year. Share issuance costs of $nil were incurred during the twelve months ended May 31, 2009 compared to $458,397 for the thirteen months ended May 31, 2008.

Investing Activities

During the twelve months ended May 31, 2009, the Company received $43,238,852 from the sale of Copper shares compared to $nil in the thirteen months ended May 31, 2008.

Mineral Property Development

The Company spent $31,679,647 on mineral properties during the twelve months ended May 31, 2009 compared to $15,199,790 during the thirteen months ended May 31, 2008. Cash expenditure is solely related to completion of the processing mill and the mine.

During the twelve months ended May 31, 2009, $1,631,883 was spent on mining equipment, milling equipment, computer software and office equipment, compared to $6,579,011 during the thirteen months ended May 31, 2008, reflecting the change towards the gold pre-production phase of the project in the current period.

During the twelve months ended May 31, 2009, the Company paid $1,762,945 for deposits on equipment and construction material compared to $nil for the thirteen months ended May 31, 2008

RESULTS OF OPERATIONS – FOR THE THREE MONTHS ENDED MAY 31, 2009 COMPARED TO THE FOUR MONTHS ENDED MAY 31, 2008

Other income (expense)

During the three months ended May 31, 2009, other expense decreased by $2,032,331 to a net expense of $4,496,124 compared to an expense of $6,528,455 for the four months ended May 31, 2008.

This decrease was due to:

- A decrease in the loss from equity investment of $2,297,168 to $nil for the three months ended May 31, 2009 due to the sale of Copper shares in the second quarter of the 2009 fiscal year.

- A $4,615,939 refund of revenue earned in the third quarter of fiscal 2008, occurring in the four months ended May 31, 2008, related to the rescinding of an agreement for the transfer of intellectual property.

These decreases in other income were partially offset by:

- A loss on senior secured notes of $5,046,426 for the three months ended May 31, 2009 compared to $nil for the four months ended May 31, 2008. The loss on senior secured notes results from an increase in the fair value of the senior secured notes due to mark-to-market accounting. Since the senior secured notes financing for 2008 was completed close to year end, there was no change in the market value of the notes during 2008.

Expenses

Expenses for the three months ended May 31, 2009 were $6,773,732, a decrease of $2,306,143 compared to $9,079,875 for the four months ended May 31, 2008. The decrease in expenses is mainly due to:

- A decrease in debt issuance costs of $1,667,319 resulting from the fact that one time charges related to the senior secured notes financing including legal fees and due diligence fees were incurred in 2008.

- A decrease in stock based compensation of $839,960 due to a lower number of options vesting during the period.

These decreases in expenses were partially offset by

- An increase in office administration of $653,241, due to the cost of environmental and property insurance required for the commissioning of the mill.

The net loss for the three months ended May 31, 2009, was $11,269,855 or ($0.12) per share, compared to $15,608,330 or ($0.13) per share for the four months ended May 31, 2008.

Operating Activities

Corporate and administrative cash costs, inventory, exploration and development expenditures and a one-time adjustment for the change in functional currency resulted in a cash outflow of $15,710,458 from operating activities for the three months ended May 31, 2009. Operating activities for the four months ended May 31, 2008 resulted in a cash outflow of $5,815,853.

Petaquilla Minerals Ltd. (in United States dollars, except where noted)

Financing Activities

During the three months ended May 31, 2009, proceeds from senior secured notes and convertible senior secured notes were $40,000,000 compared to $32,250,000 for the four months ended May 31, 2008. Redemption of senior secured notes was $21,000,000 in the three months ended May 31, 2009 compared to $nil for the four month period ended May 31, 2008. Prepaid interest on senior secured notes and convertible senior secured notes was $6,000,000 for the three months ended May 31, 2009 compared to $4,837,500 for the four months ended May 31, 2008. Debt issuance costs for the three months ended May 31, 2009 were $2,114,867 compared to $3,894,873 for the four months ended May 31, 2008. The lower debt issuance costs in the three months ended May 31, 2009, result from the fact that one time charges such as certain legal expenses and due diligence fees were only incurred with the first senior secured notes financing in 2008.

Investing Activities

During the three months ended May 31, 2009 $12,220,787 was spent to develop the Molejon property compared to approximately $300,000 for the four months ended May 31, 2008 due to the ramp up of activity related to commissioning the mill and a cash flow shortage prior to the issuance of senior secured notes in May 2008.

Balance Sheet

As at May 31, 2009, PTQ had total assets of $81,543,823 compared with $71,208,177 in total assets at May 31, 2008. This increase is primarily a result of mineral property expenditures during the year. Working capital deficiency at May 31, 2009 was $24,386,116 compared to $3,714,457 at May 31, 2008, as a result of operating, exploration and capitalized expenditures during the period.

SUMMARY OF QUARTERLY RESULTS

	2009 May 31 Q4	**2009 Feb 28 Q3**	**2008 Nov 30 Q2**	**2008 Aug 31 Q1**
Net (loss) earnings	$(11,269,855)	$ (13,945,696)	$ 18,491,312	$(14,375,627)
(Loss) earnings per share – basic	$ (0.12)	$ (0.14)	$ 0.19	$ (0.15)
(Loss) earnings per share – diluted	$ (0.12)	$ (0.14)	$ 0.18	$ (0.15)
	2008 May 31 4 months	**2008 Jan 31 Q3**	**2007 Oct 31 Q2**	**2007 July 31 Q1**
Net (loss) earnings	$ (15,608,330)	$ 4,353,907	$ (9,659,326)	$ (742,257)
(Loss) earnings per share – basic	$ (0.17)	$ 0.05	$ (0.10)	$ (0.01)
(Loss) earnings per share – diluted	$ (0.17)	$ 0.04	$ (0.10)	$ (0.01)

1) The effect of potential share issuances pursuant to the exercise of options and warrants would be anti-dilutive and, therefore, basic and diluted losses per share are the same for the quarters ended July 31, 2007, October 31, 2007, May 31, 2008, August 31, 2008, February 28, 2009 and May 31, 2009. For the quarters ended January 31, 2008 and November 30, 2008, potential share issuances pursuant to the exercise of options and warrants would be dilutive and the basic and diluted earnings per share using the treasury stock method are shown above.

LIQUIDITY AND CAPITAL RESOURCES

As at May 31, 2009, the Company has not generated any operating revenues to date, has experienced recurring operating losses and has accumulated an operating deficit of $119,774,936 as at May 31, 2009 (May 31, 2008 - $98,675,070) and a shareholders' deficit of $8,920,288 at May 31, 2009 (May 31, 2008 – shareholders' equity of $14,606,134). Also the Company had a working capital deficiency of $24,386,116 at May 31, 2009 (May 31, 2008 - $3,714,457). Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted to cash within one year.

The Company has a scheduled senior secured notes repayment of $6,000,000 on September 15, 2009. Management's plan in this regard is to raise equity, debt financing and cash from forward gold sales as required. There are no assurances that the Company will be successful in achieving these goals.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued operations, as intended, are dependent upon its ability to raise additional funding to meet its obligations and to attain profitable operations.

The operating cash flow and profitability of the Company are also affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, interest rates, environmental costs, the level of exploration activity, labour risk, environmentalist risk and political risk. The Company seeks to manage the risks associated with its business; however, many of the factors affecting these risks are beyond the Company's control.

The Company has $707,480 in term deposits which are being held to guarantee debt financings and a performance bond for compliance with the environmental laws in Panama.

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

Petaquilla Minerals Ltd. (in United States dollars, except where noted)

CONTRACTUAL AND OTHER OBLIGATIONS

	Less than 1 Year	2 Years	3 Years	4-5 Years	More than 5 Years
Office lease	$ 60,676	$ 60,676	$ 15,168	Nil	Nil
Capital expenditure commitment	$ 950,013	Nil	Nil	Nil	Nil
Equipment lease	$ 5,741,567	$ 4,164,972	$ 461,907	Nil	Nil
Senior secured notes	$18,811,500	$16,800,010	Nil	Nil	Nil
Convertible senior secured notes	Nil	$49,616,537	Nil	Nil	Nil
Long-term debt	$178,760	Nil	Nil	Nil	Nil
Asset retirement obligation	Nil	Nil	Nil	Nil	$6,701,000

CONTINGENCIES

On November 13, 2008, the Autoridad Nacional del Ambiente ("ANAM"), the environmental agency of the Government of the Republic of Panama, issued a Resolution purporting to fine the Company and its present and former affiliates US$ 1,000,000 for alleged violations of environmental laws that took place on the main Petaquilla Copper Concession in 2005 and an additional US$ 934,695 for damages. On November 26, 2008, ANAM, by Resolution, approved the Company's Environmental Impact Study ("EIS") Category III submitted in July 2007 for the Molejon Gold Project. The Resolution sets out a number of conditions to be satisfied before the Company can attain full commercial production. Based on the approval of the EIS, the Company filed for reconsideration by ANAM to have the fines reduced to nil. In January 2009, the Company was advised that ANAM had not accepted the Company's request for reconsideration that the amount of the financial sanctions purportedly levied against the Company and its present and former affiliates be reduced to nil. On March 10, 2009, the Supreme Court of the Republic of Panama suspended the imposition of ANAM's fine until the matter of the Company's appeal is resolved. Consequently, the amount, if any, that may ultimately be payable by the Company cannot be determined.

The Company is engaged in certain other legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

CAPITAL STOCK

At May 31, 2009, the Company had unlimited authorized common shares without par value and unlimited authorized preference shares without par value. The Board of Directors will assign the rights and privileges to each series of preference shares upon issue.

Petaquilla Minerals Ltd. (in United States dollars, except where noted)

As at May 31, 2009, an aggregate of 96,040,121 common shares were issued and outstanding of which 44,200 were repurchased. As at August 28, 2009, 96,040,121 common shares were issued and outstanding, of which, 44,200 were repurchased.

	Number of Common Shares	Amount (Note 2)	Contributed Surplus	Warrants	Accumulated Other Comprehensive Income (Note 2)
Issued					
Balance as at April 30, 2007	89,876,951	$ 74,794,361	$ 10,467,963	$ 9,408,169	$ (3,288,655)
Non-brokered private placement, net of finders' fees (a)	4,552,412	10,953,460	-	1,335,817	
Exercise of stock options	1,055,883	3,047,984	(1,986,003)	-	
Exercise of warrants	373,395	1,142,295	-	(517,130)	
Share issue relating to legal settlement	100,000	264,438	-	-	
Stock-based compensation	-	-	6,232,316	-	
Senior secured notes warrants	-	-	-	819,724	
Share issuance costs	-	(1,200,265)	-	724,793	
Exchange difference from translation of financial statements to US reporting currency	-	-	-	-	$ 1,204,129
Balance as at May 31, 2008	95,958,641	$ 89,002,273	$ 14,714,276	$ 11,771,373	$ (2,084,526)
Exercise of stock options	81,480	206,395	(168,731)	-	
Stock-based compensation	-	-	869,890	-	
Senior secured notes finders warrants	-	-	-	215,232	
Senior secured notes warrants	-	-	-	706,800	
Expiration of warrants	-	-	263,262	(263,262)	
Warrant issue costs				(102,546)	
Repricing of senior secured notes warrants			(1,781,500)	1,781,500	
Exchange difference from translation of financial statements to US reporting currency					$ (4,648,716)
Balance as at May 31, 2009	96,040,121	$ 89,208,668	$ 13,897,197	$ 14,109,097	$ (6,733,242)

PTQ had the following warrants outstanding as at August 28, 2009:

Number of Warrants Outstanding	**Exercise Price (CAD$)**	**Expiry Date**
1,120,875	$3.50	October 31, 2009
182,000	$3.50	December 20, 2009
389,000	$3.50	May 9, 2010
9,424,605	$1.54	October 17, 2011
12,812,280	$0.65	May 21, 2013
3,972,800	$0.65	June 4, 2013
7,051,720	$0.65	July 8, 2013
34,953,280		

As at August 28, 2009, 34,953,280 share purchase warrants were issued and outstanding.

Petaquilla Minerals Ltd. (in United States dollars, except where noted)

The following summarizes information about the stock options outstanding as at August 28, 2009:

Number of Shares Outstanding	Exercise Price (CAD$)	Expiry Date
30,000	0.26	April 25, 2010
193,800	0.26	July 11, 2010
919,200	0.54	February 1, 2011
96,000	0.89	April 27, 2011
2,731,773	2.01	January 15, 2012
100,000	2.25	June 20, 2012
50,000	2.49	July 12, 2012
410,000	0.56	November 18, 2013
300,000	0.52	December 1, 2013
200,000	0.39	January 5, 2014
100,000	0.39	March 1, 2014
150,000	0.62	July 13, 2014
5,280,773		

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not utilize off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the twelve months ended May 31, 2009 PTQ had the following transactions with related parties:

a) The Company paid consulting fees of $4,234 (thirteen months ended May 31, 2008 - $105,855) to related companies controlled by a director and a former officer.

b) The Company paid consultant fees and wages of $252,334 (thirteen months ended May 31, 2008 - $149,586) to companies controlled by directors and an officer.

c) The Company paid legal fees of $269,526 (thirteen months ended May 31, 2008 - $107,329), share issue costs of $nil (thirteen months ended May 31, 2008 - $162,523) and financing costs of $104,272 (thirteen months ended May 31, 2008 - $95,257) to a law firm controlled by an officer. The Company paid for goods and services of $155,805 (thirteen months ended May 31, 2008 - $127,326) to a company controlled by an officer.

d) The Company sold dore bars containing 256 ounces to a director and officer for net proceeds of $220,060 (thirteen months ended May 31, 2008 – $nil). The sale was completed using the London Gold Market PM fix price.

At May 31, 2009, $25,925 was owed to an officer of the Company.

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

SUBSEQUENT EVENTS

Subsequent to May 31, 2009 the following events took place:

1) The Company's wholly-owned subsidiary Panama Central Electrica, S.A. ("PCE") entered into a Memorandum of Understanding ("MOU") with Generadora Hidroelectrica Santa María, S.A. (¨Santa Maria¨) for the development of a 25MW hydroelectric plant (the ¨Hydro Project¨) in the Province of Veraguas, Panama.

2) The Company granted 150,000 stock options, 60,000 stock options expired and 3,245,080 options were cancelled. The Company is currently reviewing the accounting impact of the option cancellations.

3) The Company is currently conducting an internal investigation under the oversight of the Audit Committee and with the assistance of independent counsel, of certain international operations, focusing on the material weakness identified during the Company's assessment of internal controls at May 31, 2009.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements in accordance with Canadian GAAP 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 and investments, estimates of the useful life of properties and equipment, the future cost of asset retirement obligations, the amount and likelihood of contingencies, the discount rate used for valuation of senior secured and convertible senior secured notes, the valuation allowance for future income tax assets and the accounting for stock-based compensation and warrants.

Mineral Property Costs

Exploration and development costs are expensed until such time as reserves are proven and financing to complete development has been obtained. Acquisition costs of mineral properties and tangible development costs 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. Capitalized costs are depleted using a unit-of-sale method over the estimated economic life of the mine to which they relate.

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.

Impairment of Long-lived Assets

A long-lived asset which includes property and related costs and equipment is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Asset Retirement Obligation

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 Obligation, 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 liability. 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 (see Note 17 of the Notes to the Consolidated Financial Statements).

CHANGES IN ACCOUNTING POLICY INCLUDING INITIAL ADOPTION

During the current year, the Company adopted the following accounting policies:

Inventory

Materials and supplies inventory are valued at the lower of cost and net realizable value. Net realizable value is determined based on current replacement cost.

Revenue Recognition

Revenue from the sale of metals is recognized in the accounts when persuasive evidence of an arrangement exists, title and risk passes to the buyer, collection is reasonably assured and the price is reasonably determinable. During the pre-operating period, revenues and related expenses are recognized as a reduction / increase to mineral properties.

On June 1, 2008, the Company adopted new accounting standards related to general standards of financial statement presentation, capital disclosure and financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new CICA standards are as follows:

Section 1400, General Standards of Financial Statement Presentation

This Section specifies the requirements for assessing an entity's ability to continue as a going concern and disclosing any material uncertainties that cast doubt on its ability to continue as a going concern. The Company's disclosure reflects such assessment.

Section 1535, Capital Disclosures

This Section specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about these objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance. Disclosure requirements pertaining to this section are contained in Note 23 of the Notes to the Consolidated Financial Statements.

Section 3862, Financial Instruments – Disclosures
Section 3863, Financial Instruments – Presentation

These Sections replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. Disclosure requirements pertaining to this section are contained in Note 23 of the Notes to the Consolidated Financial Statements.

EIC Abstract 173

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable for the Company's annual consolidated financial statements for its fiscal year ending May 31, 2009, with retroactive application. The adoption of EIC-173 did not result in a material impact on the Company's consolidated financial statements.

EIC Abstract 174

In March 2009, the CICA issued EIC Abstract 174 - Mining Exploration Costs ("EIC-174") which supercedes EIC Abstract 126 -Accounting by Mining Enterprises for Exploration Costs ("EIC-126"), to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. EIC 174 is applicable for the Company's annual consolidated financial statements for its fiscal year ending May 31, 2009, with retroactive application. The adoption of EIC – 174 did not result in a material impact on the Company's consolidated financial statements.

Accounting Policies to be Implemented Effective June 1, 2011

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations ("Section 1582"), 1601 – Consolidated Financial Statements ("Section 1601") and 1602 – Non-controlling Interests ("Section 1602") which replaces CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601, together with Section 1602, establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning June 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

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 June 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.

The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting and disclosure controls and procedures. The transition may also impact business activities such as certain contractual arrangements, capital requirements and compensation arrangements.

The Company has designated the appropriate resources to the project to develop an effective plan and will continue to assess resource and training requirements as the project progresses. The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation. The scoping and planning phase is currently underway and involves establishing a project team, identifying major areas affected and developing an implementation plan and communication strategy. The detailed assessment plan will be completed by the end of the second quarter and will result in accounting policies and transitional exemption decisions, estimates of quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations implementation phase includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at June 1, 2010, fiscal 2011 and thereafter plus ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. The post implementation phase will include sustainable IFRS compliant financial data and processes for fiscal 2012 and beyond.

Changes in Accounting Policies

(a) Change in Reporting Currency

Effective March 1, 2009, the Company changed its reporting currency to the U.S. Dollar (USD). The change in reporting currency increases transparency of the financial results of the Company and provides better visibility for the stakeholders.

Prior to March 1, 2009, the Company reported its annual and quarterly consolidated balance sheets and the related consolidated statements of operations, deficit, comprehensive income, accumulated other comprehensive income and cash flows in Canadian dollars (CAD). In making the change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA), set out in EIC-130 – "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency."

In accordance with EIC-130, the financial statements for all the years and periods presented have been translated to the new reporting currency (USD) using the current rate method. Under this method, the statements of operations, deficit and comprehensive (loss) income and cash flows statement items for each year and period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheets dates. Shareholders' equity transactions have been translated using the rates of exchange in effect as at the date of the various capital transactions.

All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in U.S. dollars.

(b) Mineral Properties

During the current fiscal year, as a result of the initiation of a new exploration program, the Company commenced its review of the impact of International Financial Reporting Standards ("IFRS") on its accounting policies including an examination of the Company's current accounting policies. Due to this review, the Company determined that it was appropriate to change its accounting policy for mineral properties whereby exploration and development costs are to be expensed until such time as reserves are proven and financing to complete development has been obtained. Previously, the Company capitalized its exploration and development expenditures as incurred, which is permitted under Canadian generally accepting accounting principles ("Canadian GAAP"). This change in accounting policy has also been applied to the calculation of dilution gains and equity losses from the Company's equity investment in Copper.

Management believes that this revised accounting policy will provide a more relevant and reliable basis of accounting. Among other benefits, the revised accounting policy aligns the accounting treatment of mineral property expenditures with standards used by producing mining companies in the resource sector and with global accounting standards. The change in accounting policy has been applied retrospectively, and the comparative statements for 2008 have been restated.

FINANCIAL INSTRUMENTS

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Fair Values

The Company's financial instruments consist of cash and cash equivalents, receivables, restricted cash, accounts payable and long-term debt. The fair value of these financial instruments approximates their carrying values due to the immediate or short-term maturity of these financial instruments

The Company's senior secured notes and convertible senior secured notes are measured on initial recognition using the residual method. Subsequent fair value measurement is based on a discounted cash flow model using a discount rate of 20.58% and a maturity date of two years from date of issue based on the ability of the note holders to demand repayment after two years and the expectation that note holders will make this demand.

(b) Financial Instrument Risk Exposure

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, restricted cash, and accounts receivable. The Company has reduced its credit risk by investing its cash and cash equivalents and restricted cash in term deposits with financial institutions that operate globally. Also, as the majority of its receivables are with the governments of Canada in the form of sales tax, the credit risk is minimal. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

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 has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares, senior secured debt, convertible senior secured debt and leasing arrangements to develop the Molejon gold project and may require doing so again in the future. On an annual basis the Company may be required to pay 35% of its distributable cash as defined in its senior secured notes and convertible senior secured notes indenture.

Market risk

(i) **Currency risk**

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: Canadian dollar denominated cash and cash equivalents, restricted cash, accounts receivable and accounts payable. The sensitivity of the Company's net earnings and other comprehensive income to changes in the exchange rate between the Canadian dollar and the United States dollar is summarized in the table below:

	As at May 31, 2009	
	10% Increase in the Canadian Dollar	10% decrease in the Canadian Dollar
(Decrease) increase in net earnings	$61,184	$(61,184)
(Decrease) increase in other comprehensive (loss) income	-	-
Comprehensive (loss) income	$ 61,184	$(61,184)

(ii) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash and cash equivalents and restricted cash bear interest at fixed rates.

Other current financial assets and liabilities are not exposed to interest rate risk because they are non-interest bearing.

The operating credit line facility, leases, and long-term debt bear interest at a fixed rate and are also not exposed to interest rate risk.

The Company's objectives of capital management are intended to safeguard 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.

The capital structure of the Company consists of long-term debt, leases, senior secured notes, convertible senior secured notes and equity attributable to common shareholders, comprised of issued capital, contributed surplus and deficit. 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.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares, senior secured debt, convertible senior secured debt and leasing arrangements to develop the project and may require doing so again in the future.

The Company is monitoring market conditions to secure the funding at the lowest cost of capital. The Company is exposed to various funding and market risks which could curtail its access to funds.

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 Company operates in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. Investors should carefully consider the risks described below before investing in the Company's securities. The occurrence of any of the following events could harm PTQ. If these events occur, the trading price of the Company's common shares could decline, and investors may lose part or even all of their investment.

A risk analysis has as yet to be completed for the Molejon deposit. While it is 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. 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 the Company's financial condition and results of operations.

The Company faces risks related to operations in foreign countries.

Currently the Company's properties are only located in Panama, a country with a developing mining sector but no commercially producing mines. Consequently, PTQ is subject to and the Company's mineral exploration and mining activities may be affected in varying degrees by, certain risks associated with foreign ownership including inflation, political instability, political conditions and government regulations. Any changes in regulations or shifts in political conditions are beyond the Company's control and may adversely affect the Company's business. Operations may be affected by government regulations with respect to restrictions on production, restrictions on foreign exchange and repatriation, price controls, export controls, restriction of earnings distribution, taxation laws, expropriation of property, environmental legislation, water use, mine safety and renegotiation or nullification of existing concessions, licenses, permits, and contracts. In particular, the status of Panama as a developing country may make it more difficult for PTQ to obtain any required production financing for the Company's properties from senior lending institutions.

Failure to comply strictly with applicable laws, regulations and local practices relating to mineral rights applications and tenure could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

PTQ's operations are subject to environmental and other regulation.

The Company's current or future operations, including development activities and commencement of production on the Company's properties, require permits from various governmental authorities and such operations are and will be subject to laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety, community services and other matters. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. There can be no assurance that approvals and permits required to commence production on our various properties will be obtained. Additional permits and studies, which may include environmental impact studies conducted before permits can be obtained, may be necessary prior to operation of the properties in which the Company has interests and there can be no assurance that PTQ will be able to obtain or maintain all necessary permits that may be required to commence construction, development or operation of mining facilities at these properties on terms which enable operations to be conducted at economically justifiable costs.

The Company's potential mining and processing operations and exploration activities in Panama are subject to various federal and provincial laws governing land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety, community services and other matters. Such operations and exploration activities are also subject to substantial regulation under these laws by governmental agencies and may require that PTQ obtains permits from various governmental agencies. The Company believes that it is in substantial compliance with all material laws and regulations that currently apply to corporate activities. There can be no assurance, however, that all permits which may be required for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have a material adverse effect on any mining project that the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reductions in levels of production at producing properties or abandonment or delays in development of new mining properties.

To the best of PTQ's knowledge, the Company is currently operating in compliance with all applicable environmental regulations. However, Autoridad Nacional del Ambiente ("ANAM"), Panama's national environmental authority, has established certain conditions to be met before the Company can place the Molejon property into commercial production as a mine. PTQ has yet to satisfy all of these conditions, and discussions are underway with ANAM to arrive at a consensus on the final conditions to be met. The Company's position is that Law No. 9 of the Legislative Assembly of Panama (the "Ley Petaquilla"), a project-specific piece of legislation enacted in February 1997 to deal with the orderly development of the Cerro Petaquilla Concession, takes precedence over the resolutions of ANAM, and that the Company is in compliance with the Ley Petaquilla. The Supreme Court of Panama has issued an order suspending the implementation of a fine levied in 2008 against the Company by ANAM. There is no guarantee that ANAM will not purport to levy further fines against PTQ, claiming breaches of the environmental statutes and policies of Panama, in the event that the Company proceeds to commercial production without having satisfied conditions set out by ANAM. PTQ intends to strictly comply with the Ley Petaquilla, including the environmental provision thereof, and will vigorously oppose any such action by ANAM.

Risks related to mining operations could adversely affect PTQ's business.

The Company is engaged in the acquisition, exploration, exploration management, development and sale of mineral properties, with the primary aim of developing them to a stage where they can be exploited at a profit. Our property interests are in the exploration stage and are without a known body of commercial ore. Although an open pit mine is planned and construction of a gold plant is nearing completion at the Molejon gold property for the processing of gold-bearing ores, there is no guarantee that the Company will realize any profits in the short to medium term. Any profitability in the future will be dependent upon locating mineral reserves, which is subject to numerous risk factors.

The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. In developing mineral deposits, the Company will be subjected to an array of complex economic factors and accordingly there is no assurance that a positive feasibility study or any projected results contained in a feasibility study of a mineral deposit will be attained.

The Company's ability to meet timing and cost estimates for properties cannot be assured. Technical considerations, delays in obtaining governmental approvals, inability to obtain financing or other factors could cause delays in developing properties and such delays could materially adversely affect the Company's financial performance.

The business of gold mining is subject to a variety of risks such as cave-ins and flooding, environmental hazards, industrial accidents, unusual or unexpected changes to rock formations, changes in the regulatory environment, the discharge of toxic chemicals, gold bullion losses, and other hazards. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, delays in production, increased production costs, monetary losses and possible legal liability. The Company has obtained insurance in amounts that it considers to be adequate to protect against certain risks of mining and processing to the extent that is economically feasible but which may not provide adequate coverage in all circumstances. PTQ may become subject to liability for hazards against which it cannot be insured, or against which it is inadequately insured, or against which it may elect not to be insured because of premium costs or for other reasons. In particular, the Company is not insured against all forms of environmental liability.

Further development of the Molejon gold property to completion of construction of mill facilities and commencement and continuation of production will require additional approvals, permits and certificates of authorization from different government agencies on an ongoing 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 the Company. The duration and success of permitting efforts are contingent upon many variables not within the Company'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 us. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that the Company would not proceed with the development or operation of a mine or mines.

Although the ore resource and mineral deposit figures included herein have been carefully prepared by PTQ, or, in some instances have been prepared, reviewed or verified by independent mining experts, these amounts are estimates only and no assurance can be given that any particular level of recovery of minerals from ore reserves will in fact be realized or that an identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. Mineral resources are estimates of the size and grade of deposits based on limited sampling and on certain assumptions and parameters and until reserves or mineralization are actually mined and processed, the quantity of mineralization and resource grades must be considered estimates only. Further development, drilling and other engineering analyses are required in order to have any of the Company's resources classified as proven reserves. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short-term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small-scale laboratory tests will be duplicated in large-scale tests under on-site conditions. Material changes in ore reserves, grades, stripping ratios or recovery rates may affect the economic viability of projects. Ore reserves are reported as general indicators of mine life. Reserves should not be interpreted as assurances of mine life or of the profitability of current or future operations.

Potential delays in the development of the Molejon gold deposit and cost overruns could occur.

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. 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.

PTQ has limited experience with development-stage mining operations.

The Company has limited experience in placing resource properties into production and PTQ's ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if resource properties are put into production. There also exists significant risk in being able to recruit experienced employees or contractors to allow the Company to move forward in pursuing development-stage mining operations.

Mineral prices can fluctuate dramatically and have a material adverse effect on PTQ's results of operations.

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of minerals are discovered, a profitable market will exist for the sale of same. Factors beyond the Company's control may affect the marketability of any substances discovered. Gold prices have experienced volatile and significant price movements over short periods of time and are affected by numerous factors beyond PTQ's control, including international economic and political trends, expectations with respect to the rate of inflation, currency exchange rates, interest rates, global and regional consumption patterns and economic crises, speculative activities and increased production due to improved mining and production methods. The supply of and demand for gold is affected by various factors including political events, economic conditions, production costs in major producing regions and governmental policies with respect to gold holdings by a nation or its citizens. 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 institutions, industrial organizations and private individuals. There can be no assurance that the price of recovered minerals will be such that the Company's properties can be mined at a profit.

The Company is dependent upon additional funding in order to sustain its operations.

With the exception of $652,324, the Company has not generated cash flow from operations in the past and, although PTQ is preparing for production at the Molejon gold property, cash flow to satisfy the Company's operational requirements, debt repayments and cash commitments is not guaranteed from the operations of the Molejon gold plant. In the past, the Company has relied on sales of equity securities or debt financing to meet most of its cash requirements, together with project management fees, property payments and sales or joint ventures of properties. There can be no assurance that funding from these sources will be sufficient in the future to satisfy the Company's operational requirements, debt repayments and cash commitments.

The Company does not presently have sufficient financial resources to undertake all of the Company's planned exploration and development programs. The development of PTQ's properties depends upon its ability to obtain financing through any or all of the joint venturing of projects, debt financing, equity financing or other means. There is no assurance that PTQ will be successful in obtaining the required financing. Failure to obtain additional financing on a timely basis could cause the Company to forfeit its interest in its properties and reduce or terminate operations on such properties.

The company has a history of losses, an accumulated deficit and a lack of revenue from operations and there is substantial uncertainty regarding its ability to continue as a going concern.

In their report on the consolidated financial statements for the period ended May 31, 2009, the Company's independent auditors included an explanatory paragraph regarding concerns about PTQ's ability to continue as a going concern. The Company's financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by the Company's independent auditors.

The Company has incurred net losses to date. As at May 31, 2009, PTQ had an accumulated deficit of $119,774,936 and for the twelve months ended May 31, 2009, incurred a loss of $21,099,866 from continuing operations. Continuing operations are dependent on the Company achieving profitable operations and being able to raise capital, if and when necessary, to meet PTQ's obligations and repay liabilities when they come due.

The Company has not yet earned any significant revenue from the exploration activities on its properties. The Molejon gold property is the Company's first property development activity. Even if PTQ undertakes development activity on any of the Company's properties, including the Molejon gold property, PTQ may continue to incur losses beyond the period of commencement of such activity. There is no certainty that PTQ will produce revenue, operate profitably or provide a return on investment in the future and recent significant increases in gold commodity prices may not be sustainable. As such, they may not be reliable as indicators of future consistent realizable values, should any of the Company's mineral deposits reach commercial production.

The Company did not generate revenue from operations during the twelve months ended May 31, 2009, the thirteen months ended May 31, 2008, and the fifteen months ended April 30, 2007. Expenses for the twelve months ended May 31, 2009, were $25,603,711, a decrease from $31,460,561 for the thirteen months ended May 31, 2008.

PTQ is executing a business plan to allow the Company to continue as a going concern, which is to achieve profitability through cost containment and increased revenues. PTQ has reduced its losses and intends to reduce them further, ultimately achieving profitability. There is significant uncertainty that the Company will be successful in executing this plan. Should PTQ fail to achieve profitability or, if necessary, raise sufficient capital to sustain operations, the Company may be forced to suspend its operations and possibly even liquidate its assets and wind-up and dissolve the company.

During the fiscal year ended May 31, 2009, PTQ raised an additional $27,750,000 in gross proceeds by completing a senior secured notes debt financing. This was followed with the completion of a supplemental senior secured notes debt financing of $20,000,000 in gross proceeds and a convertible senior secured notes debt financing of $40,000,000 in gross proceeds. In addition, $43,238,852 was raised through the sale of 20,418,565 common shares of Copper and, thus, retired a portion ($43,238,852) of the Company's outstanding senior secured notes.

The consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets at the amounts recorded and discharge its liabilities in the normal course of business in the foreseeable future. Should this assumption not be appropriate, adjustments in the carrying amounts of the assets and liabilities to their realizable amounts and the classifications thereof will be required and these adjustments and reclassifications may be material.

The requirements of the Ley Petaquilla may have an adverse impact on the Company.

PTQ's operations in Panama are governed primarily by Ley Petaquilla, a project-specific piece of legislation enacted in February 1997 to deal with the orderly development of the Cerro Petaquilla Concession.

Ley Petaquilla granted a mineral exploration and exploitation concession to Minera Petaquilla, S.A. ("MPSA"), a Panamanian company formed in 1997 to hold the Cerro Petaquilla Concession covering approximately 136 square kilometres in north-central Panama. Although the Company no longer holds an interest in the copper deposits therein, PTQ continues to hold the rights to the Molejon gold deposit and, as the Cerro Petaquilla Concession encompasses this deposit, the Ley Petaquilla governs the Company's development activities.

Ley Petaquilla contains fiscal and legal stability clauses necessary in order to obtain project financing and includes tax exemptions on income, dividends and imports. Ley Petaquilla also provides for an increase in the annual available infrastructure tax credit, higher depreciation rates for depreciable assets which cannot be used in the infrastructure tax credit pool, and a favorable depletion allowance.

In order to maintain the Cerro Petaquilla Concession in good standing, MPSA must pay to the Government of Panama an annual rental fee of $1.00 per hectare during the first five years of the concession, $2.50 per hectare in the sixth to the tenth years of the concession and $3.50 per hectare thereafter. Initially, the annual rental was approximately $13,600 payable by MPSA and funded pro rata by its shareholders. The current annual rental is approximately $34,000. The concession was granted for a 20-year term with up to two 20-year extensions permitted subject to the requirement to begin mine development and to make a minimum investment of $400 million in the development of the Cerro Petaquilla Concession.

Under Ley Petaquilla, MPSA was required to begin mine development by May 2001. However, MPSA was able to defer commencing development operations by one month for every month that the price of copper remained below $1.155 per pound for up to a further five years (i.e. until May 2006 at the latest). In September 2005, the multi-phase Petaquilla Mine Development Plan (the "Plan") submitted to the Government of Panama by MPSA was approved by Ministerial Resolution. The Molejon gold mineral deposit forms part of the Cerro Petaquilla Concession and the first phase of the Plan focuses on the advancement of the Molejon gold deposit which was commenced in 2006. Subsequent phases of the plan are the responsibility of MPSA.

The Company's directors may have conflicts of interest.

As at August 28, 2009, two of the Company's directors, Robert Baxter and John Cook, are directors of other reporting companies. While currently none of the directors beneficially own a 10% or greater interest in the voting power of any other mineral resource companies, they could in the future. To the extent that these other companies may participate in ventures in which PTQ may participate, the Company's directors may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation, which could result in competitive harm to the Company. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In appropriate cases PTQ will establish a special committee of independent directors to review a matter in which several directors, or management, may have a conflict. In accordance with the laws of the Province of British Columbia, the Company's directors are required to act honestly, in good faith and in the best interests of the Company. In determining whether or not PTQ will participate in a particular program and the interest therein to be acquired by it, the Company's directors primarily consider the potential benefits to the Company, the degree of risk to which PTQ may be exposed and the Company's financial position at that time. Other than as indicated, PTQ has no other procedures or mechanisms to prevent conflicts of interest.

Increased costs to procure labour and materials may affect the Company's expenditures.

The mining industry has been impacted by increased demand for critical resources such as input commodities, mining equipment, milling equipment and skilled labour. These shortages have caused unanticipated cost increases and delays in delivery times, thereby impacting capital expenditures and mine and mill completion. These conditions may reoccur in the future and may have an effect on future costs of production and the achievement of production targets.

We face strong competition for the acquisition of mining properties.

Significant and increasing competition exists for the limited number of mineral property acquisition opportunities available. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than PTQ, the Company may be unable to acquire additional attractive mineral properties on terms it considers acceptable. Accordingly, there can be no assurance that PTQ's exploration and acquisition programs will yield any new reserves or result in any commercial mining operation.

Uncertainty of mineral resources and grade of deposit

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 resources and related grades will eventually be confirmed either in whole or in part, as measured or indicated resources. Prolonged declines in the market price of gold may render inferred mineral resources containing relatively lower grades of gold mineralization uneconomic to exploit and could materially reduce PTQ's resources. 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 resources, such as the need for orderly sequential development of ore bodies or the processing of new or different grades, may impair the potential economic feasibility of the Molejon gold deposit.

There is a degree of uncertainty attributable to the calculation of mineralization and corresponding resource grades being mined or dedicated to future production. Until reserves or mineralization are actually mined and processed, the quantity of mineralization and resource grades must be considered estimates only. In addition, the quantity of resources and mineralization may vary depending on commodity prices. Any material change in quantity of resources, mineralization, grade or stripping ratio may affect the economic viability of a project. In addition, there can be no assurance that recoveries from laboratory tests will be duplicated in tests under on-site conditions or during production.

Replacement of mineral resources

There are a number of uncertainties inherent in any program relating to the location of economic mineral resources, 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 resources to expand current inferred mineral resources.

Environmental protestors

There are currently no producing mines in Panama and various independent environmental groups or individuals would like to prevent the operation of mining in Panama. The Company's operations could be significantly disrupted or suspended by activities such as protests or blockades that may be undertaken by such groups or individuals.

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 chief executive officer, 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 whom is primarily responsible for financial and disclosure controls.

During the prior year, the Company identified material weaknesses in internal controls.

These material weaknesses were as follows:

- The Company does not have sufficient accounting resources at one of its subsidiaries in order to account for and apply internal controls to transactions originating at the subsidiary.

- The Company's I.T. configuration at one of its subsidiaries does not have the appropriate system privileges set up for each job function.

- The Company has a lack of detective and preventative controls with regard to the oversight of recorded transactions at one of its operating subsidiaries.

On September 1, 2008 the Company transitioned to new accounting software that established appropriate system privileges for each job function. This allowed the Company to resolve the material weakness relating to the I.T. configuration at one of its subsidiaries.

In March 2009, the Company upgraded the skills of the accounting staff by recruiting qualified accountants to oversee the recording of transactions for all of its operating subsidiaries. Detective controls at head office were implemented in order to mitigate the risk of transactions not being recorded appropriately. This allowed the Company to resolve the material weakness relating to sufficiency of accounting resources to apply internal controls to transactions originating at the subsidiary and to implement detective controls with respect to the oversight of recorded transactions at one of its operating subsidiaries.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2009, and this assessment identified the following material weakness:

- The Company's policies and procedures relating to cash disbursements at one of the Company's operating subsidiaries were not followed.

In making the assessment of internal control over financial reporting management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Because of the material weakness described in the preceding paragraph, management believes that, as of May 31, 2009, the Company's internal control over financial reporting was not effective as of the Evaluation Date based on those criteria.

The audit committee has been provided information on the deficiency. Together, the audit committee, board of directors, and the Company's management continue to work to mitigate the risk of a material misstatement in the financial statements. Subsequent to year-end, the Company redesigned the internal controls for operating subsidiaries by replacing all signing authorities at these operations with senior level employees from the parent company. We are currently conducting an internal investigation, under the oversight of the Audit Committee and with the assistance of outside independent counsel, of certain of our international operations, focusing on the material weakness identified above.

OUTLOOK

The Company has a scheduled senior secured notes repayment of $6,000,000 on September 15, 2009. Management's plan in this regard is to raise equity, debt financing and cash from forward gold sales as required. There are no assurances that the Company will be successful in achieving these goals.

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 resource 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, is available on SEDAR at www.sedar.com.