

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549 USA

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2008

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 000-26296

Petaquilla Minerals Ltd.
(Exact name of Registrant as specified in its charter)

Not applicable
(Translation of Registrant's name into English)

Province of British Columbia, Canada
(Jurisdiction of incorporation or organization)

Suite 410, 475 West Georgia Street, Vancouver, British Columbia, Canada V6B 4M9
(Address of principal executive offices)

Janet Francis, telephone (604) 694-0021, fax (604) 694-0063,
Suite 410, 475 West Georgia Street, Vancouver, British Columbia, Canada V6B 4M9
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class
None

Name of each exchange on which registered
Not applicable

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Common Shares Without Par Value
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

95,958,641

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

☐ Large accelerated filer

☒ Accelerated filer

☐ Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

☐ U.S. GAAP

☐ International Financial reporting Standards
as issued by the International Accounting
Standards Board

☒ Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☒ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

Explanatory Note

The information set forth in this Annual Report on Form 20-F (the “Annual Report”) is as at August 22, 2008, unless an earlier or later date is indicated.

Financial information in this Annual Report is presented in accordance with accounting principles generally accepted in Canada. Measurement differences between accounting principles generally accepted in Canada and in the United States, as applicable to Petaquilla Minerals Ltd., are set forth in Item 5 of this Annual Report and in Note 27 to the accompanying Financial Statements of Petaquilla Minerals Ltd.

This Annual Report contains forward-looking statements within the meaning of applicable securities laws. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may”, “will”, “should”, “expects”, “plans”, “anticipates”, “believes”, “estimates”, “predicts”, “potential” or “continue” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled “Risk Factors”, that may cause our or our industry’s actual results, levels of activity performance or achievements to be materially different from any future results, levels of activity performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Statements in this Annual Report regarding expected completion dates of feasibility studies, anticipated commencement dates of mining or metal production operations, including when our Molejon project is anticipated to begin production, projected quantities of future metal production and anticipated production rates, operating efficiencies, costs and expenditures are forward-looking statements. Actual results could differ materially depending upon the availability of materials, equipment, required permits or approvals and financing, the occurrence of unusual weather or operating conditions, the accuracy of reserve estimates, lower than expected ore grades or the failure of equipment or processes to operate in accordance with specifications. See “*Item 3 – Key Information – 3.D. Risk Factors*” for other factors that may affect our future financial performance.



**PETAQUILLA MINERALS LTD.
SECURITIES AND EXCHANGE COMMISSION
FORM 20-F
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GLOSSARY OF MINING TERMS

The following is a glossary of some of the terms used in the mining industry and referenced herein:

copper equivalent - a method of presenting combined copper and gold concentrations or weights for comparison purposes. Commonly involves expressing gold as its proportionate value in copper based on the relative value of the two metals. When copper equivalent is used to express metal sold, the calculation is based on actual prices received. When grades are expressed in copper equivalent, the relative recoveries of the two metals are also taken into account.

cutoff grade - deemed grade of mineralization, established by reference to economic factors, above which material is included in mineral deposit calculations and below which material is considered waste. May be either an external cutoff grade, which refers to the grade of mineralization used to control the external or design limits of an open pit based upon the expected economic parameters of the operation, or an internal cutoff grade, which refers to the minimum grade required for blocks of mineralization present within the confines of an open pit to be included in mineral deposit estimates.

diamond drill - a machine designed to rotate under pressure an annular diamond-studded cutting tool to produce a more or less continuous solid sample (drill core) of the material that is drilled.

epithermal - a term applied to those mineral deposits formed in and along fissures or other openings in rocks by deposition at shallow depths from ascending hot solutions.

indicated reserves or **probable reserves** - reserves for which quantity and grade and/or quality are computed from information similar to that used for measured or proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for measured reserves, is high enough to assume continuity between points of observation.

junior resource company - as used herein means a company whose mineral resource properties are in the exploration phase only and which is wholly or substantially dependent on equity financing or joint ventures to fund its ongoing activities.

measured reserves or **proven reserves** - reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling; and (b) the sites for inspection, sampling and measurement are spaced so closely and the geological character is so well defined that size, shape, depth and mineral content of reserves are well established.

mineral deposit, deposit or **mineralized material** - a mineralized body which has been physically delineated by sufficient drilling, trenching and/or underground work, and found to contain a sufficient average grade of metal or metals to warrant further exploration and/or development expenditures. Such a deposit does not qualify under Commission standards as a commercially mineable ore body or as containing ore reserves, until final legal, technical and economic factors have been resolved.

molybdenite - the mineral MoS_2 , or molybdenum sulphide, which is the principal ore of molybdenum.

open pit mining - the process of mining an ore body from the surface in progressively deeper steps. Sufficient waste rock adjacent to the ore body is removed to maintain mining access and to maintain the stability of the resulting pit.

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

ounces - troy ounces.

oz/tonne - troy ounces per metric ton.

ppb - parts per billion.

ppm - parts per million.

porphyry deposit - a disseminated mineral deposit often closely associated with porphyritic intrusive rocks.

recoverable ounces and **recoverable pounds** - means the amount of metal produced from diluted mineable reserves after taking into account milling losses and based, in the case of the Petaquilla Property, on projected average recoveries of (i) 90% for copper, 65% for gold and 72% for molybdenite, in the case of production estimates by Kilborn Engineering (Pacific) Ltd. and (ii) 90% for copper, 60% for gold from the Molejon deposit, 65% for gold from the other deposits and 65% for molybdenite, in the case of production estimates by Fluor Daniel Wright Ltd. and (iii) 90% for copper, 58% for gold and 62% for molybdenite, in the case of production estimates by H.A. Simons Ltd.

reserve - that part of a mineral deposit which can be economically and legally extracted or produced at the time of the reserve determination. Reserves are customarily stated in terms of "ore" when dealing with metalliferous minerals.

stockwork - a rock mass so interpenetrated by small veins of ore that the whole must be mined together. Stockworks are distinguished from tabular or sheet deposits, i.e. veins or beds, which have a small thickness in comparison with their extension in the main plane of the deposit.

strike length - the longest horizontal dimensions of a body or zone of mineralization.

stripping ratio - the ratio of waste material to ore that is experienced in mining an ore body.

tonne - metric ton (2,204 pounds).

PART I

As used in this annual report, the terms "we", "us" and "our" mean Petaquilla Minerals Ltd. and its subsidiaries, unless otherwise indicated.

Unless otherwise indicated, all dollar amounts referred to herein are in Canadian dollars.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

This Form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and, as such, there is no requirement to provide the information called for by this item.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide the information called for by this item.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

The following tables summarize our selected financial data (stated in Canadian dollars) prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reconciled for measurement differences to United States generally accepted accounting principles ("U.S. GAAP"). The information in the tables was extracted from the more detailed financial statements and related notes included with this filing and should be read in conjunction with these financial statements and with the information appearing under the heading "Item 5 – Operating and Financial Review and Prospects". Note 27 of our consolidated financial statements included with this filing sets forth the material variations in U.S. GAAP. Results for the period ended May 31, 2008, are not necessarily indicative of results for future periods.

INFORMATION IN ACCORDANCE WITH CANADIAN GAAP:

		13 Months Ended May 31	15 Months Ended April 30	Fiscal Years Ended January 31		
		2008	2007	2006	2005	2004
(a)	Total revenue	\$0	\$0	\$0	\$0	\$0
(b)	Loss before extraordinary items ⁽¹⁾					
	Total	(\$4,344,300)	(\$27,962,450)	(\$2,567,758)	(\$1,798,273)	(\$811,190)
	Per Share ⁽¹⁾	(\$0.05)	(\$0.35)	(\$0.05)	(\$0.04)	(\$0.02)
(c)	Total assets	\$107,482,486	\$46,581,365	\$12,807,172	\$1,989,474	\$2,670,561
(d)	Total long-term debt	\$30,760,220	\$699,185	\$0	\$0	\$0
(e)	Total shareholder equity (deficiency)	\$51,208,735	\$34,837,619	\$12,256,076	\$1,886,423	\$2,543,620
(f)	Cash dividends declared per share	n/a	n/a	n/a	n/a	n/a
(g)	Capital stock (number of issued and outstanding common shares)	95,958,641	89,876,951	70,246,303	51,264,537	48,829,542
(h)	Net earnings (loss) for the period					
	Total	(\$4,344,300)	(\$27,962,450)	(\$2,567,758)	(\$1,798,273)	(\$811,190)
	Per Share ⁽¹⁾	(\$0.05)	(\$0.35)	(\$0.05)	(\$0.04)	(\$0.02)

(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.

INFORMATION IN ACCORDANCE WITH U.S. GAAP:

		13 Months Ended May 31	15 Months Ended April 30	Fiscal Years Ended January 31		
		2008	2007	2006	2005	2004
(a)	Total revenue	\$0	\$0	\$0	\$0	\$0
(b)	Earnings (loss) before extraordinary items					
	Total	(\$48,795,883)	(\$58,616,136)	(\$4,979,571)	(\$1,798,273)	(\$811,190)
	Per Share ¹	(\$0.52)	(\$0.73)	(\$0.09)	(\$0.04)	(\$0.02)
(c)	Total assets	\$30,880,450	\$13,537,910	\$10,432,778	\$2,026,893	\$2,715,567
(d)	Total long-term debt	\$20,932,559	\$699,185	\$0	\$0	\$0
(e)	Total shareholder equity (deficiency)	\$(15,565,640)	\$1,794,164	\$9,881,682	\$1,923,842	\$2,588,626
(f)	Cash dividends declared per share	n/a	n/a	n/a	n/a	n/a
(g)	Capital stock (number of issued and outstanding common shares)	95,958,641	89,876,951	70,246,303	51,264,537	48,829,542
(h)	Net earnings (loss) for the period					
	Total	(\$48,795,883)	(\$58,616,136)	(\$4,979,571)	(\$1,805,860)	(\$766,184)
	Per Share ¹	(\$0.52)	(\$0.73)	(\$0.09)	(\$0.04)	(\$0.02)

(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 are the same.

We have not declared or paid any dividends in any of our last five financial years.

On August 22, 2008, the exchange rate, based on the noon buying rate published by The Bank of Canada, for the conversion of Canadian dollars into United States dollars (the "Noon Rate of Exchange") was \$0.9562.

The following table sets out the high and low exchange rates for each month during the last six months.

	2008					
	July	June	May	April	March	February
High for period	1.0261	1.0282	1.0189	1.0270	1.0279	1.0190
Low for period	1.0016	0.9942	0.9844	1.0025	0.9842	0.9719

The following table sets out the average exchange rates for the five most recent financial years calculated by using the average of the Noon Rate of Exchange on the last day of each month during the period.

	13-Months Ended May 31	15-Months Ended April 30	Year Ended January 31		
	2008	2007	2006	2005	2004
Average for the period	1.0157	1.1356	1.2006	1.2906	1.3746

3.B. Capitalization and Indebtedness

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide the information called for by this item.

3.C. Reasons For The Offer and Use of Proceeds

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide the information called for by this item.

3.D. Risk Factors

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

Risks related to our development, exploration, construction and mining operations could adversely affect our business.

We are 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 only, with the exception of the Molejon gold property, and are without a known body of commercial ore. The Molejon gold deposit, located in the Cerro Petaquilla mining concession, hereinafter referred to as the Petaquilla concession, is in the advanced development and pre-production phase. Although an open pit mine is planned and construction of a gold plant is currently underway at the Molejon gold property for the processing of gold-bearing ores, there is no guarantee we will realize any profits in the short to medium term. Any profitability in the future from our business will be dependent upon locating mineral reserves, which itself 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 our mineral deposits, we 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.

Our 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 our financial performance.

The business of mining is subject to a variety of risks such as cave-ins and other accidents, flooding, environmental hazards, the discharge of toxic chemicals and other hazards. Such occurrences may delay production, increase production costs or result in liability. We will obtain insurance in amounts that we consider to be adequate to protect ourselves against certain risks of mining and processing. However, we may become subject to liability for hazards against which we cannot insure ourselves or which we may elect not to insure against because of premium costs or other reasons. In particular, we are not insured for environmental liability nor earthquake damage.

In order to develop the Molejon gold property located in Panama, it will be necessary to continue construction of electrical, transportation, and other infrastructure facilities, the costs of which could be substantial.

Our estimates of reserves, mineral deposits and production costs may be inaccurate, which could impact our results of operations in the future.

Although the ore reserve and mineral deposit figures included herein, some of which, as noted, are not compliant with National Instrument Policy 43-101, have been carefully prepared by us, 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. Further development, drilling and other engineering analyses are required in order to have any of our reserves classified as proven resources. 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.

Our properties may be subject to undetected title defects.

It is possible there may be undetected title defects affecting our properties. Title insurance generally is not available, and our ability to ensure that we have obtained secure claim to individual mineral properties or mining concessions may be severely constrained. Furthermore, we have not conducted surveys of the claims in which we hold interests and, therefore, the precise area and location of such claims may be in doubt. Accordingly, our properties may be subject to prior unregistered liens, agreements, transfers or claims, and title may be affected by, among other things, undetected defects which could have a material adverse impact on our operations. In addition, we may be unable to operate our properties as permitted or to enforce our rights with respect to our properties.

Our directors may have conflicts of interest.

As at August 22, 2008, all of our directors are directors of other reporting companies or have significant shareholdings in other mineral resource companies and, to the extent that such other companies may participate in ventures in which we may participate, our 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 our company. In the event that such a conflict of interest arises at a meeting of our 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 we 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, our directors are required to act honestly, in good faith and in the best interests of our company. In determining whether or not we will participate in a particular program and the interest therein to be acquired by it, the directors will primarily consider the potential benefits to our company, the degree of risk to which we may be exposed and our financial position at that time. Other than as indicated, we have no other procedures or mechanisms to prevent conflicts of interest.

Exchange rate fluctuations may effectively increase our costs of exploration and production.

Exchange rate fluctuations may affect the costs that we incur in our operations. The appreciation of non-U.S. dollar currencies against the U.S. dollar can increase the cost of exploration and production in U.S. dollar terms, which could materially and adversely affect our profitability, results of operations and financial condition.

We are dependent upon additional funding in order to sustain our operations.

We have not generated cash flow from operations in the past and, although we are preparing for production at the Molejon gold property, cash flow to satisfy our operational requirements and cash commitments is not guaranteed from the operations of the Molejon gold plant. In the past, we have relied on sales of equity securities or debt financing to meet most of our 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 our operational requirements and cash commitments.

We do not presently have sufficient financial resources to undertake all of our planned exploration and development programs. The development of our properties depends upon our 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 we will be successful in obtaining the required financing. Failure to obtain additional financing on a timely basis could cause us to forfeit our interest in our properties and reduce or terminate our operations on such properties.

Our company has a history of losses and there is substantial uncertainty regarding our ability to continue as a going concern.

In their report on the consolidated financial statements for the period ended May 31, 2008, our independent auditors included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

As at May 31, 2008, we had an accumulated deficit of \$83,865,382 and for the 13-months ended May 31, 2008, incurred a loss of \$4,344,300 from continuing operations. Continuing operations are dependent on

us achieving profitable operations and being able to raise capital, if and when necessary to meet our obligations and repay liabilities when they come due.

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

During May 2007 and January 2008, we completed private placements for gross proceeds of \$2,824,305 and \$9,421,500, respectively. In May 2008, we raised gross proceeds of \$31,801,725 through debt financing.

We did not generate revenue from operations during the 13-months ended May 31, 2008, and the 15-months ended April 30, 2007. Expenses for the 13-months ended May 31, 2008 were \$20,660,172, a decrease from \$28,841,783 for the 15-months ended April 30, 2007.

Our consolidated financial statements are prepared on a going concern basis, which assumes that we will be able to realize our assets at the amounts recorded and discharge our 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 our company.

Our operations in Panama are governed primarily by 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 Petaquilla concession, including the Molejon gold deposit. The Ley Petaquilla granted a mineral exploration and exploitation concession to Minera Petaquilla, S.A. ("Minera Petaquilla"), a Panamanian company formed in 1997 to hold the Petaquilla mineral concession covering approximately 136 square kilometers in north-central Panama.

The Ley Petaquilla contains fiscal and legal stability clauses necessary in order to obtain project financing and includes tax exemptions on income, dividends and imports. The 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 Petaquilla concession in good standing, Minera Petaquilla must pay to the Government of Panama an annual rental fee of US \$1.00 per hectare during the first five years of the concession, US \$2.50 per hectare in the sixth to the tenth years of the concession and US \$3.50 per hectare thereafter. Initially, the annual rental was approximately US \$13,600 payable by Minera Petaquilla and funded pro rata by its shareholders. The current annual rental is approximately US \$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 described below.

Under the Ley Petaquilla, Minera Petaquilla was required to begin mine development by May 2001. However, Minera Petaquilla was able to defer commencing development operations for one month for every month that the price of copper remained below US\$1.155 per pound for up to a further five years (i.e. until May 2006 at the latest). The Ley Petaquilla also requires Minera Petaquilla to make a minimum investment of US \$400 million in the development of the Petaquilla concession lands.

Up until October 18, 2006, we, through are then wholly-owned subsidiary, Georecursos Internacional, S.A., owned 52% of Minera Petaquilla and Minnova (Panama) Inc. ("Minnova"), a wholly-owned subsidiary of Inmet Mining Corporation ("Inmet"), owned the remaining 48%. For a more detailed ownership explanation, please refer to "Item 4.D. Property, Plants and Equipment - Title".

We have a history of net losses, an accumulated deficit and a lack of revenue from operations.

We have incurred net losses to date. Our deficit as of May 31, 2008, was \$83,865,382. We have not yet had any revenue from the exploration activities on our properties. The Molejon gold property is our first property development activity. Even if we undertake development activity on any of our properties, including the Molejon gold property, we may continue to incur losses beyond the period of commencement of such activity. There is no certainty that we will produce revenue, operate profitably or provide a return on investment in the future and recent significant increases in metal commodity prices may not be sustainable. They may not be reliable as indicators of future consistent realizable values, should any of our mineral deposits reach commercial production.

We have limited experience with development-stage mining operations.

We have limited experience in placing resource properties into production and our 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 we will have available to us the necessary expertise when and if we place our resource properties into production. There also exists significant risk in being able to recruit experienced employees or contractors to allow us to move forward in pursuing development-stage mining operations.

Our common shares are subject to penny stock rules, which could affect trading in our shares.

Our common shares are classified as "penny stock" as defined in Rule 15c-9 promulgated under the Exchange Act. In response to perceived abuse in the penny stock market generally, the Exchange Act was amended in 1990 to add new requirements in connection with penny stocks. In connection with effecting any transaction in a penny stock, a broker or dealer must give the customer a written risk disclosure document that (a) describes the nature and level of risk in the market for penny stocks in both public offerings and secondary trading, (b) describes the broker's or dealer's duties to the customer and the rights and remedies available to such customer with respect to violations of such duties, (c) describes the dealer market, including "bid" and "ask" prices for penny stock and the significance of the spread between the bid and ask prices, (d) contains a toll-free telephone number for inquiries on disciplinary histories of brokers and dealers, and (e) defines significant terms used in the disclosure document or the conduct of trading in penny stocks. In addition, the broker-dealer must provide to a penny stock customer a written monthly account statement that discloses the identity and number of shares of each penny stock held in the customer's account, and the estimated market value of such shares. The extensive disclosure and other broker-dealer compliance related to penny stocks may result in reducing the level of trading activity in the secondary market for our common shares, thus limiting the ability of our shareholder to sell their shares.

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 we have, we may be unable to acquire additional attractive mineral properties on terms we consider acceptable.

Accordingly, there can be no assurance that our exploration and acquisition programs will yield any new reserves or result in any commercial mining operation.

Mineral prices can fluctuate dramatically and have a material adverse effect on our 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 our control may affect the marketability of any substances discovered. The prices of minerals such as gold have experienced volatile and significant price movements over short periods of time and are affected by numerous factors beyond our control, including international economic and political trends, expectations of inflation, currency exchange fluctuations (specifically, the U.S. dollar relative to other currencies), interest rates and global or regional consumption patterns (such as the development of gold coin programs), speculative activities and increased production due to improved mining and production methods. The supply of and demand for minerals such as gold is affected by various factors, including political events, economic conditions and production costs in major producing regions and governmental policies with respect to holdings by a nation or its citizens. There can be no assurance that the price of recovered minerals will be such that our properties can be mined at a profit.

We face risks related to our operations in foreign countries.

Currently our only properties are located in Panama. Consequently, we are subject to certain risks associated with foreign ownership, including currency fluctuations, inflation, political instability and political risk. Mineral exploration and mining activities in foreign countries may be affected in varying degrees by political stability and government regulations relating to the mining industry. Any changes in regulations or shifts in political conditions are beyond our control and may adversely affect our business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, restriction of earnings distribution, taxation laws, expropriation of property, environmental legislation, water use and mine safety. In particular, the status of Panama as a developing country may make it more difficult for us to obtain any required production financing for our properties from senior lending institutions.

Our operations are subject to environmental and other regulation.

Our current or future operations, including development activities and commencement of production on our 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 we have interests and there can be no assurance that we 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.

Our 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 we obtain permits from various governmental agencies. We believe we are in substantial compliance with all material laws and regulations that currently apply to our activities. There can be no assurance, however, that all permits we may require 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 we 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 us and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or abandonment or delays in development of new mining properties.

To the best of our knowledge, we are currently operating in compliance with all applicable environmental regulations.

We face political risks in Panama.

Mineral exploration and mining activities in Panama may be affected in varying degrees by political conditions and government regulations relating to the mining industry. Any changes in regulations or shifts in political conditions are beyond our control and may adversely affect our business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation and mine safety.

We have not paid dividends in the past and do not expect to pay dividends in the foreseeable future.

All of our available funds will be invested to finance the growth of our business and, therefore, investors cannot expect and should not anticipate receiving a dividend on our common shares in the foreseeable future.

U.S. investors may not be able to enforce their civil liabilities against us or our directors, controlling persons and officers.

Our company and our officers and directors are residents of countries other than the United States, and all of our assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or enforce in the United States against such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of United States federal securities laws or state securities laws.

We believe that a judgment of a United States court predicated solely upon civil liability under United States securities laws would probably be enforceable in Canada if the United States court in which the judgment was obtained has a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. However, there is doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon such laws.

Rider E

If We are Characterized as a Passive Foreign Investment Company (“PFIC”), Our U.S. Shareholders May Be Subject to Adverse U.S. Federal Income Tax Consequences.

We have not made a determination as to whether we are considered a PFIC as such term is defined in the U.S. Internal Revenue Code of 1986, as amended (the “Code”), for U.S. federal income tax purposes for the current tax year and any prior tax years. A non-U.S. corporation generally will be considered a PFIC for any tax year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

In general, if we are or become a PFIC, any gain recognized on the sale of our common stock and any “excess distributions” (as specifically defined in the Code) paid on the common stock must be ratably allocated to each day in a U.S. taxpayer’s holding period for the common stock. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer’s holding period for the common stock generally will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year. For more information, see “Material United States Federal Income Tax Consequences-Passive Foreign Investment Company.”

ITEM 4. INFORMATION ON OUR COMPANY

4.A. History and Development of Our Company

Our company, Petaquilla Minerals Ltd., is a British Columbia company engaged in the acquisition, exploration, exploration management, and development of mineral properties. Our company was incorporated under the laws of the Province of British Columbia, Canada, on October 10, 1985, by registration of our Memorandum and Articles of Association (the “Articles”) with the British Columbia Registrar of Companies under the name Adrian Resources Ltd. We changed our name to Petaquilla Minerals Ltd. on October 12, 2004.

Our head office and principal office address is Suite 410, 475 West Georgia Street, Vancouver, British Columbia, V6B 4M9 Canada. Our telephone number is (604) 694-0021 and our facsimile number is (604) 694-0063.

We have five subsidiaries and one joint venture interest as detailed below:

- (i) We own all of the issued shares of Adrian Resources (BVI) Ltd., incorporated in the British Virgin Islands on December 17, 1999.
- (ii) Adrian Resources (BVI) Ltd. owns all of the issued shares of Petaquilla Minerals, S.A., incorporated in the Republic of Panama on April 28, 1992, and holding title to certain of our exploration concessions in the Republic of Panama. Although originally incorporated under the name Adrian Resources, S.A., the name of this subsidiary was changed to Petaquilla Minerals, S.A. on February 3, 2005.
- (iii) Petaquilla Minerals, S.A. owns all of the issued shares of Petaquilla Gold, S.A., a Panamanian corporation formed on August 11, 2005. Petaquilla Gold, S.A. holds the Molejon gold property interest and other potential gold deposits within the Petaquilla concession lands.
- (iv) Compañía Minera Belencillo, S.A., a Panamanian corporation, was created on September 21, 2005, in accordance with the agreement signed between Petaquilla Minerals, S.A. and Madison

Enterprises (Latin American), S.A. Petaquilla Minerals, S.A. owns 68.88% of Compañía Minera Belencillo, S.A., which in turn holds a 100% interest in Zone 2 of the Rio Belencillo Concession and 68.88% of Zone 1, subject to an option by Madison Enterprises (Latin American), S.A. to earn a 31.12% interest in Zone 1 of the Rio Belencillo Concession. On May 7, 2005, we entered into an option agreement with Gold Dragon Capital Management Ltd. (“Gold Dragon”) whereby Gold Dragon could earn a 100% interest in the concession lands by the expenditure of US \$500,000 over two years on mutually agreed upon property expenditures.

- (v) Petaquilla Gold, S.A. owns 50.2% of the shares of Petaquilla Infraestructura, S.A. (formerly named Petaquilla Power & Water, S.A.), a Panamanian corporation formed on September 21, 2006, to primarily (i) design, construct, operate, maintain and install equipment and networks for the generation, transmission and commercialization of electrical energy; and (ii) to develop projects for the production, distribution and commercialization of potable water.
- (vi) Petaquilla Gold, S.A. also owns all of the issued shares of Aqua Azure, S.A., a Panamanian corporation formed on October 10, 2006, to purchase, sell, lease, manage, commercialize and hold investment in all sorts of moveable goods.

In addition, during the period March 15, 2006 to October 18, 2006, we held all the issued shares of Petaquilla Copper Ltd. (“Copper”), which was incorporated under the laws of the Province of British Columbia, Canada, on March 15, 2006, in order to take part in a proposed Plan of Arrangement (the “Arrangement”) with our company. As a wholly owned subsidiary of our company during this period, Copper had no operations. Pursuant to shareholder approval of the Arrangement obtained at our Annual and Special General Meeting of Shareholders (“AGM”) held on June 6, 2006, we and Copper entered into the Arrangement effectively separating our assets into two distinct companies on October 18, 2006. While we retained our gold assets, we transferred our indirect 52% interest (subject to Teck Cominco Limited’s (“Teck”) right to acquire 50% of such interest) in the copper deposits held by Minera Petaquilla, S.A. to Copper. Immediately following the completion of the Arrangement, we owned 20% of the issued shares of Copper. As at August 22, 2008, we held approximately 12.57% of the issued shares of Copper. As of December 31, 2007, Copper has been trading under the symbol “PTC” on the Toronto Stock Exchange.

Acquisition of the Petaquilla Concession, Panama

Until October 18, 2006, we held a 52% interest in the copper deposits of the Petaquilla concession and such interest was subject to the right of Teck Cominco Limited to acquire 50%, as more fully described under “Item 4 - Information on Our Company – 4.D. Property, Plants and Equipment”.

Financing Agreement with Teck Corporation

By agreement dated April 29, 1991, we entered into a financing agreement (the “Teck Agreement”) with Teck Corporation (now Teck Cominco Limited) of Vancouver, British Columbia, under which we agreed to grant to Teck Cominco Limited the right to earn 50% of, among other things, our interest in the Petaquilla Property by funding our obligations with respect to exploration and development of such property. On October 18, 2006, we transferred our 52% interest in the copper deposits of the Petaquilla concession to Petaquilla Copper Ltd. Pursuant to the Teck Agreement, we are obligated to offer to enter into an agreement with Teck Cominco Limited on the same terms and conditions as contained in the Teck Agreement with respect to any mineral property interests acquired by us after the date of the Teck Agreement (each such acquired mineral property interest is a “Project”).

Under the Teck Agreement, if we elect to prepare a preliminary feasibility study with respect to a Project, then upon completion of the study, we must present the preliminary feasibility study to Teck Cominco

Limited. Teck Cominco Limited may then elect, within 90 days from receipt of the preliminary feasibility study, to prepare (or cause to be prepared), within 24 months after receipt of the preliminary feasibility study, a final feasibility study at Teck Cominco Limited's cost (including the cost of any further exploration work as may be necessary to complete the final feasibility study). Teck Cominco Limited may then elect, within 90 days after receipt of the final feasibility study, to exercise its right to finance the Project. If Teck Cominco Limited so elects, we will be obligated to transfer 50% of our interest in the Project to Teck Cominco Limited. In addition, Teck Cominco Limited will have the right to become a member of any joint venture which is overseeing or otherwise conducting Project operations or to become the operator of the Project, subject to our existing contractual requirements in respect of the Project. Teck Cominco Limited's failure to exercise its right with respect to a particular Project does not preclude it from exercising that right at some future date in respect of other Projects. If, however, Teck Cominco Limited elects not to proceed after receiving a preliminary feasibility study or does not elect to provide or arrange financing for a particular Project within 90 days after the completion of a final feasibility study, Teck Cominco Limited will be deemed to have surrendered and abandoned its right to finance that Project and acquire any interest therein. In addition, at any time prior to the commencement of commercial production, Teck Cominco Limited may elect to abandon and surrender its interest in the Project by notifying us of such election.

If Teck Cominco Limited elects to prepare a final feasibility study and to provide production financing, we are not required to incur any further expenditures to bring the Project into commercial production. However, all costs incurred by Teck Cominco Limited will be reimbursed to Teck Cominco Limited prior to us receiving any proceeds from production, as described below.

Once the Project has been placed into commercial production, the aggregate net proceeds available to us and Teck Cominco Limited are to be distributed in the following manner:

- (1) first, to repay third party debt financing;
- (2) thereafter, 100% of the net proceeds are to be paid to Teck Cominco Limited until all costs incurred by Teck Cominco Limited from the time of completion of a final feasibility study (including costs related to the financing) together with an amount sufficient to fully discharge and release Teck Cominco Limited from certain obligations and liabilities with respect to the property are paid;
- (3) thereafter, 50% of the net proceeds will be utilized to reimburse the parties' other exploration and development costs and the remaining 50% will be divided equally between Teck Cominco Limited and our company; and
- (4) thereafter, 100% of the net proceeds will be divided equally between Teck Cominco Limited and our company.

If we intend to sell or receive an offer to purchase all or any of our interest in a Project, Teck Cominco Limited has a right of first refusal to purchase same. The Teck Agreement also provides that Teck Cominco Limited has a right of first refusal, subject to existing contractual requirements for consents and third party rights, to acquire on an abandonment, our remaining interest in a Project. Teck Cominco Limited also has the right to participate, to the extent Teck Cominco Limited elects, in each equity financing undertaken by us prior to December 31, 2010.

It is our position that the Teck Agreement does not apply to other properties or interests held or acquired by us, either directly or indirectly, through our subsidiaries.

Molejon Property – Panama

In June 2005, the shareholders of Minera Petaquilla agreed to separate the gold deposit and other precious metal mineral deposits that might be developed within the Petaquilla mineral concession from the copper mineral deposits within the Petaquilla mineral concession. The agreement provides for us, through our subsidiary, Petaquilla Gold, S.A., to own a 100% interest in the Molejon gold deposit, as well as all other gold and precious metal mineral deposits that might be developed within the Petaquilla mineral concession, subject to a graduated 1% - 5% Net Smelter Return, based on the future gold price at the time of production, payable to Teck and Minnova as to 35.135% and 64.865%, respectively.

In September 2005, the multi-phase Petaquilla Mine Development Plan submitted to the Government of Panama by Minera Petaquilla, S.A. was approved by Ministerial Resolution. The Molejon gold mineral deposit forms part of the Petaquilla concession lands and the first phase of the Petaquilla Mine Development Plan focuses on the development of the Molejon gold deposit by our company commencing in 2006. The development of the Petaquilla copper deposit is included in subsequent phases of the plan, and will be the responsibility of Minera Petaquilla S.A., the joint venture company held by Inmet and Petaquilla Copper Ltd. with interests of 48% and 52%, respectively, as at April 30, 2007. As previously mentioned, Copper acquired this 52% interest in the Petaquilla copper deposit from our company pursuant to the Plan of Arrangement effective October 18, 2006. At the time of the Plan of Arrangement, Teck Cominco Limited retained its option to acquire one-half of Copper's interest and on March 28, 2008, Copper received notice from Teck of Teck's "Final Commitment" under the shareholders' agreement between Copper, Teck and Inmet with respect to the Petaquilla Copper Project in Panama. Copper has since commenced arbitration proceedings against Teck, on the basis that Teck had not fulfilled the preconditions necessary to exercise its option to acquire one half of Copper's interest in the property. In addition, on July 28, 2008, Inmet formally commenced its unsolicited offer to purchase all of the outstanding common shares of Copper, further to its announcement on July 6, 2008, of its intention to make the offer. However, as previously stated, our company, aside from being a shareholder of Copper, has had no interest in the Petaquilla copper deposit since the Plan of Arrangement effected with Copper on October 18, 2006, and is not involved in any arbitration matters regarding the Petaquilla Copper Project nor is it the subject of any takeover bid. We continue to operate under the Ley Petaquilla and hold the rights to the Molejon gold deposit as well as to other gold and precious metal mineral deposits that might be developed within the Petaquilla concession lands

During the 13-month period ended May 31, 2008, we incurred the following costs related to the Molejon gold deposit (except as noted below for Rio Belencillo). These costs have been capitalized on our audited consolidated balance sheet as mineral property costs:

Trenching – Molejon	\$	4,308,854
Trenching – Rio Belencillo		48,872
Camp costs		6,158,386
Transportation		250,126
Drilling costs		11,046,825
Indirect drilling costs		1,106,528
Geologist		1,128,193
Topography		153,571
Engineering and design		517,156
Engineering and consulting		2,807,641
Technical support		120,272
Property permits		408,381
Water samples		3,857
Environment		488,040

Communications	192,370
Logistics	395,581
Plant equipment	3,927,704
Communications - plant	6,179
Plant – site	22,272,755
Roads	1,634,057
Roads agreements	105,939
Bridges	50,261
Deferred amortization on mining equipment	3,938,717
Reclamation costs	4,400,000
Stock-based compensation	723,668
Accreted interest	955,682
	\$67,149,615

Mineral Properties - Other

We hold various interests in other land concession areas adjacent to the Petaquilla concession lands 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”), had an option to purchase all of our 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 us \$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 and we are in the process of amending the agreement with Gold Dragon.

Directors and Officers of Our Company

Effective May 1, 2007, our Board of Directors (the “Board”) consisted of Ralph Ansley, John Cook, Richard Fifer, and Marco Tejeira. Our officers were Richard Fifer as President and Chief Executive Officer, Tony M. Ricci as interim Chief Financial Officer, and Graham Scott as Corporate Secretary. On June 11, 2007, Robert Baxter was appointed to the Board of Directors and on September 10, 2007, Pablo Mauricio Buenano joined our company as VP Finance.

At our Annual General Meeting of Shareholders held on November 6, 2007, the following Board members stood for election and were duly re-elected: Ralph Ansley, Robert Baxter, John Cook, Richard Fifer, and Marco Tejeira. Tony M. Ricci, who had been serving as our interim Chief Financial Officer while we conducted its search for a full-time Chief Financial Officer, stepped down when Bassam Moubarak was appointed as Chief Financial Officer on February 11, 2008. On July 7, 2008, Dr. Ralph Ansley resigned from our Board citing medical reasons.

Principal Capital Expenditures/Divestitures Over Last Three Fiscal Years

At May 31, 2008, we incurred \$67,100,743 in Molejon property expenses and \$48,872 in Rio Belencillo property expenses for a total of \$67,149,615 that has been capitalized as mineral property costs. On February 10, 2005, we sold 500,000 of our own shares on the Toronto Stock Exchange at a price of \$0.65 per share. These shares were previously issued and reacquired by us some years ago pursuant to an issuer bid. Accordingly, there was no change to the number of shares issued and outstanding as a result of this sale. The proceeds of the sale were directed towards general working capital purposes.

Current and Planned Capital Expenditures/Divestitures

We have either ongoing or anticipated significant capital expenditures or possible optioning of our property interests during the fiscal year ending May 31, 2009. In relation to the planned exploration and development of the Molejon property, we anticipate having expenditures of approximately \$35,000,000 to \$45,000,000 during the fiscal year ending May 31, 2009. However, these expenditures are subject to further analysis and to our ability to obtain financing. There is no assurance that we will be successful in obtaining financing.

Public Takeover Offers

During the 13-month period ended May 31, 2008, and the previous 15-month fiscal period, we did not receive any public takeover offers from third parties nor did we make any such takeover offers.

4.B. Business Overview

We currently have no significant properties in Canada and we are not actively exploring, or seeking to acquire interests in, mineral properties in Canada. Since our acquisition of an interest in the Petaquilla concession in Panama in 1992, our primary focus has been exploring and developing the Petaquilla concession, notably the Molejon gold deposit since our interest in the copper deposit of the Petaquilla concession was transferred to Petaquilla Copper Ltd. on October 18, 2006, and other mineral properties in the Republic of Panama.

We acquired our interest in the Petaquilla concession in 1992, 1993, and 2005 through two separate series of transactions and an unrelated agreement amongst the Minera Petaquilla, S.A. shareholders as more fully described under the heading “*Item 4 - Information on Our Company – 4.D. Property, Plants and Equipment*”.

Our operations in Panama are governed primarily by Law No. 9 of the Legislative Assembly of Panama, a project-specific piece of legislation enacted in February 1997 to deal with the orderly development of the Petaquilla concession, including the Molejon gold deposit. The Ley Petaquilla could be amended by the government of Panama through the enactment of a subsequent law but no such law has been enacted since the Ley Petaquilla legislation passed in February 1997. At that time, the Ley Petaquilla granted a mineral exploration and exploitation concession to Minera Petaquilla, S.A., a Panamanian company formed in 1997 to hold the Petaquilla mineral concession covering approximately 136 square kilometers in north-central Panama.

The Ley Petaquilla contains fiscal and legal stability clauses necessary in order to obtain project financing and includes tax exemptions on income, dividends and imports. The 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 favourable depletion allowance.

There were no competing bidders for the concession at the time the Ley Petaquilla was enacted and the concession was granted for an initial 20-year term with two 20-year extensions permissible subject to the requirements to begin mine development and to make a minimum required investment. In order to maintain the Petaquilla concession in good standing, Minera Petaquilla must meet certain obligations as more fully described under “*Item 3 – Key Information – 3.D. Risk Factors – The requirements of the Ley Petaquilla may have an adverse impact on our company*”.

In 2005, pursuant to the contract law under which the Petaquilla mineral concession was granted by the Government of the Republic of Panama, we and our partners delivered a phased Mine Development Plan to the Government of Panama. This phased Mine Development Plan was approved in September 2005.

This approval resulted in the extension of the land tenure for an initial 20-year period commencing September 2005, subject to Minera Petaquilla meeting certain other ongoing development and operational conditions.

Teck is committed to annually make a final commitment respecting development of the concession and to deliver an update to the feasibility study of the concession. The requirement to make a final commitment or give notice of unfavorable economic conditions within 90 days of delivery of the final feasibility study applies to all subsequent annual anniversaries. Failure to make such a commitment or deliver a notice shall result in the termination of Teck's right to acquire an interest in Minera Petaquilla, S.A.

In April 2005, we and Inmet agreed to a one-year waiver of Teck's obligation to make a final commitment respecting development of the concession and to deliver an updated feasibility study. This waiver did not affect Teck's obligation to make a final commitment respecting development of the concession and to deliver an updated feasibility study in 2006.

In May 2006, Teck commissioned AMEC Americas Limited ("AMEC") to update the capital and operating cost estimates and the financial analysis originally prepared in January 1998 by Simons Mining Group for the Petaquilla Project 120,000 t/d Feasibility Study, on the Petaquilla concession. AMEC's scope of work included an update of the existing preproduction and sustaining capital costs, an update of the operating costs and an update of the financial model. In addition, AMEC conducted five (5) stand-alone trade-off studies to consider opportunities to optimize the design of the project. These studies related to a concentrate pipeline to a Pacific port, grid power supply alternatives, the use of larger trucks and shovels in the mine, the use of a single-line semi-autogenous and ball mill grinding circuit, and the use of larger flotation cells. Where applicable, the results of the trade-off studies were incorporated into the cost update. The specific details of this Cost Update are not provided in this annual report as it relates to the development of the copper deposit by Minera Petaquilla, S.A., of which we are no longer a shareholder.

Upon Teck making a final commitment, Minnova is required to deliver a final commitment to participate in the development of the project or it will be required to dispose of its interest in Minera Petaquilla. Minnova is then required to either offer to sell its interest in the concession or accept an 8% net profit interest, as defined, in the project. The offer to sell its interest shall be made first to Copper and then to Teck at a price to be determined by Minnova. In the event that neither Copper nor Teck chooses to acquire Minnova's interest, Minnova shall be entitled to seek an independent purchaser of its interest on terms no more favorable than those offered to Copper and Teck.

Either Copper or Minnova (the "Proposer") may at any time give notice to the other parties of its intention to proceed with development of the concession in accordance with the most recently delivered Teck feasibility study. Upon receipt of such notice, Teck has 50 days in which to make a final commitment to develop the project. The other party, Copper or Minnova (the "Recipient"), has 60 days from the receipt of such notice to commit to develop the project.

If the Recipient has not agreed to develop the project, the Proposer may, within 70 days of the proposal, elect to exercise the "Shotgun Offer," as defined, and either sell its interest or acquire the Recipient's interest in Minera Petaquilla, for cash, based on the value of Minera Petaquilla as determined in accordance with the provisions of the agreement. The Recipient has 15 days from receipt of the Shotgun Offer to agree either to sell its interest or to acquire the Proposer's interest as applicable, and in the event that the Recipient does not take action within the 15-day period, it will thereafter be deemed to have agreed to sell its interest in Minera Petaquilla.

If Minnova sells its interest, pursuant to the Shotgun Offer, Copper shall pay Minnova 48% of the value of Minera Petaquilla.

If Copper sells its interest, pursuant to the Shotgun Offer, it shall receive 29% of the value of Minera Petaquilla on condition that, in the event that Teck's interest in the concession is terminated, Copper shall receive an additional 23% of the value of Minera Petaquilla.

If Teck's interest in the concession is not terminated and Copper sells its interest, pursuant to the Shotgun Offer, Copper shall not be entitled to receive any further amount, in excess of the 29% of the value received on account of the sale of its interest in Minera Petaquilla.

Upon exercise of the Shotgun Offer, Teck has 130 days in which to deliver a final commitment for development of the concession or its interest shall be terminated.

Teck's interest in the concession shall terminate on the earlier of:

- i) Teck electing to terminate its interest provided it has delivered its final feasibility study, or
- ii) Teck's failure to deliver a final commitment requesting development of the concession and to deliver an updated feasibility study.

In the event that Teck's interest is terminated, Teck shall retain a net profit royalty interest in the project at a rate to be determined.

Up until October 18, 2006, our company, through our wholly-owned subsidiary, Georecursos Internacional, S.A., owned 52% of Minera Petaquilla and Minnova (Panama) Inc., a wholly-owned subsidiary of Inmet Mining Corporation, owned the remaining 48%. On October 18, 2006, we entered into a Plan of Arrangement with Petaquilla Copper Ltd. ("Copper"), whereby we effectively transferred our interest in the copper assets within the Petaquilla concession lands to Copper. Under the terms of the Petaquilla Shareholders' Agreement dated February 21, 1997, Teck Cominco Limited held an option, subject to its meeting certain obligations and requirements, to acquire one-half of Copper's newly-acquired interest in Minera Petaquilla, which would result in Teck having a 26% interest in Minera Petaquilla. On March 28, 2008, Copper received notice from Teck of Teck's "Final Commitment" under the shareholders' agreement between Copper, Teck and Inmet with respect to the Petaquilla Copper Project in Panama. Copper has since commenced arbitration proceedings against Teck, on the basis that Teck had not fulfilled the preconditions necessary to exercise its option to acquire one half of Copper's interest in the property. In addition, on July 28, 2008, Inmet formally commenced its unsolicited offer to purchase all of the outstanding common shares of Copper, further to its announcement on July 6, 2008, of its intention to make the offer. However, as previously stated, our company, aside from being a shareholder of Copper, has had no interest in the Petaquilla copper deposit since the Plan of Arrangement effected with Copper on October 18, 2006, and is not involved in any arbitration matters regarding the Petaquilla Copper Project nor are we the subject of any takeover bid.

We continue to operate under the Ley Petaquilla and hold the rights to the Molejon gold deposit as well as to other gold and precious metal mineral deposits that might be developed within the Petaquilla concession lands

Molejon Property – Panama

In June 2005, the shareholders of Minera Petaquilla agreed to separate the gold deposit and other precious metal mineral deposits that might be developed within the Petaquilla mineral concession from the copper mineral deposits within the Petaquilla mineral concession. The agreement provides for our company, through our subsidiary, Petaquilla Gold, S.A., to own a 100% interest in the Molejon gold deposit, as well as all other gold and precious metal mineral deposits that might be developed within the Petaquilla

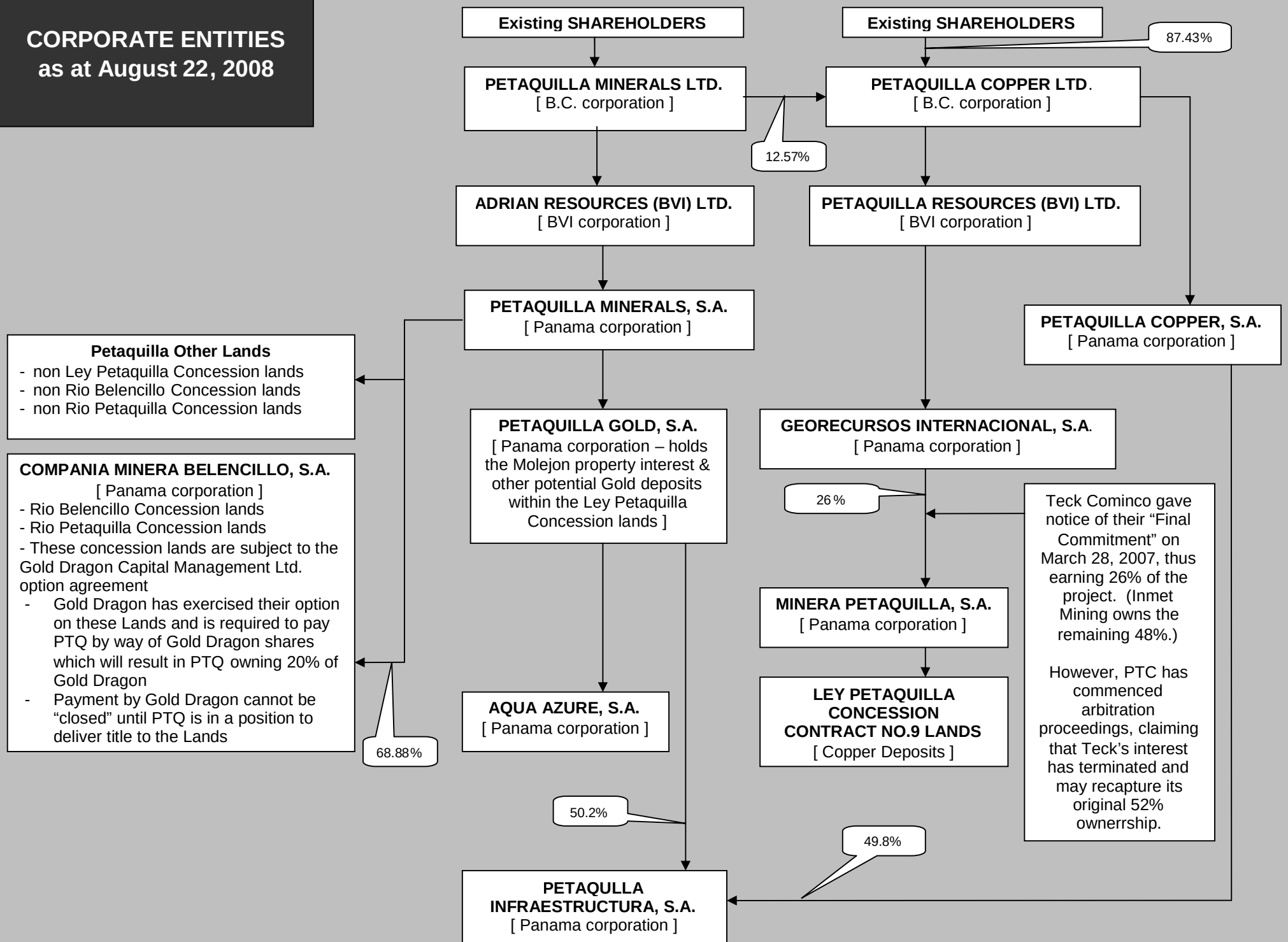
mineral concession, subject to a graduated 1% - 5% Net Smelter Return, based on the future gold price at the time of production, payable to Teck and Minnova as to 35.135% and 64.865% respectively.

In September 2005, the multi-phase Petaquilla Mine Development Plan submitted to the Government of Panama by Minera Petaquilla, S.A. was approved by Ministerial Resolution. The Molejon gold mineral deposit forms part of the Petaquilla concession lands and the first phase of the Petaquilla Mine Development Plan focuses on the development of the Molejon gold deposit by our company commencing in 2006. The development of the Petaquilla copper deposit is included in subsequent phases of the plan, and will be the responsibility of Minera Petaquilla S.A., the joint venture company held by Inmet and Petaquilla Copper Ltd., with interests of 48% and 52%, respectively, as at April 30, 2007. As previously mentioned, Copper acquired this 52% interest in the Petaquilla copper deposit from our company pursuant to the Plan of Arrangement effective October 18, 2006. At the time of the Plan of Arrangement, Teck Cominco Limited retained its option to acquire one-half of Copper's interest and on March 28, 2008, Copper received notice from Teck of Teck's "Final Commitment" under the shareholders' agreement between Copper, Teck and Inmet with respect to the Petaquilla Copper Project in Panama. Copper has since commenced arbitration proceedings against Teck, on the basis that Teck had not fulfilled the preconditions necessary to exercise its option to acquire one half of Copper's interest in the property. However, as previously mentioned, our company, while continuing to operate under the Ley Petaquilla, no longer holds an interest in the Petaquilla Copper Project, aside from being a shareholder of Copper, and is not a party to any arbitration matters concerning the Petaquilla copper deposit.

4.C. Organizational Structure

The following chart sets out our corporate structure and the mineral properties owned by each of our subsidiaries:

CORPORATE ENTITIES as at August 22, 2008



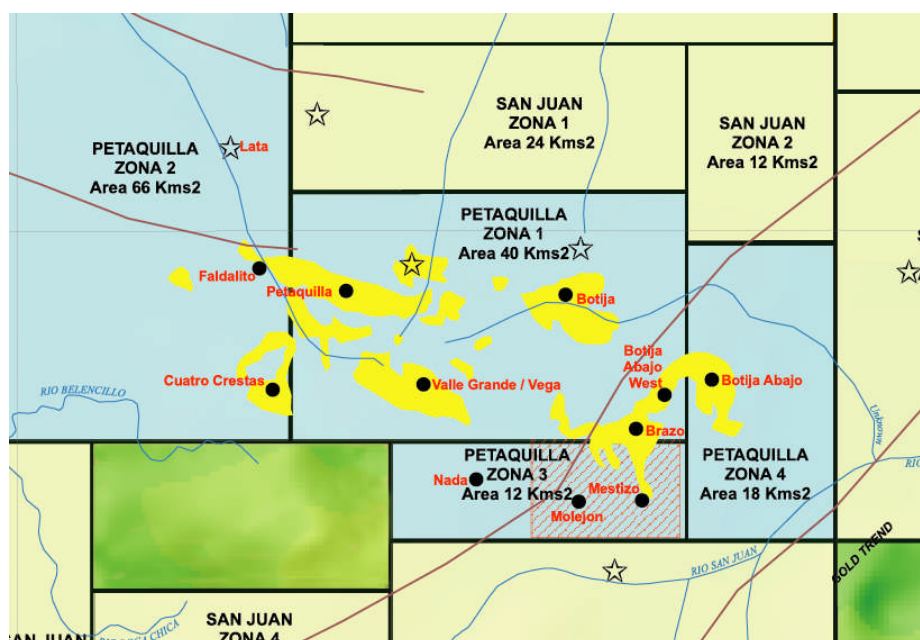
4.D. Property, Plants and Equipment

All our properties are in the exploration stage only, except for the Molejon gold deposit on the Petaquilla concession lands, and are without a known body of commercial ore. The Molejon gold deposit is in the advanced development and pre-production phase. Although an open pit mine is planned and construction of a gold processing plant is currently underway at the Molejon gold property, we currently have no mineral producing properties and have not had any revenue from any mineral producing properties in the last three fiscal years.

Petaquilla Concession, Panama

Introduction

The Petaquilla concession contains a large copper-gold porphyry system as well as an epithermal gold deposit, both amenable to open pit mining. To date, exploration has identified eight copper-gold porphyry deposits along with one epithermal gold deposit.



On October 18, 2006, we entered into a Plan of Arrangement with Petaquilla Copper Ltd. ("Copper"), whereby we effectively transferred our wholly-owned subsidiary, Georecursos Internacional, S.A. and, thereby, our interest in the copper assets within the Petaquilla concession lands to Copper. Pursuant to the Plan of Arrangement, Copper became a shareholder of Minera Petaquilla, S.A., the Panamanian company holding the rights to the Petaquilla concession. However, we retained the rights to the Molejon gold deposit as well as to other gold and precious metal mineral deposits that might be developed within the Petaquilla mineral concession lands and continues to operate under the Ley Petaquilla as does the joint venture company, Minera Petaquilla. For a more detailed explanation, please refer to "Item 4.D. Property, Plants and Equipment - Title".

As such, our development focuses on the Molejon gold deposit and the first phase of the mine development plan submitted by Minera Petaquilla and approved by the Government of Panama in 2005. We have begun construction and development of the area for the purposes of extracting ore from the Molejon gold deposit. In addition, we intend to perform further exploration on other identified gold targets within the Petaquilla concession, and those within our wholly owned properties surrounding the Petaquilla concession.

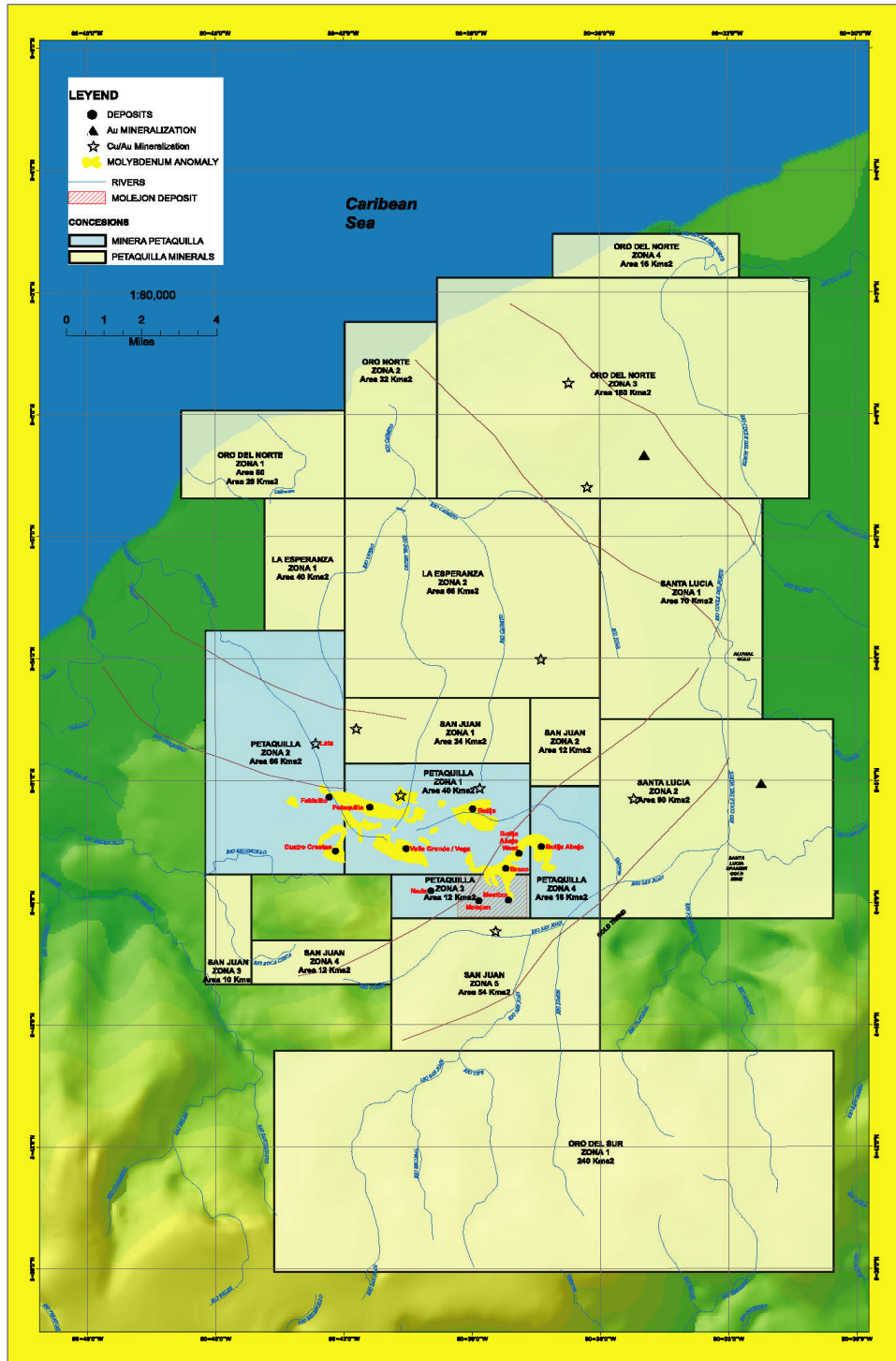
Property Location



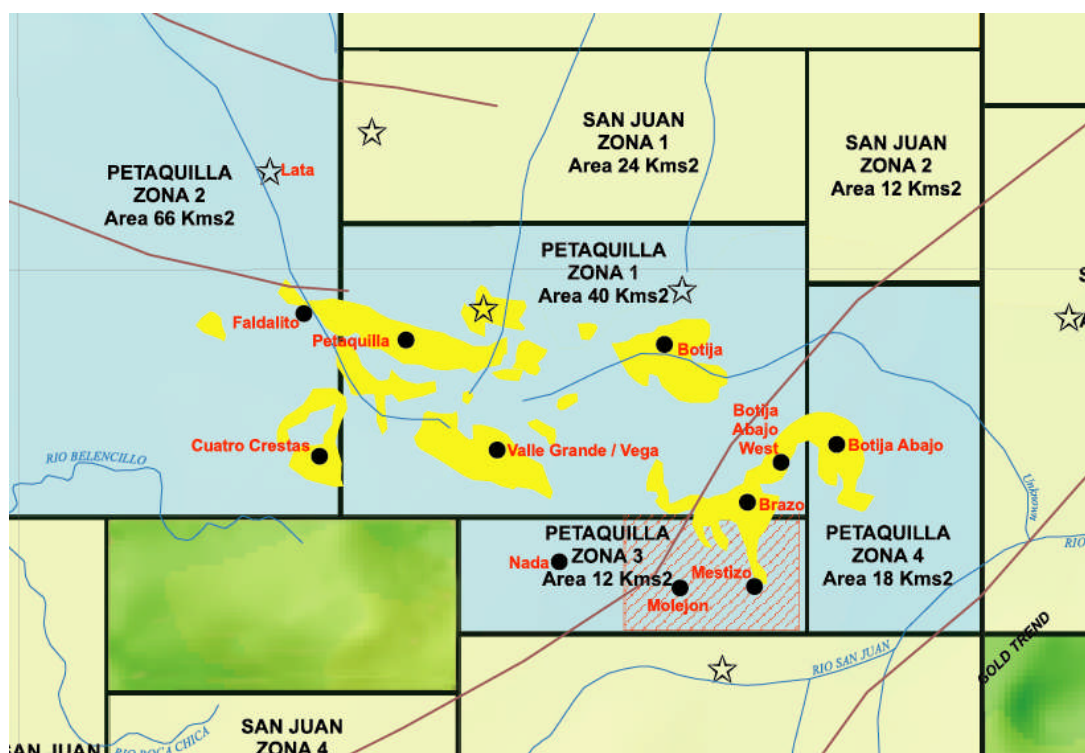
Location, Access & Physiography

Although our Company is currently focusing on the development of the Molejon gold project located on the Petaquilla concession, we also hold the rights to 659 square kilometers of virtually unexplored land surrounding the known deposits of the Petaquilla concession including various interests in the Rio Belencillo and the Rio Petaquilla concessions adjacent to the Petaquilla concession.

A map of the various concession lands located in north-central Panama follows with the 136-square kilometre Petaquilla concession highlighted in the colour blue is shown on the following page.



Close-up of the 136-square kilometre Petaquilla concession with the Molejon area cross-hatched in red:



The Petaquilla concession alone covers approximately 136 square kilometers. Minera Petaquilla, the Panamanian company holding the rights to the Petaquilla concession, is currently owned Copper, Teck and Inmet with interests of 26%, 26% and 48% respectively. On March 28, 2008, Copper received notice from Teck of Teck's "Final Commitment" under the shareholders' agreement between Copper, Teck and Inmet with respect to the Petaquilla Copper Project in Panama. In April 2008, Copper announced it had delivered a Notice of Request to Arbitrate to Teck. Copper has claimed that Teck failed to satisfy the conditions to earn 26% of the Petaquilla Copper Project and the matter remains outstanding. In addition, On July 28, 2008, Inmet formally commenced its unsolicited offer to purchase all of the outstanding common shares of Copper, further to its announcement on July 6, 2008, of its intention to make the offer. However, as previously stated, we have had no interest in the Petaquilla copper deposit since the Plan of Arrangement effected with Copper on October 18, 2006, and are not involved in any agreements nor disputes regarding the Petaquilla Copper Project nor are we the subject of any takeover bid. We hold the rights to the Molejon gold deposit as well as to other gold and precious metal mineral deposits that might be developed within the Petaquilla concession lands. For a more detailed explanation, please refer to "Item 4.D. Property, Plants and Equipment – Title".

The concession lands are located approximately 75 miles west of Panama City, six miles from the Caribbean coast and lie within the Donoso District of Colon Province of the Republic of Panama. The Petaquilla concession, specifically, is located 20 kilometres inland from the Caribbean coast and elevation within the concession boundaries ranges between 70 metres and 350 metres above sea level. The Petaquilla concession falls within the rainfall shadow of the Continental Divide and the terrain is generally rugged and covered with heavy rainforest vegetation. The climate of the Petaquilla concession is characteristic of tropical rainforests. Precipitation is high throughout the year with annual rainfall averaging at least 4,700 mm in the concession area. The heaviest precipitation is evenly distributed from May to December and the months of January to April are typically the driest months.

Access to the Molejon gold property within the Petaquilla concession is by road or helicopter. We have completed construction of the 28-kilometre Llano Grande–Coclesito dirt road from Coclesito, a village of approximately 700 inhabitants, to the mine site. As part of the Llano Grande–Coclesito Road Improvement Project, the Cascajal Bridge has been completed and was inaugurated January 16, 2007, by the Minister of Public Works of Panama. One more bridge spanning the San Juan River is also now complete. This road replaces a network of trails, which was the previous access, and the new road portion will ultimately be upgraded to rural paved status as part of ongoing development work. While the road has initially been designed to provide access to the mine site, it will ultimately comprise part of a future expansion of the national road network connecting communities with the region. Thirty kilometres of gravel road connects Coclesito with La Pintada, a town of 5,000 people on the country's paved highway network, and the Pan-American Highway to the south. This road will also be upgraded to rural paved status as part of ongoing development work.

Plants and Equipment

In January 2005, a base camp was erected at the Molejon gold deposit to facilitate the exploration and development program being carried out on the Molejon gold deposit. Currently, a gold-processing surface plant that will initially utilize three ball mills and a carbon-in-pulp processing facility is under construction. The ball mills are completely mounted on their support platforms, have been NDT (non-destructive testing) checked and are awaiting lining and motor installation. The foundation for the ball mill feed bins is 60% complete and awaiting delivery of heavy steel beams for bin construction. Construction of the leach tanks has completed and an x-ray NDT check on welds will be completed shortly along with on-site assembly of the agitation systems. The construction of the carbon-in pulp tanks has also completed and assembly of the agitation and screening system, which has already arrived in Panama, will follow. Pulp and tailings thickeners' construction has completed and the assembly of the rotation and rakes system is underway. Both the ADR plant building and the CN detox system are 80% complete. The carbon, acid wash and elution columns are mounted, the regeneration kiln structure and frames are mounted, and the four gen-sets are in place pending control room completion. The crushing plant crushers and vibratory screens are complete and on site and we await the arrival of the scrubber and conveyor belts. The emergency pond is near completion pending HDPE lining and tailings dam no. 2 is 70% complete pending dam wall completion and HDPE lining. Tailings dam no. 1 is 20% complete.



Construction personnel are currently working in four shifts 24-hours per day, 7 days per week. Commissioning of the Molejon gold plant is expected in December 2008.

Title

Petaquilla Concession – Panama

Prior to October 18, 2006, we owned, through our indirect share ownership in Minera Petaquilla, a 52% interest in the Petaquilla concession. Specifically, our company's 52% ownership of Minera Petaquilla was held through our wholly owned subsidiary of Georecursos Internacional, S.A. ("Georecursos"). On October 18, 2006, we entered into a Plan of Arrangement with Copper, whereby we effectively transferred ownership of Georecursos to Copper, and, thereby, our interest in the copper assets within the Petaquilla concession lands to Copper. Immediately following the completion of the Arrangement, we owned 20% of the issued shares of Copper. As at August 22, 2008, we held approximately 12.70% of the issued shares of Copper. Pursuant to the Arrangement, Copper became a shareholder of Minera Petaquilla, the Panamanian company holding the rights to the Petaquilla concession.

When we held a 52% interest in Minera Petaquilla and, thus a 52% interest in the Petaquilla concession, Teck had the right under the Petaquilla Shareholder's Agreement dated February 21, 1997, to acquire 50% of our interest, subject to satisfaction of various requirements, including the preparation and funding of a final bankable feasibility study and the provision for financing 52% of all costs through to production. By way of the Arrangement, Copper became a party to the shareholder's agreement and continuing under the terms of the shareholder's agreement Teck retained the option to acquire one-half of Copper's newly-acquired interest in Minera Petaquilla, which would result in Teck having a 26% interest in Minera Petaquilla. The remaining 48% of Minera Petaquilla was owned by Minnova, a wholly-owned subsidiary of Inmet.

On March 28, 2008, Copper received notice from Teck of Teck's "Final Commitment" under the shareholder's agreement among Copper, Teck and Inmet with respect to the Petaquilla Copper Project in Panama. Copper has since commenced arbitration proceedings against Teck, on the basis that Teck had not fulfilled the preconditions necessary to exercise its option to acquire one half of Copper's interest in the property. In addition, on July 28, 2008, Inmet formally commenced its unsolicited offer to purchase all of the outstanding common shares of Copper, further to its announcement on July 6, 2008, of its intention to make the offer. However, as previously stated, we have had no interest in the Petaquilla copper deposit since the Arrangement effected with Copper on October 18, 2006, and are not involved in any agreements or disputes regarding the Petaquilla Copper Project nor are we the subject of any takeover bid.

We retain the rights to the Molejon gold deposit as well as to other gold and precious metal mineral deposits that may be developed within the Petaquilla mineral concession lands and continue to operate under the Ley Petaquilla as does the joint venture company, Minera Petaquilla.

Molejon Property – Panama

With the above noted and as per the Molejon Gold Project Agreement dated June 2, 2005, the shareholders of Minera Petaquilla agreed to separate the gold deposit and other precious metal mineral deposits that might be developed within the Petaquilla mineral concession from the copper mineral deposits within the Petaquilla mineral concession. The agreement provides for our company, through our subsidiary, Petaquilla Gold, S.A., to own a 100% interest in the Molejon gold deposit, as well as all other gold and precious metal mineral deposits that might be developed within the Petaquilla mineral concession, subject to a graduated 1% - 5% Net Smelter Return, based on the future gold price at the time of production, payable to Teck and Minnova, as to 35.135% and 64.865% respectively.

Pursuant to the contract law under which the Petaquilla concession was granted by the Government of the Republic of Panama, our company with our then partners delivered a phased Mine Development Plan to the Government of Panama. In September 2005, the multi-phase Petaquilla Mine Development Plan submitted to the

Government of Panama by Minera Petaquilla was approved by Ministerial Resolution. This approval resulted in the extension of the land tenure for an initial 20 year period commencing September 2005, subject to Minera Petaquilla meeting certain other development and operational conditions on an ongoing basis. The land tenure provides for two additional 20-year terms that are also subject to Minera Petaquilla meeting certain other ongoing development and operational conditions.

The Molejon gold mineral deposit, owned 100% by our company, forms part of the Petaquilla concession lands and the first phase of the Petaquilla Mine Development Plan focuses on the development of the Molejon gold deposit by our company commencing in 2006. The development of the Petaquilla copper deposit is included in subsequent phases of the plan, and will be the responsibility of Minera Petaquilla S.A.

Mineral Properties – Other

We hold various interests in other land concession areas adjacent to the Petaquilla concession 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 has an option to purchase all of our 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 us \$1,152,400. This sum is payable in shares of Gold Dragon.

Exploration History

The Petaquilla concession has been investigated since 1968 when the potential for copper porphyry mineral deposits within the area was first recognized by members of a United Nations Development Program team carrying out a regional geological and geochemical survey of central Panama. The U.N. team subsequently completed 37 short diamond drill holes totaling 2,740 metres on the newly discovered Petaquilla, Botija and Vega deposits. In July 1969, the Panamanian government tendered the exploration rights to the Petaquilla concession area to international bidders and, in July 1971, the concession was awarded to Panama Mineral Resources Development Co. Ltd. ("PMRD"), a consortium of seven Japanese copper companies. An extensive drill program consisting of 51 diamond drill holes totaling 12,650 metres, followed by preliminary reserve calculations, metallurgical test work and a positive feasibility study (based on a mill rate of 18,000 tonnes/day) was completed on the Petaquilla and Botija deposits by PMRD in 1977, and was subsequently updated in 1979. The project was abandoned thereafter due to difficulties in negotiating a development agreement with the then Panamanian government under the mining statute in effect at the time.

No further development occurred until the Petaquilla concession was granted to Georecursos Internacional, S.A., a former subsidiary of our company, in August 1991.

Neither the United Nations nor PMRD analyzed their drilling and surface sampling for gold. As such, the only existing gold data is that accumulated by our company. Drilling to date has shown that the distribution and intensity of gold values within mineralized zones varies directly with areas of elevated copper and depleted molybdenum contents.

Exploration - Results Obtained by Us or on Our Behalf

A program of rock sampling and geochemical surveying was carried out by Inmet Mining Corporation in late 1990, followed by the establishment of 60 line-miles of surveyed grid (the "Faldalito-Petaquilla grid"). After assuming operation of the Petaquilla concession in May 1992, we undertook a comprehensive exploration program involving line cutting, ground magnetic surveying, soil geochemistry and diamond drilling. This work focused on corroborating the reported grade of copper-molybdenum mineralization in the Botija and Petaquilla deposits, evaluating their gold potential, testing their tonnage and grade potential along strike, to depth and up-dip, and carrying out the groundwork necessary for developing drill targets outside the limits of the two deposits.

The existing Faldalito-Petaquilla grid was extended east over the Botija deposit and south over the Vega area. A total of 52.14 line-kilometres of additional grid were cut and surveyed between April and July 1992. A total field magnetic survey was carried out over all cross lines and selected baselines of the grid in July and August of that year. Soil samples were taken at 50 metre intervals in selected portions of the grid. These included areas shown to be anomalous by the Faldalito-Petaquilla grid sampling, the surface trace of the Botija deposit, and part of the Vega area. Soil samples were analyzed geochemically for gold, silver, copper and molybdenum. Ten diamond drill holes, totaling 2,125 metres were drilled in August and September 1992 on the Botija and Petaquilla deposits. The 1992 drilling gave a preliminary indication of gold distribution within the Petaquilla and Botija deposits and an indication of relative gold enrichment at the core of the Botija deposit and at the Southwest Zone of the Petaquilla deposit.

The bulk of the 1993 exploration program consisted of diamond drilling. Forty-six holes totaling 10,297 metres were drilled on the Petaquilla, Botija, Botija Abajo and Vega deposits. Approximately two-thirds was drilled on the Botija deposit, demonstrating the continuity of mineralization in the relatively high grade West/Main Zone and confirming that this zone remains well-mineralized and open down-dip to the north. The systematic evaluation of mineralization in Botija's East Zone was begun and an initial hole in its Central Zone intersected grades and degrees of thickness in excess of those we initially expected.

Diamond drilling of the Petaquilla deposit focused on defining the extent and grade of near-surface copper-gold mineralization in the Southwest Zone. Near the end of the program, alteration similar to the Southwest Zone was drilled in the west-central portion of the Petaquilla deposit and returned copper-gold grades similar to those of the Southwest Zone, indicating that this style of mineralization might be more widespread within the deposit.

Three other porphyry prospects, two of them newly-discovered, were drilled on the Petaquilla concession in 1993. Two holes were drilled in the Vega area, confirming the existence of a large, mineralized porphyry system there. Eleven holes were drilled on the Botija Abajo deposit, defining a zone of alteration and mineralization similar in appearance, grade and size to Petaquilla's Southwest Zone. A single hole tested an extensive area of intense alteration with secondary chalcocite in the Brazo area.

Concurrent with this diamond drilling, a program of soil sampling, prospecting and geological mapping was carried out at the Botija Abajo, Brazo and Medio areas of the Petaquilla concession.

Our 1994 exploration program on the Petaquilla concession was successful in expanding reserves, discovering new deposits and outlining new, prospective zones of mineralization and anomalous geochemistry. Reserves at the Petaquilla and Botija deposits were expanded and delineated by additional diamond drilling. New zones of porphyry copper-gold and skarn mineralization were added to the existing mineralization at the Vega deposit. Soil grid extensions, geological mapping and geophysics led to the discovery of a significant epithermal gold-silver deposit at Molejon. The Molejon deposit is a structurally controlled, low-sulfidation, epithermal gold deposit. The host rocks are felsic porphyritic rocks and breccias associated with extensive hydrothermal quartz/gold mineralization, emplaced during orogenesis. Follow-up drilling at Brazo defined significant porphyry copper-gold mineralization. Geological mapping and geochemical surveys established new zones of mineralization at Botija Norte and Lata.

Forty-five per cent of the 1994 drilling on the concession was directed at the Botija deposit. Most of this was infill drilling in the West/Main zone and focused on upgrading the reserves to measured and indicated status. Six successful drill holes in the Central zone added new reserves to the deposit. Three of these holes bottomed in mineralization due to faulted ground. One step-out hole drilled in the East zone extended the mineralized zone to the east.

The Petaquilla deposit received 2,448 metres of infill and stepout drilling in eight holes in 1994. This drilling further defined reserves throughout the deposit. Breccia bodies along the granodiorite-andesite contact have been noted as important controls for mineralization at this deposit, particularly in the Southwest zone.

Follow-up mapping and prospecting of the soil geochemical anomalies in the Rio Molejon area discovered gold mineralization in Quebrada Molejonose. Following the discovery, 4,156 metres of drilling was completed. The Molejon deposit consists of three sub-parallel, northeast-striking, gently southwest-dipping, quartz vein breccia zones in a sequence of feldspar-quartz porphyries and andesitic volcanics. All three of these zones are exposed at, and remain near, the surface laterally and down-dip. The altitude and location of these breccia zones should make them amenable to bulk-tonnage, open-pit mining with low stripping ratios. The Molejon gold deposit also remains open laterally and down-dip.

Additional diamond drilling at the Vega deposit in 1994 added tonnage to the existing northwest-trending deposit and defined a new mineralized block 200 metres to the northwest of the previous block. This deposit consists of porphyry copper-gold and skarn mineralization related to a brecciated andesite-granodiorite contact, similar to the breccias observed at the Petaquilla deposit. During the 1995 diamond drilling program, the Valle Grande area northwest of the Vega deposit was drill-tested with 95 drill holes. Encouraging results were obtained from this program with values of up to 0.94% copper, 0.09 g/t gold and 0.04% molybdenite over 97.0 meters in hole V95-210 and 1.09% copper, 0.07 g/t gold and 0.03% molybdenite over 182.3 meters in hole VG95-223. As drilling continued through 1995, the Valle Grande deposit proved to be joined with the Vega deposit to form what is now known as the Valle Grande deposit.

Six more holes were drilled at the Brazo deposit to follow up on hole BR93-52, which intersected strongly mineralized quartz-feldspar-porphyry. Drilling was conducted at an area of anomalous gold-molybdenum-copper soil geochemistry underlain by the Brazo feldspar-quartz porphyry. This porphyry is argillically altered at surface and contains stockwork quartz veining with chalcopyrite, pyrite and secondary chalcocite. The Brazo deposit remains open down-dip. The deposit is hosted within the Brazo porphyry and andesitic volcanics that are phyllically to argillically altered and contain abundant stockwork quartz veining. A blanket of secondary copper enrichment commonly overlies this deposit.

The Botija Abajo deposit is a porphyry copper-gold deposit that is very similar to the Brazo deposit and we consider that it may form part of the same mineralized system. It is hosted within argillic to phyllic altered Brazo feldspar-quartz-porphyry and is truncated by the northeast-trending Brazo fault. Secondary copper mineralization, as chalcocite, is also present at this deposit. One drill hole was carried out on this deposit in 1994 and much of the geochemical anomaly that marks this deposit remains untested by drilling.

The Petaquilla, Valle Grande, Molejon, Brazo and Botija Abajo deposits appear related to intersecting structural trends. The Petaquilla and Valle Grande lie along a northwest trend that is marked by magnetic anomalies. The Botija Abajo, Brazo and Molejon deposits lie along a northeast trend also marked by magnetic anomalies. These three deposits are located where this northeast-trending magnetic and soil geochemical anomaly is intersected by northwest-trending geochemical anomalies.

In addition to these deposits, there are several areas throughout the Petaquilla concession that our company considers merit further examination. There are extensions to the Petaquilla geochemical anomaly in the Faldalito area that have not been fully tested. Prospecting and extensions to the soil grid north of the Botija deposit have identified a large area of anomalous copper-gold-molybdenum soil geochemistry. Andesitic volcanics intruded by altered and copper-mineralized porphyritic granodiorites have been mapped in the Botija Norte area. Two drill holes were collared in this zone and intersected limited mineralization within altered granodiorites that are similar to those in the Botija deposit.

To the end of 1995, a total of 506 drill holes totaling 101,311 metres had been completed on Petaquilla concession's nine deposits (Petaquilla, Botija, Valle Grande, Molejon, Botija Abajo, Brazo, Nada, Faldalito and Cuatro Crestas) and various other mineral occurrences. We had also completed prospecting and preliminary soil sampling on approximately 80% of the Petaquilla concession and ground magnetics surveying on approximately 70% of the Petaquilla concession by the end of 1995.

Between January and May 1996, a 120-hole program of feasibility study diamond drilling was carried out on the Petaquilla, Botija and Valle Grande deposits. The program included approximately 36 condemnation holes at

proposed sites for waste dumps, stockpiles, tailings facilities and the milling complex. Throughout the rest of 1997, Teck Cominco Limited continued its work on the final feasibility study on these deposits as well as the Molejon gold deposit. The 1997 feasibility study work program included:

- (a) sufficient additional drilling as is warranted to define starter pit reserves (copper-equivalent grade in excess of 0.7%) in the Rio Medio area and any other areas which might be discovered as a result of such drilling;
- (b) additional drilling of the Petaquilla deposit at spacing which accords with the search parameters used in the calculation of proven and probable mineable reserves;
- (c) detailed assessment of the Molejon deposit in the feasibility study both as part of the copper mining operations and as a stand-alone gold operation with additional drilling as set out in (b) above if required;
- (d) a test program of large diameter diamond drill core bulk sampling and metallurgical testing in at least two of the pit areas to determine whether this indicates a significant positive difference from previous metallurgical results, and appropriate follow-up work if it does; this work to include, at a minimum, a total of 20 tonnes of HQ size drill core from the Botija and Petaquilla pits (estimated to be approximately 3,200 metres of drilling); the identification of a pyrite depressant and other parameters to yield industry standard copper and moly recoveries in the bulk concentrate circuit; mini-scale (200kg/hour) piloting to produce bulk concentrate for cleaning testwork; confirmation of regrind size for bulk concentrate cleaning; mineralogy and flotation testing; analysis of the effect of grind size on metallurgical performance for the mining plan composites for use in optimization studies; confirmation of industry standard moly recovery (90%) in the copper-moly circuit and confirmation of moly concentrate impurity levels; completion of grinding index testwork (crushing, rod mill and ball mill Bond indices) for use in optimization studies; completion of ore abrasion index tests to confirm grinding steel consumption rates;
- (e) a comprehensive study of the relative advantages and disadvantages of land based and submarine tailings disposal, including economic, environmental and social considerations;
- (f) an assessment of the feasibility of dump leaching of prestripped saprolite and low grade material, having regard to consequent acid utilization and dispersal;
- (g) all environmental studies which are required in order to obtain commitments for project financing; and
- (h) optimization of mine and plant design and location, recalculation of reserves, and an assessment of operating costs and optimum throughput based on the results of the foregoing work; the final bankable feasibility study to include reserve calculations by two independent engineering consulting firms using such search parameters as each firm deems appropriate, as well as full mining plans and financial analyses based on the reserves calculated by each firm; these mining plans and financial analyses will assume mill throughput rates of 90,000 and 120,000 tonnes per day, and additional mining plans and analyses may be undertaken to examine increasing throughput during the mine life from 90,000 to 120,000 tonnes per day.

In December 2004, we resumed exploration and development of identified gold targets within the Petaquilla concession and, by January 2005, had a base camp established in preparation for a survey and trenching program. The Molejon gold deposit was subsequently surveyed and trenched to better understand gold metallurgy and potential open pit configurations. The topography of the Molejon property was mapped over a much wider area than previously and the information gathered was used in the next phase of designing the planned open pit. With respect to the trenching program, in excess of 5,000 metres of trenching was completed in 2005 with over 3,000 samples collected and assayed. The trenching program allowed us to better analyze the metallurgy, particularly the gold mineralization, occurring at the surface. The results provided information used to define the placement of drill holes as we advanced towards a feasibility study.

The first assay results received from the 2005 trenching program came from the initial test trenches on the Molejon Northwest Zone, an area which had never been tested with trenches before March 2005 although surface

drilling in the 1990's had indicated a near surface gold resource. The assay results were notable and led our technical team to believe that drilling of the Northwest Zone could lead to an expansion of the gold reserves at Molejon. Shortly thereafter, we received favourable trenching results suggesting good continuity of gold mineralization in the Molejon Northwest Zone as the trenching program exposed contiguous, in situ gold mineralization from within a metre of the surface in the Northwest zone. As these trenching results had shown high-grade gold shoots existed within the Northwest Zone, we re-sampled a selection of low and high-grade intersections in order to confirm the initial results. The second sampling duplicated the initial assay results from the first channel samples.

In June 2005, we continued to receive encouraging gold values from the trenching program and, by August 2005, we released another set of high grade trenching results including assays of over 100 gr/t. The trenching in August revealed that grades in the Main Zone of Molejon were higher than previously indicated, the 244 Area of the Main Zone returned grades in excess of 100 gr/t, the Northwest Zone had been expanded and is now over 340 metres across, the Northwest Zone had returned grades in excess of 40 gr/t, the Central zone had returned grades in excess of 18 gr/t, and new areas of mineralization had been discovered within the original pit boundaries.

In October 2005, we received a National Instrument 43-101 compliant mineral resource estimate on the Molejon gold deposit from SRK Consulting (Canada) Inc. ("SRK"). SRK estimated inferred mineral resources at 0.5 g/t cut off were 11.2 million tonnes at 2.48 g/t Au. Inferred mineral resources at 0.5, 0.6 and 0.7 g/t Au cut-offs are included in the following table.

Table: Mineral Resource Estimate at. 0.5, 0.6 and 0.7 g/t Au Cut-Offs

	Inferred Resources		
Au g/t Cut -Off	Million Tonnes *	Au g/t	Contained Ounces Au *
0.5	11.2	2.48	893,000
0.6	10.8	2.56	889,000
0.7	10.1	2.68	870,000

(* Note: Tonnes and ounces have been rounded to reflect relative accuracy of the resource estimate.)

SRK found the drilling, sampling methods and approach, sample preparation, analysis, security (chain of custody), and quality assurance/quality control procedures ("QA/QC") used during the exploration and delineation of the Molejon gold mineralization to be acceptable for resource estimation.

Based on the results of the resource estimate, SRK recommended that we proceed with the planned infill drill program, use the infill drill data along with twinned holes to revalidate the previous drilling and surface trench results, and complete specific gravity and mineralogical testwork. Upon completion of this work, a re-estimation of resources would be warranted in preparation for subsequent engineering studies. Additional metallurgical and geotechnical work was also recommended in preparation for future engineering work.

The October 2005 SRK report represents an increase of 35% over a pre-National Instrument 43-101 resource estimate of 7.8 million tones grading 2.63 grams for total contained gold of 661,000 ounces using a bottom cut-off grade of 0.500 g/t Au.

In January 2006, during a follow-up trenching program on the Molejon gold deposit, a 200-metre strike length of high-grade gold mineralization in the Central Zone was delineated. Overall, the trenching program resulted in a significant reinterpretation of the Molejon mineralization - three or more mineralization trends in quartz breccia and silicified andesite breccia extend across the deposit.

At the same time, we commenced, and during the course of 2006 completed, a 14,005-metre diamond-drilling program at the Molejon gold deposit. The drilling program was threefold. First, the majority of drilling or 11,398

metres consisted of infill drilling in the southern part (the starter pit area) of the deposit to bring the separation between existing drill holes down to 20 to 35 metres. The Molejon gold deposit was previously diamond drilled in a 124-hole program conducted by Teck, Inmet and our company (formerly Adrian Resources Ltd.) in 1994-95 on 50-metre grid lines with 40 to 70 metres between holes. Second, additional resource drilling totaling 1,627 metres was performed on areas where trenching had identified new targets. Third, the remaining approximately 980 metres focused on condemnation drilling and established the location for the 2,200 tonne per day plant currently being constructed. Geotechnical drilling was also performed in order to characterize construction conditions.

One of the Company's objectives when it commenced the 2006 drill program was to confirm the location of the starter pit and to upgrade SRK's October 2005 inferred mineral resource estimate to an indicated and measured category. In April 2007, the Company received a National Instrument 43-101 compliant gold resource estimate completed by AAT Mining Services (AquAeTer, Inc. dba AAT Mining Services) that significantly upgraded the prior resource estimate of 893,000 ounces of Inferred gold ounces. The new resource calculation outlined 447,879 ounces of Measured resources, 161,379 ounces of Indicated resources and 506,294 ounces of Inferred resources at the Molejon Gold deposit. AAT Mining Services also estimated that 179,934 ounces of the Measured and Indicated ounces contained in the low-grade material have potential for blending with the high-grade to achieve an optimum mill feed without loss of resources. Moreover, drilling confirmed the high-grade area of 1.667 mm tonnes grading 5.0 g/tonne at a cutoff grade of 2.5 g/tonne.

Category	Tonnage	Cut-off (g/tonnes)	Average Grade	Ounces
Measured	10.236 Mio	0.3	1.37	447,879
Indicated	7.327 Mio	0.3	0.69	161,379
Inferred	22.2 Mio	0.3	0.71	506,294

The 506,294 ounces of gold presently defined as Inferred resources are currently being evaluated by infill drilling to 25 metre centres with an aim to convert this resource to Measured and Indicated resources for the Molejon Gold Plant Expansion Feasibility Study. Most of these mineralized drill holes are 50 to 75 metres away from Measured and Indicated mineralized resources. The on-site Qualified Person, Sean C. Muller, P. Geo., observed and verified that the 2006 drilling and laboratory procedures on the Molejon gold project met or exceeded National Instrument 43-101 standards. Strict Quality Assurance and Quality control protocols were defined and implemented under his supervision including the submission of blanks, standards and duplicate core samples to the laboratory.

More than 120 new test holes were used to update SRK's October 2005 resource estimate.

The second objective was to test for additional mineralization. The additional resource drilling discovered another deeper mineralization trend north of the known resource at Molejon. This new trend, known as the NW Deep, exhibits two cohesive blocks of mineralization, one near the surface and another at a depth of approximately 100 metres. The extension of the known mineralization trends to the NNE, and the WSW continues to be extended through step-out drilling.

The third objective was to confirm the location of the gold processing plant. Thus, condemnation drilling was conducted to ensure that ore zones do not underlie the proposed plant, related infrastructure, and tailings impoundment sites.

In addition, the results obtained from both the 1994-95 and 2006 diamond-drilling programs will be used to assist in the completion of pit modeling and a feasibility study.

In early 2007, our company continued drilling by commencing a minimum 40,000 metre exploration and development diamond-drill program focusing on the 20 square kilometer area known as the El Real Trend, which includes our company's 100% owned Molejon deposit and Petaquilla Copper Ltd.'s Botija Abajo/Brazo project zones, and which is open in three directions. In August and September 2007, our company released results and details concerning this drill program along the El Real copper gold trend. At the time, our company and Petaquilla Copper Ltd. had jointly been active in five different zones in the Petaquilla concession with six drill rigs working on the El Real mineralized gold and copper trend between Molejon and Botija Abajo/Brazo. Results from several drill holes indicated the zone may be much larger in size than previously estimated, that the area had a new silver zone and confirmed the mineralized trend between the Botija Abajo, Botija Abajo West, Brazo and Molejon open pit. The overall goal of this large scale, wide spaced drill program was to identify and delineate the many targets on the El Real Trend and tie the Botija Abajo/Brazo zone to the Molejon open pit gold deposit.

Two drill rigs were also working on a new extension of the Molejon deposit in the North Central zone outside of the current pit outline. Drill hole 332, included in the first results from this program and located within the south-western part of the current pit design, intercepted high grade mineralization near surface: 9 metres @ 17.24g/t Au. In addition, deep mineralization found in several holes confirmed our company's structural model and indicated a significant extension of known mineralized breccias outside of the current designed pit limits. The results offered encouraging support for our company's stated goal of increasing resources. The new hole locations were designed to test mineralization trends suggested by recent resource modeling. Results from several holes located within the south-western part of the current pit indicated a significant volume of near surface, higher grade material in an area drilled previously on a wide spacing and previously interpreted as a lower grade zone. The results supported upgrading previously low grade material, with new higher grade intervals.

In October 2007, we announced the results of an updated NI 43-101 compliant gold resource estimate based on results obtained through September 2007. AAT Mining Services has estimated a total Measured resource of 593,327 ounces and an Indicated resource of 317,696 ounces at the Molejon Gold deposit (see table below). Additionally, an Inferred resource of 458,502 ounces at an average grade of 0.665 g/t above a cutoff of 0.3 g/t was estimated. The 123,000 Indicated resource ounces of gold delineated at the nearby Botija Abajo deposit through June 2007 increases the total gold resources at the global Molejon Project by over 40% since the last resource estimate announced in April 2007.

If no cut-off grade is applied, the total resource is over 2.8 million ounces of gold.

Measured				
Grade cutoff	Tonnes	Au	Au	Au
in g/t		grams/tonne	grams	ounces
.3	2,757,315	0.348	960,657	30,886
.4	2,067,102	0.446	921,894	29,640
.5	7,683,176	1.013	7,784,218	250,272
2.5	1,170,618	3.469	4,060,956	130,565
5.0	591,315	7.993	4,726,538	151,964
Total	14,269,526	1.29	18,454,262	593,327
Indicated				
Grade cutoff	Tonnes	Au	Au	Au
in g/t		grams/tonne	grams	ounces
.3	5,312,433	0.343	1,822,984	58,611
.4	2,467,167	0.445	1,097,888	35,298
.5	5,873,534	0.924	5,426,666	174,474
2.5	345,516	3.236	1,117,982	35,944
5.0	62,508	6.651	415,769	13,367
Total	14,061,158	0.703	9,881,288	317,696

Inferred				
Grade Cutoff g/Tonne	Inferred Tonnes	Average Gold Grade g/Tonne	Inferred Gold Grams (contained)	Inferred Gold Troy Ounces (contained)
0.3	4,829,733	0.342	1,650,927	53,079
0.4	4,411,224	0.446	1,969,183	63,312
0.5	12,190,533	0.869	10,589,925	340,479
2.5	18,471	2.747	50,747	1,632
Total	21,449,961	0.665	14,260,781	458,502

Another 458,502 Inferred ounces have been geostatistically shown in a new area northwest of the Molejon Measured and Indicated Resources.

In 2006, about 500,000 ounces of gold were in the inferred category of which over 50% have been converted to Measured and Indicated resources by infill drilling in 2007. Over 22,000 metres have been cored at Molejon in 2007 bringing the total drilling along the gold trend to about 40,000 metres since the beginning of the program in 2006. As at October 18, 2007, seven rigs were currently drilling in the area, three in Molejon and four elsewhere along the El Real trend.

While detailed drilling continues at Botija Abajo, another gold prospect to the northwest known as Lata is being evaluated by surface mapping. A drilling program that will augment favourable drill-hole trends outlined in the 1990's was in preparation.

The recent modeling effort included a complete review of the drilling, geology, sampling methods and approach, sample preparation, analysis, security (chain of custody), and quality assurance/quality control procedures used during the exploration of the Molejon gold deposit. The on-site independent QP, Sean C. Muller, P. Geo., a Qualified Person under National Instrument 43-101, oversaw the drilling program ensuring that the appropriate QA protocols were being followed and that the data was being qualified under strict QC. He observed and verified that recent drilling, sample preparation and ALS Chemex laboratory procedures utilized for the Molejon project meet NI 43-101 standards. Strict QA/QC protocols have been defined and implemented under Mr. Muller's supervision including the submission of blanks, standards and duplicate core samples to the laboratory.

In March 2008, we announced drill hole results received for 132 holes added since the last resource model update of the Molejon gold deposit in October 2007.

The two objectives of the drill program were to provide infill information to complement data obtained from previous drilling and to advance towards delineating the mineral deposit. The program succeeded in meeting both its objectives. First, the results obtained from infill drilling would allow for the conversion of inferred and indicated resources to indicated and measured resources, respectively. Second, as the condemnation holes supported the model, the results obtained from delineation drilling have verified the geologic interpretation and have also provided for important increases in geologic understanding.

The holes that did not intercept mineralization were effectively around the perimeter of the known deposit. The holes that did intersect mineralization were drilled to define the suspected high grade and, while important for increasing the high grade envelope, also verified the model. Additionally, these results provided the basis to expand the previously modeled high grade ore shell to encompass a previously undrilled region.

The independent QP, Cathryn Stewart, P. Geo., verified that recent drilling, sample preparation and laboratory procedures utilized for the Molejon project met NI 43-101 standards. Strict QA/QC protocols have been defined

and implemented for the submission of blanks, standards and duplicate core samples to the laboratory. Samples were analyzed at ALS Chemex Labs Ltd.

At the Lata prospect, a detailed field mapping and surface sampling program was continuing and a diamond drilling program had commenced. Initial surface sampling results include 11.7 g/t Au sample (sample number: R-49), 8.24 g/t Au (sample number: R-270), 2.02 g/t Au (sample number: R-172, and 1.7 g/t Au (sample number R-116). The anomalous sample results highlight a NW trending structure that projects to the south toward the Molejon deposit, confirming the district geological interpretation. Initial drilling has intercepted alteration in andesitic host rocks. The assays were pending completion at ALS Chemex.

In addition to the above, a 260 line kilometre Induced Polarization (IP) geophysics program and a detailed field mapping program are concurrently underway over a significant part of our company's concessions. As at March 2008, the IP geophysics program was 30% complete and focused on identifying 'Molejon look-alikes' along the main mineralized trends.

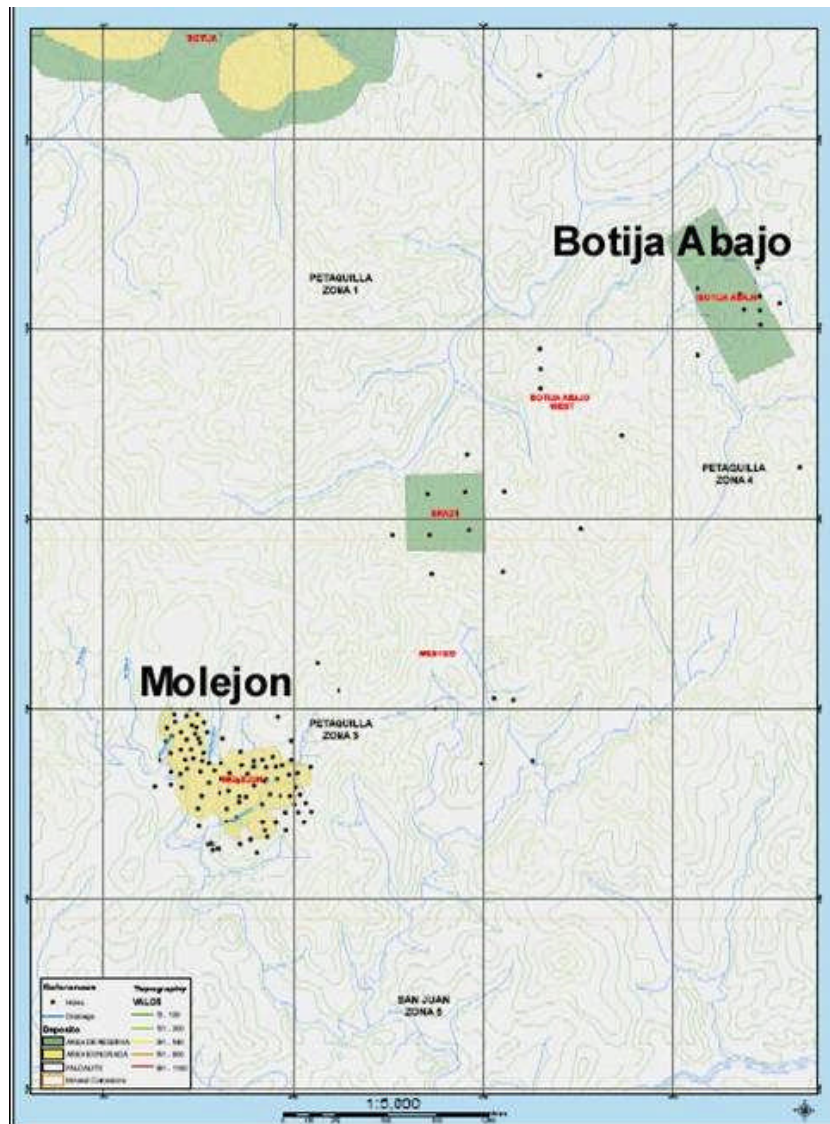
Outlook – 2008

Molejon

We are focusing on bringing its Molejon gold deposit to production. We expect to pour our first gold bar by the end of December 2008 and commence full production by the end of February 2009. Estimated cost to complete the processing mill, surrounding tailings for the first phase of the mine and working capital requirements is expected to be \$40,042,000 (US\$ 38,288,000). This amount includes a contingency of \$4,706,000 (US\$ 4,500,000).

We are currently completing phase 1 of the mining plan.

Map of the project area:



Regional and Local Geology

Panama is underlain by an island arc built upon late Cretaceous oceanic crust and is considered prospective for porphyry copper-gold-molybdenum deposits.

Andesitic tuffs and flows of presumed Early to Middle Tertiary age cover the majority of the Petaquilla concession lying at the southern limit of a 400 square kilometre batholith, dated at 32.6 ± 2 million years, which has intruded the older volcanic sequence. The core of the batholith is composed of quartz monzonite, grading outward to granodiorite and porphyritic granodiorite. The Petaquilla and Botija deposits are centered on porphyritic stocks and dykes lying peripheral to the southern margin of the batholith.

At the Botija deposit, the intrusive is a medium-grained, crowded porphyry composed of 25% plagioclase phenocrysts, 15% hornblende phenocrysts and 5-10% quartz grains in a feldspar rich matrix. At the Petaquilla deposit, the intrusive is more obviously porphyritic, with a generally lower percentage of phenocrysts. Contact phases and dykes at each deposit are finer-grained varieties of the main intrusive. In particular, feldspar, hornblende, quartz porphyry dykes appear to be late stage phases of the granodiorite. Most of these porphyry dykes post-date the mineralization, indicating that they were introduced during the waning stages of hydrothermal

alteration and mineralization. The youngest units encountered on the property are the unmineralized basalt and andesite dykes.

Copper-gold-molybdenum porphyry deposits have been identified and partially delineated at the Petaquilla and Botija deposits, which are centred four kilometres apart on an east-west trend within the Petaquilla concession. Four types of well-developed alteration have been observed within the various intrusive units: potassic, phyllic, quartz-chloritic and propylitic. Potassic alteration is found near the core of the porphyry system and is not extensive. It is characterized by quartz, potassium feldspar, biotite, sericite, and lesser amounts of anhydrite and magnetite. The majority of copper mineralization is hosted in the phyllic altered rock, which is composed of quartz and sericite with minor kaolinite and K-spar. Propylitic alteration, marked by chlorite, pyrite, calcite and epidote, marks the outer extent of alteration in a porphyry system. The phyllic and quartz-chlorite alteration zones are usually found between the potassic core and the peripheral propylitic zone, although either may be missing. Alteration of the andesitic volcanic units, characterized by prograde biotite hornfels and fine grained sulphide mineralization occurs when they are found to be proximal to the intrusive contact or within zones of intrusive dyking.

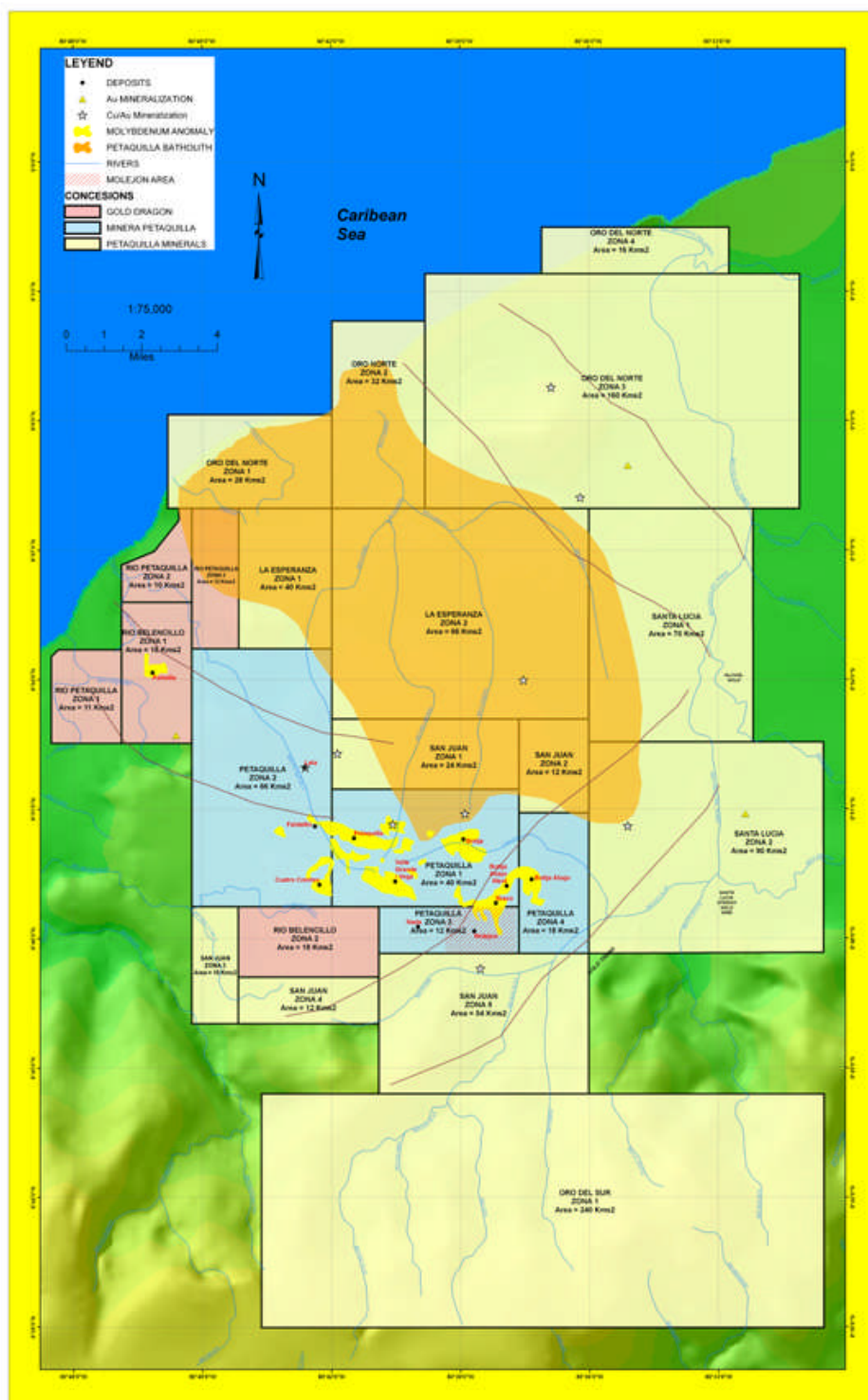
The Petaquilla deposit is largely hosted by porphyritic granodiorite below its intrusive contact with andesite forming a flat-lying to gently dipping sheet, trending east-west and dipping to the north. It has been drilled for 1,600 metres along strike and remains open along strike to the south, east and west, and at depth.

The Valle Grande deposit is hosted dominantly by porphyritic granodiorite and similar to Petaquilla is a flat-lying sheet, trending northwest-southeast and dipping to the north. It has been drilled for 2,400 meters along strike and is considered to have limited expansion potential.

The Botija deposit trends east-west and dips 20-30 degrees to the north or northeast. It has been intersected by drilling along strike for 1,800 metres and up to 600 metres down dip. The Botija deposit remains open near surface to the south, along strike to the east and the west and in many places at depth both vertically and down dip to the north.

The general geology of the Molejon epithermal gold target is dominated by volcanic and subvolcanic intrusives including massive andesite flows, feldspar-porphyritic andesite flows, andesitic tuffs, and andesitic agglomerates. This volcanic package has been intruded by feldspar-quartz porphyry and feldspar porphyry units. A northeast trending fault is believed to be the major structural control for the emplacement of the hydrothermally altered quartz-carbonate breccia.

Mineralization



Mineralization at the Petaquilla, Valle Grande and Botija deposits is largely concentrated within potassic or phyllic altered porphyritic intrusives of granodioritic composition. Volcanic-hosted copper mineralization, associated with strong biotite alteration, is widespread at the Petaquilla deposit and contributes significantly to its tonnage. Mineralization in each deposit consists of chalcopyrite and pyrite as disseminations, within quartz

veinlets and filling brittle, irregular fractures. Pyrite content generally decreases with higher grade copper mineralization and increases towards the periphery of the deposits. Chalcopyrite occurs most commonly as very fine disseminations within an altered intrusive matrix or biotite hornfels. It is often associated with magnetite and/or chlorite or biotite altered mafic minerals, most notably in lower-grade sections of propylitic alteration. Stockwork quartz veinlets are best developed within potassic alteration, where they crosscut pervasive silicification. The irregular fracture-filling style of copper mineralization, which locally approaches a sulphide net, is largely confined to biotite-altered andesite at the Petaquilla deposit. This is cut in places by narrow quartz-chalcopyrite veins which have developed bleached selvages of biotite destruction. A fourth style of mineralization, consisting of chalcopyrite and pyrite coatings along steep, widely spaced, cooling joints, is confined to granodiorite along the eastern periphery of the Botija deposit.

Molybdenite is present mainly in quartz, carbonate, chalcopyrite veinlets hosted by granodiorite within the most intensely altered and mineralized portion of each deposit. Bornite occurs locally with chalcopyrite and contributes significantly to the copper grade in some sections, mainly within hornfelsed andesites in the Petaquilla deposit. Although leaching is widespread throughout the upper 10 to 30 metres of the deposits, supergene copper mineralization is not present in significant amounts. Magnetite is an important accessory in both deposits, disseminated throughout both the porphyritic intrusives and the intruded andesite.

At the Molejon deposit, epithermal gold-silver mineralization occurs within structurally controlled zones of hydrothermal quartz-carbonate breccia and the fractured and altered rocks marginal to the quartz-carbonate breccia. Assay boundaries of gold-silver mineralization are not sharply constrained by geological contacts. Highest grade mineralization usually occurs in the quartz-carbonate breccia but economic mineralization also occurs in feldspar-quartz porphyry, and more rarely in feldspar-porphyritic andesite flows.

The Petaquilla concession, or certain parts of it, have been the subject of a preliminary feasibility study by Kilborn completed in August 1994, a production scoping study by Fluor Daniel Wright completed in February 1996 and updated in August 1996 and a final feasibility study by H.A. Simons Ltd. completed in January 1998, the last of which being the most current is reviewed below.

Final Feasibility Study – Petaquilla Concession Copper Deposit

In January 1998, H.A. Simons Ltd. ("Simons") on behalf of Teck Cominco Limited, completed a final bankable feasibility study (the "Final Study" – non-National Instrument 43-101 compliant) on the Petaquilla, Botija, and Valle Grande copper-gold deposits and the Molejon gold deposit.

The Final Study was prepared prior to the introduction of National Instrument 43-101, and refers to categories of reserves which are not the same as those contained in the current National Instrument. The 1998 Feasibility Study refers to "measured and indicated mineable reserves", which we believe are reliable and relevant. Our company is of the view that such categories are materially equivalent to "proven" and "probable" mineral reserves in the current National Instrument.

The following information is summarized from the Final Study.

Conclusion / Reserves

In the Final Study, Simons reviewed only the Petaquilla, Botija and Valle Grande deposits and referred to measured and indicated reserves in its calculation of economically mineable reserves. The Final Study concluded that the mineable reserves for the Petaquilla, Botija and Valle Grande deposits (measured and indicated only) total 1.115 billion tonnes grading 0.50% Cu, 0.09 g/t Au, 0.155 MoS₂ as well as recoverable silver. Reserves were calculated using a variable economic cut-off grade of between US \$5.10 and US \$6.50/tonne (including a low grade stockpile of 130 million tonnes to be milled at the end of the mine life). A marginal cut-off grade of US \$2.92/tonne was used for the low-grade stockpile. Based on an estimated optimum throughput of 120,000 tonnes per day for open pit mining of the three deposits, which would result in a projected mine life of 23 years, the Final Study estimated that an average 419 million recoverable pounds of copper, 61,000 recoverable ounces of gold,

and 5.8 million recoverable pounds of molybdenite would be produced annually. The recoverable payable metal content contained in these reserves totals at least 9.4 billion pounds of copper, 1.37 million ounces of gold, 24.1 million ounces of silver and 131.1 million pounds of molybdenum, not including the contained metal in the low grade stockpile.

The Final Study examined the Molejon deposit as an alternate case and did not include production there from in its base case analysis.

Metallurgy

The Final Study estimated average recoveries of 90% for copper, 58% for gold and 62% for molybdenite.

Operating Plan

The Final Study examined development of the Petaquilla, Botija and Valle Grande deposits as an open pit operation to produce copper, gold and molybdenum flotation concentrates, based on a throughput rate of 90,000 tonnes per day for a mine life of 29 years and a throughput rate of 120,000 tonnes per day for a mine life of 23 years.

The Final Study's conclusions include the following key projected financial assumptions for operations based on the base case mineable reserve estimate. The initial capital cost of placing the three deposits into production is estimated at US \$1.12 billion, while ongoing capital costs are estimated to total US \$372 million.

The Final Study also examined an alternate case which includes an additional 356 million tonnes of preliminary scoping level mineable reserves at Valle Grande, the Molejon gold deposit and third party power supply options for Petaquilla as an alternate case and did not include production from Molejon gold deposit or the additional preliminary scoping level mineable reserves at Valle Grande in its base case analysis.

In May 2006, Teck, on behalf of the shareholders of Minera Petaquilla, S.A. commissioned AMEC Americas Limited to update the capital and operating cost estimates and the financial analysis originally prepared in January 1998 by Simons for the Petaquilla Project 120,000 t/d Feasibility Study, on the Petaquilla concession to more accurately reflect current prices and technological advances. AMEC's scope of work included an update of the existing pre-production and sustaining capital costs, an update of the operating costs and an update of the financial model. In addition, AMEC conducted five (5) stand-alone trade-off studies to consider opportunities to optimize the design of the project. These studies related to a concentrate pipeline to a Pacific port, grid power supply alternatives, the use of larger trucks and shovels in the mine, the use of a single-line semi-autogenous and ball mill grinding circuit, and the use of larger flotation cells. Where applicable, the results of the trade-off studies were incorporated into the cost update.

The 2006 Cost Update report was completed in December 2006 and estimated the cost to construct, install and commission the facilities described in the report at US \$1.592 billion dollars. This amount covered the direct field costs of executing the project, plus the owners and indirect costs associated with design, construction and commissioning. Working capital requirements and escalation totalled US \$116 million, bringing the overall capital cost of the project to US \$1.708 billion. The cost update also concluded cash operating costs in years 1 to 10 will be US \$0.76 per pound of copper produced.

Subsequently, in January 2008, AMEC released a draft interim Front-end Engineering and Design ("FEED") study in respect of the Petaquilla copper project based on the scope described in the Final Study prepared by Simons. The FEED report estimated that the capital cost required to develop the Petaquilla project would be US \$3.5 billion (including a contingency of \$515 million but not including working capital and escalation).

The capital cost estimate included approximately \$500 million for the construction of an oil-fired power plant and approximately \$280 million for port facilities. Cash costs, including operating and realization costs and net of by-product credits, in years 1 to 10 of the project are estimated to average US \$0.85 per pound of copper produced.

The study was based on the mine plan developed in 1998, which contemplated a 23-year mine life. The project includes a concentrator capable of processing 120,000 tpd of ore.

Capital costs for the project have increased substantially over previously published estimates both as a result of scope changes, including enhancements in erosion control, water management and other environmental protection measures, as well as increases in equipment and construction costs that have been affecting projects worldwide. Despite the increase in capital costs required to develop the Petaquilla copper project, the shareholders – Inmet Mining Corporation, Teck Cominco Ltd., and Petaquilla Copper Ltd. - believe that the project still has the potential to be a world-class mining operation. Work is continuing on the FEED study and a project review team is currently studying opportunities to reduce the capital costs from the Interim FEED study estimate with several possible opportunities already identified in the area of the grinding circuit, power supply and port infrastructure.

The above discussion regarding the *Final Feasibility Study, the 2006 Cost Update, and the FEED Study – Petaquilla Concession Copper Deposit* has been included in this Annual Report not because our company was a former shareholder of Minera Petaquilla, S.A. but because our company also operates on the Petaquilla concession and, as per the Molejon Gold Project Agreement dated June 2, 2005, has the rights to the Molejon gold deposit and other gold and precious metal mineral deposits that might be developed within the Petaquilla mineral concession subject to a specified and graduated Net Smelter Return payable to Teck Cominco Limited and Minnova. The agreement provides for our company, through our subsidiary, Petaquilla Gold, S.A., to own a 100% interest in the Molejon gold deposit, as well as all other gold and precious metal mineral deposits that might be developed within the Petaquilla mineral concession, subject to a graduated 1% - 5% Net Smelter Return, based on the future gold price at the time of production, payable to Teck and Minnova (Panama) Inc., a wholly-owned subsidiary of Inmet Mining Corporation.

Molejon

Since our company's Plan of Arrangement with Petaquilla Copper Ltd. effective October 18, 2006, we have focused on the development of our Molejon Gold Project. For a summary of the latest technical report announced in October 2007, please refer to "Item 4.D. Property, Plants and Equipment – Exploration - Results Obtained by Us or on Our Behalf".

Doing Business in Panama

The following briefly summarizes our understanding of the economic and political climate in Panama based on research and information compiled by us from various sources we believe to be reliable:

Democracy was restored in Panama in December 1989 following the invasion of Panama by the U.S. military. In May 1994, Panama held its first democratic elections in almost 30 years, resulting in the election of Partido Revolucionario Democrático ("PRD") candidate, Dr. Ernesto Perez Balladares, as President of the Republic. The next election was held in May 1999 and resulted in Mireya Moscoso, leader of the Arnulfista Party, becoming President of the Republic.

In the elections held May 2, 2004, Martin Torrijos won a clear victory as President gaining 47% of the votes and outdistancing his closest rival with 31%. President-elect Torrijos' party, PRD, also performed strongly in legislative and local races held the same day. Unlike the previous administration, President-elect Torrijos' party will hold a majority of Senate seats.

Martin Torrijos is the son of a famous Panamanian leader, General Omar Torrijos, who ruled from 1968 until he died in a plane crash in 1981. General Torrijos won Panama control over the Panama Canal from the United States and instituted land reform and populist social and economic developments. General Torrijos supported the development of a modern mining sector and had close links in the Province of Coclé in the area of the Petaquilla property. The General championed numerous social development initiatives in the area of Petaquilla including the founding of the village of Coclesito near the property.

President Martin Torrijos campaigned on a platform of zero corruption, social development and economic (and job) expansion. In his mid-forties and with the backing of Ruben Blades, a popular musician, he is generally expected to lead a youthful and vigorous administration. He stands on an agenda that includes strengthening democracy and free trade talks with the United States.

We note that the comparative overall country risk rating for Panama by The Economist Intelligence Unit is in the low mid-range, both globally and regionally, as follows:

Country	Overall Country Risk Rating (AAA=least risky, D=most risky)
Argentina	BB
Bolivia	B
Brazil	BB
Chile	A
Columbia	BB
Costa Rica	BB
Ecuador	CCC
Guatemala	BB
Honduras	B
Mexico	BBB
Peru	BBB
Panama	BBB
Venezuela	CCC

Rating Band Characteristics	
AAA	Capacity and commitment to honouring obligations not in question under any foreseeable circumstances.
AA	Capacity and commitment to honouring obligations not in question.
A	Capacity and commitment to honouring obligations strong.
BBB	Capacity and commitment to honouring obligations currently, but somewhat susceptible to changes in economic climate.
BB	Capacity and commitment to honouring obligations currently, but susceptible to changes in economic climate.
B	Capacity and commitment to honouring obligations currently, but very susceptible to changes in economic climate
CCC	Questionable capacity and commitment to honouring obligations. Patchy payment record.
CC	Somewhat weak capacity and commitment to honouring obligations. Patchy payment record. Likely to be in default on some obligations.
C	Weak capacity and commitment to honouring obligations. Patchy payment record. Likely to be in default on significant amount of obligations.
D	Very weak capacity and commitment to honouring obligations. Poor payment record.

Currently in default on significant amount of obligations.
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Mining has not historically been a significant factor in the Panamanian economy and, consequently, Panama does not have the infrastructure and trained personnel required for modern mining operations. The government of Panama has, however, included the development of mineral resources in its economic plan to diversify the Panamanian economy and has taken steps to put in place the legislative framework needed to foster development of these resources.

The Code of Mineral Resources of the Republic of Panama has been subject to substantial modifications, among which the most important are Law No. 3 of January 28, 1988, and Law No. 32 of February 9, 1996. The main purpose of such amendments was to simplify the procedure for filing the necessary petitions to obtain concessions, either for conducting mining exploration or mining extraction operations and property rights over the minerals extracted. These amendments grant total exemption for import taxes and customs duties for all equipment, spare parts and materials used in the development of any type of mining operations and there are no export taxes on mineral production.

An exploration concession permits the holder to explore for the minerals specified in the concession. The rental rates payable by the holder to the Government of Panama are US \$0.50 per hectare for the first 2 years, US \$1.00 per hectare for the third and fourth years, and US \$1.50 for the fifth year and thereon. A 2% gross overriding royalty on the value received for all minerals of higher commercial value, i.e. gold and silver, mined from the concession is payable to the Government of Panama.

The holder of an exploration concession has the exclusive right to obtain an exploitation concession for the subject area upon determining that the minerals covered by the concession may be produced in commercial quantities through a separate request to the Government of Panama. Rental rates for exploitation concessions fluctuate, depending on the mineral concerned and the extraction period, between US \$0.75 and US \$4.00 per hectare. Rental rates for metallic minerals like copper, iron, zinc, aluminum and precious metals like gold and silver, are US \$1.00 per hectare for the first 5 years, US \$2.00 from the sixth to the tenth year, and US \$3.00 the eleventh year and thereon. A 2% gross overriding royalty on the value received for all minerals mined from the concession is payable to the Government of Panama. However, this overriding royalty will be 4% for minerals of higher commercial value like gold and silver.

Exploitation concessions generally permit the holder to carry out additional pre-development exploration, to construct all necessary production facilities and to extract, process, store, transport, market and export the minerals subject to the concession so long as production is ongoing.

In 1995, the Panamanian Tax Reform Law was enacted to simplify the corporate income tax rates applicable to income earned in Panama (Law No. 28 of June 20, 1995). Since June 1995, the corporate income tax rate is 30%. In addition to corporate income tax, Panamanian law provides for a dividend tax. With the exceptions provided for in the Fiscal Code of the Republic of Panama, all corporations must retain 10% of the amounts they may distribute among their shareholders as dividends or share quotas. In case dividends are not distributed, or the entire amount distributed as dividend or share quota is less than 40% of the net profit of that fiscal period, minus taxes paid by the corporation, the corporation must cover 10% of the remainder.

The Fiscal Code of the Republic of Panama indicates certain expenses, which may be deducted from the income tax, applicable to companies conducting mining activities. Additionally, the Code of Mineral Resources establishes certain expenses related to said activities that may be deducted from income tax as well.

There are currently no significant restrictions on repatriation from Panama of earnings to foreign entities other than the income tax and the dividends tax referred to above. There are currently no currency exchange or foreign investment restrictions of material significance.

Based on our understanding of current Panamanian environmental laws and regulations, we do not anticipate that such laws will have any adverse material impact on any operations we may conduct in the future. Based on

Geochemical Analysis and Reporting, we anticipate that our company's Molejon gold project will meet or exceed the effluent and leachate requirements of Panamanian environmental laws and regulations. We will be using a Carbon in Pulp floatation process, which allows in process cyanide destruction before effluent is discharged. This process is inherently safer and more controllable than traditional acid and cyanide open-air heap leach processing. Any acidity produced at the experimental pH is expected to be buffered by the receiving waters around the Molejon project, which have a pH between 7.4 and 7.8 and total alkalinity between 15 mg/L and 27 mg/L (as CaCO₃). Results for both tails and waste rock leachate indicate that the Molejon Project will have net acid neutralizing potential. The results of the continuous tests showed that the INCO SO₂ cyanide destruction method is an efficient process for decreasing the total cyanide concentrations in the Petaquilla CIP leach pulp.

The foregoing laws of general application apply to our Panamanian mineral properties other than the Petaquilla concession which is governed primarily by the Ley Petaquilla. See "*Item 4 - Information on Our Company - B. Business Overview*".

Panama's currency, the Balboa, is at parity with the U.S. dollar. Exchange transactions are allowed in U.S. dollars and, as a result, foreign currency fluctuations will only be material for us to the extent that fluctuations between the Canadian and U.S. dollar are material.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. Operating Results

We are in the business of the acquisition and exploration of mineral properties, with the primary aim of developing them to a stage where they can be exploited at a profit. At that stage, our operations would, to a significant extent, be dependent on the prevailing market prices for any of the minerals produced by such operations. We do not currently have any producing properties and, with the exception of our Petaquilla concession which is the subject of a bankable final feasibility study, our current operations on our various properties are exploratory searches for mineable deposits of minerals. We are hopeful the Molejon deposit development work will both expand the reserves and classify the reserves as proven mineral reserves. However, there is no guarantee such results will be obtained. During the 13-months ended May 31, 2008, we were primarily engaged in the continued development of our Molejon property in Panama. As a result, our future mineral exploration and mining activities may be affected in varying degrees by Panama's political stability and government regulation, all of which are beyond our control. See "*Item 3 - Key Information – 3.D. Risk Factors*".

Historically our fiscal year end was January 31. During the period ended April 30, 2007, we changed our fiscal year end from January 31 to April 30 due to the complexities of the Plan of Arrangement with Petaquilla Copper Ltd. We changed our fiscal year end again over the past year from April 30 to May 31. We made this change because the Company wanted to demonstrate to the Panamanian government it had sufficient funds to continue work on the mine.

13 Months Ended May 31, 2008 Compared to 15 Months Ended April 30, 2007

We did not generate revenue from operations during the 13 months ended May 31, 2008 or during the 15 months ended April 30, 2007. Expenses for the 13 months ended May 31, 2008 were \$19,599,658, a decrease from \$28,841,783 for the 15 months ended April 30, 2007. The decrease in expenses is primarily due to lower stock-based compensation offset by an increase in financing cost, office administration, and wages and benefits. Our largest cash outflow in the 13 months ended May 31, 2008 was capitalized expenditures relating to our mineral properties of \$28,011,818, as compared to \$19,387,844 in the prior fiscal period. Stock-based compensation, a non-cash expense, decreased to \$5,754,085, compared to \$20,386,270 in the prior 15-month fiscal period, as a result of options granted and vested during the period, options previously valued at grant date and revalued at approval date, and options arising from the Plan of Arrangement that were revalued on the effective date of the Plan of Arrangement.

During the 13 months ended May 31, 2008, we recorded a foreign exchange gain of \$1,670,879, a gain on the sale of investments of \$4,697,182, interest income of \$133,245, asset usage fees of \$128,650, a loss of \$4,715,413 from equity investment, and a gain of \$13,277,095 on dilution of equity investment. During the 15-month period ended April 30, 2007, we recorded a foreign exchange loss of \$836,847, a gain on the sale of marketable securities of \$21,191, interest income of \$352,880, interest on long-term debt of \$68,239, asset usage fees of \$103,348, a loss of \$1,773,000 from equity investment, and a gain of \$3,080,000 on dilution of equity investment.

The net loss for the 13 months ended May 31, 2008 was \$4,344,300 or \$0.05 per share (2007 - loss of \$27,962,450 or \$0.35 per share; 2006 - loss of \$2,567,758 or \$0.05 per share).

15 Months Ended April 30, 2007, Compared to Fiscal Year Ended January 31, 2006

We did not generate revenue from operations during the 15 months ended April 30, 2007 or during the fiscal year ended January 31, 2006. Expenses for the 15 months ended April 30, 2007 were \$28,841,783, a substantial increase from \$2,538,350 for the year ended January 31, 2006. The increase in expenses is primarily due to the escalation of our operations at the Molejon gold deposit as we move the project towards production. Increased levels of operations including drilling, equipment procurement, plant construction, and construction of roads, bridges and other infrastructure have also led to increased general and administrative costs. Our largest cash outflow in the 15 months ended April 30, 2007 was capitalized expenditures relating to our mineral properties of \$19,387,844, as compared to \$2,197,611 (expensed) in the prior year. Stock-based compensation, a non-cash expense, increased to \$20,386,270, compared to \$410,301 in the prior year, as a result of options granted and vested during the period, options previously valued at grant date and revalued at approval date, and options arising from the Plan of Arrangement that were revalued on the Plan of Arrangement date.

During the 15 months ended April 30, 2007, we recorded a foreign exchange loss of \$836,847, a gain on the sale of marketable securities of \$21,191, interest income of \$352,880, interest on long-term debt of \$68,239, asset usage fees of \$103,348, a loss of \$1,773,000 from equity investment, and a gain of \$3,080,000 on dilution of equity investment. During the fiscal year ended January 31, 2006, we recorded a foreign exchange loss of \$77,647 and interest income of \$48,239.

The net loss for the 15 months ended April 30, 2007, was \$27,962,450 or \$0.35 per share (2006 - loss of \$2,567,758 or \$0.05 per share; 2005 - loss of \$1,798,273 or \$0.04 per share).

5.B. Liquidity and Capital Resources

In our management's view, given the nature of our activities, which consist of the acquisition, exploration, exploration management, development, and sale of mineral properties, the most meaningful and material financial information concerning us relates to our current liquidity and capital resources. We do not currently own or have an interest in any mineral producing properties and have not derived any revenues from the sale of gold, copper or other materials in the last three financial years. Our principal property, the Molejon gold deposit located in the Petaquilla concession, is located in Panama, and as a result our operations on the property may be subject to additional risks, which are more fully described in "*Item 3 - Key Information - 3.D. Risk Factors*".

Our mineral exploration activities have been funded through sales of common shares and through debt financing and we expect that we will continue to be able to utilize these sources of financing until we develop cash flow from our operations. There can be no assurance, however, that we will be able to obtain required financing in the future on acceptable terms, or at all. See "*Item 4 - Information on Our Company - D. Property, Plant and Equipment*" above. Based on our existing working capital, we expect to require additional financing for our currently held properties during the upcoming fiscal year. Accordingly, there is substantial doubt about our ability to continue as a going concern. We have not made use of any financial instruments for hedging purposes. We have material commitments for capital expenditures in the amount of \$5,047,133 at the end of our most recent fiscal year.

Mineral properties and marketable securities were written down in the years ended January 31, 2002, and January 31, 2001, when we decided there was little or no possibility of recovery from these properties. All expenses incurred during the fiscal year ended January 31, 2005, that were associated with our mineral properties were expensed during the period. Our management reviews annually the carrying value of our interest in each mineral property and where necessary, properties are written down to the estimated recoverable amount determined on a non-discounted basis after giving effect to any property option agreements and cost recovery agreements. Costs relating to properties abandoned are written off when the decision to abandon is made.

At May 31, 2008, we had a working capital deficiency of \$3,692,913 (April 30, 2007 – working capital deficiency of \$4,220,761). We recently raised funds from two private placements and a senior secured notes debt financing but will have to raise additional funds to meet our planned corporate and administrative expenses for the coming year and to undertake ongoing development and further exploration of the Molejon gold deposit. Management is 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. Accordingly, there is substantial doubt about our ability to continue as a going concern.

Other than as discussed herein, we are not aware of any trends, demands, commitments, events or uncertainties that may result in our liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in our liquidity will be substantially determined by the timing of any production decision on our Petaquilla concession.

May 31, 2008 Compared to April 30, 2007

At May 31, 2008, our current assets totaled \$13,532,332 compared to \$2,423,800 at April 30, 2007. The increase is primarily attributable funds raised during our senior secured note financing.

At May 31, 2008, total liabilities were significantly higher at \$56,273,751 compared to \$11,743,746 as at April 30, 2007.

Our working capital deficiency was \$3,692,913 at May 31, 2008, as compared with a working capital deficiency of \$4,220,761 at April 30, 2007. As at May 31, 2008, we had long-term debt totalling \$30,760,220 as compared to \$699,185 as at April 30, 2007.

At May 31, 2008, we had total assets of \$107,482,486 as compared with \$46,581,365 as at April 30, 2007. This is primarily a result of increases in capitalized project development costs and property plant and equipment.

Share capital as at May 31, 2008, and April 30, 2007, was \$105,858,083 (95,958,641 shares) and \$91,596,035 (89,876,951 shares), respectively.

Operating expenses in the 13 months ended May 31, 2008, and 15-months ended April 30, 2007, were \$19,599,658, inclusive of general and administrative expenses, and \$28,841,783, respectively.

The most significant contributions to working capital in the 13 months ended May 31, 2008 came from the issuance of capital stock upon the exercise of stock options and warrants, which provided net proceeds of \$1,658,655, from equity financing, which provided gross proceeds of \$12,245,805, and from debt financing, which provided gross proceeds of \$31,746,900. The most significant contributions to working capital in the 15 months ended April 30, 2007 came from the issuance of capital stock upon the exercise of stock options and warrants, which provided net proceeds of 8,879,670 and from equity financing, which provided gross proceeds of \$22,560,000.

In May 2007, we completed a non-brokered private placement issuing 1,387,879 units at a price of \$2.00 per unit and 24,033 units priced at \$2.02 per unit, for gross proceeds of \$2,824,305. Each unit consisted 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 until the warrants expire on May 8, 2009. The share purchase warrants are subject to an accelerated expiry provision providing that, if the volume weighted average trading price of our

common shares as traded on the Toronto Stock Exchange exceeds \$7.00 per share for at least 30 consecutive trading days, we shall have the right, exercisable within 30 days thereafter, to give notice to each warrant holder requiring the exercise of the warrants within a thirty (30) day period. If we exercise such right, the warrants will, if not exercised by the warrant holder in accordance with their terms and conditions, expire at the end of such thirty (30) day period. No finders' fees were paid resulting in net proceeds of \$2,824,305.

In January 2008, we completed a non-brokered private placement issuing a total of 3,140,500 units at a price of \$3.00 per unit and raising gross proceeds of \$9,421,500. Each unit consisted of one common share and one-half of one common share purchase warrant aggregating 1,691,875 warrants with the inclusion of the issued compensation warrants. Each whole warrant is exercisable into a common share at a price of \$3.50 per share until the warrants expire on October 31, 2009 (1,120,875), December 19, 2009 (182,000), and January 9, 2010 (389,000). We paid finders' fees of \$370,875 for net proceeds of \$9,050,625.

In May 2008, we closed on a gross amount of \$31,746,900 (US\$32,250,000) comprising the first tranche of our US\$60 million senior secured notes financing. The notes issued with respect to this debt financing bear interest at an annual rate of 15% and will mature five years from date of issuance at 120% of the principal and are guaranteed, on a joint and several basis, by all of our and our subsidiaries' assets. We have 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 totalling \$4,762,035 (US\$4,875,000) shall be forfeited. After 24 months from the date of issuance of the notes, holders of the notes shall have the right to cause us to purchase all of our 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 us to redeem notes equal to 35% of free cash flow. Each of the 32,250 notes issued in this first tranche of the financing was issued with 382 share purchase warrants, thus, totalling 12,812,280 warrants inclusive of compensation warrants. Each warrant entitles the holder to purchase one common share at \$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 \$2.15. As we incurred \$3,974,266 (US\$4,029,536) in financing costs, the net amount received by us for this first tranche equalled \$27,772,187.

April 30, 2007 Compared to January 31, 2006

At April 30, 2007, our current assets totaled \$2,423,800 compared to \$9,240,156 at January 31, 2006. The decrease is primarily attributable to financing expenditures on capitalized project development, which increased substantially during the 15-month period.

At April 30, 2007, total liabilities were significantly higher at \$11,743,746 compared to \$551,096 as at January 31, 2006.

Our working capital deficiency was \$4,220,761 at April 30, 2007, as compared with working capital of \$8,689,060 at January 31, 2006. As at April 30, 2007, we had long-term debt totalling \$699,185 as compared to no long-term debt as at January 31, 2006.

At April 30, 2007, we had total assets of \$46,581,365 as compared with \$12,807,172 at January 31, 2006. This is primarily a result of increases in capitalized project development costs and property plant and equipment.

Share capital as at April 30, 2007 and January 31, 2006 was \$91,596,035 (89,876,951 shares) and \$61,684,216 (70,246,303 shares), respectively.

Operating expenses in the 15 months ended April 30, 2007, and fiscal year ended January 31, 2006, were \$28,841,783, inclusive of general and administrative expenses, and \$2,538,350, respectively.

The most significant contributions to working capital in the 15-months ended April 30, 2007, came from the issuance of capital stock upon the exercise of stock options and warrants, which provided net proceeds of \$8,879,670 and from equity financing, which provided gross proceeds of \$22,560,000. The most significant

contribution to working capital in the year ended January 31, 2006, was from an equity financing providing proceeds of \$8,933,334.

In October 2006, we completed a non-brokered private placement issuing 9,400,000 units at a price of \$2.40 per unit, for gross proceeds of \$22,560,000. Each unit consisted of one common share and one transferable share purchase warrant aggregating 9,798,000 warrants with the inclusion of the issued compensation warrants. Each warrant entitles the holder to purchase one additional common share at a price of \$3.00 per share until the warrants expire on October 17, 2011. We paid finders' fees of \$956,800 for net proceeds of \$21,603,200.

Outlook

For the remainder of the fiscal year ending May 31, 2009, our activities will focus on the development of the Molejon gold project in order to bring the deposit into production. Based on our existing working capital deficiency, we expect to require additional financing during the upcoming fiscal year. We have material commitments for capital expenditures in the amount of \$5,047,133 at the end of our most recent fiscal year.

5.C. Research and Development, Patents and Licenses, etc.

As we are a mineral exploration company with no producing properties, the information required by this section is not applicable.

5.D. Trend Information

As we are a mineral exploration company with no producing properties, the information required by this section is not applicable.

5.E. Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements required to be disclosed in this Annual Report on Form 20-F.

5.F. Tabular Disclosure of Contractual Obligations

As at May 31, 2008, we had the following contractual obligations:

	Total	<1 year	Payments due by period		
			1-3 years	3-5 years	> 5 years
Long Term Debt	595,246.00	433,621.00	161,625.00	-	-
Capital Lease Obligation	6,130,880	2,162,289	3,968,591	-	-
Purchase Obligations	5,047,133	5,047,133	-	-	-
Rent	107,640	33,120	66,240	8,280	-
Asset Retirement Obligation	4,308,083	-	-	-	4,308,083
Operating Credit Line Facility	3,849,974	3,849,974	-	-	-
Senior Secured Notes	38,475,540	-	38,475,540	-	-
Total	58,514,496	11,526,137	42,671,996	8,280	4,308,083

In the fiscal year 2009, we are committed to the following plant and equipment acquisitions related to the gold-processing plant currently under construction at the Molejon gold deposit:

Gold Recovery Equipment	\$1,841,191
Generators	\$1,423,240
Other Support Items	\$679,704
Other Construction in Progress	\$1,102,998

In addition, we have one commitment relating to our leasehold obligation for our office premises. During the period ended April 30, 2007, we entered into a five-year lease (commencement date: September 1, 2006) for office premises at an estimated annual cost of \$66,240 (approximately \$331,200 over five years) as of January 1, 2007. From October 18, 2006, the office leasing costs have been split equally between our company and Petaquilla Copper Ltd., as a result of the Plan of Arrangement. Therefore, the estimated annual cost of the office premises lease is approximately \$33,120 to the Company.

Capital Lease Obligation

We have a capital lease arrangement 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 has pledged a term deposit in the amount of \$2,347,403 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

Operating Credit Facility

We have a capital lease operating credit facility with BBVA up to a maximum of \$13,301,952. 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 and fixed rate of 6% on \$2,347,403. The facility is secured by the assets purchased under the facility and is registered with the Public Registry of the Republic of Panama.

Long-term debt

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
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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

Asset retirement obligation

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:

- The total undiscounted cash flow required to settle the obligation is approximately \$6,848,000 (US\$ 6,225,000);
- Asset retirement obligation payments are expected to occur during fiscal years 2014 and 2015;
- A credit adjusted risk-free rate of 7.65% has been used to discount cash flows.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

6.A. Directors and Senior Management

The following information is about our directors and members of senior management, including names, business experience, offices held and principal business activities performed outside our company as at August 22, 2008:

Robert Baxter

Mr. Robert Baxter (b. April 23, 1959) was appointed to the Board of Directors of our company on June 11, 2007. Mr. Baxter has over 23 years of experience, principally in Latin America, in the mining industry and he currently also holds the offices of President and director of Norsemont Mining Inc. as well as director of Chariot Resources Limited. Mr. Baxter was previously the General Manager of Baxter Consultants Engineering, a consulting company providing project appraisals to mining companies located primarily in Peru, from September 2000 to June 2002. From May 2000 to September 2000, he held the position of Business Development Coordinator Americas for North Limited, a senior Australian mining company acquired by Rio Tinto, PLC in October 2000. Also at North Limited, Mr. Baxter held the posts of Regional Geologist, Americas from June 1999 to May 2000 and Regional Manager (Chile/Argentina) from November 1996 to June 1999. He has a Bachelor of Applied Science (Honours) degree from the University of New South Wales and is a member of the Australian Institute of Mining and Metallurgy (AusIMM).

John Cook

Mr. John Cook (b. August 30, 1943) was appointed to the Board of Directors of our company on February 15, 2006, and as Chairman of the Board of Directors on April 14, 2007. Based in Sydney, Australia, he is an Equity Consultant with over 40 years of experience as an institutional and high net worth adviser, specializing in raising capital for mining companies. He has held directorship positions for Inform Energy and Renewal Energy Company.

Richard Fifer

Mr. Richard Fifer (b. January 23, 1957) is a Panamanian citizen and a U.S-trained geologist. He has served on the Board of Directors of our company from March 1993 to November 1998, July 2002 to July 2003, and from November 12, 2003, to the present. In addition, he has acted as our Chief Executive Officer from December 14, 2004, to March 23, 2005, and from April 14, 2007, to date. Since 1994, he has been President of Geoinfo, S.A., a Panamanian company that provides GIS (mapping) technology and solutions. He was Chairman and President of CODEMIN, Panama's state mining company, from January 1997 to January 2000. Under the Ministry of Foreign Affairs Panama, he was the President's Plenipotentiary Ambassador-at-large from March 2002 to September 2003. He was also Governor of the Province of Cocolé, Panama, from March 2002 to September 2003. Mr. Fifer holds a B.Sc. in both Geology and Geophysical Engineering and a M.A. in Finance.

Bassam Moubarak

Mr. Bassam Moubarak (b. February 6, 1977), a Chartered Accountant, was appointed Chief Financial Officer of our company on February 11, 2008. Before joining our company, Mr. Moubarak held the position of Senior Manager with the public accounting firm of Deloitte & Touche LLP, where he led audits of public companies and oversaw SOX 404 implementations. Prior to Deloitte & Touche LLP, he was responsible for audits of companies in both the public and private sectors with Grant Thornton LLP. His expertise covers corporate financial reporting, designing financial processes and controls, and risk management. He also holds an Economics degree.

Graham H. Scott

Mr. Graham Scott (b. November 24, 1946) has served as our Corporate Secretary since January 18, 2006. He is a partner in the law firm of Vector Corporate Finance Lawyers based in Vancouver, BC, Canada, and he has over 25 years experience as a resource and corporate finance lawyer plus eight years of practical experience as an exploration geologist. Mr. Scott represents many Canadian public companies listed on the TSX and TSX Venture Exchanges, in addition to clients in the corporate finance business. In his work representing clients in the mining industry, he has negotiated and prepared participation and joint venture agreements for properties throughout the world. He holds a B. Sc. in Geology as well as a M.A. in Economic Geology and an LL.B.

Marco Tejeira

Mr. Marco Tejeira (b. November 10, 1957) was appointed to the Board of Directors of our company on April 25, 2005. Mr. Tejeira is a Panamanian citizen residing in Panama, where he graduated in law from the University of Santa Maria La Antigua. He is a legal practitioner and senior partner in the Panamanian law firm of Grimaldo and Tejeira. He has extensive commercial experience in the Americas.

6.B Compensation

During the 13 months ended May 31, 2008, we paid cash compensation to our directors and officers as provided for herein. No other funds were set aside or accrued by us during the fiscal period ended May 31, 2008, to provide pension, retirement or similar benefits for our directors or officers pursuant to any existing plan provided or contributed to by us or our subsidiaries under applicable Canadian laws. We are required, under applicable securities legislation in Canada to disclose to our shareholders details of compensation paid to our executive

officers. The following fairly reflects all material information regarding compensation paid to our executive officers disclosed to our shareholders under applicable Canadian law.

Cash and Non-Cash Compensation - Executive Officers and Directors

Effective May 1, 2007, we had three executive officers being Richard Fifer as President and Chief Executive Officer, Tony M. Ricci as interim Chief Financial Officer, and Graham Scott as Corporate Secretary. Tony M. Ricci served as interim Chief Financial Officer until February 11, 2008, while we undertook a search for a permanent Chief Financial Officer. We currently have three executive officers being Richard Fifer, who was appointed as President and Chief Executive Officer on April 14, 2007; (b) Graham Scott, Corporate Secretary, appointed on January 18, 2006; and (c) Bassam Moubarak, who was appointed as Chief Financial Officer on February 11, 2008. The following table sets forth all annual and long term compensation for services provided to us during the 13 months ended May 31, 2008, in respect of the individuals who were, at May 31, 2008, our directors and executive officers:

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards		Payouts	
					Securities Under Options granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	All Other Compensation (\$)
Ralph Ansley	2008	\$21,863	nil	nil	nil	n/a	n/a	nil
Robert Baxter	2008	\$7,150	nil	nil	400,000	n/a	n/a	nil
John Cook	2008	\$130,000	nil	nil	nil	n/a	n/a	nil
Richard Fifer President & Chief Executive Officer	2008	\$200,095	nil	nil	nil	n/a	n/a	nil
Bassam Moubarak Chief Financial Officer ⁽¹⁾	2008	\$63,379	nil	nil	100,000	n/a	n/a	nil
Graham Scott Corporate Secretary	2008	nil	nil	nil	nil	n/a	n/a	nil
Marco Tejeira	2008	\$67,293	nil	nil	nil	n/a	n/a	nil

(1) Bassam Moubarak was appointed Chief Financial Officer of our company on February 11, 2008.

Option Grants in Last Fiscal Period (May 1, 2007, to May 31, 2008)

The following table sets forth stock options granted by us during the 13 months ended May 31, 2008 to our executive officers:

Name	Securities Under Options Granted (#)	% of Total Options Granted in 13-Months⁽¹⁾	Exercise or Base Price (\$/Security)⁽²⁾	Market Value of Securities Underlying Options on Date of Grant (\$/Security)	Expiration Date
Bassam Moubarak	100,000	5.97%	\$2.80	nil	February 11, 2013

(1) Percentage of all options granted during the 13 months ended May 31, 2008.

(2) The exercise price of stock options is set at not less than the Volume Weighted Average Trading Price (VWAP) for the five trading days immediately preceding the date of the stock option grant. Stock options granted as shown above vest over a period of 21 months.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

None of our executive officers exercised any stock options during the 13 months ended May 31, 2008.

Defined Benefit or Actuarial Plan Disclosure

We do not provide retirement benefits for directors and executive officers.

Termination of Employment, Change in Responsibilities and Employment Contracts

We have entered into one formal employment agreement with one of our executive officers. An agreement containing a risk mitigation provision has been effected between our company and Bassam Moubarak, our Chief Financial Officer. This employment agreement provides for 12 months' compensation in the event that a change in company control results in termination of his employment or if he is dismissed without just cause. The 12 months compensation provision will also apply in the event of his dismissal due to any layoff based on group restructuring or a sale of assets.

Directors

We have arrangements in which directors are entitled to compensation at a rate of \$650.00 per day in their capacity as directors and at a rate of \$250.00 per day for committee participation during the most recently completed financial year and subsequently up to and including the date of this Annual Report. In addition, directors are compensated for their actual expenses incurred in the pursuance of their duties as directors and certain directors may be compensated for services rendered as consultants or experts.

The following table sets forth stock options granted by us during the 13-months ended May 31, 2008 to our directors who are not also our executive officers:

Name	Securities Under Options Granted (#)	% of Total Options Granted in Fiscal Year⁽¹⁾	Exercise or Base Price (\$/Security)⁽²⁾	Market Value of Securities Underlying Options on Date of Grant (\$/Security)	Expiration Date
Robert Baxter	400,000	23.88%	\$2.25	nil	June 20, 2012

(1) Percentage of all options granted during the 13-months ended May 31, 2008.

(2) The exercise price of stock options is set at not less than the Volume Weighted Average Trading Price (VWAP) for the five trading days immediately preceding the date of the stock option grant. Stock options granted as shown above vest over a period of 21 months.

The following table sets forth details of all exercises of stock options during the 13 months ended May 31, 2008 by our directors who are not also our executive officers, and the fiscal year-end value of unexercised options on an aggregate basis:

Name	Securities Acquired on Exercise (#) ⁽¹⁾	Aggregate Value Realized (\$) ⁽²⁾	Unexercised Options at Fiscal Year-End (#) ^{(3) (4)} Exercisable/ Unexercisable	Value of Unexercised In-the- Money Options at Fiscal Year- End (\$) ^{(3) (4)} Exercisable/ Unexercisable
Ralph Ansley ⁽⁵⁾	23,100	70,224	251,320 / 83,772	nil
Robert Baxter	nil	nil	200,000 / 200,000	nil
John Cook	60,000	\$153,900	323,400 / 107,800	nil
Marco Tejeira	150,000	\$424,500	60,000 / 0 90,000 / 0 438,000 / 146,000	\$99,600 / \$0 \$124,650 / \$0 nil

(1) Number of our common shares acquired on the exercise of stock options.

(2) Calculated using the closing price of our common shares on the date of exercise less the exercise price of the stock options.

(3) The figures relate solely to stock options.

(4) Value of unexercised in-the-money options calculated using the closing price of our common shares on the TSX on Friday, May 30, 2008, which was \$1.91, less the exercise price of in-the-money stock options.

(5) Dr. Ralph Ansley served on our Board of Directors for the period June 6, 2006 to July 7, 2008.

6.C. Board Practices

The directors hold office for a term of one year or until our next annual general meeting, at which time all directors retire, and are eligible for re-election. We do not nor do any of our subsidiaries have any arrangement to provide benefits to our directors upon termination of employment.

For the period February 1, 2006 to February 20, 2007, our Audit Committee was comprised of John Cook, Marco Tejeira and Michael Levy. Upon Mr. Levy's resignation on February 20, 2007, the Audit Committee became comprised of John Cook, Marco Tejeira and Ralph Ansley with John Cook acting as Chairman of the Audit Committee. Subsequent to Dr. Ansley's resignation from the Board of Directors effective July 7, 2008, the Audit Committee currently consists of John Cook and Marco Tejeira.

Each director is financially literate. The Audit Committee is appointed by the Board of Directors and its members hold office until removed by the Board of Directors or until our next annual general meeting, at which time their appointments expire and they are then eligible for re-appointment. The Audit Committee reviews our audited consolidated financial statements and liaises with our auditors and recommends to the Board of Directors whether or not to approve such statements. At the request of our auditor, the Audit Committee must convene a meeting to consider any matters the auditor believes should be brought to the attention of the Board of Directors or our shareholders.

In its current form our Audit Committee does not meet the requirements of certain provincial securities laws. Part 3 of Multilateral Instrument 52-110 – *Audit Committees* requires, among other things, that each member of our Audit Committee be "independent". Currently, one of the two members are considered to be "independent". We plan to change the composition of our Audit Committee so that it complies with Multilateral Instrument 52-110.

The Audit Committee operates pursuant to a charter adopted by the Board of Directors. The Audit Committee is responsible primarily for monitoring: (i) the integrity of our financial statements; (ii) compliance with legal and regulatory requirements; and (iii) the independence and performance of our internal and external auditors.

As at August 1, 2008, our Compensation Committee is composed of John Cook and Marco Tejeira with John Cook acting as Chairman.

Our Nominating and Corporate Governance Committee is also composed of all of the members of the Board of Directors with John Cook acting as Chairman.

Our Disclosure Committee is composed of Richard Fifer, Bassam Moubarak, and Robert Baxter.

6.D. Employees

As at May 31, 2008, our corporate head office had six permanent employees (two in Administration and four in Finance and Accounting) and three contract staff members working out of our location in Vancouver, Canada, and our administrative office in Panama City, Panama, had twenty five employees. Our locations in Santa Ana and La Pintada had 33 permanent employees, including administration and technical staff, as of May 31, 2008. In addition, our company had a pool of approximately 4 temporary or casual workers (labourers, drilling helpers, etc.) employed at the Molejon gold deposit site.

Consultants

From January 2006 to the present, we have retained the services of AquAeTer, Inc. to provide a Qualified Person, as defined by the Canadian Securities Administrators in National Instrument 43-101, to observe exploratory drilling at the Molejon Property. Currently, Cathryn Stewart, P.G., is the professional provided by AquAeTer, Inc. to provide these services.

Our company has also retained the services of Tetra Tech, Inc. to provide professional services related to a Pre-Feasibility Design, TSF Starter Design, Water Management Study and a Fatal Flaw Study.

Klohn Crippen Berger Ltd., which had previously provided geotechnical expertise for the January 1998 H.A. Simons Feasibility Study and a Preliminary Assessment of Baseline Hydrogeological Conditions, is currently undertaking an Environmental Impact Assessment Review, a Baseline Collection Overview, a Pre-Feasibility Environmental Sect, and a Social and Environmental Assessment Report for the Molejon Gold Project.

From September 2006 to the present, CddHoward Consulting Inc. has been retained to report on and/or review water-related issues including, but not limited to, analyses of precipitation and discharge data, flood management, water storage dam design, hydrology and hydraulics of hydro sites, tailings and mine water management and balance.

Rozandan Pty. Ltd. has been retained from December 2006 to provide engineering and technical services for the Molejon Gold Project.

From November 2006 until November 2007, the Company retained the services of Equicom Group Inc. to provide Investor Relations' strategies, content and communications to ensure consistency of messaging across all forms of continuous disclosure.

From November 2007 until June 2008, the Company retained the services of Renmark Financial Communications Inc. to provide Investor Relations' services including the dissemination of corporate information to increase our visibility in the marketplace.

With respect to our Sarbanes-Oxley Section 404 project, we have retained the professional services of Robin Peterson, an independent contractor, and KPMG LLP for scoping and documentation of our internal controls.

6.E. Share Ownership

As at August 22, 2008, the following table sets forth the share ownership of those persons listed in subsection 6.B. above and includes the details of all options or warrants to purchase our shares held by such persons:

Name	Number of Common Shares Held at August 22, 2008	Number of Common Shares Subject to Options or Warrants at August 22, 2008	Beneficial Percentage Ownership ⁽¹⁾	Exercise Price	Expiry Date
Ralph Ansley	nil	335,092 options	*	\$2.01	January 15, 2012
Robert Baxter	60,000	400,000 options	*	\$2.25	June 20, 2012
John Cook	70,000	431,200 options	*	\$2.01	January 15, 2012
Richard Fifer	1,192,283	118,800 options 585,000 options 1,470,216 options	2.583%	\$0.50 ⁽²⁾ \$1.05 ⁽²⁾ \$2.01	July 11, 2010 February 1, 2011 January 15, 2012
Bassam Moubarak	nil	100,000 options	nil ⁽⁴⁾	\$2.80	February 11, 2013
Tony M. Ricci	24,033	12,016 warrants ⁽³⁾ 200,000 options	*	\$3.50 \$2.01	May 9, 2009 January 15, 2012
Graham Scott	28,000	43,200 options 193,664 options	*	\$1.05 ⁽²⁾ \$2.01	February 1, 2011 January 15, 2012
Marco Tejeira	173,000	60,000 options 90,000 options 584,000 options	*	\$0.50 ⁽²⁾ \$1.05 ⁽²⁾ \$2.01	July 11, 2010 February 1, 2011 January 15, 2012

* Indicates less than 1%.

- (1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares owned by a person and the percentage ownership of that person, common shares subject to options and warrants held by that person that are currently exercisable or exercisable within 60 days of August 22, 2008, are deemed outstanding. Such shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. This table has been prepared based on 95,958,641 common shares outstanding as of August 22, 2008.
- (2) Subsequent to our company's Plan of Arrangement with Petaquilla Copper Ltd., the price shown is the aggregate price for exercising the referenced options in conjunction with the corresponding and equivalent number of options in Petaquilla Copper Ltd.
- (3) One common share purchase warrant (two half warrants) entitles the holder thereof to purchase one share of common stock in the capital of our company at a price of \$3.50 CAD per share, if exercised on or before May 9, 2009. The share purchase warrants are subject to an accelerated expiry provision that, if the volume weighted average trading price of the common shares of our company as traded on the Toronto Stock Exchange exceeds \$7.00 per share for at least 30 consecutive trading days, our company shall have the right, exercisable within 30 days thereafter, to give notice to each warrant holder requiring the exercise of the warrants within a thirty

(30) day period. If our company exercises such right, the warrants will, if not exercised by the warrant holder in accordance with their terms and conditions, expire at the end of such thirty (30) day period.

(4) Options are not currently exercisable nor are they exercisable within 60 days of August 22, 2008.

On June 23, 1994, we adopted a stock option plan (the "Plan") which authorized our Board of Directors to grant incentive stock options to our directors, officers and employees or our associated, affiliated, controlled or subsidiary companies, in accordance with the terms of the Plan and the rules and policies of the Toronto Stock Exchange. Under the terms of the Plan, the aggregate number of our common shares reserved for issuance under the Plan at any time may not exceed 4,950,968 and the aggregate number of common shares reserved for issuance to any person may not exceed 5% of the number of outstanding common shares. On July 24, 2002, our Board of Directors amended the Plan to increase the number of shares reserved for issuance thereunder from 4,950,968 to 7,436,158.

During the 15 month period ended April 30, 2007, we received approval for a new stock option plan (the "New Plan"). On December 8, 2006, our company adopted the New Plan authorizing our Board of Directors to grant incentive stock options to directors, executive officers, employees, or consultants of our company or of our subsidiaries in accordance with the terms of the Plan and as may be acceptable pursuant to the policies of the Toronto Stock Exchange (the "TSX"). Under the terms of the New Plan, the aggregate number of our common shares reserved for issuance under the New Plan at any time may not exceed 10,000,000. The approval of the disinterested shareholders of our company must be obtained before (a) the number of common shares under option to Insiders within any 12-month period; or (b) the number of common shares issuable to Insiders at any time, when combined with all of our company's security based compensation arrangements, may exceed 10% of our company's issued and outstanding common shares. The approval of the disinterested shareholders of our company must also be obtained for the reduction in the exercise price, or extension of the term, of options previously granted to Insiders.

As at May 31, 2008, the maximum number of common shares reserved for issuance under the our company's New Plan is 10,000,000 common shares of which 1,615,803 have been exercised, leaving 8,384,197 common shares available under the New Plan. The exercise price of the options will not be lower than the "market price" as defined in the TSX Company Manual, being the volume weighted average trading price on the TSX for the shares for the five trading days immediately preceding the date on which the option is granted. Options granted must be exercised no later than 10 years after the date of grant or such lesser period as may be determined by the Board. The Board may at its discretion in any granting of an option set a vesting period whereby the option may only be exercisable in pre-determined installments.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

7.A. Major Shareholders

The following table sets forth the name of the only shareholder who, to the knowledge of our management, as at August 22, 2008, beneficially owns greater than 5% of any class of our voting securities:

Name	Number of Common Shares Held at August 22, 2008	Percentage of Common Shares Outstanding at August 22, 2008
Walnut Street Absolute Return Fund, L.P.	11,370,000	12.438%

Our major shareholder does not have different voting rights. To our knowledge, it is not controlled by another corporation, any foreign government or by any other natural or legal persons severally or jointly.

As at July 31, 2008, there were 95,958,641 of our common shares issued and outstanding. Based on the records of our registrar and transfer agent, Computershare Trust Company of 510 Burrard Street, Vancouver, British Columbia, Canada, as at such date there were a grand total of 222 holders of our common shares, of which 49

were resident in Canada holding an aggregate 77,963,984 common shares, 119 were resident in the United States holding an aggregate 11,070,045 common shares, and 54 holders holding an aggregate of 6,924,612 common shares were not resident in either Canada nor the United States. The shareholdings of United States holders represented approximately 11.536% of our total issued and outstanding common shares as at July 31, 2008.

We do not know of any arrangements that may at subsequent date result in our change of control.

7.B. Related Party Transactions

During the 13 months ended May 31, 2008, we had the following transactions with related parties:

- (a) We paid consulting fees of \$108,013 (April 30, 2007 - \$426,726, January 31, 2006 - \$114,559, 2005 - \$96,780) to companies controlled by a director and a former officer.
- (b) We paid consultant fees and wages of \$152,635 (April 30, 2007 - \$Nil) to companies controlled by directors and an officer.
- (c) We paid legal fees of \$109,517 (April 30, 2007 - \$274,584, January 31, 2006 - \$Nil, 2005 - \$21,433) and share issue costs of \$165,836 (April 30, 2007 - \$219,698, January 31, 2006 - \$Nil, 2005 - \$Nil) to a law firm controlled by an officer. We paid for services and goods of \$129,921 (April 30, 2007 - \$289,043) to a company controlled by an officer.
- (d) We received \$33,120 (April 30, 2007 - \$16,122) from Petaquilla Copper Ltd. as payment of office rent.
- (e) We received or accrued \$128,650 (April 30, 2007 - \$103,348) in asset usage fees from Petaquilla Copper Ltd. for the use of certain office and mining equipment. Also during the period, we 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.
- (f) During the period we had 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.

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 Petaquilla Copper Ltd. for technical know-how and other intellectual property transferred to Copper. The amount of these fees has been determined to be \$ 4,587,320 (\$4,577,250 USD). In April 2008, the Company and Copper agreed to rescind the agreement and the fees were refunded to Copper.

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

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

As at May 31, 2008, we had an amount payable to Petaquilla Copper Ltd. of \$1,157,788 (April 30, 2007 - \$4,582,937 receivable) resulting from mineral property costs and general and administrative expenses paid by us on Copper's behalf. This receivable bears interest at a rate of US prime plus 1% and we accrued interest of \$2,064 during the period. Further, Copper has pledged \$3,266,941 (US\$3,286,000) (April 30, 2007 - \$Nil) as security for a bank overdraft and lease financing.

During the period of this annual report, we had posted 5,000,000 common shares of Copper as security of its account payable to Copper. Copper's common shares posted as security were held in escrow pending payment of the account payable and could not be sold until our account payable had been paid in full pursuant to a Warranty Agreement dated September 30, 2007. The common shares serving as security were based on a market value of \$2.00 per common share. However, if the market value of the common shares changed, the number of shares required to be posted as security would be adjusted accordingly. Effective December 31, 2007, we transferred back to Copper 1,815,069 of our 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. 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.

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

Other than the above transactions, there were no material transactions in the 13 months ended May 31, 2008, or proposed material transactions between us or any of our subsidiaries and:

- (a) enterprises that directly or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, our company;
- (b) associates;
- (c) individuals owning, directly or indirectly, an interest in the voting power of our company that gives them significant influence over us, and close members of any such individual's family;
- (d) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling our activities (or their wholly owned private companies), including directors and senior management of companies and close members of such individuals' families;
- (e) enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence including enterprises owned by our directors or major shareholders and enterprises that have a member of key management in common with our company.

None of our officers or directors, or any associate of such person, was indebted at any time during the 13 months ended May 31, 2008, nor during the 15-month period ended April 30, 2007, nor during the fiscal year ended January 31, 2006.

7.C. Interests of Experts and Counsel

This Form 20-F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

ITEM 8. FINANCIAL INFORMATION

8.A. Consolidated Statements and Other Financial Information

This Annual Report contains our consolidated financial statements for the 13 months ended May 31, 2008, which contains an Independent Auditor's Report on Financial Statements dated August 20, 2008, comments by

Auditors for U.S. Readers on Canada – U.S. Reporting Conflict, Consolidated Balance Sheets as at May 31, 2008, and April 30, 2007, Consolidated Statements of Operations and Comprehensive Loss and Deficit for the Fiscal Periods ended May 31, 2008, April 30, 2007, and January 31, 2006, Consolidated Statements of Cash Flows for the Fiscal Periods Ended May 31, 2008, April 30, 2007, and January 31, 2006 and Notes to the Consolidated Financial Statements.

8.B. Significant Changes

No significant change has occurred since the date of the 13-month consolidated financial statements included in this Annual Report on Form 20-F.

ITEM 9. THE OFFER AND LISTING

9.A. Offer and Listing Details

The high and low sale prices for our common shares on the Toronto Stock Exchange for each of the six months preceding August 22, 2008, each fiscal quarter in each of the last two full financial years and subsequent period and each of the last five full financial years are as follows:

	High (CAD)	Low (CAD)
July 2008	\$1.78	\$1.12
June 2008	\$1.98	\$1.40
May 2008	\$2.32	\$1.75
April 2008	\$2.60	\$1.87
March 2008	\$2.85	\$2.27
February 2008	\$3.05	\$2.63
May 2007 – May 2008	\$3.42	\$1.75
Fourth Quarter (February 1, 2008 – May 31, 2008)	\$3.05	\$1.75
Third Quarter (November 1, 2007 – January 31, 2008)	\$3.35	\$2.60
Second Quarter (August 1, 2007 – October 31, 2007)	\$3.42	\$2.36
First Quarter (May 1, 2007 – July 31, 2007)	\$3.23	\$2.13
February 2006 – April 2007	\$3.04	\$1.02
Fourth Quarter (November 1, 2006 – April 30, 2007)	\$2.73	\$1.76
Third Quarter (August 1, 2006 – October 31, 2006)	\$2.95	\$2.22
Second Quarter (May 1, 2006 – July 31, 2006)	\$3.04	\$1.82
First Quarter (February 1, 2006 – April 30, 2006)	\$2.49	\$1.02
February 2005 – January 2006	\$1.19	\$0.30
February 2004 – January 2005	\$0.58	\$0.24
February 2003 – January 2004	\$0.635	\$0.06

The closing price of our common shares on the Toronto Stock Exchange on August 22, 2008, was \$1.16 CAD.

The high and low sale prices for our common shares on the Over The Counter Bulletin Board for each of the six months preceding August 22, 2008, each fiscal quarter in each of the last two full financial years and subsequent period and each of the last five full financial years are as follows:

2008	High (USD)	Low (USD)
July 2008	\$1.703	\$1.17
June 2008	\$1.99	\$1.37
May 2008	\$2.349	\$1.75
April 2008	\$2.61	\$1.80
March 2008	\$2.90	\$2.20
February 2008	\$3.06	\$2.62
May 2007 – May 2008	\$3.40	\$1.75
Fourth Quarter (February 1, 2008 – May 31, 2008)	\$3.06	\$1.75
Third Quarter (November 1, 2007 – January 31, 2008)	\$3.40	\$2.50
Second Quarter (August 1, 2007 – October 31, 2007)	\$3.331	\$2.1824
First Quarter (May 1, 2007 – July 31, 2007)	\$3.08	\$2.00
February 2006 – April 2007	\$2.7059	\$0.901
Fourth Quarter (November 1, 2006 – April 30, 2007)	\$2.40	\$1.5371
Third Quarter (August 1, 2006 – October 31, 2006)	\$2.645	\$2.00
Second Quarter (May 1, 2006 – July 31, 2006)	\$2.7059	\$1.65
First Quarter (February 1, 2006 – April 30, 2006)	\$2.20	\$0.901
February 2005 – January 2006	\$1.19	\$0.30
February 2004 – January 2005	\$0.58	\$0.24
February 2003 – January 2004	\$0.635	\$0.06

The closing price of our common shares on the Over the Counter Bulletin Board on August 22, 2008, was \$1.12 USD.

9.B. Plan of Distribution

This Form 20-F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

9.C. Markets

Our common shares traded on the Vancouver Stock Exchange from March 29, 1988, until August 21, 1998, when they were delisted from trading at our request. Our common shares have traded on the Toronto Stock Exchange since January 28, 1994. We trade our shares on the Toronto Stock Exchange under the trading symbol "PTQ". Our common shares traded on the NASDAQ Small Cap Market from February 5, 1996, until April 12, 1999, when they were delisted for failure to meet minimum bid requirements and began to trade on the Over the Counter Bulletin Board on April 13, 1999. We trade our shares on the Over the Counter Bulletin Board under the trading symbol "PTQMF". We commenced trading on the Frankfurt Stock Exchange under the trading symbol "P7Z" on October 24, 2005.

9.D. Selling Shareholders

This Form 20-F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

9.E. Dilution

This Form 20-F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

9.F. Expenses of the Issue

This Form 20F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

ITEM 10. ADDITIONAL INFORMATION

10.A. Share Capital

This Form 20-F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

10.B. Memorandum and Articles of Association

We were incorporated on October 10, 1985, pursuant to the *Company Act*, which has been replaced by the *Business Corporations Act (British Columbia)* (the "Act") and are registered with the Registrar of Companies for British Columbia under incorporation number 298967. We are not limited in our objects and purposes.

With respect to our directors, our Articles provide that a director who is, in any way, directly or indirectly interested in an existing or proposed contract or transaction with PTQ, or who holds any office or possesses any property whereby, directly or indirectly, a duty or interest might be created to conflict with his duty or interest as a director, shall declare the nature and extent of his interest in such contract or transaction or the conflict or potential conflict with his duty and interest as a director, as the case may be, in accordance with the provisions of the Act and shall abstain from voting in respect thereof. This prohibition does not apply to:

- (i) any such contract or transaction relating to a loan to our company, which a director or a specified corporation or a specific firm in which he has an interest has guaranteed or joined in guaranteeing the repayment of the loan or any part of the loan;
- (ii) any contract or transaction made or to be made with, or for the benefit of a holding corporation or a subsidiary corporation of which a director is a director;
- (iii) any contract by a director to subscribe for or underwrite shares or debentures to be issued by us or our subsidiary, or any contract, arrangement or transaction in which a director is, directly or indirectly interested if all the other directors are also, directly or indirectly interested in the contract, arrangement or transaction;
- (iv) determining the remuneration of the directors;
- (v) purchasing and maintaining insurance to cover directors against liability incurred by them as directors; or
- (vi) the indemnification of any director by us.

Our Articles also provide that our directors may from time to time on our behalf borrow such money in such manner and amount, on such security, from such sources and upon such terms and conditions as they think fit;

issue bonds, debentures and other debt obligations, either outright or as security for any liability or obligation of our company, or any other person; and mortgage, charge, whether by way of specific or floating charge, or give other security on the undertaking, or on the whole or any part of our property and assets (both present and future). Variation of these borrowing powers would require an amendment to our Articles which would, in turn, require the approval of our shareholders by way of a Special Resolution, as defined hereinafter. A "Special Resolution" means a resolution cast by a majority of not less than $\frac{3}{4}$ of the votes cast by our shareholders who, being entitled to do so, vote in person or by proxy at our general meeting of which notice as our Articles provide and not being less than 21 days notice specifying the intention to propose the resolution as a special resolution, has been duly given (or, if every shareholder entitled to attend and vote at the meeting agrees, at a meeting of which less than 21 days notice has been given), or a resolution consented to in writing by each of our shareholders who would have been entitled to vote in person or by proxy at our general meeting, and a resolution so consented to is deemed to be a special resolution passed at our general meeting.

There is no requirement in our Articles or in the Act requiring retirement or non-retirement of directors under an age limit requirement, nor is there any minimum shareholding required for a director's qualification.

Holders of our common shares are entitled to vote at meetings of shareholders, and a Special Resolution, as described above, is required to effect a change in the rights of shareholders. Holders of common shares are not entitled to pre-emptive rights. Holders of common shares are entitled, ratably, to the remaining property of our company upon our liquidation, dissolution or winding up, and such holders receive dividends if, as, and when, declared by our directors. There are no restrictions on the purchase or redemption of common shares by us while there is an arrearage in the payment of dividends or sinking fund installments. There is no liability on the part of any shareholder to further capital calls by us nor any provision discriminating against any existing or prospective holder of our securities as a result of such shareholder owning a substantial number of common shares. There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities imposed by the Act or by our constating documents.

We are required to give our registered shareholders not less than 21 days notice of any general meeting held by us unless all such shareholders consent to reduce or waive the period. In addition, we are obliged to give notice to registrants and intermediaries who hold common shares on behalf of the ultimate beneficial owners no fewer than 35 or more than 60 days prior to the date of the meeting. We then deliver, in bulk, proxy-related materials in amounts specified by the intermediaries. None of our common shares owned by registrants or intermediaries may be voted at our general meeting unless all proxy-related materials are delivered to the ultimate beneficial owners of such common shares. Such ultimate beneficial owner must then deliver a proxy to us within the time limited by us for the deposit of proxies in order to vote the common shares in respect of which such person is the beneficial owner.

There is no provision in our Articles that would have an effect of delaying, deferring or preventing our change in control and that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries) other than a shareholder rights plan adopted by our Board of Directors effective March 7, 2006, and approved by our company's shareholders at the Annual and Special Meeting held on June 6, 2006 (the "Shareholder Rights Plan").

The Shareholder Rights Plan is designed to ensure that all shareholders receive equal treatment and to maximize shareholder values in the event of a take-over bid or other acquisition that could lead to a change in control of our company. It is not intended to deter take-over bids. Take-over bid contests for corporate control provide a singular opportunity for shareholders to obtain a one-time gain. After the acquisition of effective control, the opportunity for this one-time gain normally does not reoccur. As with most public companies, control of our company can probably be secured through the ownership of much less than 50% of the shares. Without a shareholder rights plan, it would be possible for a bidder to acquire effective control, over a relatively short period of time, through open market and private purchases, using various techniques permitted under the securities legislation in Canada, without making a bid available to all shareholders. Such acquisition of control would probably be an effective deterrent to other potential offerors. The person acquiring control would probably, over a period of time, be able to consolidate and increase its control without the price for control ever being tested

through an open market auction. Shareholder rights plans are designed to prevent this occurrence by forcing all acquisitions of control into a public offer mode. A public offer will not necessarily achieve all of the objectives of ensuring the maximum value to shareholders. A take-over bid can be completed in a time period as short as 35 days. This is too short a time period to ensure that the directors can develop other competing alternatives. The Shareholder Rights Plan is intended to provide time to shareholders to properly assess any take-over bid and to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value, including, if considered appropriate, identifying and locating other potential bidders.

The following is a summary of the terms of the Shareholder Rights Plan:

General

The rights have been issued pursuant to a shareholder rights plan agreement dated and effective March 7, 2006, between our company and the rights agent. Each right will entitle the holder to purchase from our company one common share at the exercise price of Cdn\$30 per share, subject to adjustments, at any time after the separation time (defined below). However, if a flip-in event (defined below) occurs, each right will entitle the holder to receive, upon payment of the exercise price, common shares having a market value equal to two-times the exercise price. The rights are non-exercisable until the separation time.

Trading of Rights

Until the separation time, the rights will be evidenced by the outstanding certificates for common shares and the rights will be transferred with, and only with, the common shares. As soon as practicable following the separation time, separate certificates evidencing the rights will be mailed to holders of record of common shares as of the close of business at the separation time and the separate rights certificates will thereafter evidence the rights.

Separation Time and Acquiring Person

The rights will separate and trade apart from the common shares and become exercisable at the separation time. "Separation time" generally means the close of business on the 10th trading day following the commencement or announcement of the intent of any person to commence a take-over bid, other than a permitted bid or a competing bid, but under certain circumstances can mean the eighth trading day after a person becomes an "acquiring person" by acquiring 20% or more of the voting shares of any class.

Flip-in Event

A "flip-in event" will, in general terms, occur when a person becomes an acquiring person. Upon the occurrence of a flip-in event, each right will entitle the holder to acquire, on payment of the exercise price, that number of common shares having a market value equal to two-times the exercise price. However, any rights beneficially owned by an acquiring person or by any direct or indirect transferees of such person, will be void. The term "beneficial ownership" is defined to include, under certain circumstances, common shares owned indirectly through affiliates, associates, trusts and partnerships, other situations of ownership deemed by operation of law, common shares subject to acquisition or voting agreements and common shares owned by persons acting jointly or in concert. There are several exceptions, including exceptions directed towards investment managers, trust companies, and independent managers of pension plans who are not participating in a take-over bid.

Permitted Bids

Permitted bids are exempted from the operation of the Shareholder Rights Plan. In summary, a permitted bid is a take-over bid made by way of take-over bid circular which complies with the following provisions:

- (a) It is made to all holders of voting shares of our company of a particular class and for all those voting shares.

(b) No voting shares can be taken up and paid for before the close of business on the Permitted Bid Expiry Date, as defined below, and unless more than 50% of voting shares held by shareholders independent of the offeror are tendered and not withdrawn.

(c) Voting shares may be tendered at any time until the Permitted Bid Expiry Date and may be withdrawn until taken up and paid for.

(d) If the condition described in (b) above is met, there will be a public announcement and the takeover bid will be open for a further period of 10 business days.

The Shareholder Rights Plan contains provisions designed to ensure that, if considered appropriate, the time for tendering to two or more competing permitted bids will occur on the same date.

Permitted Bid Expiry Date

The permitted bid provisions require that for a take-over to be a permitted bid it must be left open until the Permitted Bid Expiry Date. The "Permitted Bid Expiry Date" means 60 days following the date of the take-over bid.

Exchange Option

Under certain circumstances, the Board of Directors of our company can, on exercise of a right and payment of the exercise price, issue other of our company's securities or assets in lieu of common shares. Our company's Board of Directors can also determine to issue in exchange for the rights, but without payment of the exercise price, common shares having a value equal to the exercise price or other securities or assets of our company having the same value.

Adjustments

The exercise price, the number and kind of shares subject to purchase upon exercise of each right and the number of rights outstanding are subject to adjustment from time to time to prevent dilution in the event that our company takes certain actions involving our company's share capital which would otherwise have a dilutive effect.

Redemption

At any time before the occurrence of a flip-in event, our Board of Directors may elect to redeem the rights in whole at a redemption price of \$0.0001 per right.

Waiver

Our Board of Directors may waive the application of the Shareholder Rights Plan to any flip-in event if it determines that a person became an acquiring person by inadvertence, conditional upon such person having, within 10 days after the determination by our Board of Directors, reduced its beneficial ownership of common shares such that it is no longer an acquiring person. The Board of Directors may also, until a flip-in event has occurred, waive the application of the Shareholder Rights Plan to any particular flip-in event, but in that event, our Board of Directors shall be deemed to have waived the application of the Shareholder Rights Plan to any other flip-in event which may arise under any take-over bid then in effect.

Amendments

Our Board of Directors may amend the Shareholder Rights Plan to correct clerical or typographical errors, to maintain the validity of the plan as a result of any changes in any applicable legislation or to increase or decrease the exercise price. Any amendments required to maintain the validity of the Shareholder Rights Plan must be submitted to our company's shareholders or, after the separation time, to the holders of the rights for confirmation.

Other amendments can only be made with the approval of our company's shareholders or, after the separation time, the holders of the rights. Any supplements or amendments to the Shareholder Rights Plan require the prior written consent of the Toronto Stock Exchange.

Term

The Shareholder Rights Plan has a term of 10 years and is subject to ratification at each of the shareholder meetings following the third and sixth anniversaries of the effective date of the Shareholder Rights Plan. If the Shareholder Rights Plan is not so ratified at any meeting, the Shareholder Rights Plan shall terminate forthwith.

Securities legislation in our home jurisdiction of British Columbia requires that shareholder ownership must be disclosed once a person owns beneficially or has control or direction over greater than 10% of our issued shares. This threshold is higher than the 5% threshold under U.S. securities legislation at which shareholders must report their share ownership.

10.C. Material Contracts

We have not entered into any contracts other than the ordinary course of business during the past two years.

10.D. Exchange Controls

There are no governmental laws, decrees or regulations in Canada relating to restrictions on the export or import of capital, or affecting the remittance of interest, dividends or other payments to non-resident holders of our common shares. Any remittances of dividends to United States residents are, however, subject to a 15% withholding tax (5% if the shareholder is a corporation owning at least 10% of our outstanding common shares) pursuant to Article X of the reciprocal tax treaty between Canada and the United States. See "*Item 10 – Additional Information – E. Taxation*" below.

Except as provided in the Investment Canada Act (the "Act"), which has provisions which govern the acquisition of a control block of voting shares by non-Canadians of a corporation carrying on a Canadian business, there are no limitations specific to the rights of non-Canadians to hold or vote our common shares under the laws of Canada or the Province of British Columbia or in our charter documents.

Our management considers that the following general summary fairly describes those provisions of the Act pertinent to an investment in our company by a person who is not a Canadian resident (a "non-Canadian").

The Act requires a non-Canadian making an investment which would result in the acquisition of control of the Canadian business to notify the Investment Review Division of Industry Canada, the federal agency created by the Act; or in the case of an acquisition of a Canadian business, the gross value of the assets of which exceeds certain threshold levels or the business activity of which is related to Canada's cultural heritage or national identity, to file an application for review with the Investment Review Division.

The notification procedure involves a brief statement of information about the investment on a prescribed form which is required to be filed with Investment Canada by the investor at any time up to 30 days following implementation of the investment. Once the completed notice has been filed, a receipt bearing the certificate date will be issued to the non-Canadian investor. The receipt must advise the investor either that the investment proposal is unconditionally non-reviewable or that the proposal will not be reviewed as long as notice of review is not issued within 21 days of the date certified under the receipt. It is intended that investments requiring only notification will proceed without government intervention unless the investment is in a specific type of business activity related to Canada's cultural heritage and national identity.

If an investment is reviewable under the Act, an order for review must be issued within 21 days after the certified date on which notice of investment was received. An application for review in the form prescribed is required to

be filed with Investment Canada prior to the investment taking place. Once the application has been filed, a receipt will be issued to the applicant, certifying the date on which the application was received. For incomplete applications, a deficiency notice will be sent to the applicant, and if not done within 15 days of receipt of application, the application will be deemed to be complete as of the date it was received. Within 45 days after the complete application has been received, the Minister responsible for the *Investment Canada Act* must notify the potential investor that the Minister is satisfied that the investment is likely to be of net benefit to Canada. If within such 45-day period the Minister is unable to complete the review, the Minister has an additional 30 days to complete the review, unless the applicant agrees to a longer period. Within such additional period, the Minister must advise either that he is satisfied or not satisfied that the investment is likely to be of net benefit to Canada. If the time limits have elapsed, the Minister will be deemed to be satisfied that the investment is likely to be of net benefit to Canada. The investment may not be implemented until the review has been completed and the Minister is satisfied that the investment is likely to be of net benefit to Canada.

If the Minister is not satisfied that the investment is likely to be of net benefit to Canada, the non-Canadian must not implement the investment or, if the investment has been implemented, could be penalized by being required to divest himself of control of the business that is the subject of the investment. To date, the only types of business activities which have been prescribed by regulation as related to Canada's cultural heritage or national identity deal largely with publication, film and music industries. Because our total assets are less than the \$5 million notification threshold, and because our business activities would likely not be deemed related to Canada's cultural heritage or national identity, acquisition of a controlling interest in our company by a non-Canadian investor would not be subject to even the notification requirements under the *Investment Canada Act*.

The following investments by non-Canadians are subject to notification under the Act:

1. an investment to establish a new Canadian business; and
2. an investment to acquire control of a Canadian business that is not reviewable pursuant to the Act.

The following investments by a non-Canadian are subject to review under the Act:

1. direct acquisition of control of Canadian businesses with assets of \$5 million or more, unless the acquisition is being made by a World Trade Organization ("WTO") member country investor (the United States being a member of the WTO);
2. direct acquisition of control of Canadian businesses with assets of \$250,000,000 or more by a WTO investor;
3. indirect acquisition of control of Canadian business with assets of \$5 million or more if such assets represent more than 50% of the total value of the assets of the entities, the control of which is being acquired, unless the acquisition is being made by a WTO investor, in which case there is no review;
4. indirect acquisition of control of Canadian businesses with assets of \$50 million or more even if such assets represent less than 50% of the total value of the assets of the entities, the control of which is being acquired, unless the acquisition is being made by a WTO investor, in which case there is no review; and
5. an investment subject to notification that would not otherwise be reviewable if the Canadian business engages in the activity of publication, distribution or sale of books, magazines, periodicals, newspapers, film or video recordings, audio or video music recordings, or music in print or machine-readable form.

Generally speaking, an acquisition is direct if it involves the acquisition of control of the Canadian business or of its Canadian parent or grandparent and an acquisition is indirect if it involves the acquisition of control of a non-Canadian parent or grandparent of an entity carrying on the Canadian business. Control may be acquired through the acquisition of actual voting control by the acquisition of voting shares of a Canadian corporation or through the acquisition of substantially all of the assets of the Canadian business. No change of voting control will be

deemed to have occurred if less than one-third of the voting control of a Canadian corporation is acquired by an investor.

A WTO investor, as defined in the Act, includes an individual who is a national of a member country of the World Trade Organization or who has the right of permanent residence in relation to that WTO member, a government or government agency of a WTO investor-controlled corporation, limited partnership, trust or joint venture and a corporation, limited partnership, trust or joint venture that is neither WTO-investor controlled or Canadian controlled of which two-thirds of its board of directors, general partners or trustees, as the case may be, or any combination of Canadians and WTO investors.

The higher thresholds for WTO investors do not apply if the Canadian business engages in activities in certain sectors such as uranium, financial services, transportation services or communications.

The Act specifically exempts certain transactions from either notification or review. Included among this category of transactions is the acquisition of voting shares or other voting interests by any person in the ordinary course of that person's business as a trader or dealer in securities.

10.E. Taxation

Material Canadian Federal Income Tax Consequences

Through consultation with counsel, our management believes that the following general summary accurately describes all material Canadian federal income tax consequences applicable to a holder of our common shares who is a resident of the United States, that qualifies for benefits under the Canada-U.S. Income Tax convention ("1980") (the "Treaty") and who is not a resident of Canada and who does not use or hold, and is not deemed to use or hold, his common shares of our company in connection with carrying on a business in Canada (a "non-resident holder").

This summary is based upon the current provisions of the Income Tax Act (Canada) (the "ITA"), the regulations thereunder (the "Regulations"), the current publicly announced administrative and assessing policies of Canada, Customs and Revenue Agency, and all specific proposals (the "Tax Proposals") to amend the ITA and Regulations announced by the Minister of Finance (Canada) prior to the date hereof. This summary assumes that the Tax Proposals will be enacted in their form as of the date of this Annual Report. This description, except for the Tax Proposals, does not take into account or anticipate any changes in law, whether by legislative, government or judicial action, nor does it take into account provincial, territorial, or foreign tax considerations which may differ significantly from those discussed herein.

Dividends

Dividends paid on our common shares to a non-resident holder will be subject to withholding tax. The Treaty provides that the normal 25% withholding tax rate under the ITA is reduced to 15% on dividends paid on shares of a corporation resident in Canada (such as our company) to beneficial owners of the dividends who are residents of the United States, and may also provide for a further reduction of this rate to 5% where the beneficial owner of the dividends is a corporation that is a resident of the United States which owns at least 10% of the voting shares of the corporation paying the dividend.

No dividends have ever been paid by us.

Capital Gains

Under the ITA, a taxpayer's capital gain or capital loss from a disposition of a share of our company is the amount, if any, by which his proceeds of disposition exceed (or are exceeded by) the aggregate of his adjusted cost base of the share and reasonable expenses of disposition. One half of a capital gain (the "taxable capital gain") is included in income, and one half of a capital loss in a year (the "allowable capital loss") is deductible

from taxable capital gains realized in the same year. The amount by which a shareholder's allowable capital loss exceeds his taxable capital gains in a year may be deducted from a taxable capital gain realized by the shareholder in the three previous or any subsequent year, subject to certain restrictions in the case of a corporate shareholder.

A non-resident holder is not subject to tax under the ITA in respect of a capital gain realized upon the disposition of a share of a public corporation unless the share represents "taxable Canadian property" to the holder thereof. We are a public corporation for purposes of the ITA and a common share of our company will be taxable Canadian property to a non-resident holder if, at any time during the 60 months period immediately preceding the disposition, the non-resident holder, persons with whom the non-resident holder did not deal at arm's length, or the non-resident holder and persons with whom he did not deal at arm's length together owned not less than 25% of the issued shares of any class of shares of our company. Our shares may also be taxable Canadian property to a holder if the holder acquired them pursuant to certain tax-deferred "rollover" transactions whereby the holder exchanged property that was taxable Canadian property for our shares.

Where a non-resident holder who is an individual ceased to be resident in Canada, he will be subject to Canadian tax on any capital gain realized on disposition of our shares at that time.

Where a non-resident holder realizes a capital gain on a disposition of our shares that constitute taxable Canadian property, the Treaty relieves the non-resident shareholder from liability for Canadian tax on such capital gains unless:

- (a) the non-resident holder is an individual who was resident in Canada for not less than 120 months during any period of 20 consecutive years preceding, and at any time during the 10 years immediately preceding, the disposition and the shares were owned by him when he ceased to be resident in Canada or are property substituted for property that was owned at that time, or
- (b) the shares formed part of the business property of a "permanent establishment" or pertained to a fixed base used for the purpose of performing independent personal services that the shareholder has or had in Canada within the 12 months preceding the disposition.

Material United States Federal Income Tax Consequences

The following is a discussion of material U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of our common shares by a U.S. Holder (as hereinafter defined). This discussion does not address all potentially relevant federal income tax matters and it does not address consequences peculiar to persons subject to special provisions of federal income tax law, such as those described below as excluded from the definition of a U.S. Holder. In addition, this discussion does not cover any state, local or foreign tax consequences. Accordingly, holders and prospective holders of our common shares are urged to consult their own tax advisors about the specific federal, state, local, and foreign tax consequences to them of acquiring, holding and disposing of our common shares, based upon their individual circumstances.

The following discussion is based upon the sections of the Code, Treasury Regulations, published Internal Revenue Service ("IRS") rulings, published administrative positions of the IRS and court decisions that are currently applicable, any or all of which could be materially and adversely changed, possibly on a retroactive basis, at any time and which are subject to differing interpretations. This discussion does not consider the potential effects, both adverse and beneficial, of any proposed legislation which, if enacted, could be applied, possibly on a retroactive basis, at any time.

U.S. Holders

As used in this annual report, a "U.S. Holder" means a holder of our common shares who is (i) a citizen or individual resident of the United States, (ii) corporation, or other entity treated as a corporation for U.S. tax purposes, created or organized in or under the laws of the United States or any state thereof (including the District

of Columbia), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if such trust was in existence on August 20, 1996 and validly elected to be treated as a United States person for U.S. federal income tax purposes or if (1) a court within the U.S. is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust. This summary does not address the tax consequences to, and the term U.S. Holder does not include, persons subject to specific provisions of federal income tax law, such as tax-exempt organizations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, broker-dealers, non-resident alien individuals, persons or entities that have a “functional currency” other than the U.S. dollar, shareholders subject to the alternative minimum tax, shareholders who hold common shares as part of a straddle, hedging or conversion transaction, and shareholders who acquired their common shares through the exercise of employee stock options or otherwise as compensation for services. This summary is limited to U.S. Holders who own common shares as capital assets, within the meaning of Section 1221 of the Code, and who own (directly and indirectly, pursuant to applicable rules of constructive ownership) no more than 10% of the value of our total outstanding stock. This summary does not address the consequences to a person of the ownership, exercise or disposition of any options, warrants or other rights to acquire common shares.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our common shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner should consult its own tax advisors as to the U.S. tax consequences of being a partner in a partnership that acquires, holds, or disposes of our common shares.

Distributions on Our Common Shares

Subject to the discussion below under “*Passive Foreign Investment Company*,” U.S. Holders receiving dividend distributions (including constructive dividends) with respect to our common shares generally are required to include in gross income for U.S. federal income tax purposes the gross amount of such distributions (without reduction of any Canadian income or other tax withheld from such distributions), equal to the U.S. dollar value of such distributions on the date of receipt (based on the exchange rate on such date), to the extent that we have current or accumulated earnings and profits. Such Canadian tax withheld may be credited, subject to certain limitations, against the U.S. Holder’s federal income tax liability or, alternatively, may be deducted in computing the U.S. Holder’s federal taxable income by those who itemize deductions (See more detailed discussion at “*Foreign Tax Credit*” below). Dividends paid on our common shares will not generally be eligible for the dividends received deduction provided to corporations receiving dividends from certain U.S. corporations.

For taxable years beginning before January 1, 2011, dividends received by U.S. Holders that are individuals, estates or trusts from “qualified foreign corporations,” as defined in Section 1(h)(11) of the Code, generally are taxed at the same preferential tax rates applicable to long-term capital gains. Although not free from doubt, it appears that we are a “qualified foreign corporation,” as defined in Section 1(h)(11) of the Code if we are not, and have not been, a PFIC, as described below under “*Passive Foreign Investment Company*.” We have not determined whether or not we meet the definition of a PFIC for the current tax year and any prior tax years. A corporation that is a PFIC, along with other foreign corporations given special status under the Code, for its taxable year during which it pays a dividend, or for its immediately preceding taxable year, will not be treated as a “qualifying foreign corporation” and dividends received by U.S. Holders that are individuals, estates or trusts generally will be subject to U.S. federal income tax at ordinary income tax rates (and not at the preferential tax rates applicable to long-term capital gains).

In the case of foreign currency received as a dividend that is not converted by the recipient into U.S. dollars on the date of receipt, a U.S. Holder will have a tax basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Generally any gain or loss recognized upon a subsequent sale or other disposition of the foreign currency, including the exchange for U.S. dollars, will be ordinary income or loss.

Disposition of Our Common Shares

Subject to the discussion below under “*Passive Foreign Investment Company*,” U.S. Holders will recognize gain or loss upon the sale of our common shares equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received, and (ii) the shareholder’s tax basis in our common shares. Preferential tax rates apply to long-term capital gains of U.S. Holders that are individuals, estates or trusts. In general, gain or loss on the sale of our common shares will be long-term capital gain or loss if our common shares are a capital asset in the hands of the U.S. Holder and are held for more than one year. Deductions for net capital losses are subject to significant limitations.

Passive Foreign Investment Company

We have not determined whether or not we meet the definition of PFIC, within the meaning of Sections 1291 through 1298 of the Code for the current tax year and any prior tax years. We may or may not qualify as a PFIC in subsequent years due to changes in our assets and business operations. A U.S. Holder who holds stock in a foreign corporation during any year in which such corporation qualifies as a PFIC is subject to numerous special U.S. federal income taxation rules. The following is a discussion of these special rules as they apply to U.S. Holders of our common shares.

Section 1297 of the Code defines a PFIC as a corporation that is not formed in the U.S. if, for any taxable year, either (i) 75% or more of its gross income is “*passive income*,” which includes interest, dividends and certain rents and royalties or (ii) the average percentage, by fair market value (or, if the corporation is not publicly traded and either is a controlled foreign corporation or makes an election, by adjusted tax basis), of its assets that produce or are held for the production of passive income is 50% or more.

U.S. Holders owning shares of a PFIC are subject to a special tax and to an interest charge based on the value of deferral of U.S. tax attributable to undistributed earnings of a PFIC for the period during which the shares of the PFIC are owned. This special tax would apply to any gain realized on the disposition of shares of a PFIC. In addition, the gain is subject to U.S. federal income tax as ordinary income, taxed at top marginal rates, rather than as capital gain income. The special tax would also be payable on receipt of excess distributions (any distributions received in the current year that are in excess of 125% of the average distributions received during the 3 preceding years or, if shorter, the shareholder’s holding period). However, if the U.S. Holder makes for any tax year a timely election to treat a PFIC as a qualified electing fund (“*QEF*”) with respect to such shareholder’s interest therein, the above-described rules generally will not apply. Instead, the electing U.S. Holder would include annually in his gross income his pro rata share of the PFIC’s ordinary earnings and any net capital gain regardless of whether such income or gain was actually distributed. Special rules apply to U.S. Holders who own their interests in a PFIC through intermediate entities or persons. Generally, shareholders do not make a QEF election unless they have sufficient information to determine their proportionate share of a corporation’s net capital gain and ordinary earnings. We have not calculated these amounts for any shareholder, and do not anticipate making these calculations in the foreseeable future. **Therefore, U.S. Holders of our common shares should consult their own financial advisor, legal counsel or accountant regarding the QEF election before making this election.**

U.S. Holders who hold, actually or constructively, marketable stock of a foreign corporation that qualifies as a PFIC may elect to mark such stock to the market (a “*mark-to-market election*”). If such an election is made, such U.S. Holder will not be subject to the special taxation rules of PFIC described above for the taxable years for which the mark-to-market election is made. A U.S. Holder who makes such an election will include in income for the taxable year an amount equal to the excess, if any, of the fair market value of our common shares as of the close of such tax year over such U.S. Holder’s adjusted basis in such shares. In addition, the U.S. Holder is allowed a deduction for the lesser of (i) the excess, if any, of such U.S. Holder’s adjusted tax basis in the shares over the fair market value of such shares as of the close of the tax year, or (ii) the excess, if any of (A) the mark-to-market gains for our common shares included by such U.S. Holder for prior tax years, including any amount which would have been included for any prior year but for Section 1291 interest on tax deferral rules discussed above with respect to a U.S. Holder, who has not made a timely QEF election during the year in which he holds

(or is deemed to have held) our common shares and the Company is a PFIC (*“Non-Electing U.S. Holder”*), over (B) the mark-to-market losses for shares that were allowed as deductions for prior tax years. A U.S. Holder’s adjusted tax basis in our common shares will be increased or decreased to reflect the amount included or deducted as a result of mark-to-market election. A mark-to-market election will apply to the tax year for which the election is made and to all later tax years, unless the PFIC stock ceases to be marketable or the IRS consents to the revocation of the election.

The IRS has issued proposed regulations that, subject to certain exceptions, would treat as taxable certain transfers of PFIC stock by a Non-Electing U.S. Holder that are generally not otherwise taxed, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. Generally, in such cases, the basis of our common shares in the hands of the transferee and the basis of any property received in the exchange for those shares would be increased by the amount of gain recognized. A U.S. Holder who has made a timely QEF election (as discussed above) would not be taxed on certain transfers of PFIC stock, such as gifts, exchanges pursuant to corporate reorganizations, and transfers at death. The transferee’s basis in this case will depend on the manner of the transfer. The specific tax effect to the U.S. Holder and the transferee may vary based on the manner in which the common shares are transferred. Each U.S. Holder should consult a tax advisor with respect to how the PFIC rules affect their tax situation.

The PFIC and QEF election rules are complex. U.S. Holders should consult a tax advisor regarding the availability and procedure for making the QEF election as well as the applicable method for recognizing gains or earnings and profits under the foregoing rules.

Foreign Tax Credit

A U.S. Holder who pays (or has withheld from distributions) Canadian or other foreign income tax with respect to the ownership of our common shares may be entitled, at the option of the U.S. Holder, to either receive a deduction or a tax credit for U.S. federal income tax purposes with respect to such foreign tax paid or withheld. Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder’s U.S. federal income tax liability that such U.S. Holder’s “foreign source” taxable income bears to such U.S. Holder’s worldwide taxable income. In applying this limitation, a U.S. Holder’s various items of income and deduction must be classified, under complex rules, as either “foreign source” or “U.S. source.” In addition, this limitation is calculated separately with respect to specific categories of income including “passive category income” and “general category income.” Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of our common shares generally will be treated as “U.S. source” for purposes of applying the foreign tax credit rules. Dividends received by U.S. Holders on our common shares generally will be treated as “foreign source” and generally will be categorized as “passive income” for purposes of applying the foreign tax credit rules. **The availability of the foreign tax credit and the application of the limitations with respect to the foreign tax credit are fact specific, and each U.S. Holder of our common shares should consult their own financial advisor, legal counsel or accountant regarding the foreign tax credit rules.**

Controlled Foreign Corporation

If more than 50% of the total voting power or the total value of our outstanding shares is owned, directly or indirectly, by citizens or residents of the U.S., U.S. partnerships or corporations, or U.S. estates or trusts (as defined by Section 7701(a)(30) of the Code), each of which own, directly or indirectly, 10% or more of the total voting power of the our outstanding shares (each a “10% Shareholder”), we could be treated as a “Controlled Foreign Corporation” (“CFC”) under Section 957 of the Code.

Our classification as a CFC would effect many complex results, including that 10% Shareholders would generally (i) be treated as having received a current distribution of our “Subpart F income” and (ii) would also be subject to current U.S. federal income tax on their pro rata share of our earnings invested in “U.S. property.” The foreign tax credit may reduce the U.S. federal income tax on these amounts for such 10% Shareholders (See more detailed discussion at “Foreign Tax Credit” above). In addition, under Section 1248 of the Code, gain from the sale or other taxable disposition of our common shares by a U.S. Holder that is or was a 10% Shareholder at any time

during the five-year period ending with the sale is treated as a dividend to the extent of our earnings and profits attributable to the common shares sold or exchanged.

If we are classified as both a PFIC and a CFC, we generally will not be treated as a PFIC with respect to 10% Shareholders. This rule generally will be effective for taxable years of 10% Shareholders beginning after 1997 and for its taxable years ending with or within such taxable years of 10% Shareholders.

We have not determined whether we meet the definition of a CFC, and there can be no assurance that we will not be considered a CFC for the current or any future taxable year.

The CFC rules are very complicated, and U.S. Holders should consult their own financial advisor, legal counsel or accountant regarding the CFC rules and how these rules may impact their U.S. federal income tax situation.

Information Reporting; Backup Withholding

Certain information reporting and backup withholding rules may apply with respect to certain payments related to our common shares. In particular, a payor or middleman within the U.S., or in certain cases outside the U.S., will be required to withhold at a current rate of 28% (which rate is scheduled for periodic adjustment) of any payments to a U.S. Holder regarding dividends paid by the Company, or proceeds from the sale of, such common shares within the U.S., if a U.S. Holder fails to furnish its correct taxpayer identification number (generally on Form W-9) or otherwise fails to comply with, or establish an exemption from, the backup withholding tax requirements. Any amounts withheld under the U.S. backup withholding tax rules will be allowed as a refund or a credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS. **U.S. Holders should consult their own financial advisor, legal counsel or accountant regarding the information reporting and backup withholding rules applicable to our common shares.**

10.F. Dividends and Paying Agents

This Form 20-F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

10.G. Statements by Experts

This Form 20-F is being filed as an Annual Report under the Exchange Act and, as such, there is no requirement to provide any information under this section.

10.H. Documents on Display

Any documents referred to in this Annual Report may be inspected at our head office, Suite 410, 475 West Georgia Street, Vancouver, British Columbia, V6B 4M9 Canada, during normal business hours.

10.I. Subsidiary Information

There is no additional information relating to our subsidiaries, which must be provided in Canada and which is not otherwise called for by the body of Canadian Generally Accepted Accounting Principles used in preparing the consolidated financial statements.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We anticipate our primary market risk, if any, to be related to fluctuations in exchange rates. Exchange rate risk may arise if we are required to use different currencies for various aspects of our operations. At present, our functional currency is the Canadian dollar. Based on our overall exchange rate risk as at May 31, 2008, we believe that a ten percent change in exchange rates would not have a material adverse effect on our financial position, results of operations, or changes in financial position. We intend to monitor our exchange rate risk and

take reasonable steps to reduce our exposure. We do not intend to purchase or sell derivative instruments for speculative purposes.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

This Form 20-F is being filed as an annual report under the Exchange Act and, as such, there is no requirement to provide any information under this item.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There has not been a material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within thirty days, relating to our indebtedness or any of our significant subsidiaries. There are no payments of dividends by us in arrears, nor has there been any other material delinquency relating to any class of our preference shares.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Effective March 7, 2006, our Board of Directors adopted a shareholder rights plan, which was subsequently approved by our company's shareholders at our Annual and Special Meeting held on June 6, 2006.

The Shareholder Rights Plan is designed to ensure that all shareholders receive equal treatment and to maximize shareholder values in the event of a take-over bid or other acquisition that could lead to a change in control of our company. It is not intended to deter take-over bids. Take-over bid contests for corporate control provide a singular opportunity for shareholders to obtain a one-time gain. After the acquisition of effective control, the opportunity for this one-time gain normally does not reoccur. As with most public companies, control of our company can probably be secured through the ownership of much less than 50% of our shares. Without a shareholder rights plan, it would be possible for a bidder to acquire effective control, over a relatively short period of time, through open market and private purchases, using various techniques permitted under the securities legislation in Canada, without making a bid available to all shareholders. Such acquisition of control would probably be an effective deterrent to other potential offerors. The person acquiring control would probably, over a period of time, be able to consolidate and increase its control without the price for control ever being tested through an open market auction. Shareholder rights plans are designed to prevent this occurrence by forcing all acquisitions of control into a public offer mode. A public offer will not necessarily achieve all of the objectives of ensuring the maximum value to shareholders. A take-over bid can be completed in a time period as short as 35 days. This is too short a time period to ensure that the directors can develop other competing alternatives. The Shareholder Rights Plan is intended to provide time to shareholders to properly assess any take-over bid and to provide our Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value, including, if considered appropriate, identifying and locating other potential bidders.

The following is a summary of the terms of the Shareholder Rights Plan:

General

The rights have been issued pursuant to a shareholder rights plan agreement dated and effective March 7, 2006, between us and the Rights Agent. Each right will entitle the holder to purchase from us one common share at the exercise price of C\$30 per share, subject to adjustments, at any time after the separation time (defined below). However, if a flip-in event (defined below) occurs, each right will entitle the holder to receive, upon payment of the exercise price, common shares having a market value equal to two-times the exercise price. The rights are non-exercisable until the separation time.

Trading of Rights

Until the separation time, the rights will be evidenced by the outstanding certificates for common shares and the rights will be transferred with, and only with, the common shares. As soon as practicable following the separation time, separate certificates evidencing the rights will be mailed to holders of record of common shares as of the close of business at the separation time and the separate rights certificates will thereafter evidence the rights.

Separation Time and Acquiring Person

The rights will separate and trade apart from the common shares and become exercisable at the separation time. "Separation time" generally means the close of business on the 10th trading day following the commencement or announcement of the intent of any person to commence a take-over bid, other than a permitted bid or a competing bid, but under certain circumstances can mean the eighth trading day after a person becomes an "acquiring person" by acquiring 20% or more of the voting shares of any class.

Flip-in Event

A "flip-in event" will, in general terms, occur when a person becomes an acquiring person. Upon the occurrence of a flip-in event, each right will entitle the holder to acquire, on payment of the exercise price, that number of common shares having a market value equal to two-times the exercise price. However, any rights beneficially owned by an acquiring person or by any direct or indirect transferees of such person, will be void. The term "beneficial ownership" is defined to include, under certain circumstances, shares owned indirectly through affiliates, associates, trusts and partnerships, other situations of ownership deemed by operation of law, shares subject to acquisition or voting agreements and shares owned by persons acting jointly or in concert. There are several exceptions, including exceptions directed towards investment managers, trust companies, and independent managers of pension plans who are not participating in a take-over bid.

Permitted Bids

Permitted bids are exempted from the operation of the Shareholder Rights Plan. In summary, a permitted bid is a take-over bid made by way of take-over bid circular which complies with the following provisions:

- (a) It is made to all holders of voting shares of our company of a particular class and for all those voting shares.
- (b) No voting shares can be taken up and paid for before the close of business on the "Permitted Bid Expiry Date", as described below, and unless more than 50% of voting shares held by shareholders independent of the offeror are tendered and not withdrawn.
- (c) Voting shares may be tendered at any time until the Permitted Bid Expiry Date and may be withdrawn until taken up and paid for.
- (d) If the condition described in (b) above is met, there will be a public announcement and the takeover bid will be open for a further period of 10 business days.

The Shareholder Rights Plan contains provisions designed to ensure that, if considered appropriate, the time for tendering to two or more competing permitted bids will occur on the same date.

Permitted Bid Expiry Date

The permitted bid provisions require that for a take-over to be a permitted bid it must be left open until the "Permitted Bid Expiry Date", which means 60 days following the date of the take-over Bid.

Exchange Option

Under certain circumstances, the Board of Directors of our company can, on exercise of a right and payment of the exercise price, issue other company securities or assets in lieu of common shares. The Board of Directors can also determine to issue in exchange for the rights, but without payment of the exercise price, common shares having a value equal to the exercise price or other securities or assets of our company having the same value.

Adjustments

The exercise price, the number and kind of shares subject to purchase upon exercise of each right and the number of rights outstanding are subject to adjustment from time to time to prevent dilution in the event that we take certain actions involving our share capital which would otherwise have a dilutive effect.

Redemption

At any time before the occurrence of a flip-in event, the Board of Directors may elect to redeem the rights in whole at a redemption price of \$0.0001 per right.

Waiver

The Board of Directors may waive the application of the Shareholder Rights Plan to any flip-in event if it determines that a person became an acquiring person by inadvertence, conditional upon such person having, within 10 days after the determination by the Board of Directors, reduced its beneficial ownership of shares such that it is no longer an acquiring person. The Board of Directors may also, until a flip-in event has occurred, waive the application of the Shareholder Rights Plan to any particular flip-in event, but in that event, the board of directors shall be deemed to have waived the application of the Shareholder Rights Plan to any other flip-in event which may arise under any take-over bid then in effect.

Amendments

The Board of Directors may amend the Shareholder Rights Plan to correct clerical or typographical errors, to maintain the validity of the plan as a result of any changes in any applicable legislation or to increase or decrease the exercise price. Any amendments required to maintain the validity of the Shareholder Rights Plan must be submitted to our company's shareholders or, after the separation time, to the holders of the rights for confirmation.

Other amendments can only be made with the approval of our shareholders or, after the separation time, the holders of the rights. Any supplements or amendments to the Shareholder Rights Plan require the prior written consent of the Toronto Stock Exchange.

Term

The Shareholder Rights Plan has a term of 10 years and is subject to ratification at each of the shareholder meetings following the third and sixth anniversaries of the effective date of the Shareholder Rights Plan. If the Shareholder Rights Plan is not so ratified at any meeting, the Shareholder Rights Plan shall terminate forthwith.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Under the supervision and with the participation of our President (serving as our principal executive officer) and Chief Financial Officer (serving as our principal financial officer), we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the President and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the

periods specified in the U.S. Securities and Exchange Commission's rules and forms, and accumulated and communicated to our management, including the President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting: The management of Petaquilla Minerals Ltd. ("Petaquilla") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Petaquilla's internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

An internal control material weakness is a deficiency, or aggregation of deficiencies, such that the risk that material misstatements in financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work. An internal control significant deficiency, or aggregation of deficiencies, is one that could result in a misstatement of the financial statements that is more than inconsequential.

The management of Petaquilla assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2008, and this assessment identified the following material weaknesses in our company's internal control over financial reporting.

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

In making our 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 weaknesses described in the preceding paragraph, management believes that, as of May 31, 2008, our 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 deficiencies. Together, the Audit Committee, Board of Directors, and management continue to work to mitigate the risk of a material misstatement in our financial statements. Management has identified certain areas where it can improve process controls and intends to incorporate these changes into the control over the financial reporting over the next twelve months.

Other than the foregoing, during the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

16.A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of directors has determined that it does not have a member that qualifies as an "audit committee financial expert" as defined in Form 20-F of the U.S. Securities and Exchange Commission and is "independent" as the term is used in Item 407(a) of Regulation S-K.

We have been unable to retain the services of a person who qualifies as an “audit committee financial expert”. Until we appoint such a person, we believe that the members of our Board of Directors are collectively capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting.

16.B. CODE OF ETHICS

Effective May 31, 2008, our Board of Directors adopted an updated Code of Business Ethics and Conduct that applies to, among other persons, our company's President and Chief Executive Officer (being our principal executive officer) and our Company's Chief Financial Officer (being our principal financial and accounting officer and controller), as well as persons performing similar functions. As adopted, our Code of Business Ethics and Conduct sets forth written standards that are designed to deter wrongdoing and to promote:

- (1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (2) full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the U.S. Securities and Exchange Commission and in other public communications made by us;
- (3) compliance with applicable governmental laws, rules and regulations;
- (4) the prompt internal reporting of violations of the Code of Business Ethics and Conduct to an appropriate person or persons identified in the Code of Business Ethics and Conduct; and
- (5) accountability for adherence to the Code of Business Ethics and Conduct.

Our Code of Business Ethics and Conduct requires, among other things, that all of our company's personnel shall be accorded full access to our President and Chief Executive Officer and Chief Financial Officer with respect to any matter which may arise relating to the Code of Business Ethics and Conduct. Further, all of our company's personnel are to accorded full access to our company's Board of Directors if any such matter involves an alleged breach of the Code of Business Ethics and Conduct by our President and Chief Executive Officer or Chief Financial Officer.

In addition, our Code of Business Ethics and Conduct emphasizes that all employees, and particularly managers and/or supervisors, have a responsibility for maintaining financial integrity within our company, consistent with generally accepted accounting principles, and federal, provincial and state securities laws. Any employee who becomes aware of any incidents involving financial or accounting manipulation or other irregularities, whether by witnessing the incident or being told of it, must report it to his or her immediate supervisor or to our Company's Chairman of the Audit Committee or Chief Financial Officer or, if anonymity is preferred, to an independent whistle-blower hotline operated and controlled by a third party. It is against our company policy to retaliate against any individual who reports in good faith the violation or potential violation of our Company's Code of Business Ethics and Conduct by another.

Our Code of Business Ethics and Conduct and our Whistle-Blower Policy are filed herewith with the Securities and Exchange Commission as Exhibits 14 and 15 to this annual report. We will provide a copy of the Code of Business Ethics and Conduct and Whistle-Blower Policy to any person without charge, upon request. Requests can be sent to: Petaquilla Minerals Ltd., Suite 410 - 475 West Georgia Street, Vancouver, BC, Canada V6B 4M9.

16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The aggregate amounts billed by our auditors to us for each of the 13 months ended May 31, 2008 and the 15 months ended April 30, 2007 for audit fees, audit-related fees, tax fees and all other fees are set forth below:

	13 Months Ended May 31, 2008	15 Months Ended <u>April 30, 2007</u>
Audit Fees ⁽¹⁾	\$375,000 ⁽⁴⁾	\$424,155
Audit-Related Fees ⁽²⁾	Nil	Nil
Tax Fees ⁽³⁾	\$15,000 ⁽⁴⁾	Nil
All Other Fees	Nil	Nil
Totals	\$390,000⁽⁴⁾	\$424,155

(1) "Audit Fees" represent fees for the audit of our annual financial statements.

(2) "Audit-Related Fees" represent fees for assurance and related services that are related to the performance of the audit.

(3) "Tax Fees" represent fees for tax compliance, tax advice and tax planning.

(4) Fees for the 13 months ended May 31, 2008 are estimated.

The Audit Committee has adopted procedures requiring Audit Committee review and approval in advance of all particular engagements for services provided by our independent auditors. Consistent with applicable laws, the procedures permit limited amounts of services, other than audit, review or attest services, to be approved by one or more members of the Audit Committee pursuant to authority delegated by the Audit Committee, provided the Audit Committee is informed of each particular service. All of the engagements and fees for the 13 months ended May 31, 2008 and the 15 months ended April 30, 2007 were approved by the Audit Committee. The Audit Committee reviews with our auditors whether the non-audit services to be provided are compatible with maintaining the auditors' independence. The Board has determined that, starting in the fiscal year ended January 31, 2005, fees paid to the independent auditors for non-audit services in any year would not exceed the fees paid for audit services during the year. Permissible non-audit services will be limited to fees for tax services, accounting assistance or audits in connection with acquisitions, and other services specifically related to accounting or audit matters such as audits of employee benefit plans

16.D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

See the Financial Statements and Exhibits listed in Item 19 hereof and filed as part of this Annual Report. These consolidated financial statements were prepared in accordance with Canadian GAAP and are expressed in Canadian dollars. Such consolidated financial statements have been reconciled to U.S. GAAP (see Note 27 therein). For a history of exchange rates in effect for Canadian dollars as against U.S. dollars, see page 12 of this Annual Report.

ITEM 18. FINANCIAL STATEMENTS

Not applicable

ITEM 19. EXHIBITS

(a) Financial Statements

Description of Document

Cover Sheet

Management Report on Internal Controls over Financial Reporting

Report of Independent Auditors dated August 20, 2008

Report of Independent Auditors on Internal Controls over Financial Reporting

Balance Sheets as at May 31, 2008, and April 30, 2007.

Consolidated Statements of Operations and Deficit for Thirteen Months Ended May 31, 2008, Fifteen Months Ended April 30, 2007, and Fiscal Year Ended January 31, 2006

Consolidated Statements of Cash Flows for Thirteen Months Ended May 31, 2008, Fifteen Months Ended April 30, 2007, and Fiscal Year Ended January 31, 2006

Notes to the Consolidated Financial Statements

(b) Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>
*1.A.	Memorandum of Incorporation and Articles of Petaquilla Minerals Ltd.
*2.A.	Shareholder Rights Plan Agreement dated April 28, 1995, between Petaquilla Minerals Ltd. and Montreal Trust Company of Canada
*3.A.	Share Purchase and Voting Trust Agreement dated December 29, 1994, between Petaquilla Minerals Ltd., Teck Corporation and Montreal Trust Company of Canada
*3.B.	Special Resolution dated June 8, 1995, increasing the authorized share capital of Petaquilla Minerals Ltd.
*4.A.	Agreement dated April 7, 1992, between Petaquilla Minerals Ltd. and Minnova (Panama) Inc. to acquire a 40% interest in Petaquilla Property
*4.B.	Letter of Intent dated October 4, 1994, between Petaquilla Minerals Ltd., Inmet Mining Corporation, Minnova (Panama) Inc. and Georecursos Internacional, S.A. with respect to the Petaquilla Property
*4.D.	Financing Agreement dated April 29, 1991, between Petaquilla Minerals Ltd. and Teck Corporation
*4.F.	Option Agreement dated August 10, 1993, between Petaquilla Minerals, S.A., Madison Enterprises Corp. and Madison Enterprises (Latin America), S.A. with respect to the Belencillo Property.
*4.G.	Association Agreement dated September 23, 1994, as amended, between Petaquilla Minerals, S.A. and Madison Enterprises (Latin America), S.A., with respect to the Belencillo Property
*4.H.	Heads of Agreement dated November 7, 1994, between Petaquilla Minerals Ltd., Georecursos Internacional, S.A. and Teck Corporation
*4.I.	Option Agreement dated February 17, 1994, between Petaquilla Minerals, S.A. and Arlo Resources Ltd. with respect to the Oro del Norte Property
*4.J.	Option Agreement dated February 17, 1994, between Petaquilla Minerals, S.A. and Arlo Resources Ltd. with respect to the Santa Lucia Property
*4.K.	Option Agreement dated January 27, 1994, between Petaquilla Minerals, S.A. and Silverstone Resources Ltd. with respect to the La Esperanza Property
*4.L.	Option Agreement dated November 7, 1994, between Petaquilla Minerals, S.A., Arlo Resources Ltd. and Arlo Resources (Panama) S.A. with respect to the Iglesias Property
*4.N.	Employment Agreements dated July 1, 1995, between Petaquilla Minerals Ltd. and Messrs. Idziszek, Stewart, Fifer and Mallo
*4.O.	Petaquilla Shareholders Agreement dated February 21, 1997, between Petaquilla Minerals Ltd., Teck Corporation, Inmet Mining Corporation, Georecursos Internacional, S.A. and Minera Petaquilla, S.A.

<u>Exhibit Number</u>	<u>Description of Document</u>
*4.S.	Assignment dated May 23, 2000, between Adrian Resources (Colorado) Ltd. And Hyperion Resources (Colorado) Ltd. respecting the Baca Ranch Property
*8	Subsidiaries of Petaquilla Minerals Ltd.
11.A	Code of Business Ethics and Conduct dated May 31, 2008
11.B	Whistle-Blower Policy dated May 31, 2008
*12.A	Certification of President Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
*12.B	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended
13.A	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.B	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.C	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act 2002
13.D	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act 2002
*	These exhibits were previously filed with Petaquilla Minerals Ltd.'s Registration Statement or a previous Annual Report on Form 20-F (file no. 000-26296).

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, hereunto duly authorized.

Dated at Vancouver, British Columbia, this 22nd day of August, 2008.

PETAQUILLA MINERALS LTD.

By: /s/ Richard Fifer
Richard Fifer, President and Chief Executive Officer
(principal executive officer)

By: /s/ Bassam Moubarak
Bassam Moubarak, Chief Financial Officer
(principal financial and accounting officer)

PETAQUILLA MINERALS LTD.
and its Principal Subsidiaries
(collectively, "the Company" or "Petaquilla")

CODE OF BUSINESS ETHICS AND CONDUCT
("the Code")

Acting with integrity, honesty and in good faith with respect to what is in the best interests of the Company's stakeholders is fundamental to the Company's reputation and ongoing success. Petaquilla is committed to sustainable growth within the parameters of ensuring the safety and well-being of its employees, protecting the environment, and supporting the communities in which it operates. The directors, officers and employees of the Company must be committed to upholding these responsibilities in all facets of the Company's day to day operations.

In addition, the directors, officers and employees of the Company and persons or companies related to or controlled by same are expected to act in accordance with applicable laws and with the highest standards of ethical and professional behaviour. The Company's directors, officers and employees must understand and adhere to the Code and the Company's other corporate policies. By adopting and enforcing the Code and the other policies, the directors will provide an ethical environment to flow through the Company – "tone at the top" is created with clear communication of expectations from corporate executives, accompanied by congruent behavior throughout the Company. These policies include, but are not limited to, the Company's (a) Corporate Disclosure Policy; (b) Electronic Communications Policy; (c) Whistle-Blower Policy; (d) Anti-Fraud Policy, and (e) Health and Safety Policy, and with departmental policies not included in this Code.

The Directors shall arrange for translation of the Code into Spanish and shall cause both the English and Spanish language versions to be posted on the Company's intranet site for viewing by all directors, officers and employees of the Company. It should also be posted in hard copy in all Company locations so that it is easily viewable by all staff.

If clarification of this code is required, the VP Corp Affairs in Vancouver (English), or the Manager of Human Resources in Panama (Spanish), should be contacted.

The Directors shall also arrange for distribution of individual letters to all staff, in English or in Spanish as appropriate, notifying staff members of the existence of the Code and its existence in both hard and electronic copies. Staff shall initial receipt of the letters to indicate that they have received, or have access to the Code.

Failure to comply with the Code, and the rules and procedures outlined in the Company's corporate policies may result in discipline, suspension or dismissal of any officer or employee of the Company. The Company and, specifically, Corporate Counsel may also be required by law to report material violations of securities legislation to the relevant authorities.

For further information on discipline, suspension or dismissal, please refer to the Company's Disciplinary Policy.

Standards of Conduct

1. Conflicts of Interest

All directors, officers, and employees have a duty to act in the best interests of the Company. A "conflict of interest" takes place when an individual's private interest improperly takes precedent over the interests of the Company or interferes, or appears to interfere, with the interests of the Company. A conflict may arise when an individual takes actions or has private interests that impede his ability to perform his or her Company work objectively and effectively, in the best interests of the Company. Directors, officers and employees should avoid

conflicts of interest, and in no circumstances may use their position at the Company to obtain any improper personal benefit.

The Company respects the right of directors, officers, and employees to take part in business and other activities outside of their Company obligations. These activities, however, must not conflict with their responsibilities as Company directors, officers, and employees. The Company's directors, officers, and employees must not serve as directors, officers, employees or consultants for a competitor, or an actual or potential business partner of the Company, without written approval of the Board of Directors.

Company directors, officers, and employees may not invest in or trade in shares of a competitor or an actual or potential business partner of the Company where such investment or trading may appear or tend to influence business decisions or compromise independent judgment. This prohibition does not apply to shares of a publicly traded company where such investment or trading relates to less than five percent of its issued shares. However, investing or trading in the Company's competitors or business partners remains subject to applicable laws and regulations regarding insider trading, including prohibitions against trading when in possession of material non-public information regarding such companies, whether such information is gained in the course of employment with the Company or otherwise.

Acceptance by a director (or a member of his or her immediate family), officer (or a member of his or her immediate family), or employee (or a member of his or her immediate family) of gifts or entertainment of a value that may influence business decisions or compromise independent judgment is prohibited.

If a conflict of interest exists, and there is no failure of good faith on the part of the director, officer, or employee, the Company's policy generally will be to allow a reasonable amount of time for the director, officer, or employee to correct the situation in order to prevent undue hardship or loss. However, all decisions in this regard will be at the discretion of the Board of Directors, whose primary concern in exercising such discretion will be the best interests of the Company.

If a director, officer, or employee is aware of a material transaction or relationship (including those involving family members) that could reasonably be expected to give rise to a conflict of interest, they should discuss the matter promptly with their immediate supervisor, department head, or the Board of Directors.

2. Protection and Proper Use of Company Assets and Opportunities

All directors, officers, and employees should protect the Company's assets and ensure their efficient use. The Company's assets must be protected from loss, damage, theft, misuse, and waste. Company assets include time at work and work product, as well as the Company's equipment and vehicles, computers and software, trading and bank accounts, Company information and the Company's reputation, trademarks and name. The Company's telephone, email, voicemail and other electronic systems are primarily for business purposes. Personal communications using these systems must be minimized. directors, officers, and employees should exercise prudence in incurring and approving business expenses, in the service of the Company's interests, ensuring they are reasonable in the circumstances.

3. Information Systems

Use, duplication, or sale of proprietary software, except as described in the manufacturers/ owners licence agreement or conditions applying to use, is an infraction of copyright law and is strictly prohibited. The Company's electronic communications systems are Company resources and all electronic communications are regarded as Company records. Offensive material (e.g. pornography) is not permitted on the Company systems in any form. The Company reserves the right to monitor employee use of its information systems. Subject to Board of Director's approval, the Company may access and disclose the contents of electronic messages and files. The Company does not guarantee the privacy of electronic communications or information stored on Company systems. This material may be accessed through activities such as the maintenance of mail systems and computer networks.

Directors, officers, and employees owe a duty to the Company to not act in any way contrary to the Company's legitimate interests. Directors, officers, and employees are prohibited from (a) taking for themselves personal opportunities that are discovered through the use of corporate property, information or position, unless the Board of Directors of the Company has already been offered the opportunity and declined it; (b) using corporate property, information, or position for personal gain without disclosure to and approval by the Board of Directors; and (c) without the knowledge and consent of the Board of Directors competing with the Company.

4. Confidentiality

Directors, officers, and employees should maintain all confidential information in strict confidence, except when disclosure is authorized by the Company or legally mandated. Confidential information includes, among other things, any non-public information concerning the Company, including its business, financial performance, results or prospects, and any non-public information provided by a third party with the expectation that the information will be kept confidential and used solely for the business purpose for which it was conveyed. The obligation to safeguard the Company's confidential information continues after the engagement or directorship with the Company has ended. The Company's policy on maintaining confidentiality is set forth in the Company's Corporate Disclosure Policy.

5. Fair Dealing

Each director, officer, and employee should endeavor to deal fairly with the Company's counterparties, suppliers, competitors and employees. No director, officers, or employee may take unfair personal advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practice.

6. Employee Harassment or Discrimination

The Company is committed to fair employment practices and a workplace in which all individuals are treated with dignity and respect. The Company will not tolerate or condone any type of discrimination prohibited by law. The Company expects that all relationships among persons in the workplace will be professional and free of bias and harassment.

7. Public Disclosure

The Company, through news releases, website content, and filings with securities regulatory authorities, is committed to providing timely, factual and accurate disclosure of material information about the Company to its shareholders, the financial community and the public. The Company's policy governing public disclosure is set forth in the Company's Corporate Disclosure Policy. Directors, officers and employees involved in the Company's disclosure process are responsible for acting in furtherance of such policies. It is important that they thoroughly understand and comply with them.

8. Compliance with Laws, Rules and Regulations

The Company is committed to compliance with all applicable laws, rules, and regulations in each jurisdiction in which it does business. All directors, officers, and employees are expected to obey those laws, rules, and regulations in each jurisdiction. Directors, officers, and employees should educate themselves on the laws, rules, and regulations that govern their work and, if uncertain, should seek the assistance of their supervisor or department head.

The Company, its directors, officers, and employees are subject to laws and regulations regarding insider trading. Generally, Canadian and United States securities laws prohibit trading in the securities (including equity securities, convertible securities, options, bonds, and any stock index containing the security) of any company while in possession of material, non-public information regarding such company. This prohibition applies to

Company securities as well as to the securities of other companies. The Company has adopted a policy on Corporate Disclosure in order to prevent improper trading in securities of the Company and the improper communication of undisclosed material information regarding the Company.

It is unlawful under the Foreign Corrupt Practices act to make payments to foreign officials for the purpose of obtaining or retaining business for, or with, or directing business to, any one person. The Company's representatives may encounter particular pressure to make such payments in countries where extraordinary competition exists for mining opportunities and should be particularly vigilant not to be tempted by assertions that such practices are common or condoned in that country. Examples of improper payments include gifts, tips or other monetary amounts not required by law, providing entertainment, and sponsoring government travel. If an individual is uncertain that any conduct or proposed conduct is appropriate, they should discuss the matter with their supervisor or department head.

9. Political Contributions and Activities

The Company must maintain a position of impartiality with respect to national, regional, or local politics. As a result, the Company does not contribute funds to any political party, politician, or candidate for public office in any country. The Company may contribute information to the public debate of policy issues that affect the Company in the countries in which it operates, such as discussing relevant issues with government officials or providing written advice about the likely impact of proposed policies on the Company. At times, attendance at events hosted by a political party may be required for briefing purposes. The Board of Directors must be consulted if in doubt about whether attendance at a function would compromise the Company's impartiality.

10. Environmental, Safety, and Occupational Health Practices

The Company believes that sound environmental, safety, and occupational health management practices are in the best interests of its business, its employees, its shareholders, and the communities in which it operates. The Company is committed to conducting its business in accordance with recognized local industry environmental, safety, and occupational health practices and standards and to meeting or exceeding all applicable environmental and occupational health and safety laws and regulations. This is the responsibility of all directors, officers, and employees.

The Company's safety and occupational health policy is set forth in Petaquilla's Health and Safety Policy. It is important that directors, officers, and employees thoroughly understand and comply with such policy.

11. Alcohol, Drug and Tobacco Use

The Company's directors, officers, and employees are to take appropriate steps to prevent workplace injuries and illnesses and to contribute to a safe and healthy work environment. This obligation includes responsible behaviour with respect to the use of alcohol, drugs and tobacco at work, when conducting Company business, and at Company-sponsored activities. Alcohol and drug use can affect work performance, posing health and safety risks. Directors, officers, and employees must not be impaired by any illegal or legal drugs, including alcohol, while at work or when conducting Company business.

In addition, the Company prohibits the possession, transfer, or use of illegal substances on Company premises, in conjunction with Company business, or at Company functions.

12. Cultural Sensitivity

Employees who accept an international assignment are responsible for familiarizing themselves and their accompanying family members with the norms, laws and customs of the country in which they will be living and working. To assist with this, it is the Company's policy to arrange orientation training regarding local customs and business practices that will ensure the employee can effectively perform his or her job. Where suitable, the Company will also provide assignees and accompanying family members with cultural training and information

about living conditions that will help them to reside successfully in their host location. It is impossible, however, for training to address all of the issues that may arise while living in a foreign environment. Therefore, it is the assignee's responsibility to ensure that they fully understand the cultural implications of their behaviour at all times and to seek advice from local management if they have questions about particular actions, words, customs or similar issue.

13. Management Overrides

The Company acknowledges that, from time to time, extenuating circumstances may arise, in which Company policies or procedures cannot be fully followed. Not every instance in which a policy is overridden or an exception to policy is taken, will constitute a breach of the Code. However, examples of inappropriate management overrides are requests for (a) unsupported payments to be made; (b) unauthorized purchases, (c) significant unsupported accounting entries, (d) significant unapproved information technology changes, and (e) hiring employees without appropriate authorizations.

In order to ensure that any decision to depart from Company policy is not inconsistent with the Code, any Manager or Supervisor who directs another employee to disregard the Code, or to depart from a Company policy, procedure or internal control, will report the matter directly to the Company's Chief Financial Officer with a brief explanation as to why the Manager or Supervisor took the view that the departure from policy was considered warranted in the circumstances. The Chief Financial Officer will maintain a log of all instances of override reported and provide a summary on a quarterly basis to the Audit Committee.

Any employee who is directed by a Manager or Supervisor to depart from a Company policy and believes that the direction might constitute a violation of the Company's Code of Business Ethics and Conduct or who has concerns about accounting, internal controls and auditing matters should report the matter as a possible violation of the Code to the Chief Financial Officer. Where it is inappropriate to report the matter to the Chief Financial Officer, or where confidentiality is required, the matter should be reported in accordance with the Whistle-Blower Policy. The Whistle-Blower Policy outlines the procedures for reporting to the Whistleblower contact.

14. Extension of Credit to Officers and Directors

It is unlawful for any issuer, directly or indirectly, including through any subsidiary, to extend or maintain credit, to arrange an extension of credit, in the form of a personal loan to, or for any director or executive officer of the Company. Therefore, the Company may not advance funds to directors and officers as per Section 402(2) of the Sarbanes-Oxley Act.

Compliance and Reporting

All directors, officers, and employees are expected to take all responsible steps to prevent a violation of the Code; to identify and raise potential issues before they lead to problems; and to seek additional guidance when necessary. If any director, officer, or employee has any questions regarding the best course of action in a particular situation, or if they suspect a possible violation of a law, of a regulation or of the Code, by any director, officer, or employee, they should follow the guidance provided in the Whistle-Blower Policy, as explained below.

In the case of accounting, internal accounting controls or auditing matters, the director, officer, or employee should promptly contact the Chief Financial Officer, the Audit Committee, or, if necessary, the Board of Directors.

If a director, officer, or employee prefers to report any suspected Code violations anonymously, including concerns regarding accounting, internal accounting controls, and other auditing matters, or if any of the persons to whom they have reported these circumstances has not, in their view, responded appropriately, the Company has established a Whistle-Blower Policy, which is available on both the Company's web site (www.petaquilla.com) and intranet site. Alternatively, a copy of the Whistle-Blower Policy can be provided by submitting a request to the VP Corporate Affairs in Vancouver or to the Manager of Human Resources in Panama.

Waivers of the Code of Business Ethics and Conduct

Petaquilla may waive certain provisions of the Code. Waivers may be granted only formally by the Board of Directors via Directors' Resolution, and disclosed to shareholders, as appropriate.

This Code of Business Ethics and Conduct was adopted by the Board of Directors of Petaquilla Minerals Ltd. on the 31st day of May, 2008.

By order of the Board of Directors
PETAQUILLA MINERALS LTD.

Date of Last Update:	
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PETAQUILLA MINERALS LTD.
and its Principal Subsidiaries
(collectively, the “Company” or “Petaquilla”)

WHISTLE-BLOWER POLICY

Petaquilla's Code of Business Ethics and Conduct as well as its Code of Ethics for Financial Reporting Officers provides an overview of Petaquilla's commitment to applying high ethical standards to its business practices. However, they are not intended to be all-inclusive rule books. An English language copy of Petaquilla's Code of Business Ethics and Conducts and its Code of Ethics for Financial Reporting Officers can be viewed on Petaquilla's web site at www.petaquilla.com and both Spanish and English language versions are available on the Company's intranet site.

Many of the statements made therein are backed up by in depth policies and procedures. However, in the current working environment, formal policies and procedures cannot always keep up with new challenges or adequately deal with complex situations. Therefore, please never hesitate to ask a question or report a concern.

Petaquilla has also adopted procedures to govern the receipt, retention, and treatment of complaints regarding accounting, internal control or auditing matters, including fraud. The procedures are outlined in the Anti-Fraud Policy.

Your most immediate resource is your direct supervisor. He or she may have the information you need, or may be able to refer the questions to another appropriate source. There may, however, be times when you would prefer not to go to your supervisor. You may want confidential advice about a business ethics dilemma facing you or a suspected wrongdoing. You may want more information than your supervisor can give you or you may want to report an ethical concern about your supervisor's conduct. Examples of such business ethics dilemmas/wrongdoings may include:

- An unlawful act whether civil or criminal
- Breach of or failure to implement or comply with approved policy
- Knowingly breaching municipal, provincial, state, or federal laws or regulations
- Unprofessional conduct or below recognized, established standards of practice
- Questionable accounting or auditing practices
- Dangerous practice likely to cause physical harm/damage to any person or property
- Failure to rectify to take reasonable steps to report a matter likely to give rise to a significant and avoidable cost or loss to the Company
- Abuse of power or authority for any unauthorized or ulterior purpose
- Unfair discrimination in the course of the employment or provision of services
- Any other similar acts

You can discuss these types of concerns with the Chairman of the Audit Committee or the Chief Financial Officer. Alternatively, you can file a report, an anonymous report if you wish, with an independent third party, at the numbers listed below without fear of reprisal:

Do you have a question, a concern, or wish to file a report?

	OR	<i>CALLS FROM PANAMA</i> Call the Whistle-Blower Hotline controlled by an independent third party using one of the
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<i>CALLS FROM CANADA AND THE UNITED STATES</i> Call the Whistle-Blower Hotline controlled by an independent third party at: 1-877-749-2924 (you may remain anonymous if you choose to)	two methods described below: METHOD 1: If you are dialing from a Company office or a Company owned mobile phone, please dial 1-877-749-2924. METHOD 2: If METHOD 1 fails or if you are calling from a non-Company, please dial the AT&T Access Code of 800-0109 and wait for the prompt, a voice recording followed by a “bong” or operator to dial the number. Then please dial 1-877-749-2924. If an operator has answered, please ask the operator to dial 1-877-749-2924 for you. You will hear a pre-recorded greeting, select Spanish as your language. You will then hear music while an Interview Specialist is connected to your call with an interpreter. (you may remain anonymous if you choose to)
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Your request for information or action will be handled promptly, discreetly, and professionally. The conversation will be kept in confidence to the extent appropriate or permitted by policy or law. If you're reporting a concern, you will be informed as much as possible about the steps that will be taken to address your concern.

In no order of preference, the official contacts for reporting suspected fraudulent or other dishonest acts are any or all of the following:

- (a) The Company’s Chairman of the Audit Committee;
- (b) The Company’s Chief Financial Officer; and/or
- (c) The independent third party Whistle-Blower Hotline.

Employees, with a reasonable basis for believing such acts have occurred, have a responsibility to report it to their supervisor, to the Company’s Chairman of the Audit Committee, to its Chief Financial Officer and/or to the Whistle-Blower Hotline. As mentioned above, employees have the option of forwarding their concern anonymously.

The official contacts, as noted above, will then determine if an investigation is warranted. If it is determined that an investigation is warranted, they will investigate the suspected fraudulent or dishonest act and depending on the nature of the complaint, may consult the Company’s legal counsel or the Board of Directors.

Employees shall not confront the individual being investigated, or initiate independent investigations. In those instances where the investigation indicates criminal activity, the appropriate law enforcement agency will be informed.

Where possible, the official contacts may undertake the following process:

- (a) investigation by the Chairman of the Audit Committee and/or Chief Financial Officer
- (b) referral to the police or appropriate authorities
- (c) referral to the external auditor
- (d) an independent inquiry

In order to protect individuals and those accused of misdeeds or possible malpractice, initial inquiries will be made to decide whether an investigation is appropriate and, if so, what form it shall take.

The overriding principle with which the Company will act is the interest of the Company and its shareholders.

Some concerns may be resolved by agreed action without the need for investigation. If urgent action is required, this will be taken before any investigation is conducted.

Within fifteen (15) working days of a concern being raised, the responsible officer will write to you:

- (a) acknowledging that a concern has been received;
- (b) indicating how he/she proposes to deal with the matter;
- (c) giving an estimate of how long it will take to provide a final response
- (d) telling you whether any initial enquiries have been made; and
- (e) telling you whether further investigations will place and if not, why not.

The amount of contact between the persons considering the issues and you will depend on the nature of the matter raised, the potential difficulties involved and the clarity of information provided. If necessary, the Company will seek further information from you.

The Company will take steps to minimize any difficulties which you may experience as a result of raising a concern. For instance, if you are required to give evidence in criminal or disciplinary proceedings the Company will arrange for you to receive advice about the procedure.

The Company accepts that you need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, we will inform you of the outcomes of the investigation.

Concerns will be investigated as quickly as possible. It should also be kept in mind that it may be necessary to refer a matter to an external agency and this result in an extension to the investigation process. Also, the seriousness and complexity of any complaint may have an impact upon the time taken to investigate a matter. A designated person will indicate at the outset the anticipated time scale for investigating the complaint.

If you raise a concern or report suspected wrongdoing by your supervisor, another employee, officer, member of the board of directors, and/or the Whistle-Blower hotline, Petaquilla will not take action against you even if, after investigation, there is no finding of wrongdoing, and will not tolerate retaliation or allow you to be victimized as long as (a) your report was made in good faith, (b) you believed it to be substantially true, (c) you were not maliciously making false allegations, and (d) you were not seeking any personal or financial gain.

If you call one of the official contacts and choose to remain anonymous, your right to do so will be respected. You should know, however, that it's normally easier to investigate concerns if you identify yourself and the others involved. Please note that should you choose to email any of the official contacts, your e-mail address will show up on your message.

Petaquilla's legal counsel, corporate security and human resources personnel will be involved in the process, as appropriate. We will always inform the appropriate human resources personnel of any suspected cases of unlawful discrimination or harassment.

Acting with integrity, honesty and in good faith with respect to what is in the best interests of the Company's stakeholders is fundamental to the Company's reputation and ongoing success. Petaquilla is committed to sustainable growth within the parameters of protecting the environment, ensuring the safety and well-being of its employees, and supporting the communities in which it operates. The directors, officers, senior employees and consultants of the Company must be committed to upholding these responsibilities in all facets of the Company's day to day operations.

The Directors shall cause the entire "Whistle-Blower Policy" to be officially translated into Spanish and shall further cause both Spanish language and English language versions to be posted on the Company's intranet site for viewing by all directors, officers and employees of the Company. In addition, the "Whistle-Blower Policy" will be posted in hardcopy format for viewing in all Company locations.

The Board of Directors is responsible for approving any updates or changes to the provisions of this Policy. Additionally, any updates or changes to the provisions of this Policy must be publicly disclosed in a prompt manner.

This Policy, pursuant to Section 301.4 of the Sarbanes-Oxley Act requiring audit committees to establish procedures for receiving and handling complaints related to accounting, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters, was amended by the Board of Directors of Petaquilla Minerals Ltd. on the 31st day of May, 2008.

By order of the Board of Directors
PETAQUILLA MINERALS LTD.

Policy Approval Date:	2008 March 1
Last Revision Date:	2008 May 31

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Petaquilla Minerals Ltd. (the "Company") on Form 20-F for the 13 months ended May 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Fifer, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all materials respects, the financial condition and results of operations of the Company.

/s/ Richard Fifer
Richard Fifer
(principal executive officer)

Dated: August 22, 2008

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Petaquilla Minerals Ltd. (the "Company") on Form 20-F for the 13 months ended May 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bassam Moubarak, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all materials respects, the financial condition and results of operations of the Company.

/s/ Bassam Moubarak
Bassam Moubarak
(principal financial officer)

Dated: August 22, 2008

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT 2002**

I, Richard Fifer, President and Chief Executive Officer of Petaquilla Minerals Ltd., certify that:

1. I have reviewed this annual report on Form 20-F of Petaquilla Minerals Ltd. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: August 22, 2008

By: /s/ Richard Fifer
Richard Fifer
President and Chief Executive Officer
(principal executive officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT 2002**

I, Bassam Moubarak, Chief Financial Officer of Petaquilla Minerals Ltd., certify that:

1. I have reviewed this annual report on Form 20-F of Petaquilla Minerals Ltd. (the “Company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

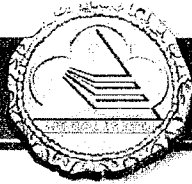
Date: August 22, 2008

By: /s/ Bassam Moubarak
Bassam Moubarak
Chief Financial Officer
(principal financial officer)

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

**Thirteen Months Ended May 31, 2008, and Fifteen Months
Ended April 30, 2007**



PETAQUILLA MINERALS LTD.

Management Report on Internal Controls over Financial Reporting

The management of Petaquilla Minerals Ltd. ("Petaquilla") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Petaquilla's internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

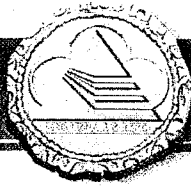
An internal control material weakness is a deficiency, or aggregation of deficiencies, such that the risk that material misstatements in financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work. An internal control significant deficiency, or aggregation of deficiencies, is one that could result in a misstatement of the financial statements that is more than inconsequential.

The management of Petaquilla assessed the effectiveness of the Company's internal control over financial reporting as of May 31, 2008, and this assessment identified the following material weaknesses in our company's internal control over financial reporting.

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

In making our 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 weaknesses described in the preceding paragraph, management believes that, as of May 31, 2008, our 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 deficiencies. Together, the Audit Committee, Board of Directors, and management continue to work to mitigate the risk of a material misstatement in our financial statements. Management has identified certain areas where it can improve process controls and intends to incorporate these changes into the control over the financial reporting over the next twelve months.



PETAQUILLA MINERALS LTD.

Other than the foregoing, during the period covered by this report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PETAQUILLA MINERALS LTD.

By: /s/ Richard Fifer
Richard Fifer, President and Chief Executive Officer
(principal executive officer)

By: /s/ Bassam Moubarak
Bassam Moubarak, Chief Financial Officer
(principal financial and accounting officer)

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
Petaquilla Minerals Ltd. (an exploration stage company)

We have audited the consolidated balance sheets of **Petaquilla Minerals Ltd. (an exploration stage company)** (the "Company") as of May 31, 2008 and April 30, 2007 and the consolidated statements of operations and comprehensive loss and deficit and cash flows for each of the thirteen month period ended May 31, 2008 and the fifteen month period ended April 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company, as of May 31, 2008 and April 30, 2007, and the results of its operations and its cash flows for the thirteen month period ended May 31, 2008 and the fifteen month period ended April 30, 2007 in conformity with Canadian generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, in 2008 the Company adopted new accounting pronouncements relating to financial instruments and comprehensive income.

The consolidated financial statements as at January 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 5, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the effectiveness of the Company's internal control over financial reporting as of May 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 20, 2008 contained an adverse opinion thereon.

Vancouver, Canada,
August 20, 2008.

Ernst & Young LLP

Chartered Accountants

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the addition of an explanatory paragraph, following the opinion paragraph, when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in note 1 to the consolidated financial statements. Our report to the shareholders dated August 20, 2008 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

Vancouver, Canada,
August 20, 2008.

Ernst & Young LLP

Chartered Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS
UNDER STANDARDS OF THE PUBLIC COMPANY ACCOUNTING
OVERSIGHT BOARD (UNITED STATES OF AMERICA)**

To the Shareholders of
Petaquilla Minerals Ltd. (an exploration stage company)

We have audited **Petaquilla Minerals Ltd.'s (an exploration stage company)** (the "Company") internal control over financial reporting as of May 31, 2008, based on the criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment.

- 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 Information Technology configuration at one of the Company's subsidiaries does not have the appropriate system privileges set up for each job function.
- The Company lacks detective and preventative controls with regard to oversight of recorded transactions at one of its operating subsidiaries.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the May 31, 2008 consolidated financial statements and this report does not affect our report dated August 20, 2008 on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Petaquilla Minerals Ltd. has not maintained effective internal control over financial reporting as of May 31, 2008, based on the COSO criteria.

Vancouver, Canada,
August 20, 2008.

Ernst & Young LLP

Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Petaquilla Minerals Ltd.

We have audited the consolidated balance sheets of Petaquilla Minerals Ltd. as at January 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for the years ended January 31, 2006, 2005 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2006 and 2005 and the results of its operations and its cash flows for the years ended January 31, 2006, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 5, 2006

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – U.S. REPORTING DIFFERENCE

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to shareholders dated April 5, 2006 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 5, 2006

A Member of SC INTERNATIONAL

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars) (See Note 1 Nature of Operations and Going Concern Uncertainty)

	May 31, 2008	April 30, 2007
ASSETS (Note 12)		
Current		
Cash and cash equivalents	\$ 12,775,606	\$ 1,870,672
Receivables	448,270	100,410
Prepaid expenses	308,456	452,718
Total current assets	13,532,332	2,423,800
Restricted cash (Note 7)	666,288	1,188,026
Amount receivable from related company (Note 18)	-	4,582,937
Investment in Petaquilla Copper Ltd. (Notes 6 and 18)	9,452,421	1,807,000
Property and equipment (Note 4)	16,681,830	5,343,147
Mineral properties (Note 5)	67,149,615	31,236,455
Total assets	<u>\$ 107,482,486</u>	<u>\$ 46,581,365</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft (Note 13)	\$ 2,087,820	\$ 1,205,382
Operating credit line facility (Note 11)	3,849,974	-
Accounts payable and accrued liabilities	7,286,410	4,951,297
Amount payable to a related party (Notes 6 and 18)	1,157,788	-
Current portion of deferred services and materials (Note 9)	247,343	-
Current portion of obligation under capital leases (Note 10)	2,162,289	-
Current portion of long-term debt (Note 8)	433,621	487,882
Total current liabilities	17,225,245	6,644,561
Deferred services and materials (Note 9)	3,980,203	-
Asset retirement obligations (Note 24)	4,308,083	4,400,000
Senior secured notes (Note 12)	26,630,004	-
Long-term debt (Note 8)	161,625	699,185
Obligations under capital leases (Note 10)	3,968,591	-
Total liabilities	<u>56,273,751</u>	<u>11,743,746</u>
Commitments and contingencies (Notes 21 and 25)		
Shareholders' equity		
Share capital (Note 14)		
Authorized		
Unlimited common shares and preferred shares without par value (Note 14)		
Issued and outstanding		
95,958,641 (April 30, 2007 – 89,876,951) common shares	105,858,083	91,596,035
Shares subscribed	-	150,000
Warrants (Notes 14 and 16)	12,976,997	10,706,498
Treasury shares, at cost (Note 17)		
44,200 (April 30, 2007 – 44,200) common shares	(166,981)	(166,981)
Contributed surplus (Note 14)	16,406,018	12,073,149
Deficit	(83,865,382)	(79,521,082)
Total shareholders' equity	<u>51,208,735</u>	<u>34,837,619</u>
Total liabilities and shareholders' equity	<u>\$ 107,482,486</u>	<u>\$ 46,581,365</u>

On behalf of the Board:

"Richard Fifer" - Director"John Cook" - Director

The accompanying notes are an integral part of these consolidated financial statements.

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT

(Expressed in Canadian Dollars)

	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
EXPENSES			
Accounting and legal (Note 18)	\$1,349,414	\$726,929	\$266,967
Accretion of asset retirement obligation (Note 24)	365,083	-	-
Consulting fees (Note 18)	984,079	1,077,362	291,034
Amortization	388,235	471,309	56,697
Filing fees	89,064	82,669	30,637
Investor relations and shareholder information	1,089,175	1,267,505	388,991
Office administration	2,596,466	971,936	257,859
Rent (Note 18)	126,655	179,497	80,520
Mineral property costs	-	-	11,105
Stock-based compensation (Notes 15 and 16)	5,754,085	20,386,270	410,301
Travel	999,727	1,686,536	346,332
Debt issuance costs	3,974,266	-	-
Wages and benefits (Note 18)	1,883,409	1,991,770	397,907
Total expenses	(19,599,658)	(28,841,783)	(2,538,350)
OTHER INCOME (EXPENSE)			
Foreign exchange gain (loss)	1,670,879	(836,847)	(77,647)
Gain on sale of marketable securities	-	21,191	-
Interest income	133,245	352,880	48,239
Interest on long-term debt	(85,791)	(68,239)	-
Asset usage fees (Note 18)	128,650	103,348	-
Gain on sale of equity investment (Note 18)	4,697,182	-	-
Power and drilling services	149,511	-	-
Loss from equity investment (Note 6)	(4,715,413)	(1,773,000)	-
Gain on dilution of equity investment (Note 6)	13,277,095	3,080,000	-
Total other income (expenses)	15,255,358	879,333	(29,408)
Net Loss and comprehensive loss for the period	(4,344,300)	(27,962,450)	(2,567,758)
Deficit, beginning of period	(79,521,082)	(51,558,632)	(44,143,412)
	(83,865,382)	(79,521,082)	(46,711,170)
Loss on sale of treasury shares (Note 17)	-	-	(4,847,462)
Deficit, end of period	\$ (83,865,382)	\$ (79,521,082)	\$ (51,558,632)
Basic and diluted loss per share	\$(0.05)	\$(0.35)	\$(0.05)
Weighted average number of common shares outstanding	93,413,481	79,992,262	56,115,596

The accompanying notes are an integral part of these consolidated financial statements.

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the period	\$(4,344,300)	\$ (27,962,450)	\$ (2,567,758)
Items not affecting cash:			
Accretion of asset retirement obligation	365,083	-	-
Amortization	388,235	471,309	56,697
Gain on dilution of equity investment	(13,277,095)	(3,080,000)	-
Gain on sale of equity investment	(4,697,182)	-	-
Loss from equity investment	4,715,413	1,773,000	-
Stock-based compensation	5,754,085	20,386,270	410,301
Debt issuance costs	3,974,266	-	-
Gain on sale of marketable securities	-	(21,191)	-
Foreign exchange loss on restricted cash	-	29,016	73,813
Unrealized foreign exchange (gain) loss on asset retirement obligation	(457,000)	-	-
Unrealized foreign exchange (gain) loss on capital leases and lease credit facility	(58,227)	-	-
Unrealized foreign exchange (gain) loss on senior secured notes	(155,356)	-	-
Unrealized foreign exchange (gain) loss on long-term debt	(67,356)	35,567	-
Changes in non-cash working capital items:			
(Increase) decrease in receivables	(347,860)	(68,222)	39,075
(Increase) decrease in prepaid expenses	144,262	(416,068)	(25,867)
Prepaid services and materials	(149,511)	-	-
Increase in accounts payable to a related party	1,157,788	-	-
(Decrease) increase in accounts payable and accrued liabilities	(1,622,961)	(127,333)	255,887
Net cash used in operating activities	(8,677,716)	(8,980,102)	(1,757,852)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from exercise of warrants and options	1,658,655	8,879,670	11,826,329
Proceeds from shares subscribed	12,095,805	22,710,000	-
Share issuance costs	(467,741)	(1,550,343)	(573,165)
Advances from (to) Petaquilla Copper Ltd.	18,043,254	(4,582,937)	-
Net proceeds from sale of treasury stock	-	-	1,273,946
Proceeds from bank overdraft	882,438	1,205,382	-
Proceeds from senior secured notes	31,746,900	-	-
Proceeds from long term debt	-	1,413,510	-
Prepaid interest on senior secured notes	(4,762,035)	-	-
Payment of capital leases	(775,909)	-	-
Debt issuance costs	(3,974,266)	-	-
Repayment of long-term debt	(591,821)	(226,443)	-
Net cash provided by financing activities	53,855,280	27,848,839	12,527,110
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	(6,713,118)	(5,942,363)	(291,877)
Investment in mineral properties	(28,011,818)	(19,387,844)	(2,197,611)
Redemption (purchase) of performance bond and restricted cash	521,738	(324,800)	-
Proceeds from sale of marketable securities	-	21,191	-
Purchase of equity investment	-	(500,000)	-

Net cash used in investing activities	(34,203,198)	(26,133,816)	(2,489,488)
Impact of exchange rate changes on cash and cash Equivalents	(69,432)	(35,567)	-
Change in cash and cash equivalents	10,904,934	(7,300,646)	8,279,770
Cash and cash equivalents, beginning of period	1,870,672	9,171,318	891,548
Cash and cash equivalents, end of period	\$ 12,775,606	\$ 1,870,672	\$ 9,171,318

Supplemental disclosure with respect to cash flows
(Note 23)

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Petaquilla Minerals Ltd. ("the Company") was incorporated in the Province of British Columbia and is in process of exploring its mineral properties. The Company has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing and permits to complete the development, and future profitable productions or proceeds from the disposition thereof.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not generated any operating revenues to date and has experienced recurring operating losses and accumulated a deficit of \$83,865,382 as at May 31, 2008 (April 30, 2007 - \$79,521,082). Also the Company had a working capital deficiency of \$3,692,913 at May 31, 2008 (April 30, 2007 - \$4,220,761). 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. Management's plan in this regard is to raise equity and debt financing as required. There are no assurances that the Company will be successful in achieving these goals. These consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and accompanying notes have been prepared in conformity with Canadian Generally Accepted Accounting Principles ("GAAP"). For a description of the differences between Canadian GAAP and United States GAAP for the Company, see note 27.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Petaquilla Minerals, S.A. (a Panama corporation), Adrian Resources (BVI) Ltd. (a British Virgin Island corporation), Petaquilla Gold, S.A. (a Panama corporation), Aqua Azure S.A. (a Panama corporation) and its 51% interest in Petaquilla Infraestructura Ltd. ("PQI") formerly Petaquilla Power and Water, S.A. ("PPW") (a Panama corporation). The Company proportionately consolidates its 69% interest in a joint venture investment, Compania Minera Belencillo, S.A. ("Belencillo") (a Panama corporation).

All inter-company transactions and balances have been eliminated upon consolidation.

Use of 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting Policy for Petaquilla Copper Ltd.

The Company owns 12.82% in Petaquilla Copper Ltd. ("Copper"), a Company listed on the Toronto Stock Exchange, and uses the equity method to account for the investment. The two companies share common directors and management. The Company's proportionate share of income and expenses is recorded with a corresponding entry made to the investment account. The Company periodically assesses whether there have been any indications of impairment and if there are and the carrying amount would not be expected to be recovered, there would be a write down to fair value.

Cash and cash equivalents

Cash and cash equivalents are classified as held for trading and include short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company places its deposits with financial institutions with high credit standing. The Company regularly maintains cash balances in financial institutions in excess of insured limits.

Property and equipment

Equipment is recorded at cost less accumulated amortization, which is provided on the declining balance basis at rates as follows:

Furniture and fixtures	20%
Office equipment	20%
Computer equipment	30%
Equipment under capital lease	30%
Equipment	30%
Vehicles	30%
Computer software	50%
Leasehold improvements	5 year straight-line
Buildings	4%

Mineral properties

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted cash

The Company has elected to classify restricted cash as held for trading.

Receivables

Receivables are classified as loans and receivables and are measured at amortized costs. Receivables are comprised of refundable government value added taxes and amounts due from third parties for overpayments.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. Subsequently, these capitalized asset retirement costs will be amortized to expense over the life of the related assets using the unit-of-production method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and adjusted for changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs).

Impairment of long-lived assets

A long-lived asset which included 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.

Foreign currency translation

Integrated foreign operations are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the period-end exchange rate, non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates, and revenue and expenses are translated at rates approximating those in effect at the time of the transactions. Translation gains and losses are reflected in operations for the period.

The Company considers all of its subsidiaries and joint venture investments to be integrated operations. All other foreign currency-denominated monetary accounts of the Company are translated at the period-end exchange rate. All other income statement transactions are translated using the exchange rate at the date of the transaction.

Exchange gains and losses on translation are recognized as a gain or loss in operations in the period they arise.

Debt issuance costs

Debt issuance costs are expensed in the year that they are incurred.

Interest expense

Interest expense relating to project development, construction and mill equipment is capitalized to mineral properties and to be amortized over the recoverable reserves. Interest on operating long-term debt is expensed to operations as it is incurred.

Operating leases

Operating leases are charged to operations as the expense is incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized as a result of the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For all periods presented, all outstanding options were anti-dilutive.

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 remeasured 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.

During the thirteen month period ended May 31, 2008 and the fifteen month period ended April 30, 2007, the Company granted stock options to directors, officers, employees and non-employees as set out in note 15.

Income taxes

Future income taxes are recorded using the liability method under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income or loss in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation. The accounts affected were cash, warrants and share capital.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 operations, 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.

3. INVESTMENT IN JOINT VENTURES

Investment in Compania Minera Bellencillo, S.A.

The Company owns a 69% joint venture interest in Minera Bellencillo S.A., which is proportionately consolidated in the financial statements. The Company's interest is summarized as follows:

	2008 \$	2007 \$
ASSETS		
Mineral properties	48,872	26,006
	<u>48,872</u>	<u>26,006</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	47,809	25,802
Shareholders' equity	1,063	204
	<u>48,872</u>	<u>26,006</u>
Cash flows provided by (used in)		
Operating activities	859	204
Financing activities	22,007	25,802
Investing activities	(22,866)	(26,006)

4. PROPERTY AND EQUIPMENT

	May 31, 2008			April 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 59,429	\$ 40,613	\$ 18,816	\$ 395,852	\$ 118,321	\$ 277,531
Computer software	167,847	111,829	56,018	526,252	187,329	338,923
Equipment under capital leases	10,925,172	1,638,776	9,286,396	-	-	-
Equipment	9,395,507	2,586,114	6,809,393	4,393,729	681,008	3,712,721
Furniture and fixtures	21,000	7,185	13,815	30,523	9,905	20,618
Leasehold improvements	-	-	-	8,951	8,951	-
Office equipment	-	-	-	36,101	8,553	27,548
Vehicles	-	-	-	600,671	107,909	492,762
Land	125,440	-	125,440	34,130	-	34,130
Buildings	380,667	8,715	371,952	445,169	6,255	438,914
	<u>\$ 21,075,062</u>	<u>\$ 4,393,232</u>	<u>\$16,681,830</u>	<u>\$ 6,471,378</u>	<u>\$ 1,128,231</u>	<u>\$ 5,343,147</u>

In September of 2007, the Company entered into an agreement with Copper to sell some of its surplus property and equipment that are no longer required for its current operations. The net book value of these assets was \$2,405,401. The Company did not recognize a gain or loss on this disposal.

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5. MINERAL PROPERTIES

	May 31, 2008	April 30, 2007
Molejon property	\$ 67,100,743	\$ 31,210,449
Rio Belencillo concession	48,872	26,006
	\$ 67,149,615	\$ 31,236,455

The Company has capitalized \$67,149,615 in mineral property costs as at May 31, 2008:

	Molejon	Rio Belencillo	Total
Drilling costs	\$ 11,046,825	\$ -	\$ 11,046,825
Trenching	4,308,854	48,872	4,357,726
Plant equipment	3,927,704	-	3,927,704
Plant-site	22,272,755	-	22,272,755
Engineering and consulting	2,807,641	-	2,807,641
Camp costs	6,158,386	-	6,158,386
Roads	1,634,057	-	1,634,057
Geologist	1,128,193	-	1,128,193
Property permits	408,381	-	408,381
Environment	488,040	-	488,040
Logistics	395,581	-	395,581
Indirect drilling costs	1,106,528	-	1,106,528
Engineering and design	517,156	-	517,156
Transportation	250,126	-	250,126
Communications	192,370	-	192,370
Topography	153,571	-	153,571
Technical support	120,272	-	120,272
Bridges	50,261	-	50,261
Communications - plant	6,179	-	6,179
Road agreements	105,939	-	105,939
Water samples	3,857	-	3,857
Total	57,082,676	48,872	57,131,548
Deferred amortization on mining equipment	3,938,717	-	3,938,717
Asset retirement obligation (Note 24)	4,400,000	-	4,400,000
Stock-based compensation (Note 15)	723,668	-	723,668
Deferred interest expense	955,682	-	955,682
	\$ 67,100,743	\$ 48,872	\$ 67,149,615

5. MINERAL PROPERTIES (continued)

The company has capitalized \$31,236,455 in the period ended April 30 2007.

	Molejon	Rio Belencillo	Total
Drilling costs	\$ 5,947,874	\$ -	\$ 5,947,874
Trenching	3,929,987	26,006	3,955,993
Plant equipment	3,901,761	-	3,901,761
Plant-site	3,703,891	-	3,703,891
Engineering and consulting	2,152,648	-	2,152,648
Camp costs	2,103,628	-	2,103,628
Roads	1,729,614	-	1,729,614
Geologist	663,641	-	663,641
Property permits	374,558	-	374,558
Environment	359,780	-	359,780
Logistics	299,939	-	299,939
Indirect drilling costs	199,218	-	199,218
Engineering and design	149,392	-	149,392
Transportation	145,347	-	145,347
Communications	128,729	-	128,729
Topography	113,008	-	113,008
Technical support	110,248	-	110,248
Bridges	63,332	-	63,332
Communications - plant	6,179	-	6,179
Road agreements	4,127	-	4,127
Water samples	3,857	-	3,857
Total	26,090,758	26,006	26,116,764
Deferred amortization on mining equipment	601,295	-	601,295
Asset retirement obligation (Note 24)	4,400,000	-	4,400,000
Stock-based compensation (Note 15)	118,396	-	118,396
	\$ 31,210,449	\$ 26,006	\$ 31,236,455

Molejon Property – Panama

The Molejon Property is located in the District of Donos, Province of Colon, Panama. The project is located in the Ley Petaquilla Property. In June 2005, the shareholders of Minera Petaquilla S.A. ("Minera Petaquilla") (formerly a joint venture investment) agreed to separate the gold deposit and other precious metal mineral deposits that might be developed within the Ley Petaquilla mineral concession from the copper mineral deposits within the Ley Petaquilla mineral concession. The agreement provides for the Company, through Petaquilla Gold, S.A., to own a 100% interest in the Molejon gold deposit, as well as all other gold and precious metal mineral deposits that might be developed within the Ley Petaquilla mineral concession, subject to a graduated 1% - 5% Net Smelter Return, based on the future gold price at the time of production, payable to the former joint venture partners as to 35.135% and 64.865% respectively. (See Note 6).

Approval of the phased Mine Development Plan was obtained in September 2005. The Company proceeded with the development of the property and construction of the processing mill commenced in July of 2007.

5. MINERAL PROPERTIES (continued)

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"), a company having a common director, had 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 (Note 3).

San Juan Concessions - Panama

During the period ended April 30, 2007, the Company entered into an agreement with Geneva Gold, formerly Eurogold Mining Inc. ("Eurogold"), for the exploration and development of the San Juan Concessions. The San Juan Property is adjacent to the Company's Molejon gold project and the Petaquilla porphyry copper project in west 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). All capitalized costs relating to this concession have been previously written off.

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 has claimed a loss in the share value said to be caused by the Company's news release announcing that the agreement with the Company has been rescinded. The legal claim was settled by issuing 100,000 shares in Petaquilla Minerals Ltd., valued at the market value \$2.61 per share. Legal fees of \$41,692 were incurred (\$14,251 - April 30, 2007).

6. PLAN OF ARRANGEMENT AND ADVANCES TO PETAQUILLA COPPER LTD.

During the period ended April 30, 2007, the shareholders of the Company voted in favour of the April 21, 2006 proposed Plan of Arrangement. During the same period, 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 the Company received one share of Petaquilla Copper Ltd. ("Copper"), a private company. Each shareholder continued to hold one share of the Company and one share of Copper, for each one share of the Company held on the effective date of the Plan of Arrangement.

The Effective Date of the Plan of Arrangement was October 18, 2006 whereby each holder of the common shares of the Company on October 17, 2006 was entitled to receive one common share of Copper for each common share of the Company held.

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6. PLAN OF ARRANGEMENT AND ADVANCES TO PETAQUILLA COPPER LTD. (continued)

According to the terms of the Plan of Arrangement, the Company transferred title to Copper of its wholly-owned subsidiary, Georecursos International S.A., the holder of the 52% interest in the Ley Petaquilla concession lands. The Company would retain 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.

The Company initially owned 22,233,634 of the issued shares of Copper at a cost of \$500,000. This initial 20% equity stake has been and may be further diluted upon future share capital financings that are anticipated to be necessary for the ongoing funding of the Copper deposit project. Subsequent to the Plan of Arrangement, the Company has accounted for Copper on an equity basis reporting an equity loss of \$4,715,413 (fifteen months ended April 30, 2007 - \$1,773,000) and a gain on dilution of \$13,277,095 (fifteen months ended April 30, 2007 - \$3,080,000) for the thirteen months period ended May 31, 2008. Under the equity method, the Company records the percentage of net income (loss) that would be attributed to the investment by adjusting the carrying value of the investment. If the percentage of loss from the investee is greater than carrying cost, the amount is not reduced beyond the full carrying value. Dilution gains arise whenever Copper issues equity at a price greater than the carrying value of the equity investment. During the thirteen months ended May 31, 2008 Copper issued equity at prices ranging from \$2 to \$3.50 per unit.

As at May 31, 2008, the amount payable to Copper is \$1,157,788 (April 30, 2007, receivable of \$4,582,937) related to advances to pay for mineral property costs and administrative expenses.

7. RESTRICTED CASH

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. The Company has pledged as security for financings (Note 8) a term deposit in the amount of \$397,680 (US\$ 400,000).

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. Also, the Company posted a term deposit for \$39,768 (US\$ 40,000) for a performance bond with the Ministry of Commerce and Trade in Panama.

Interest rates on these deposits ranges from 2.60% to 4.875%.

8. LONG-TERM DEBT

During the prior period ended April 30, 2007, the Company arranged a bank loan of \$407,524 (US\$ 382,400) to acquire road and mine site equipment. The loan is repayable in 36 equal monthly instalments of \$12,513 (US\$ 11,742) commencing in May 2006 and bears interest at an annual rate of 5.625%. Collateral for this loan is comprised of a pledge of a Fixed First charge on the purchased equipment and \$248,550 (US\$ 250,000) renewable term deposit.

During the prior period ended April 30, 2007, the Company arranged a bank loan of \$83,988 (US\$ 78,810) to acquire vehicles to be used for the mine site. The loan is repayable in 36 equal monthly instalments of \$2,671 (US\$ 2,506) commencing in May 2006 and bears interest at an annual rate of 9.25%. Collateral for this loan is comprised of a fixed first charge on the purchased equipment.

During the prior period ended April 30, 2007, the Company arranged a bank loan of \$245,878 (US\$ 230,720) to acquire additional road and mine site equipment. The loan is repayable in 36 monthly instalments of \$7,934 (US \$7,445) commencing in October 2006 and bears interest at an annual rate of 9.00%. Collateral for this loan is comprised of a first charge on the purchased equipment.

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8. LONG-TERM DEBT (continued)

During the prior period ended April 30, 2007, the Company arranged a bank loan of \$597,645 (US \$560,800) to acquire additional road and mine site equipment. The loan is repayable in 36 monthly instalments of \$19,284 (US \$18,095) commencing in January 2007 and bears interest at an annual rate of 9.25%. Collateral for this loan is comprised of a pledge of a first charge on the purchased equipment and \$149,130 (US \$150,000) renewable term deposit.

During the prior period ended April 30, 2007, the Company arranged a bank loan of \$26,110 (US \$24,500) to acquire a vehicle to be used for the mine site. The loan is repayable in 36 monthly instalments of \$845 (US \$793) commencing in January 2007 and bears interest at an annual rate of 9.25%. Collateral for this loan is comprised of a first charge on the purchased vehicle.

The following table summarizes the loans outstanding as at May 31, 2008 and April 30, 2007:

	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	<u>13,907</u>	<u>25,245</u>
	595,246	1,187,067
Less: current portion	<u>(433,621)</u>	<u>(487,882)</u>
	\$ 161,625	\$ 699,185

Anticipated long-term debt principal repayments are as follows:

2009	\$433,621
2010	161,625
	<u>\$595,246</u>

9. DEFERRED SERVICES AND MATERIALS TO BE PROVIDED TO PETAQUILLA COPPER LTD.

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) as per the following table, which details Copper's minimum needs:

9. DEFERRED SERVICES AND MATERIALS TO BE PROVIDED TO PETAQUILLA COPPER LTD
(continued)

Service/Supply	Minimum Requirement	Estimated Cost per Unit	Estimated Cost per Month	Estimated cost for 3-year contract
Electric Generation	350,000 kw.hr/month	0.19 USD/kw.hr	\$ 66,254	\$ 2,385,142
Aggregate for construction, including transportation to site	100,000 yd ³	16.4 /yd ³	-	1,643,895
Rental of LF 70 Drill Machine	-	-	99,630	358,668
Total prepaid services				\$ 4,387,705
Balance at May 31, 2007				\$ 4,227,546
Current portion				\$ (247,343)
Non-current portion				\$ 3,980,203

During the first two years of the Service Agreement, Copper shall have the option to purchase the equipment from Gold at the market price of the equipment less the unamortized amount of rental costs prepaid. See Note 18.

During the period, the Company provided \$149,511 (US\$ 160,159) in services under this agreement.

10. CAPITAL LEASE OBLIGATIONS

During the period, the Company entered into a 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, a 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 subject to 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

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11. OPERATING CREDIT LINE FACILITY

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 is registered with the Public Registry of the Republic of Panama.

12. SENIOR SECURED NOTES

2008

US\$ 60 Million Senior Secured Notes

\$26,630,004

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.

The Notes have been accounted for in accordance with HB 3855 "Financial Instruments – Recognition and Measurement" and HB 3861 "Financial Instruments – Disclosure and Presentation". Under this guidance, the Company valued the liability component of the Notes and assigned the difference to the warrants. On the valuation date, the value of the Notes was calculated to be \$30,993,398 (US\$ 31,430,279) and the amount allocated to the warrants \$808,327 (US\$ 819,721). Prepaid interest of \$4,762,035 (US\$ 4,875,000) was applied as a reduction of the Notes. The liability component was calculated using a discount rate of 26.65% and a maturity date of two years from issue. The senior secured notes contain embedded derivatives as a result of the call and put options. The Company is unable to fair value the embedded derivatives component separately and thus has classified the combined contract as a financial liability that is held for trading.

The Company incurred \$3,974,266 (US\$ 4,029,536) in financing costs. These costs have been expensed in the period they are incurred in accordance with the Company's accounting policy.

The Notes are guaranteed, on a joint and several basis, by all the assets of the Company and of the Company's subsidiaries.

13. BANK OVERDRAFT

The Company has a bank overdraft facility with one of its financial institutions for \$2,087,820 (US\$ 2,100,000) (April 30, 2007 – \$1,205,382 (US\$ 1,089,168)). The overdraft bears a fixed interest of 7.5% per annum and is secured by one of the Company's savings account up to \$1,168,282 (US\$ 1,175,098). A related company subject to significant influence, has posted a \$919,538 (US\$ 924,902) term deposit as guarantee for this facility.

14. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

Authorized Capital

Unlimited common shares without par value

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

	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

- (a) In January 2006, the Company completed a non-brokered private placement and issued 9,965,670 units at a price of \$0.95 per unit, for gross proceeds of \$9,467,387. Each unit consists of one common share and one-half of one non-transferable share purchase warrant aggregating 4,982,835 warrants. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$1.20 per share if exercised in the first year following the closing, and at a price of \$1.44 per share if exercised in the second year following the closing. The warrant will terminate within 20 days unless exercised in the event the Company's closing stock price meets or exceeds \$2.00 for 10 consecutive trading days and the Company issues a press release of such an event. The Company paid finders' fees of \$534,053 for net proceeds of \$8,933,334. The warrants were exercised during fiscal 2007.
- (b) In October 2006, the Company completed a non-brokered private placement and issued 9,400,000 units at a price of \$2.40 per unit, for gross proceeds of \$22,560,000. Each unit consists of one common share and one share purchase warrant (see Note 16). The Company agreed to issue 398,000 share purchase warrants as finders' fees in connection with part of the private placement (see Note 16). The fair value of the finders' warrants is \$820,518 that was approved and recorded during the fiscal year. In addition, the Company paid finders' fees of \$956,800 for net cash proceeds of \$21,603,200.

14. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS (continued)

- (c) In May 2007, the Company closed 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 their terms and conditions, expire at the end of such 30 day period. The securities issued under this private placement were subject to a four-month and a day resale restriction that expired on September 10, 2007. The fair value of the warrants issued on this private placement is \$291,274.

In October 2007, the Company closed the first tranche of the non-brokered private placement announced in October 2007 comprising 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 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 Company paid \$222,375 and agreed to issue 74,125 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$52,584.

In December 2007, the Company closed the second tranche of the non-brokered private placement announced in October 2007 comprising of 339,000 units at \$3.00 per unit for gross proceeds of \$1,017,000. 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 Company paid \$43,500 and agreed to issue 12,500 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$8,304.

In January 2008, the Company closed the third tranche of the non-brokered private placement announced in October 2007 comprising of 708,000 units at \$3.00 per unit for gross proceeds of \$2,124,000. 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 Company paid \$105,000 and agreed to issue 35,000 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$22,957.

In May 2008, the Company closed the first tranche of its Senior Secured Notes issuing 32,250 units with gross proceeds of US\$ 32,250,000. Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. 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 warrant is subject to a weighted average anti-dilution price protection with a floor equivalent to \$2.15. The notes will mature at 120% of the principal amount. The notes also carry a 15% interest of which the first year's interest is prepaid at the date the funds were received. The Company paid \$1,612,500 and agreed to issue 492,780 share purchase warrants as finders' fees in connection with this tranche of the private placement. The fair value of the finders' warrants is \$629,481.

- (d) The Company adopted a new shareholder rights plan, which was approved by the shareholders and by the Toronto Stock Exchange on June 6, 2006. Under the Plan, the Company issued one Right for no consideration for each outstanding common share of the Company to all holders of record of common shares as at 5:00 p.m., Pacific Time, March 7, 2006. Thereafter, each common share issued by the Company during the term of the Plan will have one Right attached to it. The term of the Plan is five years unless the rights are earlier redeemed or exchanged. The Plan will be subject to review after the third year of its term.

14. CAPITAL STOCK, WARRANTS AND CONTRIBUTED SURPLUS (continued)

The Rights are attached to the common shares and cannot be exercised until eight trading days after a triggering event has taken place. A triggering event is one of the following: (i) an Acquiring Person, as defined in the Plan, acquires 20% or more of the common shares of the Company; or (ii) an Acquiring Person announces his intention to make a take-over bid that would result in the person owning 20% or more of the outstanding common shares of the Company. Upon such a triggering event occurring, each Right would separate from the common share and thereafter entitle the holder to purchase common shares at a discount of 50% to the market price, up to the amount of the \$30 exercise price of the Right.

The Rights will not be separated from the shares if the Acquiring Person makes a Permitted Bid, defined in the Plan to mean a bid made pursuant to a take-over bid circular to all shareholders of the Company, which has a minimum deposit period of at least 60 days and pursuant to which not less than 50% of the common shares, other than those held by the Acquiring Person, are deposited and not withdrawn.

15. STOCK OPTIONS

During the period ended April 30, 2007, the Company received approval for its stock option plan (the "New Plan") which authorizes the board of directors to grant incentive stock options to directors, officers and employees. The maximum number of shares reserved for issuance under the Company's Plan is 10,000,000.

On December 8, 2006, no shares remained in reserve under the Company's former incentive stock option plan (the "Former Plan"). The 2,556,144 options that remained outstanding as of December 8, 2006 under the Former Plan were carried forward to the New Plan. In January 2007, the Company granted a total of 5,989,543 incentive stock options under the New Plan. During the period ended May 31, 2008, 1,375,000 incentive stock options were granted. As at May 31, 2008, the total number of outstanding incentive stock options under the Plan is 8,115,134 (April 30, 2007 - 8,115,767).

Prior to the Plan of Arrangement taking effect, and in order to create unallocated options to be granted in the future to new employees, officers and directors, the existing optionees were asked to voluntarily reduce the number of shares under option to each of them to 60% of the number of shares held under the option on the day before the Effective Date ("October 18, 2006") of the Plan of Arrangement. All of the optionees agreed to this arrangement except for an option holder holding 675,000 options who elected to retain the number of options held under the existing grants. Each revised option outstanding would enable the option holder to receive one share of the Company and one share of Copper upon exercising. For example, when an optionee prior to the Effective Date held an option to purchase 100,000 shares of the Company, that optionee after the Effective Date would hold an option to purchase 60,000 shares of the Company and 60,000 shares of Copper. Both options must be exercised together. The modification of stock options as a result of the Plan of Arrangement resulted in no incremental stock-based compensation expense to recognize.

The aggregate number of common shares reserved for issuance to any person may not exceed 5% of the number of outstanding common shares. The exercise price of the options will be determined by the five day volume weighted average price of the Company's shares prior to the date of the grant. Options granted must be exercised no later than 10 years after the date of grant or such lesser period as may be determined by the Board. The Board may at its discretion in any granting of an option set a vesting period whereby the option may only be exercisable in pre-determined instalments. Stock option transactions are summarized as follows:

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15. STOCK OPTIONS (continued)

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2005	2,373,800	\$ 0.36
Granted	5,573,000	0.53
Exercised	(1,465,600)	0.32
Expired	(450,000)	0.42
Balance at January 31, 2006	6,031,200	0.53 ⁽¹⁾
Granted (re: Plan of Arrangement)	3,730,000	1.14 ⁽¹⁾
Granted	6,139,543	2.02
Exercised	(5,247,813)	0.59 ⁽¹⁾
Expired	(400,000)	1.24 ⁽¹⁾
Forfeited	(493,400)	0.98 ⁽¹⁾
Forfeited	(20,000)	2.01
Voluntary reduction	(1,623,763)	0.91 ⁽¹⁾
Balance at April 30, 2007	8,115,767	1.76 ⁽¹⁾
Granted	1,375,000	2.41
Exercised	(1,055,883)	1.03 ⁽¹⁾
Cancelled	(319,750)	2.42
Balance at May 31, 2008	8,115,134	1.82
Number of stock options exercisable	6,003,944	\$ 1.71

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

15. STOCK OPTIONS (continued)

As at May 31, 2008, the following stock options were outstanding as follows:

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 Petaquilla Copper Ltd. and one option of the Company with half of the proceeds to be allocated to the Company and half to Petaquilla Copper Ltd. Both options must be exercised together.

Total stock options granted during the thirteen months ended May 31, 2008 are 1,375,000 (April 30, 2007 - 9,869,543), of which Nil (April 30, 2007 - 400,000) were expired and Nil (April 30, 2007 - 513,400) were forfeited during the period. Stock options granted that are not vested have been excluded from the calculation of stock-based compensation. Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the thirteen month period ended May 31, 2008 was \$5,754,085 (fifteen months ended April 30, 2007 - \$(20,386,270)). Stock-based compensation charged to mineral property costs amounted to \$605,272 for the thirteen months ended May 31, 2008 (fifteen months ended April 30, 2007 - \$118,396).

These financial statements include the stock-based compensation costs associated with the exchange of options and warrants in connection with the Plan of Arrangement, and the options and warrants issued to Copper in respect thereof.

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15. STOCK OPTIONS (continued)**Options**

The weighted average fair value of stock options granted is estimated to be approximately \$1.60 and \$1.20 for the thirteen months ended May 31, 2008 and for the fifteen months ended April 30, 2007, respectively, by using the Black-Scholes options pricing model with the following weighted average assumptions:

	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007
Risk-free interest	4.11%	4.04 %
Expected dividend yield	-	-
Expected stock price volatility	86%	105.33 %
Expected option life in years	5.00 years	4.94 years

16. SHARE PURCHASE WARRANTS

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2005	7,550,496	\$ 0.25
Issued	4,982,835	1.2/1.44
Exercised	(7,550,496)	0.25
Balance at January 31, 2006	4,982,835	1.20/1.44
Issued	9,798,000	1.54
Exercised	(4,982,835)	1.20
Balance at April 30, 2007	9,798,000	1.54
Issued	15,210,110	2.49
Exercised	(373,395)	1.54
Balance at May 31, 2008	24,634,715	\$ 2.13

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:

- 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

16. SHARE PURCHASE WARRANTS (continued)

- 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.

Until such time as Copper has been listed on a recognized Canadian stock exchange (the "Copper Listing Date"), the Copper Warrant and the PTQ Warrant must be exercised together. From and after the first five trading days after the Copper Listing Date, the Warrants can be exercised separately, and in that event, the respective exercise prices of the PTQ Warrants and the Copper Warrants will be based on \$3.00 multiplied by the ratio of the five day volume weighted average price of each of the PTQ and Copper shares during the first five trading days for Copper.

The PTQ Warrants were subject to a hold period that expired on February 18, 2007. The Copper shares and Copper Warrants are subject to resale restrictions until such time that Copper becomes a reporting issuer or another exemption from resale restrictions is available. The PTQ common shares will be freely tradable following the Effective Date.

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.

On May 10, 2007, the Company closed 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 (See Note 14). The fair value of the warrants issued on this private placement is \$291,274.

In October 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 Company paid \$222,375 and agreed to issue 74,125 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the warrants issued on this tranche of the private placement is \$720,134. The fair value of the finders' warrants is \$52,584.

In December 2007, the Company closed the second tranche of the non-brokered private placement announced in October 2007 comprising of 339,000 units at \$3.00 per unit for gross proceeds of \$1,017,000. 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 Company paid \$43,500 and agreed to issue 12,500 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the warrants issued on this tranche of the private placement is \$103,549. The fair value of the finders' warrants is \$8,304.

In January 2008, the Company closed the third tranche of the non-brokered private placement announced in October 2007 comprising of 708,000 units at \$3.00 per unit for gross proceeds of \$2,124,000. 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 Company paid \$105,000 and agreed to issue 35,000 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the warrants issued on this tranche of the private placement is \$212,504. The fair value of the finders' warrants is \$22,957.

In May 2008, the Company closed the first tranche of its Senior Secured Notes issuing 32,250 units with gross proceeds of US\$ 32,250,000 (Note 12). Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. 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 warrant is subject to a weighted average anti-dilution price

16. SHARE PURCHASE WARRANTS (continued)

protection with a floor equivalent to \$2.15. The notes will mature at 120% of the principal amount. The notes also carry a 15% interest of which the first year's interest is prepaid at the date the funds were received. The Company paid \$1,612,500 and agreed to issue 492,780 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$629,481.

The weighted average fair value of the finders' warrants issued is estimated to be approximately \$1.16 and \$2.06 for the thirteen months ended May 31, 2008 and the fifteen months ended April 30, 2007 by using the Black-Scholes options pricing model with the following assumptions:

	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007
Risk-free interest	3.34%	4.04 %
Expected dividend yield	-	-
Expected stock price volatility	68.56%	108.00%
Expected warrant life in years	4.41 years	5 years

17. TREASURY SHARES

During the period ended January 31, 2006, the Company sold 1,616,000 of its shares held in treasury at an average price of \$0.79 per share for net proceeds of \$1,273,946. These shares were previously issued and reacquired at a cost of \$3.79 per share by the Company pursuant to an issuer bid. The loss of \$4,847,462 resulting from the sale of these shares and related broker fees has been charged to deficit during the period ended January 31, 2006. As at May 31, 2008, 44,200 common shares were held in treasury.

18. RELATED PARTY TRANSACTIONS

During the period ended May 31, 2008:

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

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

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18. RELATED PARTY TRANSACTIONS (continued)

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 has 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.

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).

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19. INCOME TAXES

A reconciliation of income taxes of statutory rates with the reported taxes is as follows:

	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
Statutory tax rate	32.89%	34.12%	34.7%
Loss for the period	\$ (4,344,300)	\$ (27,962,450)	\$ (2,567,758)
Income tax recovery	\$ (1,429,122)	\$ (9,533,900)	\$ (892,168)
Permanent differences	(255,069)	6,740,964	117,045
Income tax rate change and differential	2,358,480	491,760	14,107
Change in valuation allowance	(674,289)	2,301,176	761,016
Income tax recovery	\$ -	\$ -	\$ -

The significant components of the Company's future income tax assets (liabilities) are as follows:

	May 31, 2008	April 30, 2007
Future income tax assets (liabilities)		
Non-capital and other loss carry-forwards	\$ 3,249,789	\$ 4,264,620
Equipment and mineral properties	54,878	235,412
Deferred financing costs	1,623,839	-
Future income tax on investment	(1,347,586)	-
Other	13,060	386,036
Total future income tax assets	3,593,980	4,886,068
Valuation allowance	(3,593,980)	(4,886,068)
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$12,499,188 available for deduction against future years' taxable income in Canada. These losses, if unutilized, will expire beginning in 2009 as follows:

2009	\$ 184,526
2010	133,088
2011	420,267
2015	882,063
2026	1,932,414
2027	5,173,260
2028	3,773,570
	\$ 12,499,188

The Company will not be subject to any income taxes in Panama until such time that all of the debts incurred by all the affiliated / subsidiary companies have been repaid in full. At that time the Company will be able to claim accelerated write-offs for all Panamanian subsidiaries.

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20. SEGMENT INFORMATION

The Company has one operating segment being the exploration of resource properties. Details of geographic information are as follows:

May 31, 2008	Canada	Panama	Total
Interest income	\$42,450	\$90,795	\$133,245
Property and equipment	-	\$16,681,830	\$16,681,830
Mineral properties	-	\$67,149,615	\$67,149,615
April 30, 2007	Canada	Panama	Total
Interest income	\$311,833	\$41,047	\$352,880
Property and equipment	\$63,284	\$5,279,863	\$5,343,147
Mineral properties	-	\$31,236,455	\$31,236,455
January 31, 2006	Canada	Panama	Total
Interest income	\$48,239	\$ -	\$48,239

21. COMMITMENTS

- (a) During the period ended April 30, 2007, the Company entered into a five-year lease for office premises at an estimated annual cost of \$66,240 commencing September 1, 2006. Cancellation of two previous lease obligations was obtained effective May 15, 2006.

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. Therefore the estimated annual cost is \$33,120 to the Company.

- (b) 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).

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22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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. The Company does not use any derivative instruments or hedging activities to reduce its exposure to fluctuations in foreign currency exchange rates.

23. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
Non-cash financing activities			
Finder's fee	\$ 713,326	\$ 820,518	\$ -
Share issue costs	(713,326)	(820,518)	-
Settlement of advances for deferred services	(4,387,705)	-	-
Settlement of advances for property and equipment and mineral properties	(3,464,048)	-	-
Shares issued re legal settlement	261,000	-	-
Non-cash investing activities			
Property and equipment incurred through payables	\$ -	\$ 188,383	\$ -
Property and equipment acquired through capital leases	6,906,789	-	-
Property and equipment acquired through credit line facility	3,849,974	-	-
Mineral property costs incurred through payables	3,958,074	4,339,151	192,158
Stock-based compensation capitalized to mineral properties	605,272	118,396	-
	May 31, 2008	April 30, 2007	
Cash and cash equivalents consist of:			
Cash	\$ 6,357,871	\$ 1,463,598	
Term deposits	6,417,735	407,074	
	\$ 12,775,606	\$ 1,870,672	
	May 31, 2008	April 30, 2007	
Interest paid in cash	\$ 5,938,429	\$ 68,329	
Income taxes paid in cash	-	-	

24. ASSET RETIREMENT OBLIGATIONS

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:

- The total undiscounted cash flow required to settle the obligation is approximately \$6,848,000 (US\$ 6,225,000);
- Asset retirement obligation payments are expected to occur during fiscal years 2014 and 2015;
- A credit adjusted risk-free rate of 7.65% has been used to discount cash flows.

25. CONTINGENCIES

The Company is engaged in certain 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.

The Company was served with a claim by a former officer for \$250,000. The Company believes that the claim is without merit and has not recorded an amount relating to this claim as it is not determinable.

26. SUBSEQUENT EVENTS

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

- 25,000 stock options held by an individual who ceased to be an employee were cancelled.
- 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.
- On July 7, 2008 Inmet Mining Corporation made an unsolicited offer for Petaquilla Copper Ltd at \$2.00 per share.
- 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 assess this claim and as a result the likely outcome is not determinable.

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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Material variations in the accounting principles, practices and methods used in preparing these financial statements from United States Generally Accepted Accounting Principles ("U.S. GAAP") are described and quantified below.

Loss for the years

	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
Loss for the year – Canadian GAAP	\$(4,344,300)	\$ (27,962,450)	\$(2,567,758)
Gain on dilution of equity investment (a)	(13,277,095)	(3,080,000)	-
Mineral properties expensed under U.S. GAAP (b)	(35,913,160)	(28,846,686)	(2,389,769)
Accreted interest on senior notes under U.S. GAAP (h)	(56,811)	-	-
Foreign exchange on senior notes under U.S. GAAP (h)	80,070	-	-
Equity investment (e)	4,715,413	1,273,000	-
Loss for the year – U.S. GAAP	(48,795,883)	(58,616,136)	(4,957,527)
Holding losses on marketable securities (c)	-	-	(22,044)
Net Loss and Comprehensive loss – U.S. GAAP	\$ (48,795,883)	\$ (58,616,136)	\$ (4,979,571)
Basic and diluted loss per share – U.S. GAAP	\$ (0.52)	\$ (0.73)	\$ (0.09)

Balance Sheets

	May 31, 2008	April 30, 2007
Total assets – Canadian GAAP	\$ 107,482,486	\$ 46,581,365
Mineral properties expensed under U.S. GAAP (b)	(67,149,615)	(31,236,455)
Investment in Petaquilla Copper Ltd. (e)	(9,452,421)	(1,807,000)
Total assets – U.S. GAAP	\$ 30,880,450	\$ 13,537,910
Liabilities – Canadian GAAP	\$ 56,273,751	\$ 11,743,746
Allocation of fair value of senior notes under U.S. GAAP (h)	(9,827,661)	-
Liabilities – U.S. GAAP	\$ 46,446,090	\$ 11,743,746
Shareholder's equity - Canadian GAAP	\$ 51,208,735	\$ 34,837,619
Mineral properties expensed under U.S. GAAP (b)	(67,149,615)	(31,236,455)
Additional loss from equity investment (e)	(9,452,421)	(1,807,000)
Allocation of fair value of senior notes under U.S. GAAP (h)	9,804,402	-
Accreted interest on senior notes and related foreign exchange impact under U.S. GAAP (h)	23,259	-
Shareholders' (deficit) equity – U.S. GAAP	\$ (15,565,640)	\$ 1,794,164

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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

	May 31, 2008	April 30, 2007	January 31, 2006
Mineral properties			
Mineral properties – Canadian GAAP	\$ 67,149,615	\$ 31,236,455	\$ 2,389,769
Mineral properties expensed under U.S. GAAP (b)	(67,149,615)	(31,236,455)	(2,389,769)
Mineral properties – U.S. GAAP	\$ -	\$ -	\$ -
Equity investments			
Equity investments – Canadian GAAP	\$ 9,452,421	\$ 1,807,000	\$ -
Equity investments expensed under U.S. GAAP (e)	(9,452,421)	(1,807,000)	-
Equity investments – U.S. GAAP	\$ -	\$ -	\$ -
Shareholders' equity			
Shareholders' equity – Canadian GAAP	\$ 51,208,735	\$34,837,619	\$ 12,256,076
Cumulative adjustments:			
Mineral properties (b)	(67,149,615)	(31,236,455)	(2,389,769)
Holding gains on marketable securities (c)	-	-	15,375
Additional loss from equity investment (e)	(9,452,421)	(1,807,000)	-
Allocation of fair value of senior notes under U.S. GAAP	9,804,402	-	-
Accreted interest on senior notes under U.S. GAAP (h)	(56,811)	-	-
Foreign exchange on senior notes under U.S. GAAP (h)	80,070	-	-
Shareholders' (deficit) equity – U.S. GAAP	\$ (15,565,640)	\$ 1,794,164	\$ 9,881,682
Statement of Cash Flows	Thirteen months ended May 31, 2008	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
Cash used in operating activities – Canadian GAAP	\$ (8,677,716)	\$ (8,980,102)	\$ (1,757,852)
Expenditures on mineral properties	(28,011,818)	(19,387,844)	(2,197,611)
Cash used in operating activities – U.S. GAAP	\$ (36,689,534)	\$ (28,367,946)	\$ (3,955,463)
Cash from financing activities – Canadian GAAP	\$ 53,855,280	\$ 27,848,839	\$ 12,527,110
Cash from financing activities – U.S. GAAP	\$ 53,855,280	\$ 27,848,839	\$ 12,527,110
Cash used in investing activities – Canadian GAAP	\$ (34,203,198)	\$ (26,133,816)	\$ (2,489,488)
Expenditures on mineral properties	28,011,818	19,387,844	2,197,611
Cash used in investing activities – U.S. GAAP	\$ (6,191,380)	\$ (6,745,972)	\$ (291,877)
Cash and cash equivalents, end of period – Canadian GAAP	\$ 12,775,606	\$ 1,870,672	\$ 9,171,318
Cash and cash equivalents, end of period – U.S. GAAP	\$ 12,775,606	\$ 1,870,672	\$ 9,171,318

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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

Statements of Operations	Thirteen months ended May 31, 2008	Three months ended April 30, 2007 (unaudited)	Twelve months ended January 31, 2007 (unaudited)
Expenses			
Accounting and legal	\$1,349,414	\$236,578	\$490,351
Accretion of asset retirement obligation	365,083	-	-
Consulting fees	984,079	320,910	756,452
Amortization	388,235	135,397	335,912
Filing fees	89,064	6,340	76,329
Investor relations and shareholder information	1,089,175	153,403	1,114,102
Mineral properties – exploration expenditures	35,969,971	7,203,658	21,643,028
Office administration	2,596,466	176,097	795,839
Rent	126,655	38,310	141,187
Stock-based compensation	5,754,085	10,378,308	10,007,962
Travel	999,727	266,748	1,419,788
Debt issuance costs	3,974,266	-	-
Wages and benefits	1,883,409	179,317	1,812,453
Total expenses	55,569,629	(19,095,066)	(38,593,403)
Other income (expenses)	6,773,746	(1,285,607)	357,940
Net loss during the period	\$(48,795,883)	\$(20,380,673)	\$(38,235,463)

Statements of Cash Flows	Thirteen months May 31, 2008	Three months April 30, 2007 (unaudited)	Twelve months January 31, 2007 (unaudited)
Cash flow from/(used in) operating activities	\$(36,689,534)	\$ (324,302)	\$(28,043,644)
Cash flow from/(used in) financing activities	\$ 53,855,280	\$ (3,106,639)	\$ 30,955,478
Cash flow from/(used in) investing activities	(6,191,380)	(1,592,644)	(5,153,328)
Change in cash and cash equivalents	10,974,366	(5,023,585)	(2,241,494)
Impact of foreign exchange rates on cash	(69,432)	(35,567)	-
Cash and cash equivalents, beginning of period	1,870,672	6,929,824	9,171,318
Cash and cash equivalents, end of period	\$ 12,775,606	\$ 1,870,672	\$ 6,929,824

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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

a) Gain on dilution of equity investment

Under U.S. GAAP, changes in the parent company's proportionate share of subsidiary equity resulting from the additional equity raised by a subsidiary in the development stage are accounted for as an equity transaction on consolidation. Under Canadian GAAP, these gains have been credited to income.

b) Mineral properties and deferred costs

Mineral property costs and related exploration expenditures are accounted for in accordance with Canadian GAAP as disclosed in Note 2. For U.S. GAAP purposes, the Company expenses, as incurred, the exploration costs relating to unproven mineral properties. When proven and probable reserves are determined for a property and a feasibility study is prepared, then subsequent exploration and development costs of the property would be capitalized. The capitalized costs of such properties are measured periodically for recoverability of carrying values.

c) Marketable securities

Under Canadian GAAP, the marketable securities held by the Company were recorded at the lower of cost and net realizable value. Under U.S. GAAP, these investments are classified as "available-for-sale" securities and recorded at market value. The accumulated difference between cost and market value is recorded as part of comprehensive income. Effective May 1, 2007 Canadian and U.S. GAAP relating to accounting for investments has converged and no differences exist for the period ended May 31, 2008.

d) Development stage company

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

e) Accounting for equity investment

In 2006, the Company disposed of its Copper interests in exchange for common shares. The Company accounts for this investment under the equity method. The Company recorded its proportionate share of cumulative net losses based on U.S. GAAP adjusted financial statements. The market value of this investment as at May 31, 2008 is \$26,544,135

f) Income taxes

Under Canadian GAAP, future tax assets and liabilities are recorded at substantively enacted tax rates. Under U.S. GAAP, deferred tax assets and liabilities are recorded at enacted rates. There were no significant differences between enacted and substantively enacted rates for the periods presented.

g) Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ("FIN 48"). This interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

Effective May 1, 2007 the Company adopted FIN 48. The adoption did not result in any adjustment to opening retained earnings under U.S. GAAP. As a result of the implementation of FIN 48, the Company did not recognize any liabilities for unrecognized tax benefits. In the event that the Company recognizes interest accrued related to unrecognized tax benefits, it will be recorded in interest expense. Any penalties will be recorded in general and administrative expense.

The Company is subject to taxation in Canada and various other foreign jurisdictions. The Company is currently open to audit under the statute of limitations by the Canada Revenue Agency for years ended January 31, 2003 through April 30, 2007.

h) Senior secured notes

Under Canadian GAAP, compound financial instruments can be accounted for using the residual method when allocating between the liability and equity component. Under U.S. GAAP, compound financial instruments are accounted for using the fair value method when allocating between the liability and equity component. This difference resulted in senior secured notes being reduced by \$9,827,661, warrants increased by \$9,804,402, accreted interest increased by \$56,811 and foreign exchange gain increasing \$80,070.

i) Reclassification

Certain comparative numbers have been reclassified to take into consideration the current period's financial statement presentation. The accounts affected were cash, warrants and share capital.

j) Recent accounting pronouncements:

- i. Statement of Financial Accounting Standards No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS 157 does not require any new fair value measurements. The adoption of SFAS 157 is not expected to have an impact on the Company's consolidated financial statements. SFAS 157-2 defers the Statement's effective date for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, and interim periods within those years. The adoption of SFAS 157-2 is not expected to have an impact on the Company's consolidated financial statements.
- ii. Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Liabilities, provides companies with an option to report selected assets and liabilities (principally financial assets and liabilities) at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements included in other accounting standards. The adoption of SFAS 159 is not expected to have an impact on the Company's consolidated financial statements.

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27. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

- iii. SFAS No. 141(R), Business Combinations, is to replace SFAS No. 141, Business Combinations. The new statement retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations. The new standard defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. The new statement improves the comparability of the information about business combinations provided in financial reports. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management is reviewing the requirements of the new statement and its impact on the Company's financial statements.

- iv. SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51, is to amend ARB 51 to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. A non-controlling interest is sometimes called a minority interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is reviewing the requirements of the new statement and its impact on the Company's financial statements.