Zacks Small-Cap Research

December 21, 2011

Steven Ralston, CFA
312-265-9426
sralston@zacks.com

scr.zacks.com

111 North Canal Street, Chicago, IL 60606

Petaquilla Minerals Ltd. (T.PTQ – TSE

T.PTQ: Zacks Co. Report – OUTPERFORM

Zacks initiates coverage of Petaquilla Minerals with an Outperform rating and a NPV-derived target of $1.70.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/20/11
Current Price (12/21/11)	$0.54
Six- Month Target Price	**$1.70**

OUTLOOK

Petaquilla Minerals Ltd. is a junior gold production and exploration company with a producing gold mine (Molejón) located in Panamá and numerous mineral exploration properties in Panamá and Spain. Production is expected to increase with the recent construction of two on/off leach pads at Molejón. Also, the recently acquired Lomero-Poyatos concessions in Spain are expected to be advanced. Both Molejón and Lomero-Poyatos have 43-101 compliant Technical Reports with estimated reserves and resources, respectively, which contribute to our target of $1.70. We initiate coverage of Petaquilla Minerals with an Outperform rating.

SUMMARY DATA

52-Week High	**$1.36**
52-Week Low	**$0.37**
One-Year Return (%)	**105**
Beta	**2.06**
Average Daily Volume (shrs.)	**460,861**
Shares Outstanding (million)	**221.1**
Market Capitalization ($ mil.)	**$119.4**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using #Lin Estimate	**6.0**
P/E using #Lin Estimate	**4.2**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Mining - Gold**
Zacks Rank in Industry	**22 of 43**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2010	0.0 A	0.0 A	11.4 A	16.4 A	27.8 A
2011	14.9 A	17.7 A	19.2 A	16.4 A	71.7 A
2012	26.2 A	25.4 E	27.1 E	29.4 E	108.3 E
2013					130.2 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2010	-$0.07 A	-$0.08 A	-$0.05 A	-$0.05 A	-$0.25 A
2011	-$0.05 A	-$0.06 A	$0.01 A	$0.03 A	-$0.03 A
2012	$0.03 A	$0.02 E	$0.02 E	$0.02 E	$0.09 E
2013					$0.13 E

Zacks Projected EPS Growth Rate - Next 5 Years % **20.0**

2011 & 2012 quarterly EPS do not equal annual EPS due to rounding.

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

KEY POINTS

- Petaquilla Minerals is a junior gold production and exploration company with numerous mineral exploration properties in Panamá and Spain. The **Molejón gold project** in north-central **Panamá** achieved commercial production in January 2010 and **has poured 146,305 ounces of gold**. Approximately **567,500 ounces** have yet to be monetized from the proven and probable reserve delineated in the most recent 43-101 compliant mineral reserve report.
- An **on/off leach pad has been constructed** at Molejón and is currently initiating production. Management expects this incremental leach operation to recover 3,000 ounces Au during the third fiscal quarter of 2012.
- Petaquilla Minerals holds the mineral exploration and development rights to 842 square kilometers of concession lands that contain gold, copper and molybdenum deposits in Panamá. Certain mineral concessions, such as Oro del Norte, are being advanced with exploration programs.
- In **Spain**, Petaquilla Minerals now owns a 100% interest in **Lomero-Poyatos** through the acquisition of Iberian Resources. Based on historical drilling results, a NI 43-101 compliant Technical Report (dated July 29, 2011) estimated that the inferred mineral resource contains **2.07 million ounces Au** and **41.98 million ounces Ag**.
- Management's focus in fiscal 2012 lies in boosting gold production at Molejón gold project, continuing exploration at the Oro del Norte concession, advancing the newly acquired Lomero-Poyatos concessions and pursuing the spin-out of Panamanian Development and Infrastructure Ltd.
- We initiate coverage of Petaquilla Minerals with an Outperform rating and a target of $1.70.

OVERVIEW

Based in Vancouver, British Columbia, Petaquilla Minerals Ltd. (PTQ: TO, PTQMF: OTCOB) is a junior gold production and exploration company with a producing gold concession located in the Republic of Panamá and with numerous mineral exploration properties in Panamá and Spain. Incorporated in October 1985 as Adrian Resources Ltd., the company was renamed Petaquilla Minerals Ltd. on October 12, 2004.

Petaquilla Minerals Ltd. has a complex corporate structure with interests in many subsidiaries, of which the more significant are Petaquilla Minerals, S.A., Corporacion de Recursos Iberia S.L and Panamanian Development and Infrastructure Ltd[1]. Through **Petaquilla Minerals, S.A.,**[2] the company owns numerous mineral exploration concessions in the Petaquilla district of Panamá, and in particular the gold deposits within the Cerro Petaquilla Concession, and especially **100% of the Molejón gold-producing property**. **Corporacion de Recursos Iberia S.L.**, a subsidiary of the recently acquired Iberian Resources, owns 100% of the **Lomero-Poyatos mining concessions** in Spain. Petaquilla Minerals Ltd. owns 47.78% of **Panamanian Development and Infrastructure** Ltd.,[3] which the company plans to spin-out to shareholders.

Management's primary focus has been the production of gold from the **Molejón** open pit mine. Molejón is situated in one of the four zones of the Cerro Petaquilla Concession which operates under a unique set of rules and regulations known as **Ley Petaquilla No. 9**. Having successfully reached commercial production in January 2010, Molejón is currently pouring gold at a rate of **18,100 ounces per quarter** from a carbon-in-pulp (CIP) leaching process and a carbon-in-column (CIC) gold adsorption stack.

[1] The other subsidiaries are Adrian Resources (BVI) Ltd., Instituto Petaquilla, S.A., Brigadas Verdes, S.A., Compania Minera Belencillo, S.A., Aqua Azure, S.A., Petaquilla Infraestructura Ltd., Panama Desarollo de Infraestructuras, S.A., Petaquilla Security, S.A. and Panama Central Electrica, S.A.
[2] Petaquilla Minerals, S.A. was originally incorporated as Adrian Resources, S.A., but was renamed Petaquilla Minerals, S.A. on February 3, 2005. Also, Petaquilla Minerals, S.A. owns 68.88% of Compañìa Minera Belencillo, S.A., which holds a 100% interest in Zone 2 of the Rio Belencillo Concession and 68.88% of Zone 1.
[3] Panamanian Development and Infrastructure Ltd., was formerly named Petaquilla Infrastructure Ltd.

At current gold prices, management believes that the low grade gold resource (between 0.2 g/t and 1.0g/t) at Molejón can be economically processed through on/off pad leaching. After conducting column leach tests on the low grade material at laboratory facilities in Arizona, an on/off pad leach project was advanced, and a stockpile of low grade ore was accumulated. **The leach pad and a pregnant solution processing plant have been constructed,** and **management expects the leach operation to recover 3,000 ounces Au during the third fiscal quarter of 2012.**

In return for the 100% interest in Molejón, Petaquilla Minerals transferred its interest in the copper and molybdenum deposits of Cerro Petaquilla Concession to Petaquilla Copper Ltd., which was acquired by Inmet Mining Corporation (IMN: TSE). However, if the value of the gold resource supersedes the value of the copper-molybdenum resources within deposits of the Cerro Petaquilla Concession, Petaquilla Minerals has a claim to the gold rights. Also, the development of the copper project will benefit **Panamanian Development and Infrastructure Ltd.**, which is receiving contracts to aid in the construction of the project's infrastructure, such as supplying aggregate for roads to the copper mines.

In total, Petaquilla Minerals Ltd. holds gold exploration and development rights to 842 square kilometers of concession lands in north-central Panamá, including the Cerro Petaquilla Concession, and Oro del Norte. An exploration program is being advanced at Oro del Norte with the Tucan Project, under which 5,310 meters of diamond drilling and 3,972 meters of trenching have already been completed. Additional exploration is expected to upgrade the inferred resource calculated by management to a NI 43-101 compliant measured and indicated resource.

On September 1, 2011, Petaquilla Minerals **acquired Iberian Resources Corp**., **which holds a 100% interest in the Lomero-Poyatos concessions in Spain.** Located in the northeast part of the Iberian Pyrite Belt, Lomero-Poyatos contains an estimated inferred mineral resource **of 2.07 million ounces Au** and **41.98 million ounces Ag**. Though the acquisition provides geographic diversification, the transaction is indicative of the opportunistic nature of management.

The company has been successful in obtaining capital through equity and debt offerings. After raising $29.9 million through several private placements in fiscal 2007, the planned proto-type 200 tonne per day (t/d) facility at Molejón was abandoned in favor of a commercial-scale 2,200 t/d operation, which required additional capital. Despite the challenges of brought forth by the 2008-2009 financial crisis, Petaquilla Minerals was able to complete offerings of $60,000,000 of 5-year 15% coupon Secured Notes and $40,000,000 of 2-year 15% coupon Convertible Notes, which altogether helped fund the company's initiatives. During fiscal 2010, Petaquilla Minerals not only raised equity capital, but also entered into a $45,000,000 prepaid Forward Gold Purchase Agreement with Deutsche Bank AG, requiring Petaquilla Minerals to deliver 66,650 ounces of gold to Deutsche Bank over a five-year period. With the cash flow from gold sales, successful equity offerings and the proceeds from the Forward Gold Purchase Agreement, management was able to retire the debt issued in fiscal 2008 and 2009. The acquisition of Iberian Resources was financed through the issuance of 44,635,225 newly issued common shares, along with warrants and options exercisable into 4,997,732 shares.

GOLD ASSAY PRIMER

The interpretation of assay results is best left to Qualified Persons[4] and geologists. Generally, however, there are a three main factors to be considered when evaluating assay results from an exploration company: 1) Grade, which includes the grade of the sample, the grade distribution from sample to sample and the grade continuity from section to section (the strike length); 2) Width, which relates to the number of sequential grade-bearing samples, with broader widths allowing for lower grade bulk tonnage open pit mining[5] (ten to 50+ meters) and narrower widths (three to ten meters) generally requiring higher grades and potentially underground mining; and 3) Depth, with near surface deposits allowing for lower economic grades extractable by open pit bulk tonnage methods.

All three of these factors should be considered concurrently. For example if a deposit is lower grade, its economics will be dependent on the width of mineralization and proximity to surface, whereas if mineralization occurs over narrower widths then the grade must be higher to warrant the greater dilution caused by open pit mining (if near surface) or capital expenditures for underground mining (if at depth). Cut-offs and thresholds vary from deposit to deposit based on the economic modeling in the feasibility report. Other factors that can affect the economics of a mineral deposit, such as metallurgy and mining method, but these factors are addressed during the feasibility stage.

From a financial analyst point of view, assay results from drilling programs tend to fall into four categories: gold mineralization above 5.0 g/t[6] (high-grade mineralization), 2.0 to 5.0 g/t (mid-grade mineralization), 0.85 to 2.0 g/t (bulk tonnage) and below 0.75 g/t (economic viability highly dependent on the price of gold). High-grade, gold-bearing mineralization above the 5.0 g/t concentration level usually can rationalize an underground mine and is often the catalyst to an increase of the company's stock price. Drilling assays of over 8.0 g/t usually indicate the discovery of a high-grade gold vein. Gold has been economically extracted through open pit surface mines at near-surface gold mineralization in concentrations between 0.85 and 2.0 g/t, and as the price of gold rose above $1,200 per troy ounce in mid-2010, many deposits below 0.75 g/t became economic viable. However, the entire drilling program should be analyzed in the attempt to ascertain the grade continuity and geological strike length of the gold mineralization discovery in order to estimate the impact on the company's estimated resource and/or reserve value(s).

PANAMÁ

Panamá is a unique mining environment where mineral rights are governed by the Mineral Resources Code of Panamá and regulated by the Código de Recursos Minerales. The Code provides a framework for the exploration and extraction of minerals, including concession terms, surface taxes, royalties, income taxes on production and environmental requirements.

Petaquilla Minerals holds several mineral concessions in Panamá, of which one, the Cerro Petaquilla Concession, receives preferential treatment through Ley Petaquilla No. 9, which was approved by the National Assembly in 1997. The company's Molejón mine is situated in one of the four zones of the Cerro Petaquilla Concession. Under Ley Petaquilla, the gold extraction concession was granted for a 20-year period, which expires on February 25, 2017, with two renewal periods of 20 years also having been granted. The annual surface land taxes and mineral production royalty rates conform to the Mineral

[4] A "Qualified Person" is an engineer or geoscientist with at least five years of experience in mineral exploration, mine development, or mineral project assessment, or any combination of these; and is a member or licensee in good standing of a professional association.

[5] An open pit mine is constructed by excavating material from the surface in order to expose and mine the ore. In addition, it is necessary to excavate and relocate large quantities of waste rock.

[6] grams per tonne (metric ton)

Resources Code of Panamá. On February 11, 2011, the Government of Panamá amended the Mineral Resources Code of Panamá with Law No. 8, which increased the royalty rate from 2% to 4%; however, the subsequent opposition resulted in its repeal.



Panamá is characterized by a hot, tropical climate with significant rainfall (100 inches annually), of which almost 70% occurs between September and November. The Molejón mine utilizes a pumping system and a drainage channel to mitigate the impact of rainfall. When an open pit mine is deluged by torrential rains, the water can trigger landslides as well as flood the mine. The ensuing delay of operations increases costs and lowers the productivity of the mine. In August 2010, a 30-year high level of rain required the Molejón processing plant to shut down for eight days. The most productive time for mining in Panamá is from December through April.

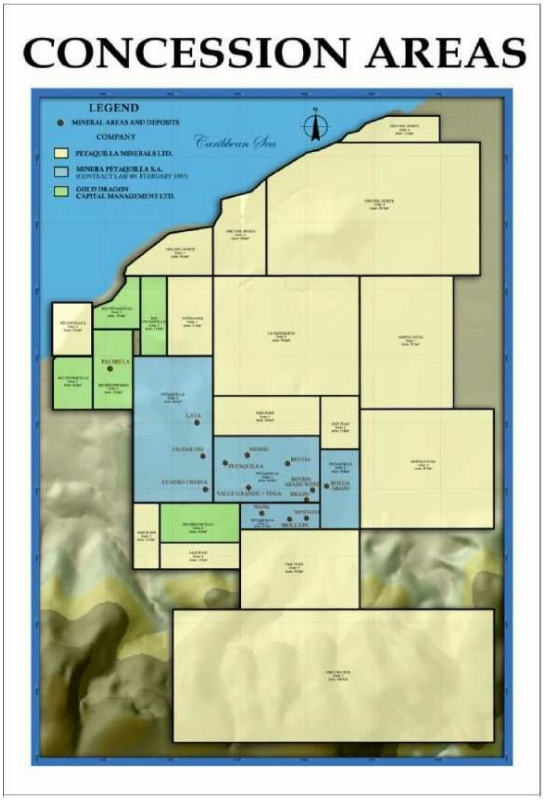
Not only does the rainy season impede open pit mining operations, but also the excessive rainfall can impact the leaching process. Excessive rainfall alters the chemical balance beyond the solution parameters for cost-effective gold extraction. In order to maintain the optimum pH, dissolved oxygen content and cyanide content, the chemical composition of the circulating solution must be managed. By adjusting the elements of the leach cycle, such as the application rate and cycle time, the solution balance can be successfully controlled under normal weather conditions of moderate levels precipitation and evaporation. The process needs to be managed to account for the amount of rainfall absorbed by the material on the leach pad. Also, downpours create a hydrological issue where excessive volumes of precipitation require water balance management, including the availability of a series of storage ponds in which to release the excess diluted solution. Overwhelming rain may necessitate the treatment and discharge of water from the operation. This undesirable event increases both capital and operating costs for the requisite water treatment facilities.

Currently, the Molejón mine is served by a conventional gold processing mill that utilizes enclosed leaching tanks, carbon-in-column (CIC) adsorption stacks and a carbon-in-pulp (CIP) processing facility, all of which are unaffected by excessive rainfall. However, given the high gold price and relatively large tonnages of low-grade mineralization at Molejón, management has decided to expand the mill operations by constructing a 2.2 million tonne[7] leach processing circuit. Though management is confident that a on/off pad leach operation can successfully be managed in the environs of Panamá, a prior attempt at the Santa Rosa mine (100 kilometers to the southwest) by Greenstone Resources in the late 1990's (when gold was below $300 an ounce) did not achieve an economical recovery rate.

[7] The 2.2 million tonne circuit is composed of two leach pads (one 40,000 tonnes and the other 300,000 tonnes) with expected leach cycles of 60 days.

PETAQUILLA'S CONCESSION AREAS IN PANAMÁ

Cerro Petaquilla Concession encompasses 136 square kilometers (13,600 hectares) in north-central Panamá. Divided into four contiguous Zones (the blue areas in the map on the left and the yellow area in the map on the right), **the Molejón gold deposit is entirely within Zone No. 3** (1,200 hectares). Gold mineralization has also been identified in Zone No. 4 (1,800 hectares) at Botija Abajo and in Zone No. 1 (4,000 hectares) at Brazo. Zone No. 2 is comprised of 6,600 hectares (see close-up map in section below) [8].

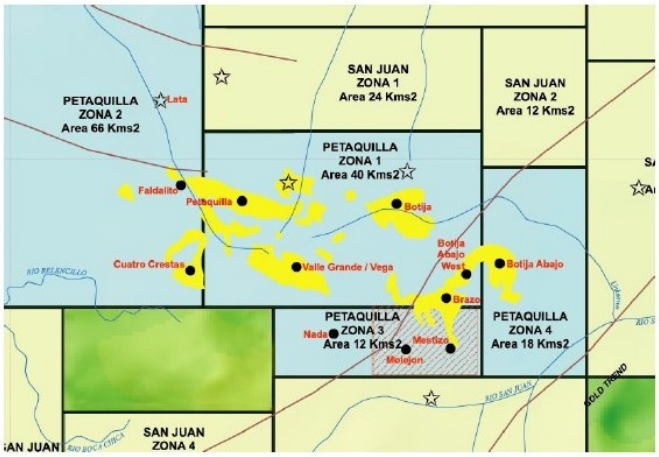




Ley Petaquilla No. 9, which was enacted by the Panamanian of Legislative Assembly in February 1997, is a project-specific piece of legislation that governs the Cerro Petaquilla Concession in Panamá. The Law promotes mineral development by granting Minera Petaquilla, S.A. (now a wholly owned subsidiary of Inmet) the right to gold, copper, and other mineral deposits located in the 13,600 hectare Concession Area, along with favorable financial treatment on income, depreciation, depletion, dividends, imports and infrastructure tax credits in return for the timely development of the concession. In addition, Ley Petaquilla specifies a minimum level of investment towards the concession's development.

Under Ley Petaquilla No. 9, mine development was required to begin by August 2006, having been extended from the original date in August 2001 due to the price of copper remaining below $1.155 per pound for five years. **An Agreement in early June 2005 transferred / assigned the gold rights to Petaquilla Gold S.A.** (a wholly owned subsidiary of Petaquilla Minerals Ltd.) not only for the 1,186 hectares in the Molejón area, but also for the entire 13,600 hectare Cerro Petaquilla Concession Area in exchange for obtaining government approval for a Mine Development Plan, which Petaquilla submitted to the Panamanian Government in September 2005, and which was subsequently approved by Ministerial Resolution.

[8] The dimensions of the Zones are from Ley Petaquilla, Contrato N° 9 del 26/02/97, Anexo I, pages 57 – 59.





Petaquilla Minerals Ltd. (through its Petaquilla Minerals, S.A. subsidiary) owns 68.88% interest in Zone 2 and 47.46% of Zone 1 of the **Rio Belencillo Concession** (the two larger green concessions in the map above). Gold Dragon Capital Management Ltd. can earn a 100% interest in the concession through $500,000 on mutually agreed upon property expenditures over two years.

In total, Petaquilla Minerals Ltd. holds the gold exploration and development rights to 842 square kilometers of concession lands in north-central Panamá, including the Cerro Petaquilla Concession (especially at Botija Abajo and Lata), the Rio Belencillo Concession, and **Oro del Norte** (the four beige concessions in the North on the map above). Petaquilla's management believes that the company's concessions surrounding the Molejón property may contain not only porphyry copper-gold-molybdenum deposits but also additional epithermal gold vein systems. If the value of the gold resource supersedes the value of the copper-molybdenum resources within deposits in the Cerro Petaquilla Concession, Petaquilla Minerals has a claim to the gold rights[9].

In the Cerro Petaquilla Concession, Cobre Panama (formerly Petaquilla Copper Ltd.) holds 100% of the copper interests[10] over 795 square kilometers of concession lands. Inmet acquired 100% of Cobre Panamá in 2008, but subsequently sold an option for 20% to Korea-owned LS-Nikko. The area hosts a massive porphyry deposit[11], grading 0.493% copper, 0.015% molybdenite and 0.11 g/t gold. Three project areas are located in Zone No. 1 of the Cerro Petaquilla Concession at Botija, Petaquilla and Valle Grande (see map below). A pre-NI-43-101 feasibility study completed in 1998 indicates a resource of 9.4 billion pounds copper, 1.37 million ounces gold, 24.1 million ounces silver and 131.1 million pounds molybdenum. The development of the copper deposits in the Cerro Petaquilla Concession is the responsibility of Inmet; however, the management of Petaquilla Minerals Ltd. expects to provide considerable infrastructure services towards the construction of the Cobre Panamá Project, especially by supplying crushed rock aggregates.

[9] The rights to mineral deposits the Cerro Petaquilla Concession with predominant gold mineralization are retained by Petaquilla Minerals, according to the letter of intent (dated December 13, 2004) for the Agreement among Teck, Inmet and Petaquilla Minerals.
[10] On October 18, 2006, Petaquilla Minerals Ltd. transferred ownership of the copper assets in the Cerro Petaquilla Concession to Petaquilla Copper Ltd. in return for the gold rights of the Molejon deposit as well as to the gold and precious mineral deposits that may be developed in the Cerro Petaquilla Concession. Petaquilla Minerals also retained 20.4 million shares of Petaquilla Copper Ltd. until September 2008, when the shares were sold to IMN Resources Inc, a wholly-owned subsidiary of Inmet Mining Corp., for $43,238,852 (CAD $44,920,843).
[11] An igneous (volcanic) rock formation composed of rocks in which the minerals vary markedly in size due to a complex cooling history.

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

MOLEJÓN MINE (PANAMÁ) - GOLD

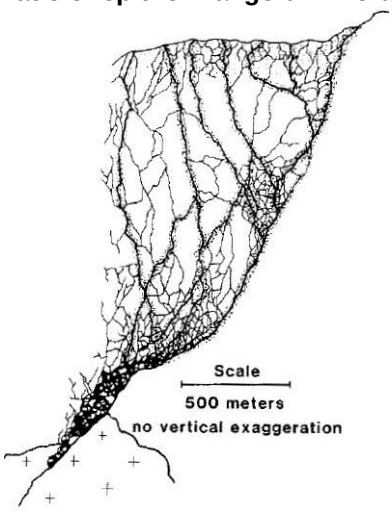
Petaquilla Minerals acquired 100% of the gold rights and related surface rights on the Cerro Petaquilla Concession, including the Molejón gold property (Zone 3) from an **Agreement** among Teck Cominco (now Teck Resources Ltd. - TCK-A & TCK-B: TSE), Inmet Mining Corporation (IMN: TSE) and Petaquilla Minerals in June 2005. Located in the Republic of Panamá (District of Donoso, Province of Colon), the Molejón property is approximately 130 kilometers west of Panama City, 20 kilometers inland from the Caribbean coast and 54 kilometers from the Penonomé exit of the Pan-American Highway (13 kilometers by paved road and 41 kilometers by a maintained gravel road[12]). **Since 2009 through the second fiscal quarter of 2012, the Molejón gold property has produced 146,305 poured ounces of gold, of which 143,663 ounces have been sold** by the company.

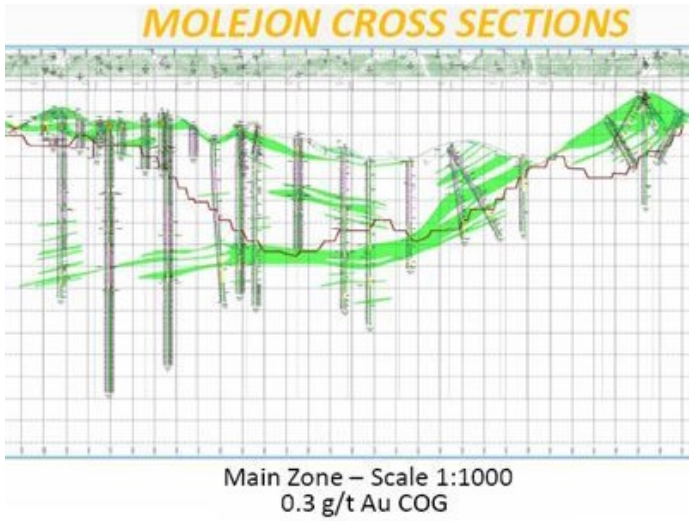
Geology

Geologically, the Molejón gold property contains epithermal[13] gold reserves. Initially explored by a United Nations Development Program team conducting a regional geological mapping and magnetometer survey in 1967[14], a massive copper-gold-molybdenum porphyry system was discovered in the area of the Cerro Petaquilla Concession. Subsequent exploration identified four large copper-gold deposits (the Petaquilla, Botija, Valle Grande-Vega and Rio del Medio deposits), along with four minor mineralized ones, including Botija Abajo. The Molejón epithermal gold mineralization was discovered in 1991.

At first, the exploration of the Cerro Petaquilla Concession area concentrated on the detection of copper ore bodies, which were expected to be associated with the volcanic porphyry system. However, quartz veining at Molejón indicated a relatively high-level hydrothermal system, which included near-surface epithermal gold deposits formed in fissures and fractures acting as conduits for the deposition of gold mineralization from ascending solutions, most likely by hot springs[15] and/or late stage volcanic venting. Subsequent exploration has point towards a relationship between the Molejón epithermal gold and the Petaquilla region porphyry copper deposits, a potential link that has been well documented[16]. Generally, epithermal gold deposits are conducive to open-pit mining.

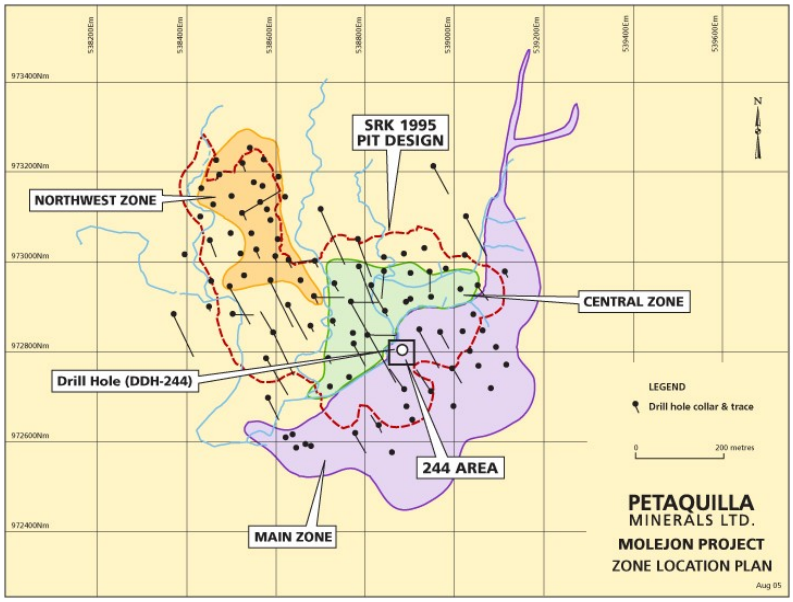
Schematic of epithermal gold mineralization[17]





[12] The gravel road was constructed in 2006, and later bridges spanning the San Juan and Coclesito rivers were built.
[13] Volcanic mineral deposits.
[14] Identified by A. Metti, UNDP geologist, in 1967.
[15] Having published eight geological texts, Dr. Larry J. Buchanan is a leading expert on the understanding and interpretation of epithermal deposits. His analysis has resulted in the industry paradigm known as "The Buchanan Model."
[16] Links between epithermal and porphyry copper deposits have been well documented e.g. Lepanto, Philippines, Bingham Canyon, USA and La Caridad, Mexico.
[17] Nelson, Carl E., Porphyry copper deposits of Southern Central America: Arizona Geological Society digest, Volume 20, Gold Deposits in Hot Spring Environments, 1995, page 423.

The mineralization at Molejón occurs in three separate zones: the Northwest, Main and Central Zones (see map below).



Reserves

The project area has undergone extensive drilling to better delineate and identify the resource base in and around the vicinity of Molejón. Between 1994 and 2008, 67,335 meters were drilled in 627 holes at Molejón. Starting in 1994 and 1995, 124 holes were drilled along 50-meter grid lines with spacing of 40 to 70 meters between holes, which contributed to a pre-NI 43-101[18] resource estimate of **661,000 ounces Au** (7.8 million tonnes grading 2.63 g/t). As the prices of copper and gold drifted lower and the deadline for mine development under Ley Petaquilla No. 9 was extended, the exploration of the property was postponed. However, by 2005 exploration efforts were rekindled. An NI 43-101 compliant technical study completed by Steffan, Robertson & Kirsten (SRK) in October 2005 established an inferred resource of **893,000 ounces Au** (11.2 million tonnes grading 2.48 g/t). The 2006 in-fill drilling program consisted of 11,398 meters of diamond drilling that reduced the separation between existing drill holes to at least 35 meters, along with 1,627 meters of exploration drilling on the southern part of the deposit that surface trenching identified as promising. Utilizing the assay results of the in-fill and extension drilling program, in April 2007, AAT Mining Services completed a NI 43-101 compliant resource estimate, which outlined 405,141 ounces Au of measured resources, 109,192 ounces Au of indicated resources and 361,011 ounces Au of inferred resources[19] for a total of **875,344 ounces Au** in the measured, indicated and inferred categories.

In October 2007, an updated NI 43-101 compliant gold resource estimate was announced based on the results of 30,000 meters of drilling during 2006 and 2007. With a cutoff grade at 0.5 g/t, AAT Mining Services estimated measured resources of 532,801 ounces, an indicated resource of 223,785 ounces and an inferred resource of 342,111 ounces[20], which totaled **1,098,697 ounces Au** (11.2 million tonnes grading 2.48 g/t).

The most recent 43-101 compliant mineral reserve report for the Molejón project area as of the October 1, 2010 was completed in April 2011 by Behre Dolbear. The report upgraded the measured and indicated Molejón resource to a proven and probable reserve since the mine is currently in production and the reserves are economically mineable. The proven and probable reserve totals **643,266 ounces**

[18] The 1998 Feasibility Study was prepared prior to the introduction of the standards for the National Instrument 43-101.
[19] Measured (6,846,000 tonnes grading 1.84 g/t); Indicated (3,121,000 tonnes grading 1.09 g/t); Inferred (10,473,000 tonnes grading 1.07 g/t).
[20] Measured (9,445,109 tonnes grading 1.75 g/t); Indicated (6,281,558 tonnes grading 1.11 g/t); Inferred (12,209,004 tonnes grading 0.872 g/t).

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

Au (15.3 million tonnes graded at 1.30 g/t). Since October 1, 2010 (the effective date of the Behre Dolbear resource estimate), approximately 75,853 ounces have been poured, **leaving about 567,500 ounces yet to be monetized**.

Molejón Project Proven & Probable Reserves[21]
(dated April 2011 as of October 1, 2010 production cut-off**)**

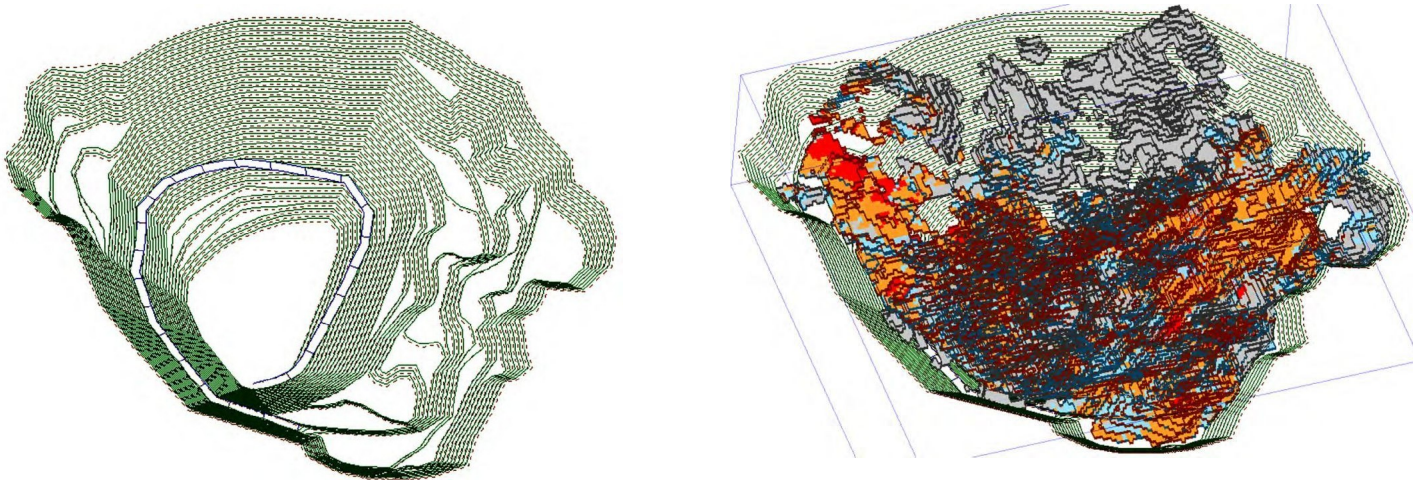
Molejón (Oct. 2010)	**Tonnes**	**Grade (g/t Au)**	**Contained ounces Au**
Measured	9,072,000	1.549	451,884
Indicated	6,259,000	0.951	191,382
Total Reserves	15,330,000	1.305	**643,266**

The April 2011 Behre Dolbear 43-101 Technical Report **plans for two processes at Molejón**:

1) milled ore with an average grade of 1.77 g/t processed through the carbon-in-pulp (CIP) column leaching process with an expected 93% recovery rate and
2) leached ore with an average grade of 0.56 g/t with an expected 81% recovery rate[22].

The Molejón deposit contains zones of both high-grade and low-grade gold mineralization. In 2005, a new 200-meter strike length of high-grade mineralization was encountered in the Central Zone during a follow-up trenching program, in which seven of the 26 showed at least 5.0 g/ton over 10 to 69 meters. The 2006 58-hole (5,000 meter) diamond drilling program at the Molejón gold deposit observed a high grade gold zone, namely core hole MO-06-01 32.5 g/t o 8.5 meters, which confirmed a nearby (five meters) historic 1995 core hole MO-95-244, which showed 20.7 g/ton over 12.5 meters. With the high-grade gold mineralization being more extensive than previously believed (see 3-D View of Molejón Pit below), in mid-2007, it was determined that low-grade material could be blended with high-grade tonnage to the mill feed to enhance the recovery of gold resources by the CIP process.

3-D View of Molejón Pit Design[23]



Key: **Grey:** <0.18 g/t gold; **Blue**: 0.18 to 0.3 g/t gold; **Orange**: 0.3 to 1.5 g/t gold; **Red**: >1.5 g/t gold

All of the above resource/reserve estimates utilized a **bottom cut-off grade of 0.50 g/t Au** since other mines in Central America historically have operated profitably using that resource estimate cutoff.

[21] Molejón NI 43-101 Technical Report, April 2011, pages 112.
[22] Molejón NI 43-101 Technical Report, April 2011, page 124.
[23] Molejón NI 43-101 Technical Report, April 2011, pages 122 - 123.

However, with the price of gold rising well above the assumed price of $500 per ounce in prior feasibility reports and with the availability of multiple grades of ore at the Molejón project, not only has management begun blending ores for the CIP process, but also has embarked on the construction of leach pad for low grade ore (between 0.2 g/t to 1.0 g/t). As a result, the 43-101 Technical Report issued in 2011 concludes that the Molejón deposit contains **917,491 ounces Au** (33.3 million tonnes graded at 0.86 g/t) in the measured and indicated categories **utilizing a cut-off grade of 0.20 g/t Au**. Management believes that resources with a cut-off grade of 0.18 g are economically recoverable through on/off pad leaching.

Molejón Project Resources[24]
(dated April 2011 as of October 1, 2010 production cut-off**)**

Cut-off Grade (g/t)	M&I tonnes	Grade (g/t Au)	Contained ounces Au
≥ 10.0	121,000	15.13	58,957
≥ 5.0	568,000	8.46	154,373
≥ 2.0	2,904,000	4.08	381,238
≥ 1.0	6,689,000	2.56	549,813
≥ 0.5	14,574,000	1.55	725,822
≥ 0.2	33,311,000	0.86	917,491

Production

After Petaquilla Minerals obtained the gold rights for Molejón, the open pit gold project officially began in September 2005 when governmental approval was attained for the Mine Development Plan. Under Ley Petaquilla No. 9, mine development was required to begin by August 2006. Also, as required by Ley Petaquilla, an environmental feasibility study was delivered to the General Directorate of Mineral Resources of the Ministry of Commerce and Industries for evaluation. In May 2007, the company secured a $15.74 million loan facility to purchase equipment, including the ball mills, a Metso crushing plant, cranes and an aggregate crushing plant, having previously raised $29.9 million through private placements to fund the development of the mine. In November 2008, Autoridad Nacional del Ambiente (ANAM - the National Authority of the Environment) authorized the construction of a commercial gold mine at Molejón by Petaquilla Gold[25]. In 2008 and 2009, Petaquilla Minerals developed the Molejón open pit mine and constructed the gold processing plant. During the commissioning period, which includes the testing of gold room recovery processes, approximately 29,500 ounces of gold were poured. In November 2009, the project received an operating permit from the Government of the Republic of Panamá to advance to **commercial production**, which **was achieved on January 8, 2010**[26]**.**

Currently, ore is extracted from the open pit mine through a combination of blasting and mechanized mining with stripping shovels, and then loaded by excavators into dump trucks. The ore is transported to either the processing plant or staged for later processing. Once at the processing plant, ore is crushed by a series of three crushers and ground/milled into smaller particles of 74 microns or less by one of three ball mills operated in parallel. With approximately 60% of the gold being released during the milling process, the classified ore material is treated with thickeners to separate the clear fraction of the pulp, which is fed directly to the carbon-in-column (CIC) adsorption stack for gold recovery. The remaining milled ore slurry undergoes a carbon-in-pulp (CIP) leaching process before entering the CIC circuit. During the CIP process, the ore is mixed with cyanide leach solution and granular hard carbon, and then agitated in leach tanks. The leached gold is retained by the carbon, which is removed by screening. The carbon is then subjected to a cyanide solution, the gold is re-dissolved and the resulting pregnant

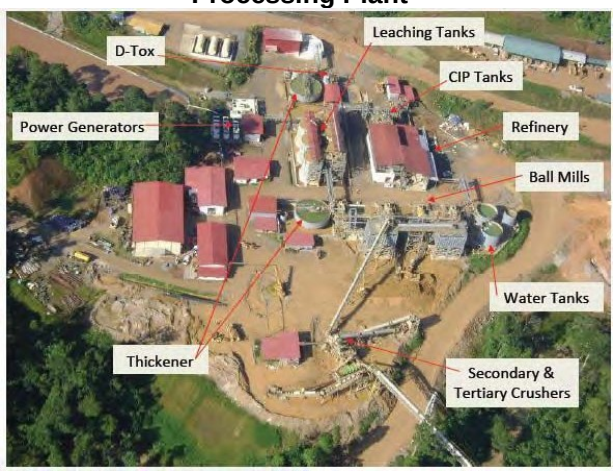
[24] Molejón NI 43-101 Technical Report, April 2011, page 108.
[25] ANAM also fined Petaquilla Gold $934,000 Balboas for having initiated construction activities before the Environmental Impact Assessment (EIA) was approved. However, the company successfully argued before the Supreme Court of the Republic of Panamá that notification had been given by March 6, 2009, which resolved the issue in favor of Petaquilla Minerals.
[26] In January 2010, the Molejón Gold project continuously maintained a processing rate of 1,500 tonnes per day or an operating rate of approximately 70% of the designed capacity 2,200 tonnes per day for a period of 30 days with metallurgical recoveries approaching forecast levels.

solution enters the CIC stack. During the carbon-in-column process, activated carbon absorbs the gold from the pregnant solutions. Afterwards, the loaded activated carbon is transferred to the elution (desorption) circuit and then fed through electrowinning cells, where gold is precipitated onto cathodes. The gold is removed from the cathodes and melted to produce doré bars. Tailings are detoxified and stored at a 40 hectare, high-density polyethylene lined facility. Initially constructed with a capacity of 2,200 tons of ore per day (tpd), **currently the mill processes approximately 3,000 tpd**[27]. Two capacity expansion programs are underway. First, the installation of a third drum scrubber and an additional horizontal Carbon-in-Column circuit should increase in production by 1,000 tpd. Second, a fourth ball mill, two leach tanks and two CIP tanks are being procured, which is expected to boost capacity by another 1,000 tpd by April 2012. Also, an additional tailings pond is under construction with a third one planned.

Central Zone Starter Pit



Processing Plant



Electricity for the processing plant is supplied by five diesel generator sets until a 115 kV transmission line is built to bring power to the project area. Water is provided by three wells and/or a small dam on the Molejón River. At first, Sococo (Costa Rica) was the general mining contractor; however, over time PDI Panamá has taken a larger role in the mining operations. TechProMin (Chile) provided the engineering design for the process plant. The capital cost of the project was approximately $80 million; however, the financial cost was considerably higher due since the company incurred a high cost of capital as the project was developed during the 2008 financial crisis.

Molejón Gold poured (ounces)	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2009	0	0	0	2,973	2,973
FY 2010	13,256	10,482	13,756	14,158	51,652
FY 2011	10,738	15,268	12,825	16,735	55,566
FY 2012	18,014	18,100			

Molejón Gold sold (ounces)	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2009	0	0	0	703	703
FY 2010	15,440	10,558	13,350	14,100	53,448
FY 2011	12,211	13,166	13,880	14,608	53,865
FY 2012	17,418	15,959			

[27] In May 2011, the installation of a third drum scrubber and a new horizontal carbon-in-column circuit increased throughput capacity of the plant by 40%.

Since April 7, 2009, when the first gold pour tested the gold room's recovery processes, the Molejón gold property has produced[28] 128,205 poured ounces of gold. **In fiscal 2011, gold production increased 7.58%** to 55,566 ounces poured (4,630 ounces per month) from 51,652 ounces (4,304 ounces per month) in fiscal 2010. During the first fiscal quarter of 2012, gold production sequentially increased 7.64% to 18,014 ounces poured from 16,735 ounces in the prior quarter. **In the second fiscal quarter, gold production increased 0.5% sequentially from 18,014 to 18,100 ounces (6,033 ounces per month).**

Molejón Avg. realized gold price	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2010	-	-	$1,079	$1,151	$1,115
FY 2011	$1,210	$1,312	$1,340	$1,413	$1,319
FY 2012	$1,508				

Molejón Cash cost per oz. Au sold[29]	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2010	-	-	$574	$601	$590
FY 2011	$740	$647	$610	$557	$634
FY 2012	$554				

Leaching Project

At current gold prices, management believes that the low grade gold resource (between 0.2 g/t and 1.0g/t) **at Molejón can be economically processed through on/off pad leaching**. Initially, Petaquilla Minerals conducted column leach tests on the low grade material at laboratory facilities in Arizona (Phase 1). Following positive results for oxide material[30], a Phase 2 metallurgical testing program was performed on-site in Panamá during 2010. Gold recoveries from large diameter column leach tests of four oxide ore types ranged between 72.4% and 97.0% and was achieved with modest consumption of sodium cyanide (0.14 kg/t to 0.44 kg/t) and lime (0.93 kg/t to 5.07 kg/t) [31]. The evaluation of leach parameters, such as crush size, agglomeration, leach solution concentration and irrigation flow rates, is being systematically conducted in order to identify a cost effective gold extraction process. Currently, the majority of the low-grade oxide ore is prepared by crushing to 3.0 inches (7.6 cm) while sulfide ore requires a secondary crushing to ⅜ inch (0.95 cm). The crushed ore undergoes an agglomeration pretreatment to enhance the material's percolation characteristics, thereby improving the gold extraction process and decreasing the leaching period. Portland cement is added (2 kg/t), along with lime (4 kg/t) to maintain a pH between 10.5 and 11.0. Cyanide solution is applied to the top of the leach pad at a flow rate between 4 ℓ/hr/m^2 and 6 ℓ/hr/m^2. The column leach tests indicate that the leach time required for oxidized material will be approximately 47 days, though a 23 to 28 day leach cycle appears to be economically optimal. Actual production will help determine the most advantageous leach time.

During fiscal 2011, the on/off pad leach project was advanced, and a stockpile of low grade ore was accumulated. Having completed the final engineering and design of the project (Phase 3), the construction of a leach pad and a pregnant solution processing plant occurred during the dry season of

[28] The company's definition of gold production is equivalent to mined gold, which includes poured ounces and stockpiled material. Our (Zacks) definition of production is poured ounces only.
[29] Cash cost includes mine site operating costs (such as mining, processing and administration) but does not include amortization, depletion, reclamation, capital costs, exploration costs, corporate administration costs and royalties. Contrary to most mining companies, Petaquilla Minerals began excluding royalties from cash cost in FY 2011, restating FY 2010's cash cost to $590 from $681.
[30] Recovery rates for oxide material ranged between 80% and 98%, while fresh primary sulfide ore only achieved rates between 38% and 53%.
[31] Petaquilla Minerals announced Phase 2 results of the Column Leach Test Program on November 1, 2010.

2011. Having commenced production at the end of the second fiscal quarter of 2012, **management expects the on/off leach operation to recover 3,000 ounces Au during the third fiscal quarter.**

Taxes and Royalties

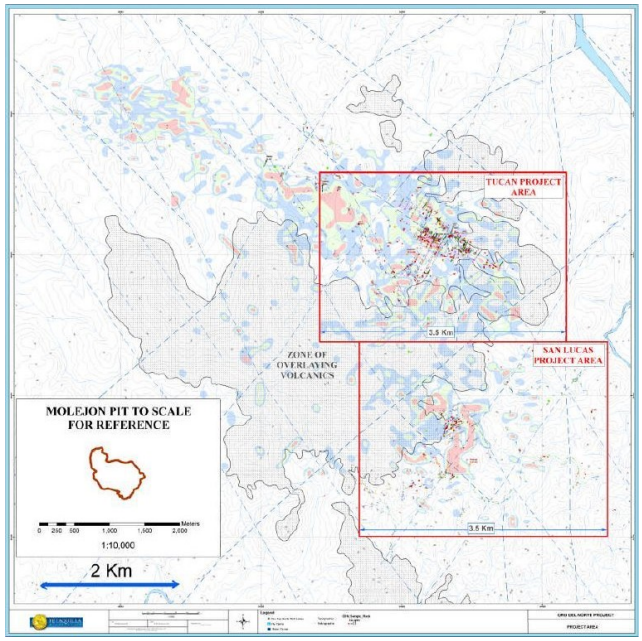
Petaquilla Minerals is subject to surface taxes per hectare (on zones designated as Project Areas), according to Petaquilla Law No. 9. Initially, surface taxes were $0.50 per hectare in 1997 and 1998, $1.00 per hectare during 1999 and 2000, and currently are $1.50 per hectare. In addition, annual taxes and royalties are owed on extracted minerals based on a Table[32] in the Law. Taxes on mined gold are 1% in the first five years of production, rising to 3.5% after 11 years. The Government of Panamá receives a royalty of 2% on gold and silver sold. Also, the June 2005 agreement provided for a graduated 1% to 5% Net Smelter Return, based on the future gold price at the time of production, payable to Teck Cominco (35.135% of NSR) and to Inmet (64.865%)[33]. Lastly, Ley No. 9 requires a minimum investment of $400 million in the development of the Cerro Petaquilla Concession, which has been fulfilled.

ORO DEL NORTE (PANAMÁ) - GOLD



Located 22 kilometers northeast of Molejón, the **Oro del Norte concession** contains a 12 kilometer by 4 kilometer soil anomaly in which several promising gold targets have been identified. Owning 100% of the concession, Petaquilla Minerals advanced an exploration program, initially with a detailed mapping and surface rock chip sampling program in 2009. Encouraging results included the release of 17 peak gold assay results (151.5 g/t, 59.8 g/t, 58.5 g/t, 48.4 g/t, 27.7 g/t, 19.25 g/t and 15.4 g/t Au) out of a total of 1,054 samples. Approximately 30% of the soil anomaly was sampled. Follow-up soil sampling, rock chip sampling and detailed mapping was conducted on adjacent areas in early 2010, and the company announced seven peak gold assay results (17.4 g/t, 13.0 g/t, 7.66 g/t, 6.88 g/t, 5.94 g/t, 5.48 g/t and 5.20 g/t Au) from a total of 211 samples collected, along with the results of all 42 samples that graded above 1.0 g/t[34]. By April 2010, Petaquilla Minerals initiated the **Tucan Project**, a 5,000 meter diamond drilling program aimed at further defining gold mineralization on a 2.0 kilometer by 1.5 kilometer target area.

[32] Molejón NI 43-101 Technical Report, April 2011, page 15.
[33] Petaquilla Minerals 6-K, Item 5.8 Net Smelter Return, June 2, 2005, page 12.
[34] Petaquilla Minerals announced the results on March 4, 2010.



Numerous gold intercepts in the 29-hole (5,310 meters) diamond drilling program and a 3,972 meter trenching program of the Tucan Project identified three sub-parallel epithermal vein systems contained in a 1.3 kilometer by 0.4 kilometer area. From the principle vein system in the center, one gold mineralized structure is located 170 meters to the north and another 80 meters to the south. All three veins systems are open along strike.

Selected Drilling Results

Area	Hole ID	From (meter)	To (meter)	Interval (meters)	Au (g/t)
Oro del Norte	TCDH-012	90.5	92.0	1.5	3.14
	TCDH-014	55.8	59.0	3.2	2.44
	TCDH-014A	60.5	63.3	2.8	1.61
	TCDH-015	178	180	2.0	1.54
	TCDH-020	61.5	65	3.5	1.39
	TCDH-022	29.4	30.0	0.6	4.91

Announced October 25, 2010

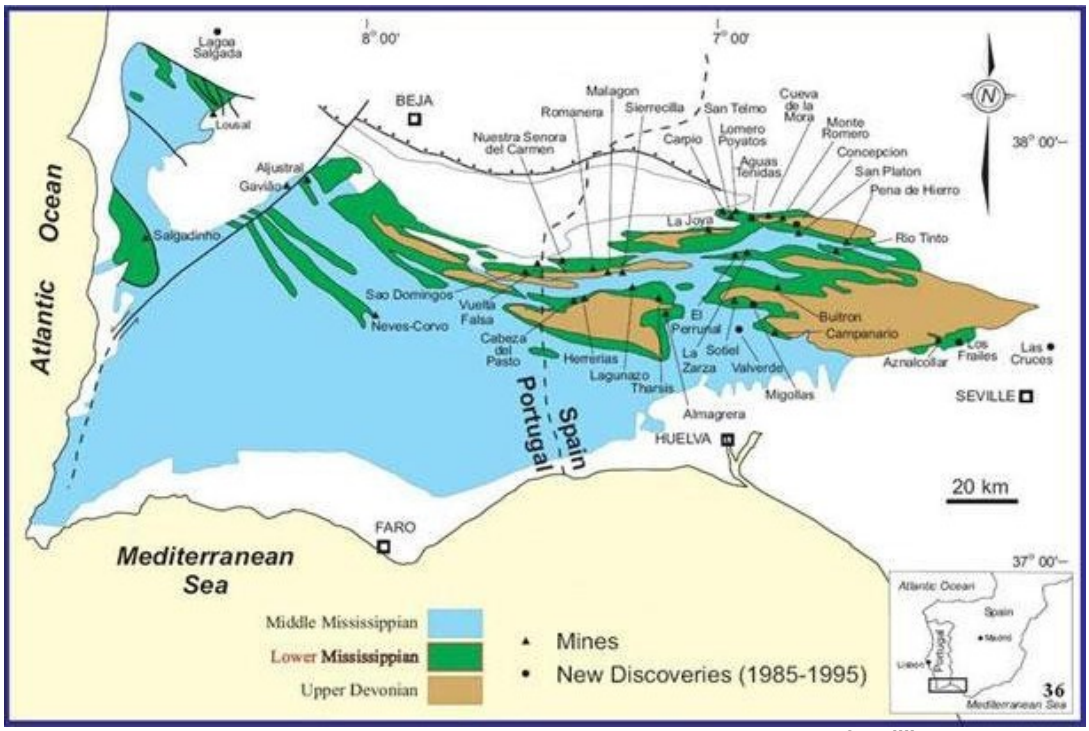
Petaquilla Minerals is solely funding exploration and development costs (especially temporary camp, engineering, geologist, trenching and assaying costs) on the Oro del Norte concession. Having spent approximately $3.3 million in fiscal 2010 and $8.8 million in fiscal 2011[35], management is continuing the exploration efforts at Oro del Norte during the current fiscal year with the expectation that definition drilling will upgrade the Inferred resource to the Measured and Indicated categories. The inferred resource at the Oro del Norte Project is calculated by management to be **276,383 ounces Au** (18.1 million tonnes grading at 0.47g/t Au utilizing a cut-off of 0.1 g/t).

Currently, the Oro del Norte area is isolated and lacks the infrastructure to mine and process ore; however, if a commercially viable deposit is delineated, ore could be trucked to the processing mill at Molejón.

[35] Approximately 77% of the $4,304,303 in exploration and development costs were incurred during fiscal 2010 and 95% of the $9,269,306 in fiscal 2011.

SPAIN

Extending through southwestern Spain into southern Portugal, the **Iberian Pyrite Belt** (IBC) hosts a series of at least 90 volcanogenic massive sulphide (VMS) deposits, cumulatively the largest VMS mineral district in the world. The deposits within the Iberian Pyrite Belt range in size from a few hundred thousand tonnes to over 300 million tonnes. The IBC is approximately 250 kilometers long and between 30 and 60 kilometers wide, stretching from Alcácer do Sal[36] (Portugal) to Sevilla (Spain). The mineralization was formed by submarine exhalation of hot sulphide-rich muds during periods of volcanic activity in the region about 350 million years ago.



Courtesy of Cadillac Ventures Inc.

Volcanogenic massive sulfide ore deposits are associated with polymetallic massive flanks of volcanic cones, mostly in the form of iron sulphides, such as pyrite. In addition, cupriferous[37] massive sulphide deposits and copper stockworks[38] have been discovered. Deposits usually occur in clusters, probably as a result of multiple deposits being related to a particular volcanic center.

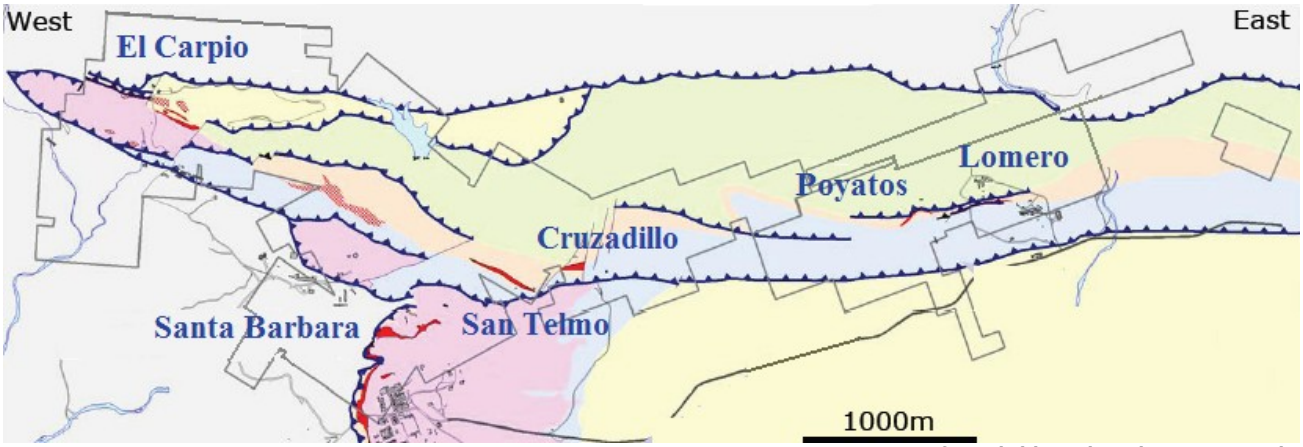
Volcanogenic massive sulphide deposits are important sources of copper, lead, zinc, gold and silver. The largest VMS deposit in the Iberian Pyrite Belt is the world-class Rio Tinto ore body (335 million tonnes), which has been worked for copper, gold and silver since the seventh century BC, initially by the Thartessians and later by the Phoenicians and Romans. The Rio Tinto Company Ltd. mined it until 1953. The Lomero-Poyatos deposits are 30 kilometers west of the Rio Tinto mine.

The specific mineral district of Lomero-Poyatos appears to be a series of deposits that share some common features[39] somewhat unique from other zones of the Iberian Pyrite Belt. The VMS deposits here generally have tonnages less than 15 million tonnes; however, **the base and precious metal grades are among the highest in Iberian Pyrite Belt.** The deposits in this distinct mineral district are (from west

[36] Alcácer do Sal is 66 kilometers (41 miles) south of Lisbon.
[37] Cupriferous means containing copper (Cu).
[38] A stockwork is a mineral deposit in the form of a system of veins or nests that are grouped irregularly.
[39] Many belts of the ore bodies follow along strike of shale and others are linked with one another by brown ferruginous shale, which at depth are impregnated with pyrites. Transactions, Volume 33, By Institution of Mining Engineers (Great Britain), Federated Institution of Mining Engineers, page 705.

to east) El Carpio, Santa Bárbara[40], San Telmo, Mina del Toro, Cruzadillo, Poyatos, Lomero, Confesionarios, Aguas Teñidas, Castillejito, Cueva de la Mora and Monte Romero, especially a well-defined massive sulphide target horizon between El Carpio and Lomero with a strike length over 6.5 kilometers.

Two properties in the same geological environment as Lomero-Poyatos are the operating Aguas Teñidas[41] mine (approximately 9 kilometers on strike to the east) and the abandoned San Telmo mine (4.4 kilometers on strike to the west). The Aguas Teñidas[42] deposit has mineralization in the form of polymetallic massive sulphide and cupriferous massive sulphide, both hosted in a massive pyrite structure, in addition to a copper stockwork.



Courtesy of Cambridge Mineral Resources plc

In Spain, mining, along with the exploration for minerals, is governed by the Mines Act (Ley de Minas) of 1973[43] as amended by Act 54 in 1980, Act 50 of 1985, RD 1303 of 1986, Act 12 of 2007, Act 25 of 2009 and Act 40 of 2010, developed by RD 2857 of 1978 and RD 975 of 2009. Exploration permits, research permits and concessions (mining permits) are authorized by filing with the Autonomous Community and registered with the Registry of Mines of the Autonomous Community for administrative purposes. There are three types of mineral permits:

1) Exploration permit (Art. 40.2 Mining Law) granted for a period of one year, and which may be extended for a maximum of one more year,
2) Research permit (Art. 45 Mining Law) granted for the period requested which may not be more than three years, and which may be extended for an additional three years and
3) Operating concession[44] (Art. 62 Mining Law) granted for a 30-year period, and which may be extended twice for an additional 30 years (up to a maximum of 90 years). In order to maintain operating concession status, concession rights must be paid in a timely fashion and mining must occur.

All 13 Lomero-Poyatos concessions are operating concessions; however, continual development must be performed in order to retain this mining permit.

Spanish concessions do not grant surface rights, which must be purchased or leased from the surface rights owner. However, operating concessions are considered senior to the surface rights, and unwilling holders of surface rights may be forced to relinquish surface rights through a condemnation process.

[40] Santa Bárbara's production was 10 million tonnes (0.6 g/t Au, 2.3% Cu, 2.8% Zn).
[41] Aguas Teñidas is owned by Iberian Minerals Corp.
[42] The Aguas Teñidas deposit is 35 million tonnes grading at 1.41% Cu, 0.91% Pb, 3.39% Zn, 0.51 g/t Au and 40 g/t Ag.
[43] The Mines Act (Act 22/1973) was passed July 21, 1973 and Act 54 on November 5, 1980.
[44] An operating concession is also known as a mining permit or exploitation permit.

LOMERO – POYATOS MINING CONCESSIONS (SPAIN) - GOLD

Petaquilla Minerals acquired a 100% interest in the Lomero-Poyatos concessions through the acquisition of Iberian Resources Corp. by way of a "three-cornered amalgamation" in late August 2011. Located in the Kingdom of Spain (Huelva Province, Andalusia Autonomous Community), Lomero-Poyatos is approximately 85 kilometers northwest of Seville and 60 kilometers north of the major port of Huelva. Though first worked by the Romans, the mine was rediscovered in 1853 by Ernesto Deligny and mining re-commenced in the late 1850's. The mining complex includes two open pits (one at Lomero and the other at Poyatos) and a six level underground mine[45] with a central shaft between the open pits. At least 2.6 million tonnes of massive sulphide ore was mined for pyrite content, which was smelted to manufacture sulfuric acid. Lomero-Poyatos was mined continuously from 1905 to 1982 solely as a sulphide (pyrite) mine. Since then, several companies, including the pyrite smelter[46], have investigated Lomero-Poyatos as a possible gold-silver deposit and/or a base metal (copper-lead-zinc) deposit. The project is currently at the exploration stage with an inferred mineral resource estimate based on historical data and relatively wide-spaced drilling.



Ownership

Through **the acquisition of Iberian Resources Corp**. in August 2011, Petaquilla Minerals has a 100% interest in Lomero-Poyatos, a contiguous group of the 13 exploitation permits that encompass 175.6 hectares. Petaquilla Minerals acquired all of the outstanding shares of Iberian Resources Corp., thereby obtaining 100% of the Lomero-Poyatos mine, through the wholly-owned **Corporacion de Recursos Iberia SLU,** along with several other exploration licenses[47] and applications for research permits in Iberia. Petaquilla Minerals issued 44,635,255 shares in consideration for the acquisition, along with warrants to purchase 1,640,240 common shares at prices between $0.14 and $0.60 and options[48] to purchase 3,357,313 common shares at prices from CAD $0.10 to $0.60. **The value of the transaction**

[45] The underground mine was begun in 1905.
[46] Indumetal, the smelting company that treated the roasted pyrite residue from Lomero-Poyatos, conducted some underground mapping and sampling in 1986 in order to assess the gold grades and delineate the gold reserves.
[47] The other exploration licenses and applications for research permits are owned by wholly-owned Spanish and Portuguese affiliates including S.C. Andalucia Mining S.L.U. and Almada Mining S.A. Prior to April 12, 2011, Petaquilla Minerals owned 49% of these two companies through its 49% ownership of Azuero, which was sold to Iberian Resources Corp. on April 12, 2011 for stock.
[48] The warrants and options issued replaced warrants and options of Iberian Resources with similar conversion ratios and exercise prices.

was approximately $35 million. Though management, along with the proxy advisory services of ISS and Glass Lewis, declares the transaction provides geographical and geopolitical risk diversification, this analyst believes that management became aware of and acted upon this exceptional mineral resource opportunity.

The Lomero-Poyatos mining concessions were transferred from Piritas de Huelva S.A.L.[49] to San Telmo Ibérica Minera S.A. [50] in October 1985. In December 1999, **Recursos Metálicos SL[51] leased the mining rights** to the concessions from its parent-company, San Telmo Ibérica Minera S.A., and subsequently in 2000, Recursos Metálicos SL was acquired by Cambridge Mineral Resources (for 7.5 million Cambridge shares and $200,000). In May 2001, the 13 Lomero-Poyatos concessions were consolidated[52].

Cambridge Mineral Resources plc (CMR) unsuccessfully attempted to develop Lomero-Poyatos over the next decade. Initially, Newmont Mining Corporation (NEM: NYSE) evaluated the properties with 48 diamond drill hole program (approximately 2,500 meters) under an option to acquire 100% interest in the lease[53]. Newmont Mining opted out of the agreement; however, the drilling results contributed to a Steffen Robertson and Kirsten Ltd. (SRK) review, which estimated that indicated and inferred resources totaled 2.26 million ounces Au. Optimistic about the prospects for the area, management of CMR entered into an option agreement[54] to acquire adjacent areas, including El Carpio, Santa Bárbara, San Telmo, Mina del Toro and Cruzadillo. Despite an encouraging 2004 drill program, a pre-feasibility study by Wardell Armstrong International in 2005 indicated that the development of Lomero-Poyatos as an underground mining operation was not economically feasible at the time[55]. Developmental work at Lomero-Poyatos was discontinued. Over the next five years, there is no evidence that further drilling was conducted to advance the concessions towards mining operations as the attention of CMR's management was diverted towards Peruvian, Bulgarian and Colombian projects. In 2009, agreements to sell Recursos Metálicos SL to Direct Response Media Inc. of Nevada (DRMO: OTC) for $19 million in April and in July to Mayfair Mining & Minerals, Inc. (MFMM: OTC Pink Sheets) for $7.5 million never closed. On October 20, 2009, Sigirya Capital PTY entered into a term sheet agreement with Cambridge Mineral Resources plc for the acquisition of mining rights at Lomero-Poyatos (leased by Cambridge Mineral's subsidiary, Recursos Metalicos SL); however, Cambridge Mineral Resources was unable to deliver evidence of title to the concessions, which was still held by San Telmo Ibérica Minera S.A. **Corporacion de Recursos Iberia SLU, a subsidiary of Iberian Resources, acquired the mining rights in Lomero-Poyatos from San Telmo Ibérica Minera S.A. (in liquidation) in May 2010 for** €348,000. In addition, €150,000 was paid for the real estate, bringing the total acquisition cost to **€498,000 or $616,444**. In late September 2010, Cambridge Mineral Resources plc sold its Recursos Metalicos SL subsidiary to Harrogate Group plc (which subsequently was renamed Iberian Gold plc) for shares such that Cambridge Mineral Resources now controls 80% of Iberian Gold plc. Management of Iberian Gold is adamantly disputing Corporacion de Recursos Iberia SLU's legal ability to develop the Lomero-Poyatos concessions.

Description

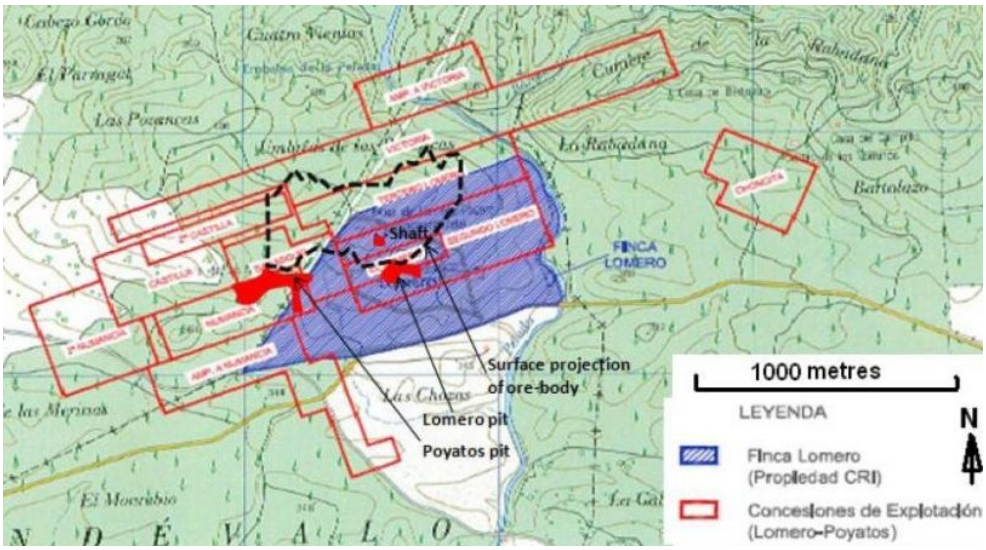
Lomero-Poyatos is a poly-metallic, massive-sulphide deposit, in which pyrite is the predominant sulphide. When mined for pyrite, sulfur mineralization greater than 43% sulfur was regarded as ore. However, the

[49] Sociedad Anonima Laboral.
[50] San Telmo Ibérica Minera S.A. is now in receivership.
[51] Recursos Metálicos SL was a wholly-owned subsidiary of San Telmo Ibérica Minera S.A. at the time.
[52] The consolidation of the 13 Lomero-Poyatos concessions officially recognized the terms of these concessions rights which were granted prior to the Act 1973 and extended the permit period to 2033.
[53] In April 2001, Newmont received an exclusive Evaluation and Conditional Purchase Right to evaluate and purchase a 100% interest following an evaluation of 2,500 meters of core drilling for an initial 51% interest, after which Newmont could invest an additional $800,000 for further evaluation to earn an additional 20% interest, subject to its right of termination.
[54] On March 3, 2003, Cambridge Mineral Resources plc (CMR) signed a 3-year option agreement with Metales Hispania SL to acquire all of San Telmo group's 34 exploitation permits (approximately 12.5 square kilometers) for $2.0 million. By 2005 CMR claimed to control licenses covering 24 square kilometers, which may or may not include further licenses at Masa Valverde, El Alamo-Tintillo and Migollas East.
[55] The study considered the anticipated capital required, development and operating costs, the regional sulfuric acid market and the uncertainties related to acquiring the Almagrera processing facility, including capital and re-commissioning costs.

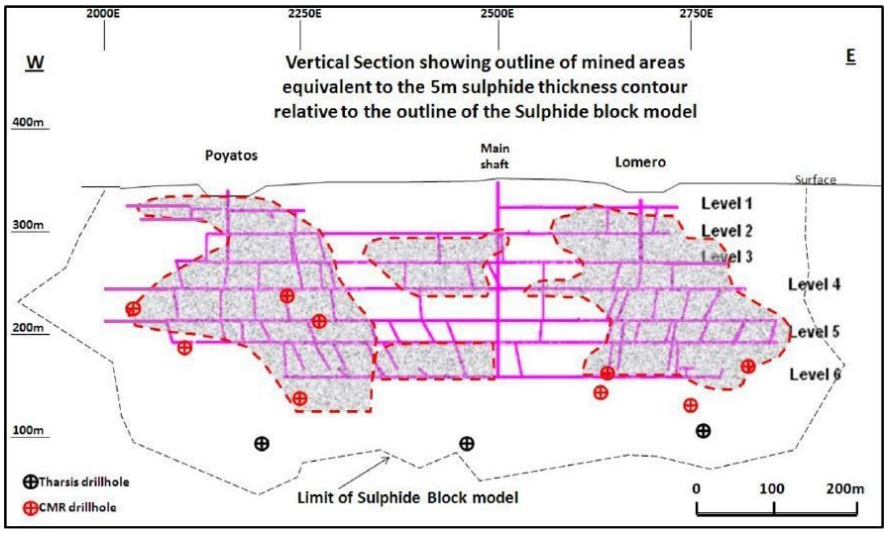
sulphide zones are significantly enriched in gold with two drill holes assaying with grades above 14 g/t[56]. According to work by University of Madrid in April 2011, there are at least three different ore types at Lomero-Poyatos: cupriferous ore assaying 1.0% to 1.5% Cu, arsenic/pyrite ore containing gold and massive sulphide ore containing copper, lead and zinc (with silver associated with lead and gold associated with sulphides). The cupriferous ore lies predominately in the central area while the zinc-lead-gold enrichment is predominate at the eastern and western borders.

Located in the northeast part of the Iberian Pyrite Belt, the Lomero-Poyatos permit block consists of **13 concessions** (El Lomero, Ampliación a Numancia, Segundo Lomero, Castilla, Numancia, San Miguel, Ampliación Victoria, Victoria, Segunda A Castilla, Demasía San Miguel, Segunda Numancia, Tercer Lomero and Conchita). In mid-2001, the Andalusia Autonomous Community granted a consolidation of these concessions, which are valid until August 2033.

Mineral Concessions (red) and Surface Rights (blue)



Lomero-Poyatos contains two independent ore bodies (Lomero and Poyatos) that form a single ore body at depth, over 800 meters in strike. Initially, each ore body was opened to the surface by small open pit mines. Later, in the twentieth century, a main shaft and an underground mine complex with at least six levels that intersected both ore bodies was developed. The underground mine has been flooded for the about 20 years.



Behre Dolbear NI43-101 Technical Report July 29, 2011

[56] During the drilling program of Cambridge Mineral Resources, a drill hole returned 14.1 g/t Au over 2.0 meters and another assayed 0.55m at 16.84 g/t Au over 0.55 meters within a northeast target.

Resources

During the last decade, the mineral resources at the Lomero-Poyatos concessions have been reviewed and estimated by three consultant companies: Steffen Robertson and Kirsten Ltd. (SRK) in 2002[57], Wardell Armstrong International (WAI) in 2005 and 2007[58] and Behre Dolbear International Ltd. in 2011. Primarily based on the 2,490 meter diamond drill hole program conducted by Newmont Mining, **in 2002**, SRK estimated an **inferred** mineral resource of **2.05 million ounces Au** under an **open-pit** mining scenario (20.6 million tonnes at an average grade of 3.1 g/t Au), which included an indicated resource of 389,894 ounces Au attainable by underground mining (3.71 million tonnes at an average grade of 3.26 g/t Au at 1.5 g/t Au cut-off). Also, SRK estimated that Lomero-Poyatos contains 46.3 million ounces Ag, 675,000 tonnes Zn and 250,000 tonnes Cu. SRK indicated that expected recoveries were approximately 76% for gold, 78% for zinc and 50% for copper.

In July 2005, WAI completed a pre-feasibility study[59] that assessed the economic viability of an underground mining operation at Lomero-Poyatos using the processing facilities at nearby Almagrera. Drawing upon exploration and drilling programs, including 1,100 meters of trenching and 10,000 meters[60] of drilling, WAI estimated an **indicated** mineral resource of **389,000 ounces Au** under an **underground** mining scenario, (3.71 million tonnes at an average grade of 3.26 g/t Au at 1.5 g/t Au cut-off) [61]. Though the study concluded that the project was not economically practical due to the anticipated development and operating costs, the pre-feasibility study recommended that a surface drilling program test the established targets both within the mine area and along strike. Utilizing the information in the 2005 pre-feasibility study, WAI completed a NI 43-101 compliant Competent Persons Report (Scoping Study) in April 2007, which was updated in 2010.

Behre Dolbear International Limited completed a NI 43-101 compliant Technical Report on the Lomero-Poyatos **in July 2011**. Based primarily on historical drill-hole data of the 124 known drill holes (roughly one-half surface and one-half underground) and augmented by mineral resource estimation reviews generated by Gemcom's deposit block model software, Behre Dolbear estimated an **inferred** mineral resource of **2.07 million ounces Au** under an **open-pit** mining scenario (20.93 million tonnes at an average grade of 3.08 g/t Au at a 1.0 g/t Au cut-off) [62]. Under an **underground** mining scenario, Behre Dolbear concluded the Lomero-Poyatos deposit contained an **inferred** mineral resource of **830,000 ounces Au (**6.07 million tonnes at an average grade of 4.25 g/t Au at a 1.0 g/t Au cut-off, along with 88.74 g/t Ag).

Lomero-Poyatos Project Resources[63]

(Behre Dolbear NI 43-101 compliant Technical Report dated July 29, 2011**)**

Cut-off Grade (g/t)	M&I tonnes	Grade (g/t Au)	Contained ounces Au
> 6.0	0	0	0
≥ 5.0	2,530,000	5.41	440,106
≥ 4.0	5,380,000	4.90	847,653
≥ 3.0	9,380,000	4.30	1,296,913
≥ 2.0	16,350,000	3.52	1,850,547
≥ 1.0	**20,930,000**	**3.08**	**2,072,810**
none	30,350,000	2.31	2,258,006

[57] This upgraded Conceptual Mining Study was completed in 2002; SRK produced another updated report in September 2010.
[58] In 2005, WAI completed a NI 43-101 compliant pre-feasibility study and in April 2007 a Competent Persons Report based upon the 2005 resource data.
[59] The WAI a pre-feasibility study is also referred to as a Scoping Study.
[60] The 10,000 meters in drilling may include historical drilling completed by Billiton, Indumetal and Newmont Mining. This has included nine diamond drill holes for 2,490 meters in 2001 and 48 near-surface drill holes for 4,781meters in 2003
[61] The 2007 estimate also included 27.99 g/t Ag, 1.57% Zn, 0.87% Cu and 1.16% Pb.
[62] The 2011 estimate also included 62.38 g/t Ag.
[63] Lomero-Poyatos NI 43-101 Technical Report, July 29, 2011, Table 11, page 58.

Despite having some of the higher gold grades in the Iberian Pyrite Belt, extracting the resources at Lomero-Poyatos may prove challenging. As a consequence of the diversity of ores (60% cupriferous, 32% arsenic/pyrite, 8% massive sulphide) [64], metallurgical testing is required to better define the nature and distribution of the gold, silver, zinc, copper and lead mineralization (the mineral deposit anatomy), along with the optimal extraction process. Cupriferous ore would likely require a grinding and copper flotation plant while arsenic-pyrite ore involves grinding, sulphide oxygenation and cyanide leaching. In addition, the depth of the deposit would require an open-pit depth of at least 250 meters, which is on the verge of the transition depth from open-pit to underground mining. As a consequence, the permitting would be difficult, and the waste:ore ratio would probably exceed 50:1.

In the studies at Lomero-Poyatos under an open-pit mining scenario and in the most recent NI 43-101 compliant Technical Report by Behre Dolbear International, the mineral resource at Lomero-Poyatos deposit has been categorized as an Inferred Mineral Resource since the estimate is based on relatively wide-spaced drilling; therefore, the estimated reserves have not yet demonstrated economic viability. The 2011 Behre Dolbear NI 43-101 Technical Report recommends drilling an additional 20,080 meters to better define the deposits in two parts: a scoping study and a pre-feasibility study. The Phase 1 drilling program would be composed of drilling at 50 meter intervals along N-S lines 100 meters apart (10,040 meters) and a scoping study (costing €6 million), followed by a Phase 2 pre-feasibility study that would require in-fill drilling at 50 meter intervals along N-S section lines 50 meters apart (10,040 meters costing €7 million). The University of Madrid Minerals Faculty is preparing the scoping study, which calls for initially processing 100 tonnes per day from the underground mine sometime in 2012. Simultaneously, an 18-month, 50,000 meter core-drilling program is planned to upgrade the deposits to an indicated mineral resource and/or probable mineral reserve. By advancing the project in this manner, Petaquilla Minerals, through Corporacion de Recursos Iberia SLU, will be complying with the legal requirements to maintain title to the Lomero-Poyatos operating concessions.

Included in the 2011 **Behre Dolbear** Technical Report is a **preliminary valuation** of the Lomero-Poyatos deposit. Based on equal weightings of 1) average global stock market valuations per ounce of in-situ gold resources and 2) the value of comparable acquisition transactions, Behre Dolbear estimated that the appropriate current value of the Lomero-Poyatos project is **$53.5 million**.

PANAMA DEVELOPMENT AND INFRASTRUCTURE, LTD.

Panamanian Development and Infrastructure Ltd. (PDI) is a British Columbia corporation that is 47.78% owned by Petaquilla Minerals (PTQ). Originally incorporated as Petaquilla Infrastructure Ltd. in February 2008, PDI was renamed Panamanian Development and Infrastructure Ltd. in July 2010, just prior to completing an initial round of seed capital, which consisted of a partially subscribed $2.0 million private placement[65]. Since May 2009, the **management of Petaquilla Minerals has intended to realize value from the mining infrastructure business that was instrumental in bringing the Molejón mine to commercial production** and is expected to benefit significantly from the development of copper mines in the Cerro Petaquilla concessions. Management's plan involves contributing the infrastructure operating company known as **Panama Development of Infrastructure, S.A. (PDI Panama)** [66] to PDI in return for additional ownership of PDI. Thereafter, PTQ's total ownership of PDI is to be spun-out to the shareholders of PTQ on a 1 share of PDI for every 4 shares of PTQ owned on the record date for the distribution[67]. With the assets of PDI Panama, PDI will be poised to provide infrastructure-related

[64] Cupriferous ore typically assays 1.0%-1.5% Cu with gold credits but no Pb/Zn/Ag; arsenic-pyrite ore contains gold only; massive sulphide contains Zn/Cu/Pb with Ag associated with Pb and Au associated with sulphides, of which some is free gold.
[65] Petaquilla Minerals participated in the private placement, thereby attaining its 47.78% interest in PDI. Initially, the private placement was expected to raise CAD $2 million (2,000,000 shares at CAD $1.00).
[66] Panama Development of Infrastructure, S.A. (PDI Panama) is also known as Panama Desarrollo de Infraestructuras, S.A.
[67] The spin-out was approved at a special meeting of shareholders on February 25, 2010.

services not only for mine development in north-central Panamá, but also for general construction projects for roads, bridges, buildings, mini-hydro plants and electricity transmission.

PDI Panama is the infrastructure operating company of Petaquilla Minerals that will give operational value to PDI. Having provided mining infrastructure services for the construction, commissioning and operation of the Molejón gold mine, PDI Panama is currently pursuing contracts in Panamá for 1) the construction of roads, housing projects, hospitals, schools and water treatment facilities, 2) power generation and transmission projects and 3) mining services, such as mine construction, earth movement, blasting, exploratory drilling, topography mapping, campsite services, aggregate mining, permitting and certification procedures, heavy construction equipment fleet management, laboratory services, environmental controls and security. Also, management hopes that PDI Panama will be able to secure contracts for the development, construction and operation of renewable energy projects in Panamá and the Central American region. The management of PDI Panama is focused on building a portfolio of infrastructure-related projects.

The Cobre Panama project, which is less than 4 kilometers from Molejón, **will require mine services that PDI Panama can provide**. Controlled by Inmet Mining Corporation, the development of this copper mine is expected to invest over $4 billion into central Panamá. Large quantities of aggregate will be required for building foundations and road bases. The un-mineralized rock overlaying Molejón's gold mineralization is suitable for the aggregate needs of the Cobre Panama project. Preliminary agreements have been reached with PDI Panama regarding prices and the annual quantities. In addition, when the aggregate is excavated, management believes that an additional 100,000 contained ounces of gold at Molejón will become economically mineable.

PDI Panama controls a large fleet of heavy equipment, which is used at Molejón and is available to complete infrastructure-related projects. In October 2010**,** a $9.1 million leasing facility[68] provided by Global Bank financed the acquisition of several pieces of heavy equipment Then in April 2011, Caterpillar Credito S.A., the Panamanian subsidiary of Caterpillar Financial, provided a $5 million leasing facility[69] to Petaquilla Gold, S.A. and PDI Panama for the acquisition of a 2 megawatt Caterpillar diesel power generator, along with additional heavy and secondary equipment. Most recently, in September, a $10 million leasing facility from a major Panamanian bank financed the acquisition of additional mining and trucking equipment. The additional equipment capacity enabled PDI Panama to expand its operations beyond the pre-stripping and tailings management activities that supplemented the mining work performed by Sococo, the contract miner at Molejón. PDI Panama's equipment helped create a stock pile of ore for the on/off leach operation and is assisting with the construction of the on/off leach pads. Also, the equipment can be used to expand the daily mining rate at Molejón and will provide the capacity to extract and transport aggregates for infrastructure projects. The current fleet includes 18 Caterpillar articulated trucks, four Caterpillar hydraulic excavators, two Caterpillar wheel loaders, five hydraulic crawler drill rigs, two backhoes, and several other pieces of heavy equipment.

During the last six months, PDI Panama has been awarded approximately $28 million in contracts for infrastructure-related projects. In June 2011, a joint venture with Constructora MECO (Costa Rica) received a contract to construct a 3.9 kilometer road for direct access to the copper project being advanced in the Cerro Petaquilla concessions by Minera Panama, S.A., Inmet Mining's wholly owned subsidiary that is developing the Cobre Panama project. In addition, a Panamanian construction company has ordered 1.8 million cubic meters of construction aggregate from PDI Panama to be delivered over the next five years. Most recently, in November, PDI Panama received an order from Constructora Urbana S.A. to deliver 100,000 cubic meters of aggregates for the construction of a new 42 kilometer road between La Pintada and the Coclesito area where the Molejón mine is located.

Lastly, PDI Panama is advancing the **Petarcilla clay project**. Using tailings from the Molejón mine, PDI Panama plans to manufacture and sell construction-grade bricks for use in Panamá. By processing

[68] The four-year leasing facility carries an annual interest rate of 5%. PDI Panama has the option to purchase the equipment at the end of the lease period.
[69] The five-year leasing facility carries an annual interest rate of 6%, with PDI Panama acquiring the equipment at the end of the lease period for $1.

waste material from the mine, not only will mining costs be reduced, but also these building materials can be produced at costs lower than competing products in Panamá.

FINANCIAL POSITION AND RECENT FINANCINGS

At fiscal year-end 2011 (May 31, 2011), Petaquilla Minerals had $5,912,792 in cash and short-term investments, $1,840,500 in long-term debt. At the end of the first fiscal quarter (August 31, 2011), cash and marketable securities decreased to $3,492,873 and long-term debt was $1,727,186. The preliminary announcement of second fiscal quarter financials indicates cash now totals approximately $12.2 million. Having adopted IFRS, shareholders' equity was $13,009,461 on August 31, 2011.

The Molejón project was primarily funded by private equity placements and debt issuance between July 2006 and March 2009. The funds also provided for further exploration of Molejón and other areas, including Oro del Norte, along with advancement of the leaching project at Molejón. Initially, several private placements in fiscal 2007 provided $29.9 million, and the company secured a $15.74 million loan facility to purchase equipment. In fiscal 2008 and 2009, a $60,000,000 5 year 15% coupon Secured Note financing and a $40,000,000 2 year 15% coupon Convertible Note offering[70], respectively, helped fund the company's initiatives, but especially the continued commissioning of the Molejón gold project. Also, the company liquidated its Petaquilla Copper equity investment, which provided $43.2 million.

During fiscal 2010, Petaquilla Minerals raised $13,198,149 through two private placements and the exercise of warrants and options. However, the company was unable to meet the scheduled repayments of principal, premium and interest on its 15% Senior Secured Notes issue and the interest on its 15% Convertible Notes[71]. Under the terms of the Indentures, the Senior Secured Notes and Convertible Notes became due on demand, and the company received redemption notices totaling $71,387,328. The company entered into a $45,000,000 prepaid **Forward Gold Purchase Agreement with Deutsche Bank AG** in September 2010. The net proceeds were used to pay $39,950,000 worth of principal, premium and interest on the Secured Notes[72] and Convertible Notes. The Forward Gold Purchase Agreement requires Petaquilla Minerals to deliver **66,650 ounces of gold** to Deutsche Bank over a five year period. If the price of gold is above $875 per ounce, Deutsche Bank also pays to Petaquilla Minerals an additional payment to compensate Petaquilla for the appreciation of the gold delivered up to $1,290 per ounce. **During fiscal 2011, Petaquilla Minerals delivered 3,500 ounces of gold to Deutsche Bank AG**, and during fiscal 2012, is obligated to deliver 13,695 ounces, of which 3,330 ounces were delivered during the first fiscal quarter.

Due to increased gold sales and successful equity offerings, Petaquilla Minerals repaid $62.96 million worth (or almost all) of the secured and convertible notes in early 2011. With $44.1 million of cash flow from operations, along with $42.1 million net proceeds from the issuance of shares (both from offerings and the exercise of warrants and options), the company was able to retire the debt issued in fiscal 2008 and 2009. In addition to the increase in gold poured, Petaquilla is benefiting from the rise in gold prices. In fiscal 2011, only 6.3% of the company's gold sales (3,500 ounces of the 55,566 ounces poured) were capped at $1,290 due to the Forward Gold Purchase Agreement with Deutsche Bank.

In June 2011, Petaquilla Minerals received approval from the Toronto Stock Exchange to **repurchase up to 17 million common shares** (or approximately 9.6% of the shares outstanding) through a Normal Course Issuer Bid. The company may buy back shares at the current market price (up to a maximum of CAD$1.00 per share) anytime through July 3, 2012. As of August 29, 2011, Petaquilla Minerals has repurchased a total of 285,000 shares at prices between CAD$0.69 and CAD$0.80.

[70] Approximately 66% of the net proceeds of the Convertible Note offering were used to retire Senior Secured Notes.
[71] In March and May 2010, total payments of $10,272,950 were due, of which only $1,200,000 was paid.
[72] Under the terms of the Forward Gold Purchase Agreement with Deutsche Bank, the Secured Notes became subordinate to the Agreement.

For fiscal 2012, management expects capital expenditures for the leaching facility and mill expansion project **at Molejón to be approximately $20,000,000**, including annual lease payments totaling $7.69 million to finance the equipment required to expand the mill and run the leach operations. **In addition, Petaquilla Development of Infrastructure, S.A. (PDI Panama)**, a subsidiary of Petaquilla Minerals, **requires capital expenditures of approximately $26,000,000**, primarily for the company's leach and construction projects.

RECENT NEWS

On December 20, 2011, Petaquilla Minerals announced preliminary results for the second quarter of fiscal 2012 ending November 30, 2011. During the quarter, **Gold sold declined 8.4% sequentially** versus the first fiscal quarter from 17,418 to 15,959 ounces generating revenues of $25.4 million**. Gold poured increased 0.5% sequentially** from 18,014 to 18,100 ounces. The cash cost per ounce of gold sold was in the $550 to $600 range. The on/off leach pad project added 180 gold ounces to production. Having commenced production at the end of the second fiscal quarter of 2012, management expects the on/off leach operation to recover 3,000 ounces Au during the third fiscal quarter. The company's cash position increased to $12.2 million.

On November 14, 2011, Petaquilla Minerals reported first fiscal quarter results for the period ending August 31, 2011. For the quarter, revenues were $26.2 million. **The amount of gold sold increased 19.2% sequentially** versus the fourth fiscal quarter of 2011 from 14,608 to 17,418 ounces. **The amount of gold poured increased 7.6% sequentially from 16,735 to 18,014 ounces. The gross operating profit was $9.84 million and the gross operating profit margin was 55.9%** (sequential comparisons unavailable due to the adoption of IFRS). **The cash cost per ounce of gold sold declined 0.5% sequentially to $554.**

During the first quarter of fiscal 2012, the construction of a 40,000 tonne capacity on/off leach pad was completed. A second leach pad with a capacity of 300,000 tonnes of ore is being constructed. Management expects the leach pads to achieve a 70% recovery rate and ultimately add 2,000 ounces Au to monthly gold poured.

On September 1, 2011, Petaquilla Minerals acquired Iberian Resources Corp. for 44,635,225 newly issued common shares and 1,511,248 warrants to purchase 1,640,419 shares at prices between US$0.14 and US$0.60, along with options to purchase 3,357,313 shares between CAD$0.10 and US$0.60.

On September 1, 2011, Petaquilla Minerals reported fourth quarter and fiscal year-end results for the period ending May 31, 2011. For the year, revenues from gold sales were $71.7 million. The amount of gold sold, including gold sold during the commissioning period, increased 0.78% from 53,448 to 53,865 ounces. The amount of gold poured, including gold poured during the commissioning period, increased 7.58% from 51,652 to 55,566 ounces. The gross profit rose 228% to $21.2 million from $6.47 million as the gross operating profit margin increased 477 basis points (bps) to 45.4% from 40.6%. The cash cost per ounce of gold sold during fiscal 2011 was $634, a 6.9% decrease from fiscal 2010.

During the fourth fiscal quarter, an updated National Instrument **43-101** compliant mineral resource and reserve report was filed for the **Molejón** gold project. **Proven and probable reserves are now 643,266 contained gold ounces** (15.3 million tonnes grading at 1.30g/t Au) as of the October 1, 2010 production cut-off.

On August 31, 2011, a majority of Petaquilla's shareholders authorized the issuance of additional common shares, which was required to complete the acquisition of Iberian Resources.

On June 29, 2011, **Petaquilla Minerals** announced that the Toronto Stock Exchange has approved the company's request **to repurchase up to 17 million shares** (or approximately 9.6% of the shares outstanding).

On June 10, 2011, **Petaquilla Minerals issued guidance** for the first quarter of 2012. Management expects to produce between 35,000 and 37,000 ounces of gold. During fiscal 2012, management plans to produce 115,000 to 125,000 ounces, in fiscal 2013, between 135,000 and 145,000 ounces. Management's definition of production includes gold poured and gold mined for further processing.

On June 6, 2011, Petaquilla Minerals announced that **PDI Panama**, in a joint venture with Constructora MECO, was awarded a contract by Minera Panama, S.A. (a wholly owned subsidiary of Inmet Mining Corporation) to construct a 3.9 kilometer road that will pass by the Molejón gold mine and provide Minera Panama with direct access to their copper project in the District of Donoso, Colon Province, Panamá.

VALUATION

Managements of mineral production and exploration companies create value through evaluating, acquiring, exploring and/or developing mining properties. In the case of Petaquilla Minerals, management's strategy is to increase shareholder value through developing the Molejón gold project and other properties in north-central Panamá, along with evaluating and acquiring other projects, such as Lomero-Poyatos in Spain. Also, **Petaquilla Minerals has achieved the status of an exploration/production company, in which the reserves at Molejón warrant a higher valuation** than typical junior gold exploration companies. Therefore, we believe it would be inappropriate to value Petaquilla Minerals on a current earnings, cash flow or book value basis. Both earnings and cash flow are ramping up and do not adequately capture the value of the company's resource base. Book value can often represent the value of a junior gold exploration company, but **Molejón mine has evolved beyond the exploration phase**.

Our calculation of **share value of attributable reserves and resources** is based on the ascertained value of each property plus balance sheet adjustments for working capital, PPE (property, plant and equipment) and marketable securities. **The value of each individual property is determined by adjusting the value of current reserves/resources for the expected recovery rate, mining/processing costs and royalties, if any.** The reserves/resources are assigned a **confidence factor** that attempts to take into account the risks of each project, such as the locality of the deposits, the assurance level of the reserves/resources, various technical mining/production risks, etc. The current price of gold is utilized. The reserve/resource valuation methodology involves the following assumptions:

1) At Molejón, a 90% confidence factor is applied to measured & indicated reserves with an average grade of 1.305 g/t since the production facility has been operating consistently since 2009. The grade of ore is quite high for an open pit mine.
2) At Molejón, a 60% confidence factor is applied to measured & indicated reserves with an average grade of 0.70 g/t for a combination of factors, but primarily since the on/off leach operations have begun recently and the company has yet to report production from the process.
3) At Molejón, only a 10% confidence factor is applied to measured & indicated reserves with an average grade of 0.50 g/t. According to laboratory column leach tests, only low grade oxide materials can be processed economically on the on/off leach pads. The low recovery rate of fresh ore in the laboratory (between 38% and 53%) impedes its profitable extraction. A breakdown of low grade oxide materials and fresh ore is not available.
4) At Oro del Norte, Botija Abajo and Brazo a 20% confidence factor is applied to inferred resource. The inferred resource is not yet NI 43-101 compliant, and production is not expected until 2016.
5) At Lomero-Poyatos, a 25% confidence factor is applied to measured & indicated resource. The property was previously mined for pyrite, but not for precious metals. The silver, copper, lead and zinc deposits are currently not included in the valuation; however, when a feasibility study provides

sufficient information for their evaluation, they will be included. Interestingly, our methodology derives a $48.3 million value for Lomero-Poyatos, close to the $53.5 million value estimated by the Technical Report completed by Behre Dolbear.

6) Each property's estimated production life is 10 years.
7) The royalties and Net Smelter Return for Molejón include both the Government of Panamá's 2% royalty on gold and silver sold and the graduated 1% to 5% NSR provided by the June 2005 agreement.
8) In the case of PDI Panama, only the announced contracts are being used to value the operations on a price-to-sales (P/S) basis. Small-capitalization companies with a sales profile that should grow and expand over time historically are valued in a P/S range between 1.1 and 3.2. Given the limited information on PDI Panama, the valuation target is based on a third quartile 1.6 price-to-sales ratio valuation. Only Petaquilla's percentage interest in PDI is attributed in the valuation model.

Based on our calculation of share value of attributable resources (see table below), **our target for Petaquilla Minerals stock is $1.70.**

Petaquilla Minerals Ltd.

GOLD Projects	Metal	Measured & Indicated Reserve (oz)	Measured & Indicated Resource (oz)	Grade (g/t)	Management Inferred Resource (oz)	Recovery Rate	Average Production Costs (per oz)	Current Price	Royalties & Net Smelter Return (NSR)	% Ownership	Net Value to PTQ	Net Present Value to PTQ
PANAMA												
Molejón (CIP/CIC)	Au	585,513		1.305		90%	590	1,600	4.0%	100%	459,848,120	338,452,219
Molejón (on/off leach)	Au	140,309		0.700		70%	625	1,600	4.0%	100%	55,158,143	40,596,873
Molejón (on/off leach)	Au	191,669		0.500		45%	650	1,600	2.0%	100%	8,029,973	5,910,130
PDI Panama	N/A									47.48%	5,348,147	5,348,147
BALANCE SHEET ADJUSTMENTS												
Working capital											(27,136,271)	(27,136,271)
Property and equipment											1,189,451	1,189,451
Debt											(14,992,216)	(14,992,216)
Deferred revenue											(30,383,157)	(30,383,157)
								Net Assets & Resources			457,062,190	318,985,177
								Shares Outstanding			221,064,726	221,064,726
									Asset Value (Molejon)		2.07	
									Discounted Asset Value (Molejón only)			**1.44**
PANAMA												
Oro Del Norte	Au			0.470	276,383	85%	800	1,600	4.0%	100%	36,084,564	6,596,611
Botija Abajo Brazo	Au			0.260	253,440	85%	800	1,600	4.0%	100%	33,089,126	4,839,212
SPAIN												
Lomero-Poyatos	Au		2,072,810	3.080		75%	750	1,600	0.0%	100%	330,354,094	48,313,564
									Asset Value		3.73	
									Discounted Asset Value			**1.71**

Petaquilla Minerals Ltd.

Consolidated Balance Sheets (in $ US)
(as reported prior to application of IFRS)
(in Canadian $ prior to FY 2009, in US $ starting in FY 2(

For the years ending as noted	Canadian GAAP 2006 ending 1/31	2007 ending 4/30	2008 ending 4/30	2009 ending 5/31	2010 ending 5/31	2011 ending 5/31	IFRS	IFRS 2010 ending 5/31	IFRS 2011 ending 5/31	IFRS 2012 E ending 5/31
ASSETS										
Cash and cash equivalents	9,171,318	665,290	12,850,137	3,575,168	4,625,649	5,712,792		4,625,649	5,712,792	12,000,000
Short-term investments	-	-	-	-	-	200,000		-	200,000	200,000
Accounts receivable	32,188	100,410	450,885	144,225	116,326	460,324		116,326	-	-
Prepaid expenses	36,650	452,718	310,255	591,847	690,152	1,138,977		690,152	-	-
Accounts receivable, prepaids, etc.		-	-	-	-	-		-	1,599,301	1,800,000
Inventory and stockpiled ore	-	-	-	1,038,999	3,634,715	11,613,321		3,634,715	11,657,676	14,000,000
Current Assets	**9,240,156**	**1,218,418**	**13,611,277**	**5,350,239**	**9,066,842**	**19,125,414**		**9,066,842**	**19,169,769**	**28,000,000**
Other Assets										
Restricted cash - reclamation obligations	892,242	1,188,026	670,175	707,480	566,708	255,091		566,708	-	-
Long term investments	-	1,807,000	2,408,443	-	-	2,400,000		-	2,400,000	2,400,000
Long term stockpiled ore	-	-	-	1,762,945	1,107,316	2,228,405		1,107,316	2,228,405	3,000,000
Advances to suppliers	-	-	-	-	816,461	3,509,817		816,461	-	-
Other assets	-	4,582,937	-	-	-	6,616,964		-	10,381,872	8,400,894
Property, plant and equipment (net)	285,005	5,343,147	16,779,149	12,879,658	9,916,595	14,713,518		-	-	\
Mineral properties	2,389,769	31,236,455	37,739,133	60,843,501	58,788,273	66,670,067		-	-	-
Mineral property, plant & equipment								78,700,875	94,553,369	100,808,243
Total Assets	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**80,262,195**	**115,519,276**		**90,258,202**	**128,733,415**	**142,609,137**
LIABILITIES										
Accounts payable and accrued liabilities	551,096	4,951,297	8,493,460	8,746,892	17,586,683	30,318,558		17,586,683	30,318,558	9,000,000
Deferred services and materials	-	-	248,786	120,000	3,153,394	-		-	-	-
Current obligations under capital leases	-	-	2,174,903	5,054,987	4,136,032	1,468,561		4,136,032	1,468,561	1,300,000
Current porton of long-term debt	-	487,882	436,151	160,993	35,465	435,733		-	-	0
Current porton of bank loans		-	-	-	-	-		35,465	435,733	450,000
Current other liabilities - Community support	-	-	-	-	-	-		5,184,816	1,424,290	450,000
Deferred revenue	-	-	-	-	-	9,246,437		0	9,246,437	0
Bank overdraft	-	-	2,100,000	-	-	-		-	-	-
Operating credit line facility	-	-	3,872,434	-	-	-		-	-	-
Senior secured notes	-	-	-	15,653,483	26,646,631	217,984		26,646,631	217,984	125,000
Convertible senior secured notes	-	-	-	-	44,837,991	276,983		45,094,084	276,983	150,000
Current Liabilities	**551,096**	**5,439,179**	**17,325,734**	**29,736,355**	**96,396,196**	**41,964,256**		**98,683,711**	**43,388,546**	**11,475,000**
Long term debt	-	699,185	162,568	-	80,235	1,840,500		-	-	-
Bank loans		-	-	-	-	-		80,235	1,840,500	11,000,000
Accounts payable and accrued liabilities	-	-	-	-	-	1,866,667			1,866,667	1,500,000
Obligations under capital leases	-	-	3,991,743	-	440,229	3,850,475		440,229	3,850,475	3,080,380
Senior secured notes	-	-	26,785,359	13,754,019	-	2,906,453		0	2,906,453	1,666,666
Convertible senior secured notes	-	-	-	34,794,455	-	3,693,111		0	3,693,122	2,000,008
Other liabilities - Community support obligation		-	-	4,391,168	-	-		6,453,281	6,703,799	5,000,000
Share purchase warrants	-	-	-	-	-	-		5,030,904	11,064,020	11,064,020
Deferred revenue	-	-	4,003,423	3,123,394	-	33,390,472			33,390,472	21,361,212
Asset retirement obligation	-	4,400,000	4,333,216	4,664,720	4,698,650	5,687,236		4,816,121	9,630,851	10,000,000
Long-term liabilities	**0**	**5,099,185**	**39,276,309**	**60,727,756**	**5,219,114**	**53,234,914**		**16,820,770**	**74,946,359**	**66,672,287**
Minority Interest	**0**	**0**	**0**	**0**	**0**	**2,507,156**		**0**	**2,507,156**	**2,507,156**
Share capital (no par value)	62,977,209	101,482,015	89,002,273	89,208,668	102,334,997	131,078,574		N/A	N/A	41,404,781
Treasury shares	(166,981)	(166,981)	(122,193)	(122,193)	(122,193)	(122,193)		N/A	N/A	-
Warrants	-	-	11,771,374	14,109,097	13,209,412	26,874,201		N/A	N/A	-
Shares subscribed	-	150,000	-	-	-	-		-	-	-
Additional paid-in capital	1,004,480	12,893,667	14,714,276	13,897,197	16,219,808	17,367,137		N/A	N/A	1,337,722
Equity component of cv. sr. secured notes	-	-	-	495,121	495,121	42,817		N/A	N/A	-
Accumulated comprehensive income	-	-	(2,084,526)	(6,733,242)	(6,733,242)	(6,733,242)		N/A	N/A	-
Retained earnings (deficit)	(51,558,632)	(79,521,082)	(98,675,070)	(119,774,936)	(146,757,018)	(150,694,344)		N/A	N/A	19,212,191
SHAREHOLDERS' EQUITY	**12,256,076**	**34,837,619**	**14,606,134**	**(8,920,288)**	**(21,353,115)**	**17,812,950**		**(25,246,279)**	**7,891,354**	**61,954,694**
Total Liabilities and Equity	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**80,262,195**	**115,519,276**		**90,258,202**	**128,733,415**	**142,609,137**
Common shares outstanding	89,876,951	89,876,951	95,958,641	96,040,121	125,281,951	176,429,501		125,281,951	176,429,501	236,064,726

Petaquilla Minerals Ltd.

Consolidated Statements of Operations and Retained Earnings (in $ US)

(as reported prior to application of IFRS)	Canadian GAAP		Canadian GAAP		Canadian GAAP		Canadian GAAP		IFRS	IFRS	IFRS
(in Canadian $ prior to FY 2009, in US $ starting in FY 2009)	**2005**	**2006**	**2007**	**2007**	**2008**	**2009**	**2010**	**2011**	**2011**	**2012 E**	**2013 E**
For the years ending as noted	ending 1/31	ending 1/31	ending 1/31	ending 4/30	ending 4/30	ending 5/31	ending 5/31	ending 5/31	ending 5/31	ending 5/31	ending 5/31
Revenue	**0**	**0**	**0**	**0**	**0**	**0**	**27,542,363**	**71,708,685**	**71,708,685**	**108,274,412**	**130,200,000**
Cost of sales	0	0	0	0	0	0	16,237,588	39,157,086	39,157,086	51,961,341	54,180,000
Amortization and depletion	0	0	0	0	0	0	4,839,420	11,335,717	12,510,346	17,904,434	20,832,000
Gross operating profit	**0**	**0**	**0**	**0**	**0**	**0**	**6,465,355**	**21,215,882**	**20,041,253**	**38,408,637**	**55,188,000**
Accounting and legal	161,203	266,967	433,266	726,929	1,306,921	1,944,302	1,775,357	1,655,679	-	-	-
Accretion of asset retirement obligation	-	-	-	-	305,692	331,504	325,287	359,448	-	-	-
Consulting fees	141,158	291,034	667,788	1,077,362	943,250	370,248	663,796	983,667	-	-	-
Amortization	7,660	56,697	296,442	471,309	-	-	-	-	-	-	-
Filing fees	33,679	30,637	67,027	82,669	87,005	115,295	64,303	33,821	-	-	-
Investor relations and shareholder information	98,790	388,991	979,155	1,267,505	1,012,822	475,092	502,690	843,313	-	-	-
General and administrative	81,173	257,859	700,350	971,936	2,711,908	2,187,020	1,609,746	2,421,243	10,088,183	8,215,505	9,500,000
Rent	88,939	80,520	124,344	179,497	122,495	240,693	119,920	118,010	-	-	-
Donations and community relations	-	-	-	-	-	949,271	1,240,479	1,411,440	1,707,190	1,494,931	1,800,000
Exploration and development costs	234,664	11,105	10,930,276	-	11,690,204	7,761,862	4,304,303	9,269,306	9,269,306	5,695,831	8,000,000
Stock-based compensation	716,876	410,301	14,962,731	20,386,270	5,561,247	898,454	1,351,106	971,208	919,856	1,455,310	1,750,000
Travel	83,398	346,332	1,248,787	1,686,536	857,907	1,014,530	906,989	657,616	-	-	-
Fees on forward sale agreement	-	-	-	-	-	-	-	2,473,358	-	-	-
Debt issuance costs	-	-	-	-	-	6,398,825	613,244	-	-	-	-
Wages and benefits	243,139	397,907	1,591,959	1,991,770	1,668,455	2,916,615	3,428,470	3,357,862	-	-	-
Other operating expenses									4,385,816	0	0
Operating expenses	**1,890,679**	**2,538,350**	**32,002,125**	**28,841,783**	**26,267,906**	**25,603,711**	**16,905,690**	**24,555,971**	**26,370,351**	**16,861,577**	**21,050,000**
Gain (loss) from operations	**(1,890,679)**	**(2,538,350)**	**(32,002,125)**	**(28,841,783)**	**(26,267,906)**	**(25,603,711)**	**(10,440,335)**	**(3,340,089)**	**(6,329,098)**	**21,547,060**	**34,138,000**
Foreign currency gain (loss)	(79,147)	(77,647)	23,723	(836,847)	1,342,442	(8,157,720)	(93,159)	(72,928)	-	-	-
Gain (loss) on marketable securities	-	-	18,584	21,191	-	-	-	-	-	-	-
Interest income	18,266	48,239	260,393	352,880	51,926	169,366	52,394	118,835	-	-	-
Finance expense	-	-	-	-	-	-	-	-	(533,888)	(634,081)	(500,000)
Interest on long-term debt	-	-	-	(68,239)	(68,465)	(37,382)	(501,574)	(305,003)	-	-	-
Cost associated with forward sales agreement									-	-	-
Asset usage fees	-	-	-	103,348	126,775	(4,155)	-	-	-	-	-
Gain on redemption of performance bond	198,142	-	-	-	-	-	90,000	-	-	-	-
Gain (loss) on disposal of property and equipment	(44,855)	-	-	-	-	-	-	-	-	-	-
Gain on equity investments	-	-	-	-	4,347,077	40,604,938	-	-	-	-	-
(Loss) on equity investments	-	-	(714,756)	(1,773,000)	(8,301,371)	(2,396,011)	0	(204,499)	0	(431,130)	0
Power and drilling services	-	-	-	-	76,430	156,597	90,000		-	-	-
Gain on expiry of deferred services contract	-	-	-	-	-	-	-	3,153,394	-	-	-
Gain on disposal and dilution	-	-	-	-	-	-	-	5,243,309	-	-	-
Gain on dilution of equity investment	-	-	1,701,589	3,080,000	12,582,085	2,238,492	-	-	-	-	-
Redemption loss on senior secured notes	-	-	-	-	-	(13,130,982)	-	-	-	-	-
Mark-to-market (loss) on purchase warrants			-	-	-	-	-	-	-	(395,635)	0
Mark-to-market loss on senior secured notes	-	-	-	-	-	(14,939,298)	(16,089,408)	(6,023,189)	0	34,209	0
Non-operating income (expenses)									3,019,470	0	0
Total other income (expense)	**92,406**	**(29,408)**	**1,289,533**	**879,333**	**10,156,899**	**4,503,845**	**(16,451,747)**	**1,909,919**	**2,485,582**	**(1,426,637)**	**(500,000)**
Income (loss) before minority interest and income taxes	**(1,798,273)**	**(2,567,758)**	**(30,712,592)**	**(27,962,450)**	**(16,111,007)**	**(21,099,866)**	**(26,892,082)**	**(1,430,170)**	**(3,843,516)**	**20,120,422**	**33,638,000**
Non-controlling interests	-	-	-	-	-	-	-	(2,507,156)	(2,507,156)	(908,231)	(1,000,000)
Unrealized loss on translating financial statements to U.S. dollar reporting currency											
Gain (loss) on sale of treasury stock	0	(4,847,462)	0	0	0	0	0	0	0	0	0
Shareholders income (loss) before income taxes	(1,798,273)	(7,415,220)	(30,712,592)	(27,962,450)	(16,111,007)	(21,099,866)	(26,892,082)	(3,937,326)	(6,350,672)	19,212,191	32,638,000
Provision for income taxes	0	0	0	0	0	0	0	0	0	0	0
Net income for the year (continuing operations)	**(1,798,273)**	**(7,415,220)**	**(30,712,592)**	**(27,962,450)**	**(16,111,007)**	**(21,099,866)**	**(26,892,082)**	**(3,937,326)**	**(6,350,672)**	**19,212,191**	**32,638,000**
Net income per common share (diluted) - continuing ops.	**(0.04)**	**(0.13)**	**(0.38)**	**(0.35)**	**(0.17)**	**(0.22)**	**(0.25)**	**(0.03)**	**(0.04)**	**0.09**	**0.13**
Extraordinary item											
Unrealized loss on translating financial statements to U.S. dollar reporting currency			-	-	-	(4,648,716)	-	-	-	-	-
Net income per common share (diluted)	**(0.04)**	**(0.13)**	**(0.38)**	**(0.35)**	**(0.17)**	**(0.27)**	**(0.25)**	**(0.03)**	**(0.04)**	**0.09**	**0.13**
Weighted average common shares outstanding - diluted	50,370,747	56,115,596	79,992,262	79,992,262	93,131,030	96,019,488	107,740,441	146,404,334	146,404,334	216,719,759	245,000,000

Notes:

In FY 2009, the functional currency of Petaquilla Minerals changes from the Canadians dollar to the US dollar, requiring a one-tine translation charge.

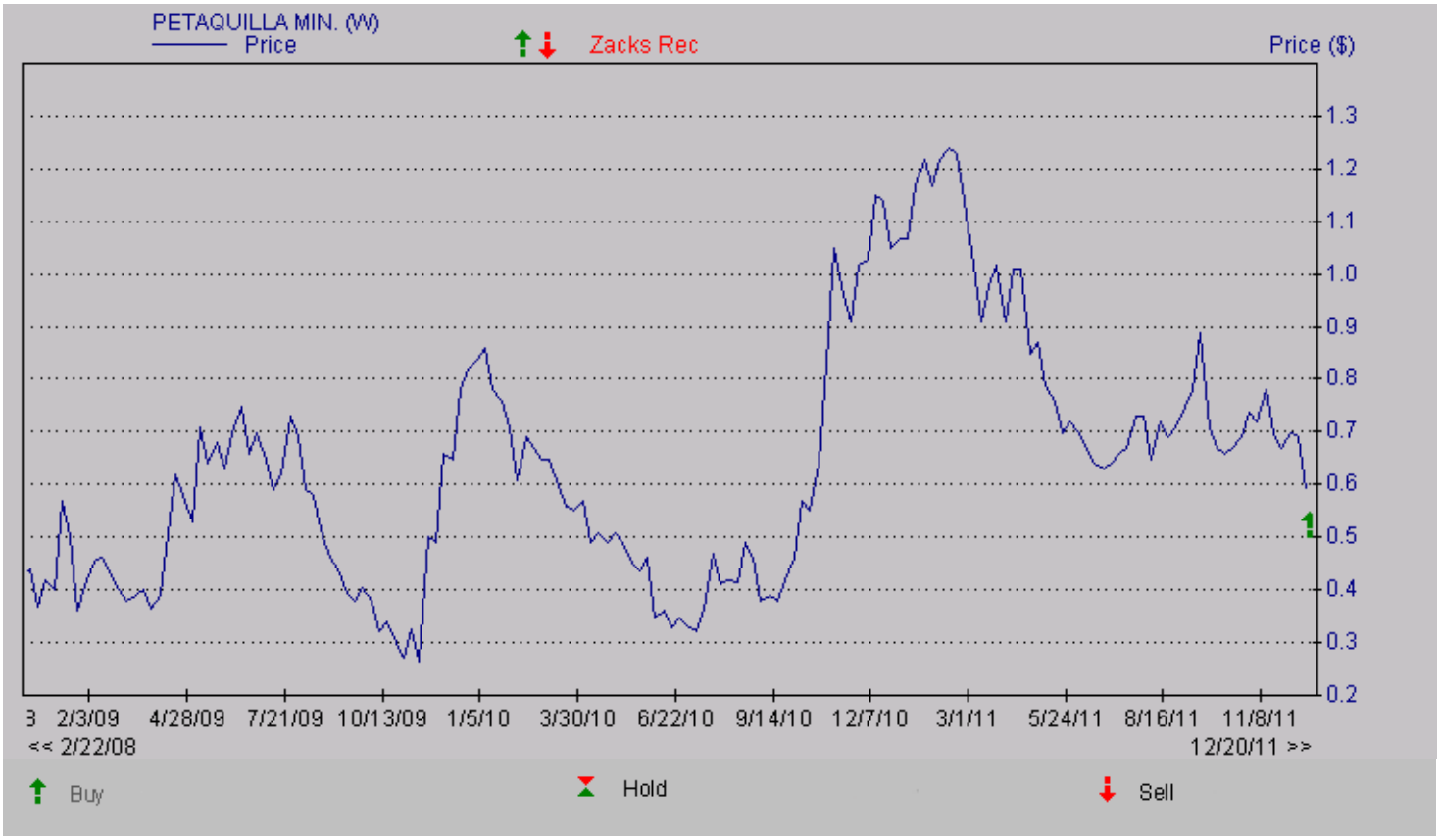
At the end of FY 2011, Petaquilla Minerals adopted IFRS.

Petaquilla Minerals Ltd.

Consolidated Statements of Operations and Retained Earnings (US $)	IFRS	Canadian GAAP	Canadian GAAP	Canadian GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
	2011	2011	2011	2011	Year	2012	2012	2012	2012	Year
For the years ending May 31	1Q	2Q	3Q	4Q	2011	1Q	2Q E	3Q E	4Q E	2012 E
Gold poured (ounces)	10,738	15,268	12,825	16,735	55,566	18,014	18,100	19,600	21,000	76,714
Gold sold (ounces)	12,211	13,166	13,880	14,608	53,865	17,418	15,959	17,500	19,000	69,877
Avg. realized gold price	$1,210	$1,312	$1,340	$1,413	$1,319	$1,508	$1,590	$1,550	$1,550	$1,550
Revenue	**14,728,011**	**17,723,505**	**19,235,284**	**19,805,680**	**71,708,685**	**26,176,900**	**25,374,810**	**27,125,000**	**29,450,000**	**108,274,412**
Cost of sales	10,076,688	9,996,879	10,368,901	8,498,413	39,157,086	11,549,160	12,752,181	13,125,000	14,535,000	51,961,341
Amortization and depletion	2,812,858	2,686,809	2,604,307	3,491,197	12,510,346	4,792,464	4,059,970	4,340,000	4,712,000	17,904,434
Gross operating profit	**1,838,465**	**5,039,817**	**6,262,076**	**7,816,070**	**20,041,253**	**9,835,276**	**8,562,659**	**9,660,000**	**10,203,000**	**38,408,637**
Accounting and legal		654,861	418,904	318,969	-	-	-	-	-	-
Accretion of asset retirement obligation		89,862	89,862	89,862	-	-	-	-	-	-
Consulting fees		248,067	158,561	418,348	-	-	-	-	-	-
Amortization		-	-	-	-	-	-	-	-	-
Filing fees		8,812	(1,329)	26,338	-	-	-	-	-	-
Investor relations and shareholder information		161,299	287,145	283,492	-	-	-	-	-	-
General and administrative	1,981,602	561,906	594,449	817,725	10,088,183	1,965,505	2,050,000	2,100,000	2,100,000	8,215,505
Rent		28,600	29,654	31,486	-	-	-	-	-	-
Donations and community relations	30,392	343,075	542,054	195,919	1,707,190	344,931	350,000	500,000	300,000	1,494,931
Exploration and development costs	2,324,971	2,351,318	1,948,562	2,644,455	9,269,306	1,371,658	1,405,949	1,441,098	1,477,126	5,695,831
Stock-based compensation	171,698	96,336	543,046	148,269	919,856	130,310	125,000	950,000	250,000	1,455,310
Travel		267,316	193,193	100,668	-	-	-	-	-	-
Fees on forward sale agreement	-	-	-	-	-	-	-	-	-	-
Debt issuance costs		3,988,012	99,090	(1,690,043)	-	-	-	-	-	-
Wages and benefits		887,232	935,579	662,612	-	-	-	-	-	-
Other operating expenses	76,299				4,385,816	0	0	0	0	0
Operating expenses	**4,584,962**	**9,686,696**	**5,838,770**	**4,048,100**	**26,370,351**	**3,812,404**	**3,930,949**	**4,991,098**	**4,127,126**	**16,861,577**
Gain (loss) from operations	**(2,746,497)**	**(4,646,879)**	**423,306**	**3,767,970**	**(6,329,098)**	**6,022,872**	**4,631,710**	**4,668,902**	**6,075,874**	**21,547,060**
Foreign currency gain (loss)		(184,725)	469,400	(330,966)	-	-	-	-	-	-
Gain (loss) on marketable securities	-	-	-	-	-	-	-	-	-	-
Interest income					-	-	-	-	-	-
Finance expense	(181,778)	24,043	32,697	68,904	(533,888)	(160,918)	(159,309)	(157,716)	(156,139)	(634,081)
Interest on long-term debt		(179,786)	(60,890)	-	-	-	-	-	-	-
Cost associated with forward sales agreement	-	-	(399,662)	-	-	-	-	-	-	-
Asset usage fees	-	-	-	-	-	-	-	-	-	-
Gain on redemption of performance bond	-	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of property and equipment	-	-	-	-	-	-	-	-	-	-
Gain on equity investments	-	-	-	-	-	-	-	-	-	-
(Loss) on equity investments	104,937	-	-	(204,499)	0	(431,130)	0	0	0	(431,130)
Power and drilling services	-	-	-	-	-	-	-	-	-	0
Gain on expiry of deferred services contract	-	-	3,153,394	-	-	-	-	-	-	0
Gain on disposal and dilution	-	-	-	5,243,309	-	-	-	-	-	0
Gain on dilution of equity investment	-	-	-	-	-	-	-	-	-	0
Redemption loss on senior secured notes	-	-	-	-	-	-	-	-	-	0
Mark-to-market (loss) on purchase warrants	6,789			-	0	(495,635)	50,000	75,000	(25,000)	(395,635)
Mark-to-market (loss) on senior secured notes	(2,918,360)	(2,120,354)	(1,508,761)	802,230	0	34,209	-	-	-	34,209
Non-operating income (expenses)	0	0	0	0	3,019,470	0	0	0	0	0
Total other income (expense)	**(2,988,412)**	**(2,460,822)**	**1,686,178**	**5,578,978**	**2,485,582**	**(1,053,474)**	**(109,309)**	**(82,716)**	**(181,139)**	**(1,426,637)**
Income (loss) before minority interest and income taxes	**(5,734,909)**	**(7,107,701)**	**2,109,484**	**9,346,948**	**(3,843,516)**	**4,969,398**	**4,522,401**	**4,586,186**	**5,894,736**	**20,120,422**
Non-controlling interests	-	-	-	(2,507,156)	(2,507,156)	(219,878)	(213,141)	(227,842)	(247,371)	(908,231)
Unrealized loss on translating financial statements to U.S. dollar reporting currency										
Gain (loss) on sale of treasury stock	0	0	0	0	0	0	0	0	0	0
Shareholders income (loss) before income taxes	(5,734,909)	(7,107,701)	2,109,484	6,839,792	(1,336,360)	4,749,520	4,309,260	4,358,344	5,647,365	19,212,191
Provision for income taxes										
Net income for the year (continuing operations)	**(5,734,909)**	**(7,107,701)**	**2,109,484**	**6,839,792**	**(1,336,360)**	**4,749,520**	**4,309,260**	**4,358,344**	**5,647,365**	**19,212,191**
Net income per common share (diluted) - continuing ops.	**(0.05)**	**(0.06)**	**0.01**	**0.04**	**(0.01)**	**0.03**	**0.02**	**0.02**	**0.02**	**0.09**
Weighted average common shares outstanding - diluted	125,294,994	127,176,855	156,821,635	176,323,851	146,404,334	178,684,859	221,064,726	231,064,726	236,064,726	216,719,759
Gross margin (net of amortization & depletion)	31.58%	43.60%	46.09%	57.09%	45.39%	55.88%	49.74%	51.61%	50.65%	52.01%

The following line item reported in the unaudited quarterly Income Statements (canadian GAAP) did not appear in the audited Annual Income Statement (IFRS):
Cost associated with forward sales agreement of $399,662 in the third fiscal quarter on 2011

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1048 companies covered: Buy/Outperform- 16.3%, Hold/Neutral- 75.5%, Sell/Underperform – 6.3%. Data is as of midnight on the business day immediately prior to this publication.