Zacks Small-Cap Research

June 25, 2012

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Petaquilla Minerals Ltd. (T.PTQ – TSE)

T.PTQ: New NI43-101 reports filed on Molejón and Lomero-Poyatos. Price target adjusted to $1.45.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (06/22/12)	$0.38
Six- Month Target Price	**$1.45**

OUTLOOK

In the last few weeks, Petaquilla Minerals filed both an updated 43-101 on Molejón and a revised 43-101 on Lomero-Poyatos, the former adding a P2 silver resource and the later adjusting the estimated inferred resources to only an underground mine scenario. In addition, the processing plant at Molejón continues to be expanded with new equipment is being installed. Also, management expects to begin mining at Lomero-Poyatos before year-end. Incorporating the new information contained in the updated NI 43-101 reports on Molejón and Lomero-Poyatos, along with other developments, we have adjusted our price target to $1.45.

SUMMARY DATA

52-Week High	**$0.94**
52-Week Low	**$0.30**
One-Year Return (%)	**-40.6**
Beta	**2.46**
Average Daily Volume (shrs.)	**399,452**
Shares Outstanding (million)	**221.5**
Market Capitalization ($ mil.)	**$84.2**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**21.2**
Insider Ownership (%)	**2.0**
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	**3.3**
P/E using 2012 Estimate	**4.2**
P/E using 2013 Estimate	**3.2**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Mining - Gold**
Zacks Rank in Industry	**N/A**

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	14.7 A	17.4 A	18.7 A	19.8 A	71.7 A
2012	26.2 A	25.3 A	18.8 A	26.6 E	97.0 E
2013					119.1 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	-$0.18 A	$0.01 A	$0.04 A	-$0.01 A
2012	$0.03 A	$0.03 A	$0.02 A	$0.01 E	$0.09 E
2013					$0.12 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15.0**

Quarterly financials do not equal annual due to adoption of IFRS.

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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 159,006 ounces of gold**. Approximately **553,250 ounces** have yet to be monetized from the proven and probable reserve delineated in the most recent 43-101 compliant mineral reserve report at Molejón.
- **On/off leach pads have been constructed** at Molejón, and production is currently ramping up from a base of 300 ounces produced during the third fiscal quarter. Management expects this incremental leach operation to reach a production rate of 2,000 ounces per month within the fourth quarter of fiscal 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 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 May 21, 2012) estimates that the inferred mineral resource in an underground mining scenario contains **830,000 ounces Au** and **17.3 ounces Ag**. The initial development plan includes shipping 20-ton containers of Spanish ore to the Molejón project in Panamá for processing.
- Management's focus for the remainder of calendar 2012 lies in boosting gold production at Molejón gold project, advancing the newly acquired Lomero-Poyatos concessions to production, continuing exploration at the Oro del Norte concession and pursuing the spin-out of Panamanian Development and Infrastructure Ltd. (PDI).
- Consult our Initiation Report dated December 22, 2011 for full background information of the company and its projects.
- We maintain our Outperform rating on Petaquilla Minerals, but modify our target to $1.45.

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.

[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.

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 poured gold at a rate of 18,100 ounces during the second fiscal quarter from a carbon-in-pulp (CIP) leaching process and a carbon-in-column (CIC) gold adsorption stack. However, during the third fiscal quarter, gold poured declined to a rate of 14,163 **ounces per quarter** due to an interruption brought about by a four-month delay in the installation of a new Metso Crusher 125 mobile crushing system at the Molejón 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. 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.** Management expects the leach operation initially to recover 3,000 ounces Au per quarter.

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 (29 holes) 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 830,000 ounces Au** and **17.3 ounces Ag 2.07 million ounces Au** and **41.98 million ounces Ag** in an underground mining scenario. Though the acquisition provides geographic diversification, the transaction is indicative of the opportunistic nature of management. The initial development plan includes shipping 20-ton containers of Spanish ore to the Molejón project in Panamá for processing. With the anticipated gold value of $750 per ton, the estimated transportation costs of $75 per ton are considered economically feasible.

The company has been successful in obtaining capital through equity and debt offerings. 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 most of 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. The closing of a CAD$6,000,000 Convertible Loan Agreement and a US$11,300,000 Forward Silver Purchase Agreement in March 2012 enabled the company to retire the remainder the debt issued in fiscal 2008 and 2009.

RECENT NEWS

Molejón Gold Project (*Panamá*)

On June 7, 2012, Petaquilla Minerals announced that the fourth ball mill has arrived at Molejón. Over the next few months, the ball mill will be assembled and installed into the processing circuit. Management expects that the ball mill will be commissioned by October 2012, increasing the grinding capacity by 1,100 tonnes per day (approximately a 30% incremental increase).

On May 16, 2012, Petaquilla Gold, S.A., the Panamanian subsidiary of Petaquilla Minerals, paid US$1,016,373.21 in royalties for the second half of calendar year 2011 to the Panamanian Government and to the Municipality of Donoso. The total royalties for calendar 2011 was US$1,902,256.52. The payments are consistent with a 4.0% NSR on operating profit.

On May 9, 2012, Petaquilla Minerals **filed a revised technical report on the Molejón project** on SEDAR. Important modifications include **the addition of a proven and probable silver reserve of 1,008,693 ounces** and identification of 61.4 million tonnes of waste material as construction-grade aggregate. At some point in the future, management expects that NI 43-101-compliant technical reports will be completed on adjacent exploration targets, namely Botija Abajo, Brazo, Palmilla and Oro del Norte, with the report on Botija Abajo expected this year.

Proven and Probable Reserves (as of January 1, 2011)

	Tonnes (000s)	GOLD Grade (g/t)	GOLD Contained (oz)	SILVER Grade (g/t)	SILVER Contained (oz)
Gold Mineralization					
Proven	9,072	1.549	451,884	2.39	697,315
Probable	6,259	0.951	191,382	1.55	311,378
Total	**15,330**	**1.305**	**643,266**	**2.05**	**1,008,693**

Measured and Indicated Mineral Resources (as of January 1, 2011)

Category	GOLD Tonnes (000s)	GOLD Grade (g/t)	GOLD Contained (oz)	SILVER Tonnes (000s)	SILVER Grade (g/t)	SILVER Contained (oz)
Measured	14,743	1.09	514,500	11,417	2.23	819,100
Indicated	16,843	0.56	302,900	14,968	1.31	628,100
Total	**31,586**	**0.80**	**817,400**	**26,385**	**1.74**	**1,447,200**

On February 27, 2012, Petaquilla Minerals announced the installation of a new Metso Crusher 125 mobile crushing system at the Molejón project. The system not only increases crushing capacity by approximately 10,000 tonnes per day, but also will reduce the stacking period of the on/off leach pads. In addition, additional construction-grade aggregate can be produced to produce concrete. The system is composed of a Nordberg NW 125, a GP300S cone, a NW300HPS cone and a DF2016P screen.

Lomero-Poyatos Project (Spain)

On May 24, 2012, Petaquilla Minerals filed a **revised technical report on the Lomero-Poyatos project** on SEDAR. Since the open pit resources "do not have reasonable prospects for economic extraction at the present time," Behre Dolbear International removed references to the open pit resources and **reconfirmed the inferred resource estimates under an underground mining scenario**, specifically

6.07 million tonnes with an average grade of 4.25 g/t Au and 88.74 g/t Ag, **containing approximately 830,000 ounces gold and 17.3 million ounces silver.**

Having secured the environmental permit to dewater the pit and the submerged galleries, the company is waiting for the Andalusian Autonomous Government's administrative authorization prior to proceeding. In addition, a treatment plant will be built to treat the wastewater discharged from the pit and underground mine. Thereafter, the shaft and headgear[4] will be refurbished. **Management expects to begin shipping ore in 20-ton containers to Panamá for processing by the end of calendar 2012.** The estimated transportation costs are $75 per ton on ore with an anticipated gold value of $750 per ton. In the meantime, a drilling program is slated to begin during the summer in order to better define and possibly expand the resource.

New EVP of Corporate Development

On May 9, 2012, Petaquilla Minerals announced that **Dr. Andrew J. Ramcharan** joined Petaquilla as EVP of Corporate Development. Formerly with IAMGOLD Corp (IMG: TO), Dr. Ramcharan will initially focus on expanding the resource at Molejón and the development of the Lomero-Poyatos mine, including the necessary capital funding. Dr. Ramcharan is a Qualified Person and an expert on the requirements of NI 43-101 technical reports.

Results for third fiscal quarter of 2012

On April 16, 2012, Petaquilla Minerals reported third fiscal quarter results for the period ending February 29, 2012. Earnings per diluted share were $0.02, $0.03 above expectations, primarily due to a mark-to-market gain on share purchase warrant, but also due to a higher gross margin. For the quarter, revenues decreased 25.6% sequentially to $18.8 million from $25.3 million as the amount of gold sold declined 20.4% sequentially versus the second fiscal quarter of 2012 from 15,959 to 12,701 ounces. The amount of gold poured decreased 21.8% sequentially from 18,100 to 14,163 ounces. Management cited that the decline in gold poured was due to an unanticipated four-month delay in the installation of a new Metso Crusher 125 mobile crushing system, along with down-time due to ball mill maintenance and a delivery delay of new steel balls. The new on/off leach operation produced approximately 300 ounces Au. The gross operating profit declined 40.4% sequentially to $6.33 million and the gross operating profit margin compressed 771 basis points to 50.0%. The cash cost per ounce of gold increased 13.6% to $633 per ounces, slightly above management's guidance range of $550 to $600. The company's cash & marketable securities declined to $1.4 million; however, within three weeks of the end of the quarter, the company closed a CAD $6.0 million Convertible Loan Agreement and a US $11.3 million Forward Silver Purchase Agreement. After the quarter-end, from February 29th to April 16th, the company repurchased 718,000 shares (between CAD$0.40 and CAD$0.52) under the repurchase authorization of up to 17 million shares announced in June 2011.

Panama Development of Infrastructure (PDI) spin-out

The company is still in the process of spinning out PDI to the shareholders of Petaquilla Minerals on a one share of PDI for each four shares PTQ owned. A record date is expected to be announced in mid-2012. We look forward to reviewing the financial filings of PDI and the MDA (Management Discussion and Analysis) in order to evaluate the potential of the $70 million in contracts that have been secured.

Financing

On March 16, 2012, Petaquilla Minerals closed a **CAD$6,000,000 6.35% four-year Convertible Loan Agreement** and a **US$11,300,000 Forward Silver Purchase Agreement** with Deutsche Bank, AG, London Branch. The conversion price of the Convertible Loan Agreement is CAD$0.6121. The Forward Silver Purchase Agreement requires Petaquilla Minerals to deliver 525,500 ounces of silver to Deutsche

[4] Headgear is the structural frame above an underground mine shaft.

Bank over a five year period, with Petaquilla to receive an additional cash payment for when the price of silver is above $25 per ounce, up to a maximum of $30 per ounce. The net proceeds will be used to expand the Molejón gold plant (specifically with a fourth ball mill, two leach tanks, two CIP tanks, mining equipment and a second Metso crushing system) and fund drilling, development and construction costs of the Iberian concessions. Also, a portion of the net proceeds from the Silver Agreement was utilized to redeem the remaining outstanding Notes and Convertible Notes issued during fiscal 2008 and 2009. Previously in September 2010, Deutsche Bank AG entered into a $45,000,000 Forward Gold Purchase Agreement with Petaquilla Minerals. This second round of financing indicates that Deutsche Bank has a certain degree of confidence with the expected production level of silver at the Molejón project. All the funding facilities provided by Deutsche Bank are secured by all of the assets of Petaquilla Minerals and its subsidiaries in the Western Hemisphere.

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 Resources Code of Panamá.

Ley 11 (Law 11), signed into law on March 26, 2012, establishes a special restrictions and procedures for the development of mineral, water and environmental resources within the Comarca (reservation) Ngäbe Buglé and adjoining areas. Ley 11 cancels and prohibits the concessions for the exploration, exploitation and extraction of mineral resources, and also prohibits the alteration of rivers and water sources. The Comarca Ngäbe Buglé for indigenous inhabitants contains lands from the Provinces of provinces of Bocas del Toro, Chiriquí and Veraguas. Petaquilla's Molejón gold is located in the Province of Colon, approximately 75 kilometers east from the closest border of Comarca Ngäbe Buglé. Petaquilla's management is sensitive to the desires of the indigenous inhabitants in the Province of Colon and

allocates well over $1 million annually to donations and community relations, which is a separate line item on the income statement.

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[5]). **Since 2009 through the third fiscal quarter of 2012, the Molejón gold property has produced 159,006 poured ounces of gold, of which 156,364 ounces have been sold** by the company.

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[6] 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[7] 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[8], 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 and revised in May 2012. The proven and probable gold reserve totals **643,266 ounces Au** (15.33 million tonnes graded at 1.305 g/t), along with a proven and probable silver reserve of **1,008,693 ounces Ag** (15.33 million tonnes graded at 2.05 g/t),. Since October 1, 2010 (the effective date of the Behre Dolbear resource estimate), approximately 90,016 ounces Au have been poured, **leaving about 553,250 ounces yet to be monetized**.

[5] The gravel road was constructed in 2006, and later bridges spanning the San Juan and Coclesito rivers were built.
[6] The 1998 Feasibility Study was prepared prior to the introduction of the standards for the National Instrument 43-101.
[7] 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).
[8] 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).

Molejón Project Proven & Probable Reserves[9]
(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[10].

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.

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. 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 Reports issued in 2011 and 2012 conclude 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[11]
(dated April 2011 as of October 1, 2010 production cut-off**)**

Cut-off Grade (g/t)	**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

[9] Molejón NI 43-101 Technical Report, April 2011, pages 112.
[10] Molejón NI 43-101 Technical Report, April 2011, page 124.
[11] Molejón NI 43-101 Technical Report, April 2011, page 108.

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[12]. 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**[13]**.**

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 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), the installation of a third drum scrubber and an additional horizontal Carbon-in-Column circuit increased the processing mill's capacity to approximately 3,000 tpd[14]. A fourth ball mill, two leach tanks and two CIP tanks have been procured, which should boost capacity by between 800 and 1,000 tpd. The fourth ball mill is planned to be operational in October 2012, while the two leach tanks, two CIP tanks and additional electrowinning capacity are expected to be online by the end of the third quarter of fiscal 2013.

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	14,163		

[12] 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.

[13] 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.

[14] 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%.

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	12,701		

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). However, during the third fiscal quarter, gold poured declined 21.8% sequentially from 18,100 to 14,163 ounces due to disruptions caused by a four-month delay in the installation of a new Metso Crusher 125 mobile crushing system.

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	$1,592	$1,520		

Molejón Cash cost per oz. Au sold[15]	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	$557	$633		

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[16], 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) [17]. 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

[15] 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.
[16] Recovery rates for oxide material ranged between 80% and 98%, while fresh primary sulfide ore only achieved rates between 38% and 53%.
[17] Petaquilla Minerals announced Phase 2 results of the Column Leach Test Program on November 1, 2010.

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 2011. Having commenced production at the end of the second fiscal quarter of 2012, management had expected the on/off leach operation initially to recover 3,000 ounces Au during the third fiscal quarter of 2012. However, the four-month delay in the installation of a new Metso Crusher 125 mobile crushing system delayed the advancement of the on/off leach operation, and during the third fiscal quarter, the on/off leach operation produced approximately 300 ounces. Management estimates that gold production from the two leach pads will increase to a production rate of 2,000 ounces per month by the end of the fourth fiscal quarter.

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 September 2011[18]**.** 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[19] 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[20], 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.

Description

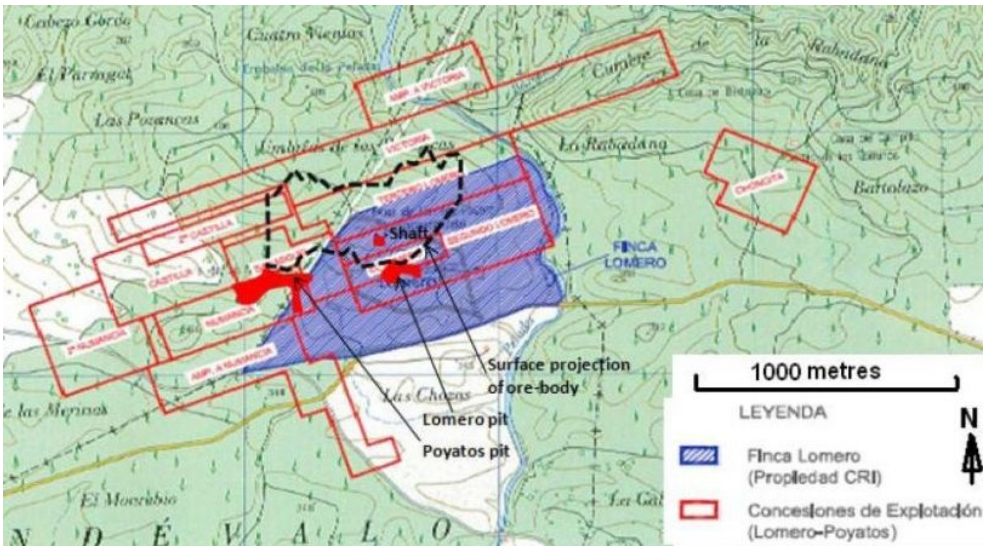
Lomero-Poyatos is a poly-metallic, massive-sulphide deposit, in which pyrite is the predominant sulphide. When mined for pyrite, sulfur mineralization greater than 43% sulfur was regarded as ore. However, the sulphide zones are significantly enriched in gold with two drill holes assaying with grades above 14 g/t[21]. 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.

[18] 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.
[19] The underground mine was begun in 1905.
[20] 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.
[21] 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.



Mineral Concessions (red) and Surface Rights (blue)



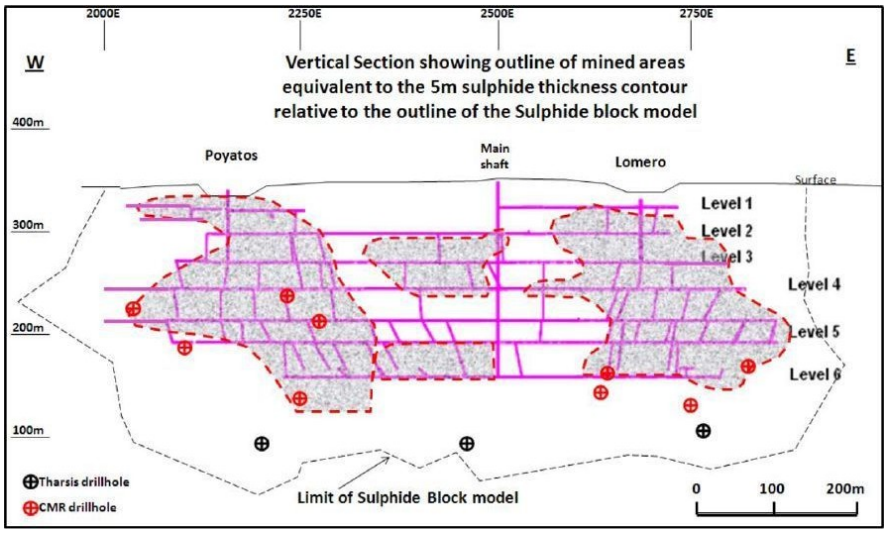
Lomero-Poyatos contains two independent ore bodies (Lomero and Poyatos) that form a single ore body at depth, over 800 meters in strike. Initially, each ore body was opened to the surface by small open pit mines. Later, in the twentieth century, a main shaft and an underground mine complex with at least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

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[22], Wardell Armstrong International (WAI) in 2005 and 2007[23] and Behre Dolbear International Ltd. in 2011 and 2012. 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

[22] This upgraded Conceptual Mining Study was completed in 2002; SRK produced another updated report in September 2010.
[23] 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.

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.



Behre Dolbear NI43-101 Technical Report July 29, 2011

In July 2005, WAI completed a pre-feasibility study[24] 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[25] 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) [26]. 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) [27]. However, the open pit scenario is currently considered uneconomic, for various reasons including that 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. Subsequently, **a revised NI 43-101 compliant Technical Report** was completed by Behre Dolbear in **May 2012** in which **inferred resources** were estimated to be approximately **830,000 ounces Au** and **17.3 ounces Ag** in the **underground** mining scenario (6.07 million tonnes at an average grade of 4.25 g/t Au at a 1.0 g/t Au cut-off and 88.74 g/t Ag)**.**

[24] The WAI a pre-feasibility study is also referred to as a Scoping Study.
[25] 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
[26] The 2007 estimate also included 27.99 g/t Ag, 1.57% Zn, 0.87% Cu and 1.16% Pb.
[27] The 2011 estimate also included 62.38 g/t Ag.

Lomero-Poyatos Project Resources[28]
(underground mining scenario)
(Behre Dolbear NI 43-101 compliant Technical Report dated May 21, 2012**)**

Cut-off Grade (g/t)	Inferred tonnes	Grade (g/t Au)	Contained ounces Au	Grade (g/t Ag)	Contained ounces Ag
> 6.0	590,000	6.51	123,500	124.57	2,363,000
≥ 5.0	1,920,000	5.77	356,000	111.60	6,890,000
≥ 4.0	3,630,000	5.16	602,000	102.24	11,930,000
≥ 3.0	4,890,000	4.74	745.000	96.47	15,168,000
≥ 2.0	5,660,000	4.45	810,000	92.33	16,800,000
≥ 1.0	**6.070,000**	**4.25**	**830,000**	88.74	**17,320,000**

In the studies at Lomero-Poyatos 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. The revised Behre Dolbear NI 43-101 Technical Report again recommends drilling an additional 20,080 meters of drill holes 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). The drilling results of Phase 1 should be sufficient to upgrade the inferred resource to the indicated resource classification. Phase 2 consists of a 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 revised Behre Dolbear Technical Report replaces and supersedes the report completed in July 2011. The revised report omits the preliminary economic 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.

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[29]. 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)** [30] 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[31]. With the assets of PDI Panama, PDI will be poised to provide infrastructure-related

[28] Lomero-Poyatos NI 43-101 Technical Report, May 21, 2012, Table 12, page 59.
[29] 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).
[30] Panama Development of Infrastructure, S.A. (PDI Panama) is also known as Panama Desarrollo de Infraestructuras, S.A.
[31] 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[32] 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[33] 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 nine months, PDI Panama has been awarded over $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. 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. Most recently, PDI has been awarded a contract to build two houses for the Cobre Panama project and another contract awarded to PDI to construct three wharfs in Veraguas by the Cantraloria of the Republic of Panama.

[32] 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.
[33] 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.

According to the company's presentation materials for May 2012, $70 million in contracts have been secured.

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 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.

Petaquilla Minerals is proceeding with the regulatory requirements for the spin-off. Audited financials statements for PDI have been prepared, and a Proxy Information Circular, which will include the financials, is expected to be circulated in late June. Thereafter, a Special Meeting of shareholders will be held in the end of July. The record date for the spin-off is expected to be the date of the release of the Information Circular.

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 and has the potential to become a mid-tier producer**.

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 proven and probable 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 35% confidence factor is applied to inferred 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. The accelerated production schedule for Lomero-Poyatos and a higher gold price estimates the project's value to be $58 million versus the $48.3 million value estimated in our Initiation Report. We conservatively estimate the life of mine (LOM) to be nine years.

6) 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.
7) 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.

Since our last report, **important modifications** affected our valuation model:

1) The revised 43-101 on **Lomero-Poyatos** reduced the estimated inferred resources from 2.07 million ounces Au and 41.98 million ounces Ag to approximately 830,000 ounces Au and 17.3 ounces Ag as a result of only in an underground mining scenario. On the other hand, the valuation was enhanced by reducing the life of mine to nine years (conservative in comparison to management's six year goal) and by including the silver resource in the model (due to higher confidence in the silver resource).
2) The Forward Silver Purchase Agreement not only motivated us to **add the silver resource at** Lomero-Poyatos, but also **at Molejón**. On the other hand, the agreement **increased deferred revenue**, which reduced the discounted asset value by $8.5 million.
3) With the issuance of more warrants and options, we began to use **fully diluted shares** instead of shares outstanding.
4) The liability for debt and capital leases was significantly reduced by 40% ($6.5 million).

Based on our calculation of share value of attributable resources (see table below), **our adjusted target for Petaquilla Minerals stock is $1.45.**

Projects	Metal	Proven & Probable Reserve (oz)	Measured & Indicated Resource (oz)	Grade (g/t)	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	Au	553,250		1.305	37,100	90%	600	1,600	4.0%	100%	443,029,219	334,816,491
	Ag	867,541		2.050		85%	15	27.50	4.0%	100%	7,964,028	6,018,763
(CIP/CIC)												
Molejón	Au		172,572	0.700		70%	625	1,600	4.0%	100%	67,841,374	48,641,491
(on/off leach)												
Molejón	Au		191,669	0.500		45%	650	1,600	4.0%	100%	7,866,096	5,639,901
(on/off leach)												
PDI Panama	N/A									47.48%	5,348,147	5,348,147
BALANCE SHEET ADJUSTMENTS												
Working capital											(30,056,953)	(30,056,953)
Capital leases											(9,685,718)	(9,685,718)
Deferred revenue											(35,891,973)	(35,891,973)
								Net Assets & Resources			456,414,220	324,830,149
								Fully Diluted Shares			273,822,716	273,822,716
					Management Inferred Resource (oz)				**Asset Value (Molejon)**		1.67	
									Discounted Asset Value (Molejón only)			**1.19**
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			3.080	829,502	75%	725	1,600	0.0%	100%	190,526,241	46,920,318
	Ag			88.740	17,320,000	75%	15	27.50	0.0%	100%	56,831,250	13,995,659
									Asset Value		2.49	
									Discounted Asset Value			**1.45**

INSIDER AND INSTITUTIONAL OWNERSHIP

Corporate insiders own approximately 2.0% of the outstanding common stock of Petaquilla Minerals, with CEO Richard Fifer controlling 4,284,283 shares (1.94% of the shares outstanding).

Institutional investors own 21.1% of the shares outstanding of Petaquilla Minerals as of the end of the latest reporting period. Sprott Asset Management was the largest holder with 7.0% of the shares outstanding. Other major institutional holders include Libra Advisors (4.8%), Wells Capital (1.2%), U.S. Global Investors (1.2%), GAMCO Gold Fund (1.1%) and Share SICAV Gold (0.9%).

PROJECTED INCOME STATEMENT

Petaquilla Minerals Ltd.

Consolidated Statements of Operations and Retained Earnings (US $)

For the years ending May 31	IFRS 2011 JJA 1Q	IFRS 2011 SON 2Q	IFRS 2011 DJF 3Q	Canadian GAAP 2011 MAM 4Q	IFRS Year (May) 2011	IFRS 2012 JJA 1Q	IFRS 2012 SON 2Q	IFRS 2012 DJF 3Q	IFRS 2012 MAM 4Q E	IFRS Year (May) 2012 E	IFRS Year (May) 2013 E
Gold poured (ounces)	10,738	15,268	12,825	16,735	55,566	18,014	18,100	14,163	18,000	68,277	78,000
Gold sold (ounces)	12,211	13,166	13,880	14,608	53,865	17,418	15,959	12,701	18,000	64,078	73,203
Avg. realized gold price	$1,210	$1,312	$1,340	$1,413	$1,319	$1,508	$1,592	$1,520	$1,520	$1,535	$1,650
Revenue	**14,728,011**	**17,371,378**	**18,682,104**	**19,805,680**	**71,708,685**	**26,176,900**	**25,310,502**	**18,831,519**	**26,640,000**	**96,958,921**	**119,064,834**
Production costs	10,076,688	9,744,754	10,115,381	8,498,413	39,157,086	11,549,160	10,708,285	9,419,019	12,078,000	43,754,464	53,730,156
Depreciation and depletion	2,812,858	2,900,294	3,092,600	3,491,197	12,510,346	4,792,464	3,972,940	3,082,762	4,361,028	16,209,194	19,904,770
Gross operating profit	**1,838,465**	**4,726,330**	**5,474,123**	**7,816,070**	**20,041,253**	**9,835,276**	**10,629,277**	**6,329,738**	**10,200,972**	**36,995,263**	**45,429,908**
Accounting and legal	-	-	-	318,969	-	-	-	-	-	-	-
Accretion of asset retirement obligation	-	-	-	89,862	-	-	-	-	-	-	-
Consulting fees	-	-	-	418,348	-	-	-	-	-	-	-
Amortization	-	-	-	-	-	-	-	-	-	-	-
Filing fees	-	-	-	26,338	-	-	-	-	-	-	-
Investor relations and shareholder information	-	-	-	283,492	-	-	-	-	-	-	-
General and administrative	1,981,602	2,822,324	2,620,341	817,725	10,088,183	1,965,505	3,492,388	2,339,269	2,339,269	10,136,431	11,000,000
Rent	-	-	-	31,486	-	-	-	-	-	-	-
Donations and community relations	30,392	43,075	242,054	195,919	1,707,190	344,931	639,618	(62,755)	500,000	1,421,794	1,500,000
Exploration and development costs	2,324,971	2,351,318	1,948,562	2,644,455	9,269,306	1,371,658	2,824,101	3,477,251	3,564,182	11,237,192	12,500,000
Stock-based compensation	171,698	32,392	495,402	148,269	919,856	130,310	283,988	52,429	250,000	716,727	900,000
Travel	-	-	-	100,668	-	-	-	-	-	-	-
Fees on forward sale agreement	-	-	-	-	-	-	-	-	-	-	-
Debt issuance costs	-	3,988,012	-	(1,690,043)	-	-	-	-	-	-	-
Wages and benefits	-	-	-	662,612	-	-	-	-	-	-	-
Other operating expenses	76,299	-	2,056,603	-	4,385,816	0	0	0	0	0	0
Operating expenses	**4,584,962**	**9,237,121**	**7,362,962**	**4,048,100**	**26,370,351**	**3,812,404**	**7,240,095**	**5,806,194**	**6,653,451**	**23,512,144**	**25,900,000**
Gain (loss) from operations	**(2,746,497)**	**(4,510,791)**	**(1,888,839)**	**3,767,970**	**(6,329,098)**	**6,022,872**	**3,389,182**	**523,544**	**3,547,521**	**13,483,119**	**19,529,908**
Foreign currency gain (loss)	-	-	-	(330,966)	-	-	-	-	-	-	-
Gain (loss) on marketable securities	-	-	-	-	-	-	-	-	-	-	-
Interest income	-	-	-	-	-	-	-	-	-	-	-
Finance (expense)	(181,778)	(418,748)	466,662	68,904	(533,888)	(160,918)	(151,103)	(499,338)	(500,000)	(1,311,359)	(2,000,000)
Interest on long-term debt	-	-	-	-	-	-	-	-	-	-	-
Cost associated with forward sales agreement	-	-	-	-	-	-	-	-	-	-	-
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)	0
Power and drilling services	-	-	-	-	-	-	-	-	-	-	-
Gain on expiry of deferred services contract	-	-	4,002,438	-	-	-	-	-	-	-	-
Gain on disposal and dilution	-	-	-	5,243,309	-	-	-	-	-	-	-
Gain on dilution of equity investment	-	-	-	-	-	-	-	-	-	-	-
Redemption loss on senior secured notes	-	-	-	-	-	-	-	-	-	-	-
Mark-to-market (loss) on share purchase warrants	6,789	-	(3,714,258)	-	0	(495,635)	0	4,537,060	0	4,041,425	2,500,000
Mark-to-market (loss) on senior & conv. secured notes	(2,918,360)	-	2,210,769	802,230	0	34,209	-	(54,710)	-	(20,501)	0
Non-operating income (expenses)	0	(18,403,771)	0	0	3,019,470	0	5,658,973	0	0	5,658,973	11,317,946
Total other income (expense)	**(2,988,412)**	**(18,822,519)**	**2,965,611**	**5,578,978**	**2,485,582**	**(1,053,474)**	**5,507,870**	**3,983,012**	**(500,000)**	**7,937,408**	**11,817,946**
Income (loss) before minority interest and income taxes	**(5,734,909)**	**(23,333,310)**	**1,076,772**	**9,346,948**	**(3,843,516)**	**4,969,398**	**8,897,052**	**4,506,556**	**3,047,521**	**21,420,527**	**31,347,854**
Non-controlling interests	-	-	-	(2,507,156)	(2,507,156)	(219,878)	(2,118,831)	(70,774)	(100,120)	(2,509,603)	(3,672,677)
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	0
Shareholders income (loss) before income taxes	(5,734,909)	(23,333,310)	1,076,772	6,839,792	(1,336,360)	4,749,520	6,778,221	4,435,782	2,947,400	18,910,923	27,675,177
Provision for income taxes											
Net income for the year (continuing operations)	**(5,734,909)**	**(23,333,310)**	**1,076,772**	**6,839,792**	**(1,336,360)**	**4,749,520**	**6,778,221**	**4,435,782**	**2,947,400**	**18,910,923**	**27,675,177**
Net income per common share (diluted) - continuing ops.	**(0.05)**	**(0.18)**	**0.01**	**0.04**	**(0.01)**	**0.03**	**0.03**	**0.02**	**0.01**	**0.09**	**0.12**
Weighted average common shares outstanding - diluted	125,294,994	127,176,855	156,821,635	176,323,851	146,404,334	178,684,859	221,658,390	215,065,874	217,065,874	208,118,749	230,000,000
Gross margin (net of amortization & depletion)	31.58%	43.90%	45.86%	57.09%	45.39%	55.88%	57.69%	49.98%	54.66%	54.87%	54.87%

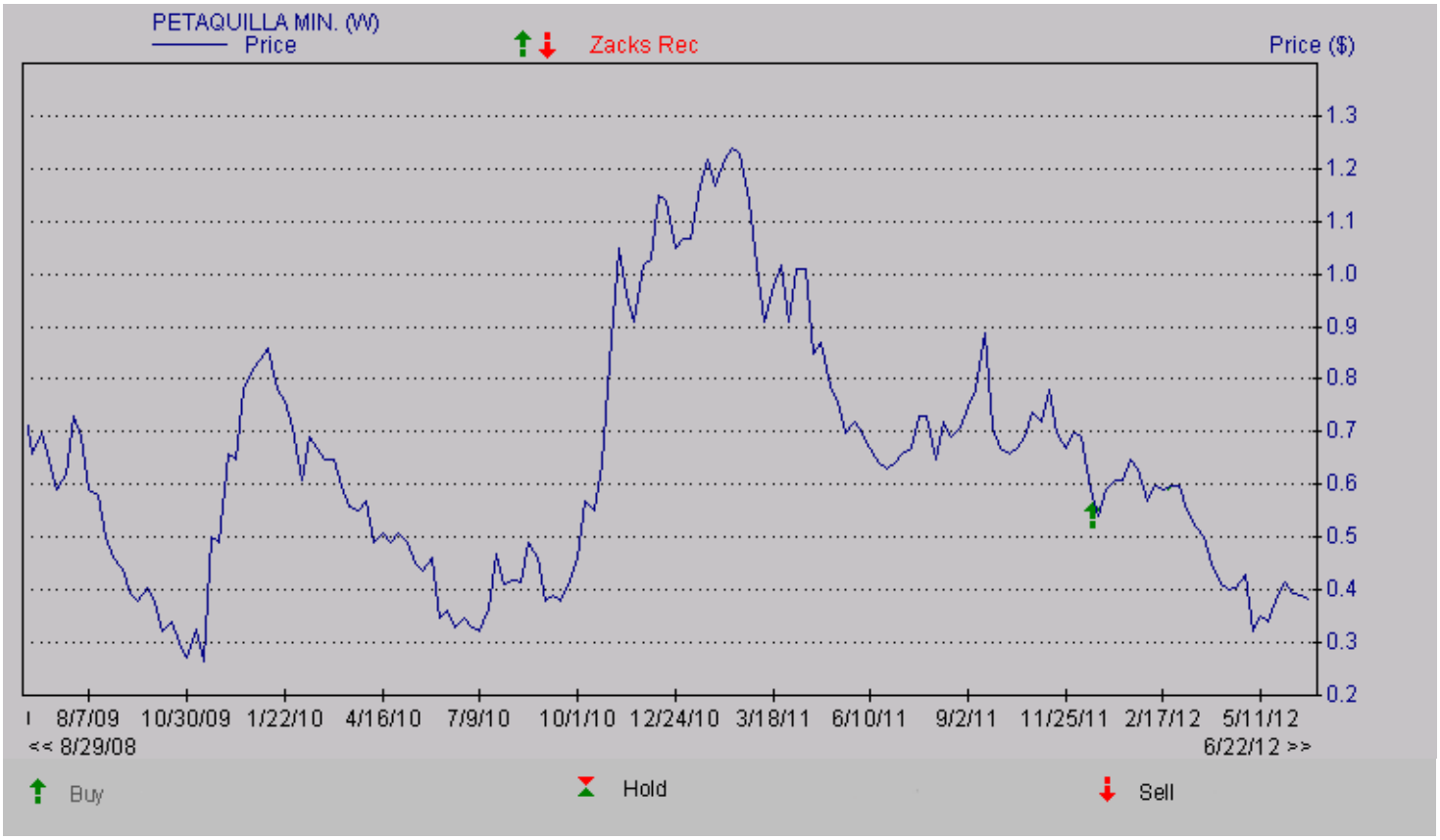
BALANCE SHEET

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	Canadian GAAP 2007 ending 4/30	Canadian GAAP 2008 ending 4/30	Canadian GAAP 2009 ending 5/31	Canadian GAAP 2010 ending 5/31	Canadian GAAP 2011 ending 5/31	IFRS 2010 ending 5/31	IFRS 2011 ending 5/31	IFRS 3Q/2012 ending 2/29/12
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	1,075,015
Short-term investments	-	-	-	-	-	200,000	-	200,000	340,000
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	4,164,270
Inventory and stockpiled ore	-	-	-	1,038,999	3,634,715	11,613,321	3,634,715	11,657,676	19,921,410
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**	**25,500,695**
Other Assets									
Restricted cash - reclamation obligations	892,242	1,188,026	670,175	707,480	566,708	255,091	566,708	-	2,300,000
Long term investments	-	1,807,000	2,408,443	-	-	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	4,992,507
Advances to suppliers	-	-	-	-	816,461	3,509,817	816,461	-	
Other assets	-	4,582,937	-	-	-	6,616,964	-	10,381,872	4,875,594
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	141,545,595
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**	**179,214,391**
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	42,676,833
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	
Current porton of long-term debt	-	487,882	436,151	160,993	35,465	435,733	-	-	13,434,405
Current porton of bank loans		-	-	-	-	-	35,465	435,733	
Current other liabilities - Community support	-	-	-	-	-	-	5,184,816	1,424,290	1,355,684
Deferred revenue	-	-	-	-	-	9,246,437	0	9,246,437	11,525,131
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	-
Convertible senior secured notes	-	-	-	-	44,837,991	276,983	45,094,084	276,983	-
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**	**68,992,053**
Long term debt	-	699,185	162,568	-	80,235	1,840,500	-	-	-
Bank loans		-	-	-	-	-	80,235	1,840,500	1,524,393
Accounts payable and accrued liabilities	-	-	-	-	-	1,866,667		1,866,667	
Obligations under capital leases	-	-	3,991,743	-	440,229	3,850,475	440,229	3,850,475	9,685,718
Senior secured notes	-	-	26,785,359	13,754,019	-	2,906,453	0	2,906,453	0
Convertible senior secured notes	-	-	-	34,794,455	-	3,693,111	0	3,693,122	0
Other liabilities - Community support obligation		-	-	4,391,168	-	-	6,453,281	6,703,799	5,955,980
Share purchase warrants	-	-	-	-	-	-	5,030,904	11,064,020	3,070,063
Deferred revenue	-	-	4,003,423	3,123,394	-	33,390,472		33,390,472	24,366,842
Asset retirement obligation	-	4,400,000	4,333,216	4,664,720	4,698,650	5,687,236	4,816,121	9,630,851	10,409,307
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**	**55,012,303**
Minority Interest	**0**	**0**	**0**	**0**	**0**	**2,507,156**	**0**	**2,507,156**	**4,335,335**
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	50,874,700
Treasury shares	(166,981)	(166,981)	(122,193)	(122,193)	(122,193)	(122,193)	N/A	N/A	N/A
Warrants	-	-	11,771,374	14,109,097	13,209,412	26,874,201	N/A	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	N/A
Equity component of cv. sr. secured notes	-	-	-	495,121	495,121	42,817	N/A	N/A	N/A
Accumulated comprehensive income	-	-	(2,084,526)	(6,733,242)	(6,733,242)	(6,733,242)	N/A	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	N/A
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**	**50,874,700**
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**	**179,214,391**
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	221,488,343

HISTORICAL ZACKS RECOMMENDATIONS



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