

Alert to Investors

re: Petaquilla Minerals and the Molejon Gold Mine in Panama

November 18, 2008

The Annual Meeting of Petaquilla Minerals (PTQ) is taking place this morning at the Fairmont Hotel in Vancouver.

There are a number of serious matters that are not being properly disclosed to investors that affect or are likely to affect the company and its operations in Panama.

Petaquilla Minerals does not have backing from any major mining company.

Since October 2008, Petaquilla Minerals no longer has any interests in, and can anticipate no benefits from, the Petaquilla Copper Project, now owned by Inmet and Teck.

In 2006, Petaquilla Copper was formed to take control of the copper deposits in the 136 km² concession that is held by Minera Petaquilla S.A. (MPSA), known as the “Petaquilla Concession”. This concession was granted through a special Act of the Panamanian legislature in 1997 (the Petaquilla Law, or *Ley Petaquilla*). Subsequently, a Plan of Arrangement between the interested companies lodged the right to explore and develop the gold deposits with Petaquilla Minerals (through its Panamanian subsidiary), and lodged the right to mine and develop the copper deposits with Petaquilla Copper and Minnova, an Inmet subsidiary.

In 2008, a battle took place between Inmet and the directors of Petaquilla Minerals (who were also the directors of Petaquilla Copper).¹ The Financial Post *Trading Desk* described this as “one of the uglier mining disputes in recent memory”.² On September 29, 2008, after a successful hostile take-over of Petaquilla Copper shares for \$350 million, Inmet replaced all the directors, removing all the principals allied with Petaquilla Minerals. Petaquilla Copper it is slated to formally become a subsidiary of Inmet at a special shareholders’ meeting on November 26, 2008.



Petaquilla Minerals’ stock price over the last year

¹ “Inmet shares take another hit as woes mount at mine projects: Legal dispute erupts over Panama venture”, Andy Hoffman, Toronto Globe & Mail, May 1, 2008.

² “Inmet Mining finalizes Petaquilla Copper Takeover”, FP Trading Desk, August 27, 2008.

Petaquilla Minerals is now in a hostile relationship with Inmet and Teck, and has no other major company interested in this, its only project.



A separate Panamanian company, Minera Petaquilla S.A. (MPSA), is the legal holder of the *Ley Petaquilla* concession at Petaquilla, although the Plan of Arrangement grants Petaquilla Minerals all the rights to develop the gold deposit at Molejon. MPSA is now to all intents and purposes an Inmet subsidiary. However, the terms and conditions of the *Ley Petaquilla* have to be met by both Inmet and Petaquilla Minerals. If one defaults, the rights of the other are likely to be affected. Questions have been raised as to whether the Plan of Arrangement and other developments meet the requirements of the *Ley Petaquilla*, and the concession itself could be in jeopardy if these challenges are upheld by the courts. On July 8, 2008, the environmental group CIAM (Centre for Environmental Advocacy) filed an administrative suit in the

Supreme Court of Justice against the resolution of the Ministry of Commerce and Industry that permitted the company to change its plan of work. The complaint was received and is before the courts; if it is upheld, the concession would be automatically annulled.

The Molejon Mine is being developed irresponsibly.

The gold deposit, known as Molejon, is being developed in a piecemeal fashion, and is enraging local communities and environmental groups by its disregard for the environment and environmental regulation.

The mine manager is Gaston Araja, the former manager of the disastrous Bellevista mine in Costa Rica, which was forced to close after its heap leach pad collapsed in July 2007, and the Limon mine in Nicaragua, with its history of labour trouble.³ The company proposes to add Araja as a director at its November 18, 2008, meeting.

The gold mine is proceeding without a feasibility study, and without N.I. 43-101 compliant reserves. On November 3, 2008, Petaquilla Minerals had to revise a press release it had just issued which stated it was going to begin gold production in December, to include the following proviso: “projections (for size of the gold deposit) are based information currently available to the company. However, the Company does not have a feasibility study and there is no assurance that these projections will be realized.”

Independent auditors found in May 2008 that “the ability of (Petaquilla Minerals) to continue as a going concern is in substantial doubt”:

“The Company has not generated any operating revenues to date and has experienced recurring operating losses and accumulated a deficit of \$83,865,382 as at May 31, 2008 (April 30, 2007-\$79,521,082). Also the company has a working capital deficiency of \$3,692,913 at May 31, 2008...These factors raise substantial doubt about the Company’s ability to continue as a going concern...”

Although proceeds from Petaquilla Minerals’ shares in Petaquilla Copper (approximately 13% at the time of the sale in September, or \$45 million), will have helped the company reduce its debt, it is not enough to move forward in these challenging economic times.

The company has posted a \$3 million compliance bond, but has failed to post the \$3 million environmental performance bond required under the conditions of the *Ley Petaquilla*, leaving the government and the communities on the hook for any environmental liabilities should the company go bankrupt or otherwise fail to meet its obligations. CIAM filed a criminal complaint on April 25, 2008, against the Vice Minister of Commerce, Manuel José Paredes, for breach of official duties for failing to enforce the conditions of the concession. The complaint was accepted and is under investigation.

³ “Bitter Strike Ends at Black Hawk’s El Limón Gold Mine in Nicaragua”, http://www.miningwatch.ca/index.php?/Glencairn/Bitter_Strike_Ends_a, MiningWatch Canada, February 23, 2003.

The mine is facing serious opposition from indigenous peoples, community groups and the environmental movement in Panama.

What has not been disclosed in any company filings is that the Molejon Mine and the Petaquilla Copper Project are strongly opposed by a broad cross-section of community groups and NGOs (including both environmental and human rights groups) in Panama.

The mine and its supporting infrastructure is already having devastating impacts on the Mesoamerican Biological Corridor, an area of important biodiversity and stunning beauty – a twenty-million hectare chain of rain and cloud forests, coastal mangroves, and mountain ranges, encompassing forty percent of the combined national territories.⁴ Most recently, in November, 2008, Panama’s environmental authority (ANAM) found that the 160 hectare mine site was seriously degraded in every environmental measure except air quality.⁵

On April 17, 2006, the respected NGO Caritas issued a declaration against the Petaquilla mining project. The document warned that the mining company was “violating national law and international agreements.”

In early August 2007, representatives of 21 local communities filed criminal complaints against MPSA and ANAM for allowing ecological crimes.

“Some of the petitioners walked for three days to travel to the capital and be present at the filing of the complaints and a forum held at the Lawyers Association... According to activists and people living in the area, hundreds of hectares have been destroyed as Petaquilla is diverting rivers, slashing down forest and contaminating the water that people depend on. That, in its turn, is causing an increased number of illnesses, lack of food and social upheaval. Without any previous warning, Petaquilla is setting off heavy explosives near the homes of local residents... Those who protest are threatened.”⁶

Mining in the area is also opposed by a number of national environmental groups⁷ because of the inevitable damage to the Mesoamerican Biological Corridor, a project which has received substantial support from the World Bank. On November 12, 2007, ten major Panamanian NGOs appealed to President Martin Torrijos for a moratorium on mining. They were: ANCON (National Association for the Conservation of Nature), Audubon Society, CEASPA (Panamanian Centre for Social Studies and Action), CIAM (Centre for Environmental Advocacy), CICA (International Centre for Environmental Training), MarViva, Green Panama, Pro Mar (Foundation for the Protection of the Sea), and the Network of Private Nature Reserves.

On October 14, 2008, the International Union for the Conservation of Nature (IUCN) passed a resolution asking the Governments of the countries of the Mesoamerican region to cancel the current mineral exploration and open pit mining of metals. IUCN is a partner with the International Council of Mines and Metals in a biodiversity protection initiative.

There have also been a series of local and regional protests against both the copper and gold projects. On September 23, parallel protests took place at MPSA’s shareholders’ meeting in Panama City (MPSA formalized the shift to Inmet’s control with the withdrawal of the Panamanian investors, and changed its name to Minera Panama) while indigenous communities protested near Coclesito, the community closest to the mine site, to demand the annulment of the concession contract.



San Benito 11 de julio del 2006. Foto Héctor Endara Hill

The mine is proceeding without proper authorization from Panamanian authorities.

The proposed Petaquilla mine projects face on-going and successful interventions over environmental assess-

⁴ “Proposed Elements of the Mesoamerican Biological Corridor”, World Resources Institute, <http://earthtrends.wri.org/text/environmental-governance/map-478.html>, downloaded November 7, 2008.

⁵ “Petaquilla Gold Se Defiende y Dice Que el Informe No Refleja la Realidad Actual”, La Prensa, November 13, 2008.

⁶ “Will the Stock Market Sink Panama’s Petaquilla Mine?” Okke Ornstein, July 17, 2008. <http://narcosphere.narconews.com/notebook/okke-ornstein/2008/07/will-stock-market-sink-panamas-petaquilla-mine>

⁷ “Open Letter to His Excellency President Martín Torrijos Espino”, http://www.miningwatch.ca/index.php?/328/Open_Letter_to_Torrijos, November 12, 2007.

ment issues, the missing environmental performance bond, and a criminal lawsuit against the vice-minister of Trade and Commerce for breach of official duties in regard to the project. On November 13, 2008, the prosecution of the Judicial Circuit of Colón announced it would open criminal proceedings against Petaquilla Gold for crimes against the environment, based on the ANAM report referred to above.⁸

In 2005-6, the construction of infrastructure required for the mine was challenged in the courts by a number of local communities and NGOs, and the National Environmental Authority (ANAM) was forced to act.

Under Contract Law 9 of 1997, MPSA obtained the concession for the exploitation of gold, copper and other minerals in Cerro Petaquilla for 20 years, renewable twice. At that time General Law 41 of the Environment of 1998 (which created the environmental assessment procedure) did not exist, so MPSA began construction of infrastructure without presenting an Environmental Impact Study (EIS) to the National Environmental Authority (ANAM). MPSA argued that in 1998, an Environmental Feasibility Study (as determined by the Contract Law 9), was submitted to the Ministry of Trade and Industry and not contested, and that this gave it the environmental approval to commence work. In 2005, under pressure from community and environmental groups, ANAM initiated administrative proceedings against MPSA for violation of environmental laws. In 2007, the mining company agreed to submit two separate EISs to ANAM (for road construction and a gold mine). The EIS for road construction has been approved. In 2008, the Supreme Court determined that ANAM's legal actions against MPSA are founded in law, but legal sanctions are on hold pending other legal proceedings.

The EIS of the proposed gold project was finally submitted to ANAM in May 2007. The public consultation process has undergone several extensions because of notification errors made by the company. The EIS has been rigorously analysed by Panamanian environmental organizations, who have submitted their objections. In January 2008, ANAM asked the mining company to respond to 26 deficiencies in the EIS.

However, Petaquilla Minerals has gone ahead with developing the mine regardless.

A backlash in Panama against this project may result in the banning of all open pit metal mines in the country.

On September 6, 2008, communities and NGOs formed the Panamanian Network Against Mining (REDAP). The Network calls for an end to all open pit mining in Panama, and is gaining political strength as evidenced by its emergence as a national movement from the dispersed protests of the previous few years, bringing together indigenous and peasant communities with established environmental groups.

In May 2009, there will be presidential elections in Panama that could result in a change in the current legislative support for open pit mining in the country. Much of the fuel for the anti-mining movement comes from the irresponsible activities at Petaquilla.

The REDAP statement reads in part: "Regarding the existence of the Petaquilla Mine, which as expressed in the recent pronouncements of ANAM and the Supreme Court is not in compliance with current legislation, representatives of the undersigned communities ask the Ombudsman and the Director of the National Environmental Authority to undertake a joint inspection of the Petaquilla mine with the object of verifying the status and the consequences of the activities that have so far been undertaken without an environmental impact study."

The member communities in this initiative include: the "Yes to Life" Committee of Soná and Las Palmas, the Cañazas Front in Defence of Life and Mineral Resources, the Donoso Committee for the Closing of the Petaquilla Mine, the Cerro Pelado Committee, the Plan de Chorchá Committee, the Cerro Caballo Committee, the Río Gatú "Join Hands" Committee, the Santeño Committee Against Mining, the Santa Fé - Luis River Committee, the Cerro Colorado Committee, and the Lajilla Committee. They are supported by the Ecological Resistance Collective, the Centre for Environmental Advocacy (CIAM), the Human Rights UP Collective, CEPAS Veraguas, and Oilwatch Panama.

Conclusion:

Investors should be fully informed of the realities of the conditions surrounding Petaquilla Minerals' sole property. This document provides only a summary of a number of relevant issues. It should be up to the company's management to provide this information so that investors can assess the company's capacity and prospects.

⁸ "Fiscalía abre proceso contra Petaquilla Gold", La Prensa, November 13, 2008.