

**PETAQUILLA MINERALS LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(An Exploration Stage Company)**

**JANUARY 31, 2006**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Petaquilla Minerals Ltd.

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

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

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

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 5, 2006

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

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

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 5, 2006

*A Member of SC INTERNATIONAL*

**PETAQUILLA MINERALS LTD.**  
(An Exploration Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian Dollars)  
AS AT JANUARY 31

	2006	2005
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 9,171,318	\$ 891,548
Receivables	32,188	71,263
Prepaid expenses	<u>36,650</u>	<u>10,783</u>
Total current assets	9,240,156	973,594
<b>Property and equipment</b> (Note 5)	285,005	49,825
<b>Mineral properties</b> (Note 6)	2,389,769	-
<b>Performance bond – restricted cash</b> (Note 7)	<u>892,242</u>	<u>966,055</u>
	<u>\$ 12,807,172</u>	<u>\$ 1,989,474</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 499,261	\$ 51,973
Other accrued liabilities	<u>51,835</u>	<u>51,078</u>
Total current liabilities	<u>551,096</u>	<u>103,051</u>
<b>Shareholders' equity</b>		
Capital stock (Note 8)		
Authorized		
100,000,000 common shares without par value		
20,000,000 preferred shares without par value		
Issued and outstanding		
70,246,303 (2005 – 51,264,537) common shares	62,977,209	51,430,792
Contributed surplus (Note 8)	1,004,480	887,432
Deficit	<u>(51,558,632)</u>	<u>(44,143,412)</u>
	12,423,057	8,174,812
Treasury stock, at cost (Note 11)		
Repurchased, not cancelled		
44,200 (2005 – 1,660,200) common shares	<u>(166,981)</u>	<u>(6,288,389)</u>
	<u>12,256,076</u>	<u>1,886,423</u>
	<u>\$ 12,807,172</u>	<u>\$ 1,989,474</u>

**Nature of operations** (Note 1)

**Commitments** (Note 14)

**Subsequent events** (Note 18)

**On behalf of the Board:**

“Michael Levy”

Director

“Richard Fifer”

Director

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

**PETAQUILLA MINERALS LTD.**  
(An Exploration Stage Company)  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollars)  
**YEAR ENDED JANUARY 31**

	2006	2005	2004
<b>EXPENSES</b>			
Accounting and legal	\$ 266,967	\$ 161,203	\$ 98,850
Consulting fees	291,034	141,158	40,834
Depreciation	56,697	7,660	13,635
Filing fees	30,637	33,679	68,923
Investor relations and shareholder information	388,991	98,790	43,562
Office administration	257,859	81,173	34,810
Rent	80,520	88,939	31,645
Resource property costs	11,105	234,664	33,910
Stock-based compensation (Note 9)	410,301	716,876	242,469
Travel	346,332	83,398	12,566
Wages and benefits	<u>397,907</u>	<u>243,139</u>	<u>105,683</u>
Total expenses	(2,538,350)	(1,890,679)	(726,887)
<b>OTHER INCOME (EXPENSE)</b>			
Foreign exchange loss	(77,647)	(79,147)	(142,267)
Gain on redemption of performance bond (Note 7)	-	198,142	-
Interest income and amortization of discount on bond	48,239	18,266	57,964
Write-off of property and equipment (Note 5)	<u>-</u>	<u>(44,855)</u>	<u>-</u>
<b>Loss for the year</b>	(2,567,758)	(1,798,273)	(811,190)
<b>Deficit, beginning of year</b>	(44,143,412)	(42,345,139)	(41,533,949)
<b>Loss on sale of treasury stock (Note 11)</b>	<u>(4,847,462)</u>	<u>-</u>	<u>-</u>
<b>Deficit, end of year</b>	<u>\$ (51,558,632)</u>	<u>\$ (44,143,412)</u>	<u>\$ (42,345,139)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares outstanding</b>	<u>56,115,596</u>	<u>50,370,747</u>	<u>36,153,757</u>

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

**PETAQUILLA MINERALS LTD.**  
(An Exploration Stage Company)  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
YEAR ENDED JANUARY 31

	2006	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the year	\$ (2,567,758)	\$ (1,798,273)	\$ (811,190)
Items not affecting cash:			
Amortization of discount on bond included in interest income	-	-	(11,864)
Depreciation	56,697	7,660	13,635
Gain on redemption of performance bond	-	(198,142)	-
Stock-based compensation	410,301	716,876	242,469
Write-down of property and equipment	-	44,855	-
Foreign exchange loss on performance bond (Note 7)	73,813	69,005	110,914
Changes in non-cash working capital items:			
(Increase) decrease in receivables	39,075	17,129	(53,896)
(Increase) decrease in prepaid expenses	(25,867)	(1,550)	5,789
(Decrease) increase in accounts payable and accrued liabilities	255,887	(23,890)	(1,305)
Net cash used in operating activities	<u>(1,757,852)</u>	<u>(1,166,330)</u>	<u>(505,448)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of capital stock (Note 8)	11,826,329	424,200	2,098,350
Share issuance costs (Note 8)	(573,165)	-	(54,403)
Net proceeds from sale of treasury stock (Note 11)	<u>1,273,946</u>	<u>-</u>	<u>-</u>
Net cash provided by financing activities	<u>12,527,110</u>	<u>424,200</u>	<u>2,043,947</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(291,877)	(59,635)	-
Investment in mineral properties	(2,197,611)	-	-
Proceeds from redemption of performance bond	-	891,908	-
Purchase of performance bond	-	(1,035,060)	-
Proceeds from reduction in performance bond	<u>-</u>	<u>-</u>	<u>75,942</u>
Net cash provided by (used in) investing activities	<u>(2,489,488)</u>	<u>(202,787)</u>	<u>75,942</u>
<b>Change in cash and cash equivalents</b>	<b>8,279,770</b>	<b>(944,917)</b>	<b>1,614,441</b>
<b>Cash and cash equivalents, beginning of year</b>	<u>891,548</u>	<u>1,836,465</u>	<u>222,024</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 9,171,318</u>	<u>\$ 891,548</u>	<u>\$ 1,836,465</u>

Supplemental disclosure with respect to cash flows (Note 17)

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

**PETAQUILLA MINERALS LTD.**  
(An Exploration Stage Company)  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
JANUARY 31, 2006

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**1. NATURE OF OPERATIONS**

The Company was incorporated in the Province of British Columbia and is in the business of the acquisition and exploration of resource properties and has not yet determined whether its properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

At January 31, 2006, the Company has working capital of \$8,689,060 (2005 - \$870,543). During the year, the Company raised funds from a private placement but will have to raise additional funds to undertake further exploration and subsequent development of its mineral properties. Management is pursuing additional sources of financing and while it has been successful in the past there can be no assurance that it will be able to do so in the future.

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Petaquilla Minerals, S.A. (a Panama corporation), Adrian Resources (BVI) Ltd. (a British Virgin Island corporation), Georecursos Internacional, S.A. ("Georecursos") (a Panama corporation), and Petaquilla Gold, S.A. (a Panama corporation). The Company proportionately consolidates its 52% interest in a joint venture investment, Minera Petaquilla S.A. ("Minera Petaquilla") (a Panama corporation).

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

**Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Cash and cash equivalents**

Cash is comprised of cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. To limit its credit risk exposure in excess of federally insured amounts, the Company places its deposits with financial institutions with high credit standing.

**PETAQUILLA MINERALS LTD.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Marketable securities**

Marketable securities are carried at the lower of cost and quoted market value on an individual investment basis.

**Property and equipment**

Equipment is recorded at cost less accumulated depreciation, which is provided on computer equipment, computer software, equipment, furniture and fixtures, office equipment and vehicles on the declining balance basis at rates varying between 20% and 50% per annum. Leasehold improvements are depreciated over the term of the lease.

**Resource properties**

Acquisition costs of resource properties, together with direct exploration and development expenditures incurred thereon, are deferred until the property to which they relate is placed into production, sold or abandoned. The carrying values of resource properties are, where necessary, written down to the estimated recoverable amount based on undiscounted estimated future net cash flows. Costs relating to properties abandoned are written off when the decision to abandon is made.

The Company follows the cost reduction method of accounting for the receipt of property option and similar payments. Cash and other property payments received from the Company's exploration partners are credited to the respective property until capitalized costs are recovered; thereafter, such payments are included in income. Option payments are exercisable at the discretion of the optionee and are only recognized when received. Management fees earned for the management of properties are included in income.

On an annual basis, the Company reviews the carrying values of deferred resource property acquisition and exploration expenditures with a view to assessing whether there has been an impairment in value. In the event that management determines potential reserves to be insufficient to recover the carrying value of any property, the carrying value will be written down or written off, as appropriate.

During the year ended January 31, 2002, the Company wrote-off to operations its resource property costs related to the Ley Petaquilla property (Note 6). Accordingly, any subsequent resource property costs related to the Ley Petaquilla property have been expensed as incurred.

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Asset retirement obligations**

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. To date, the Company has not incurred any asset retirement obligations.

**Impairment of long-lived assets**

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

**Foreign currency translation**

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

Foreign currency denominated monetary accounts of the Company are translated at the year-end exchange rate. Exchange gains and losses on translation are recognized as a gain or loss in the year they arise.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive. At January 31, 2006, 2005 and 2004, the total number of potentially dilutive shares excluded from loss per share was 11,014,035, 9,924,296 and 10,889,291 respectively.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Stock-based compensation**

The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**Income taxes**

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

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**3. MARKETABLE SECURITIES**

The Company holds shares of certain publicly traded companies with a book value of \$Nil (2005 - \$Nil) and a market value of \$15,375 (2005 - \$37,419).

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**4. INVESTMENT IN JOINT VENTURE**

The Company owns a 52% joint venture interest in Minera Petaquilla, which is proportionately consolidated in the financial statements. The Company's interest is summarized as follows:

	2006	2005
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 5,907	\$ 13,674
Due from shareholders	-	6,324
Receivables	5,671	6,826
Prepaid expenses	<u>2,357</u>	<u>-</u>
	<u>\$ 13,935</u>	<u>\$ 26,824</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 9,367	\$ 3,561
Other liabilities	42,468	47,517
<b>SHAREHOLDERS' DEFICIENCY</b>	<u>(37,900)</u>	<u>(24,254)</u>
	<u>\$ 13,935</u>	<u>\$ 26,824</u>
<b>Cash flows provided by (used in):</b>		
Operating activities	\$ (104,780)	\$ (125,278)
Financing activities	97,154	104,108
Investing activities	<u>-</u>	<u>-</u>

The Company's share of Minera Petaquilla's income (loss) for the years ended January 31, 2006, 2005 and 2004 was \$(108,074), \$(95,051) and \$2,913, respectively.

**PETAQUILLA MINERALS LTD.**  
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**5. PROPERTY AND EQUIPMENT**

	2006			2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 127,650	\$ 22,329	\$ 105,321	\$ 12,530	\$ 2,202	\$ 10,328
Computer software	20,418	3,754	16,664	-	-	-
Equipment	74,173	15,045	59,128	15,384	2,308	13,076
Furniture and fixtures	23,375	4,330	19,045	10,780	1,078	9,702
Leasehold improvements	8,951	2,920	6,031	7,781	778	7,003
Office equipment	14,778	3,421	11,357	10,796	1,080	9,716
Vehicles	79,803	12,344	67,459	-	-	-
	<u>\$ 349,148</u>	<u>\$ 64,143</u>	<u>\$ 285,005</u>	<u>\$ 57,271</u>	<u>\$ 7,446</u>	<u>\$ 49,825</u>

During the 2005 fiscal year, the Company wrote-off to operations certain property and equipment with a net book value of \$44,855.

**6. MINERAL PROPERTIES**

***Ley Petaquilla Property- Panama***

The Company, through its wholly-owned subsidiary Georecursos, owns 52% of Minera Petaquilla. Minnova (Panama) Inc. ("Minnova"), a wholly-owned subsidiary of Inmet Mining Corporation ("Inmet"), owns the remaining 48% of Minera Petaquilla, a company formed during 1997 to own the Ley Petaquilla mineral concession in Panama. Pursuant to the contract law under which the Petaquilla concession was granted by the Government of the Republic of Panama, the Company has delivered a phased Mine Development Plan to the Government of Panama which was approved in September 2005. Refer also to "Molejon Property – Panama". This approval resulted in the extension of the land tenure for an initial 20 year period commencing on September 2005, subject to the Company meeting certain other development and operational conditions on an ongoing basis. Terms of the land tenure have two additional 20 year terms that are also subject to the Company meeting certain other ongoing development and operational conditions.

Teck Cominco Limited ("Teck") has an option to acquire 50% of the Company's interest in Minera Petaquilla, which would result in Teck having a 26% interest in Minera Petaquilla. In order for Teck to acquire the 26% interest, it is required to:

- i) Fund 52% of the continuing exploration expenditures, as defined, of Minera Petaquilla, with Minnova to fund its 48% share, until such time as Teck either acquires its interest or its interest is terminated.
- ii) Fund 100% of and complete a final feasibility study, as defined, for the property and deliver such study by January 21, 1998 (completed).
- iii) Arrange project financing for Minera Petaquilla for completion of development of the Ley Petaquilla property and, if necessary, fund 52% (Minnova to fund 48%) of any shortfall in the total project funding requirement in excess of arranged project financing.

**PETAQUILLA MINERALS LTD.**  
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**6. MINERAL PROPERTIES** (cont'd...)

*Ley Petaquilla Property- Panama* (cont'd...)

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

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

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

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

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

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

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

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

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

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**6. MINERAL PROPERTIES** (cont'd...)

*Ley Petaquilla Property- Panama* (cont'd...)

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

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

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

The Government of Panama passed legislation which significantly expands the size of the Panama Canal Watershed in general and, in particular, establishes an overlap of part of the Petaquilla concession. It is possible that future construction of dams within the watershed area could negatively affect the development of the Ley Petaquilla property.

*Molejon Property – Panama*

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

Approval of the phased Mine Development Plan was obtained in September 2005. Transfer of title to the Company of the Molejon gold mineral deposit, as well as the other rights as described above, is underway.

During the current fiscal year, the Company incurred the following costs related to the Molejon gold deposit. These costs have been capitalized on the Company's audited consolidated balance sheet as mineral property costs:

Trenching	\$	811,037
Administration support		352,250
Road		293,407
Engineering and geology		275,372
Camp costs		197,300
Assaying		167,434
Drilling		106,842
Permits and licences		81,097
Data management		59,825
Community service plan		45,205
	\$	2,389,769

**PETAQUILLA MINERALS LTD.**  
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**6. MINERAL PROPERTIES (cont'd...)**

*Mineral Properties - Other*

The Company holds various interests in other land concession areas adjacent to the Ley Petaquilla Property in Panama, including the Rio Belencillo and Rio Petaquilla concessions.

By an Agreement dated May 7, 2005 and amended on June 10, 2005, Gold Dragon Capital Management Ltd. ("Gold Dragon"), has an option to purchase all of the Company's interest in the Rio Belencillo and Rio Petaquilla concessions by the expenditure of \$100,000 in approved exploration costs by May 7, 2007, an additional \$400,000 in approved exploration costs by February 7, 2008 and by then paying the Company \$1,152,400. This sum is payable in shares of Gold Dragon.

**7. PERFORMANCE BOND – RESTRICTED CASH**

The Company is required to post a performance bond of US\$780,000 to maintain its interest in the Petaquilla property. As at January 31, 2004, the Company fulfilled this requirement by holding a Republic of Panama Sovereign Bond (the "Panama Bond") with a face value of US\$750,000, which the Company had purchased earlier at a discount of US\$630,000, and an additional one-year time deposit of US\$31,175. The discount on the Panama Bond was being amortized to income over the original term of the bond. The Panama Bond was also returning a portion of its principal to the Company over the term of the loan. During the fiscal year ended January 31, 2005, the Panama Bond was redeemed early resulting in a gain of \$198,142. The Company has pledged a guaranteed investment certificate in the amount of US\$780,000 as security for a letter of credit with the Bank of Nova Scotia to satisfy the requirements of the performance bond. The Canadian dollar equivalent of the US\$780,000 investment is \$892,242 as at January 31, 2006 after recognizing a foreign exchange loss of \$73,813 from the January 31, 2005 balance of \$966,055.

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**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
Issued			
Balance as at January 31, 2003	33,340,543	\$ 48,842,442	\$ 48,290
Non-brokered private placement, net of finders' fees (a)	8,333,333	1,125,000	-
Non-brokered private placement, net of finders' fees (b)	6,666,666	900,000	-
Exercise of stock options	489,000	87,850	(14,500)
Finder's fee warrants	-	-	51,563
Stock-based compensation	-	-	242,469
Share issuance costs	-	(105,966)	-
Balance as at January 31, 2004	48,829,542	50,849,326	327,822
Exercise of stock options	2,185,497	476,209	(114,383)
Exercise of warrants	249,498	105,257	(42,883)
Stock-based compensation	-	-	716,876
Balance as at January 31, 2005	51,264,537	51,430,792	887,432
Non-brokered private placement, net of finders' fees (c)	9,965,670	8,933,334	-
Exercise of stock options	1,465,600	713,008	(241,690)
Exercise of warrants	7,550,496	1,939,187	(51,563)
Stock-based compensation	-	-	410,301
Share issuance costs	-	(39,112)	-
Balance as at January 31, 2006	70,246,303	\$ 62,977,209	\$ 1,004,480

- a) In September 2003, the Company completed a non-brokered private placement and issued 8,333,333 units at a price of \$0.15 per unit, for gross proceeds of \$1,250,000. Each unit consisted of one common share and one-half of one non-transferable two-year share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.25 per share until September 24, 2005. The Company paid finders' fees of \$125,000 and issued 300,000 finder's fee warrants, with a value of \$51,563, entitling the holder to purchase one additional common share at a price of \$0.25 per share until September 24, 2005. The fair value of these finders' fee warrants of \$51,563 was determined using the Black-Scholes option-pricing model using a risk-free interest rate of 3%, an expected life of 2 years, an annualized volatility of 140%, and a dividend rate of 0%.
- b) In November 2003, the Company completed a non-brokered private placement and issued 6,666,666 units at a price of \$0.15 per unit, for gross proceeds of \$1,000,000. Each unit consisted of one common share and one-half of one non-transferable two-year share purchase warrant. Each whole warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.25 per share until November 18, 2005. The Company paid finders' fees of \$100,000.

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**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

- c) In January 2006, the Company completed a non-brokered private placement and issued 9,965,670 units at a price of \$0.95 per unit, for gross proceeds of \$9,467,387. Each unit consists of one common share and one-half of one non-transferable share purchase warrant aggregating 4,982,835 warrants. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$1.20 per share if exercised in the first year following the closing, and at a price of \$1.44 per share if exercised in the second year following the closing. The warrant will terminate within 20 days unless exercised in the event the Company's closing stock price meets or exceeds \$2.00 for 10 consecutive trading days and the Company issues a press release of such an event. The Company paid finders' fees of \$534,053 for net proceeds of \$8,933,334.
- d) Net proceeds from issuance of capital stock of \$11,292,276 is comprised of \$8,933,334 for the non-brokered private placement and \$2,358,942 being the cash proceeds from the exercise of stock options and warrants.
- e) The shareholders of the Company had adopted a shareholder rights plan (the "Plan"), creating the potential for substantial dilution of an acquirer's position except with respect to a "permitted bid". The Plan had a ten-year term and expired on April 28, 2005.

The Company has adopted a new shareholder rights plan, subject to regulatory and shareholder approval. Under the new Plan, the Company will issue one Right for no consideration for each outstanding common share of the Company to all holders of record of common shares as at 5:00 p.m., Pacific time, March 7, 2006. Thereafter, each common share issued by the Company during the term of the Plan will have one Right attached to it. The term of the Plan is five years unless the rights are earlier redeemed or exchanged. The Plan will be subject to review after the third year of its term.

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

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

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**9. STOCK OPTIONS**

The Company has a stock option plan which authorizes the board of directors to grant incentive stock options to directors, officers and employees whereby the maximum number of shares reserved for issuance under the Company's plan is 7,436,158 common shares of which 4,908,147 has been exercised, leaving 2,528,011 common shares available under the Plan. The aggregate number of common shares reserved for issuance to any person may not exceed 5% of the number of outstanding common shares. The exercise price of the options will be determined by the fair market value of the shares at the closing price on the date prior to date of the grant. Options granted must be exercised no later than 10 years after the date of grant or such lesser period as may be determined by the Board. The Board may at its discretion in any granting of an option set a vesting period whereby the option may only be exercisable in pre-determined instalments.

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2003	2,398,297	\$ 0.15
Granted	1,180,000	0.23
Exercised	(489,000)	0.15
Expired	-	-
Forfeited	-	-
Balance at January 31, 2004	3,089,297	0.18
Granted	2,770,000	0.43
Exercised	(2,185,497)	0.17
Expired	-	-
Forfeited	(1,300,000)	0.41
Balance at January 31, 2005	2,373,800	0.36
Granted	5,573,000	0.53
Exercised	(1,465,600)	0.32
Expired	-	-
Forfeited	(450,000)	0.42
Balance at January 31, 2006	6,031,200	\$ 0.53
Number of stock options exercisable	1,520,300	\$ 0.50

The weighted average fair value of stock options granted during the year ended January 31, 2006 was \$0.29 (2005 - \$0.32; 2004 - \$0.21) per option.

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**9. STOCK OPTIONS** (cont'd...)

As at January 31, 2006, the following stock options were outstanding as follows:

Number of Shares		Presently Authorized Under Stock Option Plan	Exercise Price	Expiry Date
Granted	Subject to Shareholder Approval (a)			
250,000	-	250,000	\$ 0.50	September 21, 2007
42,400	-	42,400	0.23	September 24, 2008
370,000	-	370,000	0.42	April 28, 2009
135,000	-	135,000	0.50	January 10, 2010
1,075,000	325,000	750,000	0.50	April 21, 2010
2,760,800	2,500,000	260,800	0.50	July 11, 2010
463,000	463,000	-	0.385	August 23, 2010
150,000	-	150,000	0.50	September 13, 2010
385,000	-	385,000	0.62	October 5, 2010
200,000	200,000	-	1.00	December 31, 2010
200,000	200,000	-	1.00	December 31, 2010
6,031,200	3,688,000	2,343,200		

(a) Certain options, while granted by the board of directors, are subject to shareholder approval since they are in excess of the maximum number of shares reserved for issuance under the Company's stock option plan.

Total stock options granted during the year ended January 31, 2006 are 5,573,000 (2005 – 2,770,000; 2004 – 1,180,000). As described above, certain options granted are subject to shareholder approval and are not considered vested and exercisable for the purposes of recognizing stock-based compensation. Total stock-based compensation recognized for the fair value of stock options vested during the current fiscal year was \$410,301 (2005 - \$716,876; 2004 – \$242,469) which has been recorded in the consolidated statement of operations as stock-based compensation with corresponding contributed surplus recorded in shareholders' equity.

Subsequent to January 31, 2006, an additional 2,930,000 stock options were granted subject to regulatory and shareholder approval.

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**9. STOCK OPTIONS** (cont'd...)

The fair value of stock options granted is estimated using the Black-Scholes option pricing model with the following assumptions:

	Year Ended January 31, 2006	Year Ended January 31, 2005	Year Ended January 31, 2004
Risk-free interest	3.34 – 4.20 %	3.79%	3.86%
Expected dividend yield	-	-	-
Expected stock price volatility	47% - 65%	87%	140%
Expected option life in years	2 - 5 years	5 years	5 years

**10. SHARE PURCHASE WARRANTS**

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2003	-	\$ -
Issued	7,799,994	0.25
Expired	-	-
Balance at January 31, 2004	7,799,994	0.25
Issued	-	-
Exercised	(249,498)	0.25
Expired	-	-
Balance at January 31, 2005	7,550,496	0.25
Issued	4,982,835	1.20/1.44
Exercised	(7,550,496)	0.25
Expired	-	-
Balance at January 31, 2006	4,982,835	\$ 1.20/1.44

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**10. SHARE PURCHASE WARRANTS (cont'd...)**

As at January 31, 2006, the following share purchase warrants were outstanding and exercisable as follows:

Number of Shares	Exercise Price	Expiry Date
4,028,930	\$ 1.20	December 19, 2006
	then at \$ 1.44	December 19, 2007
185,000	\$ 1.20	December 22, 2006
	then at \$ 1.44	December 22, 2007
768,905	\$ 1.20	January 6, 2007
	then at \$ 1.44	January 6, 2008
4,982,835		

These warrants will terminate within 20 days unless exercised in the event the Company's closing stock price meets or exceeds \$2.00 for 10 consecutive trading days and the Company issues a press release of such an event.

**11. TREASURY STOCK**

During the current year, the Company sold 1,616,000 of its shares held in treasury at an average price of \$0.79 per share for proceeds of \$1,273,946. These shares were previously issued and reacquired at a cost of \$3.79 per share by the Company some years ago pursuant to an issuer bid. The loss of \$4,847,462 resulting from the sale of these shares and related broker fees has been charged to deficit in the current year.

**12. RELATED PARTY TRANSACTIONS**

During the year ended January 31, 2006:

- a) The Company paid consulting fees of \$114,559 (2005 - \$96,780; 2004 - \$34,833) to companies controlled by a director and a former director.
- b) The Company paid wages and benefits of \$230,525 (2005 - \$207,068; 2004 - \$44,272) to directors and an officer.
- c) The Company paid rent expense of \$Nil (2005 - \$17,816; 2004 - \$11,215) to a company controlled by a director and to a company related by virtue of former common directors. The Company received \$9,446 (2005 - \$Nil; 2004 - \$Nil) for rent charges from a company with a common director.
- d) The Company paid legal fees of \$Nil (2005 - \$21,433; 2004 - \$108,037) to a law firm controlled by a former director, of which \$Nil (2005 - \$Nil; 2004 - \$47,569) was recorded as share issue costs.

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**12. RELATED PARTY TRANSACTIONS (cont'd...)**

- e) The Company paid \$61,749 (2005 - \$Nil; 2004 - \$Nil) for equipment and supplies to a company controlled by a director.

Included in accounts payable at January 31, 2006 is \$1,241 (2005 - \$36,458) due to directors, a former director, and to companies related by virtue of common directors.

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

**13. INCOME TAXES**

A reconciliation of income taxes of statutory rates with the reported taxes is as follows:

	2006	2005	2004
Statutory tax rate	34.7%	35.6%	37.6%
Loss for the year	\$ (2,567,758)	\$ (1,798,273)	\$ (811,190)
Expected income tax recovery	892,168	\$ 640,185	\$ 305,007
Permanent and other differences	(117,045)	(307,836)	(91,172)
Differences in foreign tax rates	(14,107)	(4,558)	(12,305)
Losses for which an income tax benefit has not been recognized	<u>(761,016)</u>	<u>(327,791)</u>	<u>(201,530)</u>
	\$ -	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2006	2005
Future income tax assets		
Non-capital and other loss carry-forwards	\$ 1,409,133	\$ 1,069,362
Equipment and exploration properties	247,380	247,218
Investments	-	2,587,307
Share issuance costs	<u>156,445</u>	<u>4,852</u>
Total future income tax assets	1,812,958	3,908,739
Valuation allowance	<u>(1,812,958)</u>	<u>(3,908,739)</u>
Net future income tax assets	\$ -	\$ -

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**13. INCOME TAXES (cont'd...)**

The Company has non-capital losses of approximately \$3,200,000 available for deduction against future years' taxable income in Canada. These losses, if unutilized, will expire up to 2016. Subject to certain restrictions, the Company also has approximately \$211,000 of resource expenditures available to reduce taxable income of future years in Canada plus resource related deductions available to reduce future taxable income in Panama. The future tax benefits which may arise as a result of these non-capital losses and resource expenditures have not been recognized in these consolidated financial statements and have been offset by a valuation allowance.

**14. COMMITMENTS**

During the year ended January 31, 2005, the Company entered into a five-year lease for office premises at an estimated annual cost of \$63,176 commencing June 2004. The Company also entered into a 45-month lease for additional office premises at an estimated annual cost of \$29,434 commencing on September 1, 2005.

Subsequent to January 31, 2006, the Company entered into a five-year lease for office premises at an estimated annual cost of \$61,112 commencing September 1, 2006. Cancellation of the above two previous lease obligations was obtained effective May 15, 2006.

**15. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, marketable securities, receivables, performance bond, accounts payable and other accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is subject to financial risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative instruments or hedging activities to reduce its exposure to fluctuations in foreign currency exchange rates.

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**16. SEGMENT INFORMATION**

The Company has one operating segment being the exploration of resource properties. Details of geographic information are as follows:

<b>2006</b>	Canada	Panama	Total
Interest income	\$ 48,239	\$ -	\$ 48,239
Property and equipment	\$ 45,970	\$ 239,035	\$ 285,005
Mineral properties	-	2,389,769	2,389,769

<b>2005</b>	Canada	Panama	Total
Interest income	\$ 17,956	\$ 310	\$ 18,266
Property and equipment	\$ 30,782	\$ 19,043	\$ 49,825

<b>2004</b>	Canada	Panama	Total
Interest income	\$ 12,373	\$ 45,591	\$ 57,964
Property and equipment	\$ 42,705	\$ -	\$ 42,705

**17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2006	2005	2004
Non-cash financing activities			
Finder's fee warrants	\$ -	\$ -	\$ 51,563
Share issue costs	-	-	(51,563)
Non-cash investing activities			
Mineral property costs incurred through payables	192,158	-	-

	2006	2005
Cash and cash equivalents consist of:		
Cash	\$ 1,420,258	\$ 891,548
Term deposits	7,751,060	-

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**18. SUBSEQUENT EVENTS**

Subsequent to January 31, 2006:

- a) The Company issued 346,300 shares on the exercise of stock options for proceeds of \$170,666.
- b) The Company granted 2,930,000 stock options subject to regulatory and shareholder approval.

**19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). Material variations in the accounting principles, practices and methods used in preparing these financial statements from principles, practices and methods accepted in the United States ("U.S. GAAP") are described and quantified below.

**Loss for the year**

	2006	2005	2004
Loss for the year - Canadian GAAP	\$ (2,567,758)	\$ (1,798,273)	\$ (811,190)
Mineral properties expensed under U.S. GAAP (a)	<u>(2,389,769)</u>	<u>-</u>	<u>-</u>
Loss for the year - U.S. GAAP	(4,957,527)	(1,798,273)	(811,190)
Holding gains (losses) on marketable securities (b)	<u>(22,044)</u>	<u>(7,587)</u>	<u>45,006</u>
<b>Comprehensive loss - U.S. GAAP</b>	<b>\$ (4,979,571)</b>	<b>\$ (1,805,860)</b>	<b>\$ (766,184)</b>
Basic and diluted loss per share - U.S. GAAP	\$ (0.09)	\$ (0.04)	\$ (0.02)

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**19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

	2006	2005
<b>Current assets</b>		
Current assets - Canadian GAAP	\$ 9,240,156	\$ 973,594
Cumulative adjustments:		
Holding gains on marketable securities (b)	<u>15,375</u>	<u>37,419</u>
Current assets - U.S. GAAP	<u>\$ 9,255,531</u>	<u>\$ 1,011,013</u>

	2006	2005
<b>Mineral properties</b>		
Mineral properties - Canadian GAAP	\$ 2,389,769	\$ -
Mineral properties expensed under U.S. GAAP (a)	<u>(2,389,769)</u>	<u>-</u>
Mineral properties - U.S. GAAP	<u>\$ -</u>	<u>\$ -</u>

	2006	2005
<b>Shareholders' equity</b>		
Shareholders' equity - Canadian GAAP	\$ 12,256,076	\$ 1,886,423
Cumulative adjustments:		
Mineral properties (a)	(2,389,769)	-
Holding gains on marketable securities (b)	<u>15,375</u>	<u>37,419</u>
Shareholders' equity - U.S. GAAP	<u>\$ 9,881,682</u>	<u>\$ 1,923,842</u>

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**19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

	2006	2005	2004
<b>Statement of Cash Flows</b>			
Cash flows from operating activities - Canadian GAAP	\$ (1,757,852)	\$ (505,448)	\$ (57,045)
Expenditures on mineral properties	<u>(2,197,611)</u>	<u>-</u>	<u>-</u>
Cash flows from operating activities - U.S. GAAP	\$ (3,955,463)	\$ (505,448)	\$ (57,045)
Cash flows from investing activities - Canadian GAAP	\$ (2,489,488)	\$ (202,787)	\$ 75,942
Expenditures on mineral properties	<u>2,197,611</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities - U.S. GAAP	\$ (291,877)	\$ (202,787)	\$ 75,942

a) Mineral properties and deferred costs

Mineral property costs and related exploration expenditures are accounted for in accordance with Canadian GAAP as disclosed in Note 2. For U.S. GAAP purposes, the Company expenses, as incurred, the exploration costs relating to unproven mineral properties. When proven and probable reserves are determined for a property and a feasibility study is prepared, then subsequent exploration and development costs of the property would be capitalized. The capitalized costs of such properties is measured periodically for recoverability of carrying values.

b) Marketable securities

Under Canadian GAAP, the marketable securities held by the Company are recorded at the lower of cost and quoted market value. Under U.S. GAAP, these investments are classified as "available-for-sale" securities and recorded at market value. The accumulated difference between cost and market value is recorded as part of comprehensive income.

c) Stock-based compensation

Under U.S. GAAP, Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation" ("SFAS 123") requires companies to establish a fair market value based method of accounting for stock-based compensation plans. The Company elected for the year ended January 31, 2004 and subsequent years to account for stock-based compensation using SFAS 123 on a prospective basis. Accordingly, compensation cost for stock options is measured at the fair value of options granted.

**19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

c) Stock-based compensation (cont'd...)

Under Canadian GAAP, the Company accounts for stock-based compensation using the fair value method (Note 2). Accordingly, there is no difference between Canadian GAAP and U.S. GAAP on the accounting for stock-based compensation for the years ended January 31, 2006, 2005 and 2004.

d) Recent accounting pronouncements

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("SFAS 123R"). SFAS 123R supersedes APB 25 and its related implementation guidance by requiring entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions) and revises SFAS 123 as follows:

- i. Public entities are required to measure liabilities incurred to employees in share-based payment transactions at fair value and nonpublic entities may elect to measure their liabilities to employees incurred in share-based payment transactions at their intrinsic value whereas under SFAS 123, all share-based payment liabilities were measured at their intrinsic value.
- ii. Nonpublic entities are required to calculate fair value using an appropriate industry sector index for the expected volatility of its share price if it is not practicable to estimate the expected volatility of the entity's share price.
- iii. Entities are required to estimate the number of instruments for which the requisite service is expected to be rendered as opposed to accounting for forfeitures as they occur.
- iv. Incremental compensation cost for a modification of the terms or conditions of an award is measured by comparing the fair value of the modified award with the fair value of the award immediately before the modification whereas SFAS 123 required that the effects of a modification be measured as the difference between the fair value of the modified award at the date it is granted and the award's value immediately before the modification determined based on the shorter of (1) its remaining initially estimated expected life or (2) the expected life of the modified award.

SFAS 123R also clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued in EITF 96-18. SFAS 123R also does not address the accounting for employee share ownership plans which are subject to Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". Public entities (other than those filing as small business issuers) will be required to apply SFAS 123R as of the first annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply SFAS 123R in the first annual reporting period that begins after December 15, 2005. For non-public entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after December 15, 2005.

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**19. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

d) Recent accounting pronouncements (cont'd...)

In May 2005, FASB issued Statement of Financial Accounting Standards No. 154 Accounting Changes and Error Corrections – A Replacement of APB Opinion No. 20 and FASB Statement No. 3 (“SFAS 154”), which is effective for fiscal years ending after December 15, 2005. SFAS 154 requires that changes in accounting policy be accounted for on a retroactive basis.

The adoption of these new pronouncements is not expected to have a material effect on the Company’s consolidated financial position or results of operations