

PETAQUILLA MINERALS LTD.

**For the Second Quarter
Ended July 31, 2006**

Management Discussion and Analysis of Results of Operations and Financial Condition

For Three Months ended July 31, 2006 and 2005

PETAQUILLA MINERALS LTD.**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Petaquilla Minerals Limited ("PTQ") reports the financial results for the second quarter ended July 31, 2006, which have been prepared on the basis of available information up to September 8, 2006. Management's Discussion and Analysis should be read in conjunction with the interim consolidated financial statements and related notes for the same period as well as the most recent annual financial statements of PTQ.

Management's discussion and analysis provides a review of the performance of PTQ's business and compares its performance for the three months ended July 31, 2006 with the same period of the prior year. In addition, comparative information is provided for the six month period ended July 31, 2006 and the comparative period of the prior year. This discussion also provides an indication of future developments along with issues and risks that can be expected to impact future operations. There is not a guarantee of future performance, since actual results could change based on factors and barriers beyond management control.

OVERALL PERFORMANCE**Business Overview**

PTQ is a Canadian based copper and gold exploration and development company with its development activities located solely in Panama.

PTQ owns 52% of the copper / gold porphyry system in Panama known as the Ley Petaquilla Concession. Inmet Mining Ltd. ("Inmet") owns the remaining 48%. At present, Teck Cominco Limited ("Teck") holds no interest, but can acquire an effective 26% interest in the Minera Petaquilla S.A. project by funding PTQ's share of the cost of placing this project into production.

PTQ's growth strategy has been to establish a gold production base from the development of the 100% owned Molejon deposit located within the Ley Petaquilla Concession. In addition, PTQ plans to continue to evaluate gold and copper development projects and / or related production possibilities by means of internal development of its mineral assets or growth through acquisition or merger of assets with companies having either production or advanced development stage gold and/or copper projects.

Second Quarter Accomplishments and Subsequent Events**Plan of Arrangement**

- On June 6, 2006, the shareholders of PTQ voted in favor of the May 10, 2006 proposed Plan of Arrangement.
- Subsequently, on June 19, 2006 Supreme Court approval in the Province of British Columbia was obtained for the Plan of Arrangement.

- The result of the Plan of Arrangement will be that each shareholder of PTQ will receive one share of Petaquilla Copper Ltd., a newly formed company. Each shareholder will continue to hold one share of PTQ and one share of Petaquilla Copper Ltd., for each one share of PTQ held on the Effective date of the Plan of Arrangement.
- Terms of the Plan of Arrangement require PTQ to transfer title to its wholly-owned subsidiary, Georecursos Internacional S.A., the holder of the 52% interest in the Ley Petaquilla Concession Lands, to Petaquilla Copper Ltd. PTQ would retain 100% ownership of the gold and precious metal deposits within the Ley Petaquilla Concession as well as all the other concession lands adjacent to the Ley Petaquilla Concession.
- As part of the June 2005 Mine Development Plan approved by the Republic of Panama in September 2005, Petaquilla Copper Ltd. would then continue with the development of its interest in the copper based mineral deposits and PTQ would advance the development of its interest in the Molejon deposit, being the first gold and precious metal deposit identified within the Ley Petaquilla Concession lands.
- PTQ plans to invest \$500,000 in the common shares of Petaquilla Copper Ltd. as part of the Plan of Arrangement. An additional investment of \$ 5,000,000 by PTQ in Petaquilla Copper Ltd. is contemplated as part of the Use of Proceeds from a pending Private Placement Offering. These investments are entirely dependent on the successful closing of an anticipated Private Placement, announced on July 20, 2006 and as amended August 31, 2006.
- Once completed, these investments will result in PTQ owning 20% of the issued shares of Petaquilla Copper Ltd. This initial 20% equity stake may well be diluted upon future share capital financings that are anticipated to be necessary for the ongoing funding of the Copper deposit project.
- Setting of the Effective Date for the Plan of Arrangement has not yet been established but it is anticipated to be set once the Closing Date for the above described Private Placement Offering has been completed.
- Petaquilla Copper Ltd. will be making application to list its shares on the Toronto Stock Exchange.

Molejon Gold Deposit Project

- Completed an additional 3,672 meters of trenching on the Botija Abajo deposit and 4,571 meters of trenching on the Mestizo deposit.
- Completed 51 holes for an additional 3,488 meters of infill diamond drilling of which 1,914 meters were on the Molejon Main Zone, 300 meters on the Molejon NW Zone, 983 metres on condemnation holes for the Molejon Plant Site and related areas, 113 meters on the Botija Abajo and 178 meters on the Copper project lands.
- Current plans for the 3rd quarter are to complete approximately 143 drill holes for a projected 10,400 meters on the Molejon and Botija Abajo deposits.
- Road access improvements including the ongoing design and commencement of bridge construction for river and stream crossing continues. Gravel grade road is now within 3 kms of the Molejon mine site.
- Fully completed road (gravel grade) to the Molejon mine site is anticipated by late October 2006.
- Road upgrade contracts underway for portions of the government road from La Pintada to Coclesito. (approximate overall distance of 29 kms which then connects to the new road to the Molejon mine site).
- Initial survey and trail cutting is ongoing in preparation for commencement of extending the road 8 kms from the Molejon site to the Colina and Botija Abajo sites.

- Continued evaluation of short and long term power sources for the future development of the Molejon mine site as well as adjacent areas within the concession lands.
- Possible mine equipment, mine plan and mill design options explored for the ongoing development.
- Acquisition plans commenced for key mill components with acquisition of three refurbished ball mills completed subsequent to the quarter end.
- Acquired \$637,994 in mine equipment, vehicles, software and office equipment, as part of ongoing development plans.
- Continued design of the tailings and waste facilities together with studies underway for a detailed geotechnical testing plan.
- Continued evaluation of the requirements for updating the environmental impact study, evaluation of the hydrological aspects of the Molejon project and geotechnical aspect of the open pit.
- Ongoing research of a metallurgical testing program, including crushing, grinding, cyanidation, liquid/soil separation and cyanide detoxification tests.
- Extension of survey, coverage and delineation of preliminary areas suitable for a tailings dam and plant site, subject to fatal flaw analysis (incl. condemnation drilling).

Copper Project

- Construction of an exploration camp at Colina is well underway (exploration and development site for the Copper Project).
- Initial design commenced on sample preparation laboratory for the Colina site for core storage and for mine site analysis as well as preparations for sending samples for assaying.
- While also related to the overall Molejon infrastructure goals, initial survey work has commenced on extending the road from the Colina site to the Caribbean coast (present estimates of this road extension is 25 – 28 kms).

Socio / Economic Activities

- 36 representatives from local communities from around the project area visited the mine site offices, the road construction project and the exploration camp. They received information about PTQ's projects and assistance in understanding the project impacts in their respective villages.
- 37 youths received bursaries, which will support them for three years to attend their secondary schooling.
- Medical center in Coclesito has been assisted with medical supplies and ambulance services.
- Ongoing medical attendance and support to government authorities in transporting critically ill residents of communities near the Molejon mine site, to medial centers.
- Donation of school supplies for all the schools in the Donoso District in the Province of Colon.
- Sports training (Little League) program commenced in four (4) communities in the Donoso District.
- In three (3) communities, assistance has been given with installation and maintenance of the potable water system.
- Started the provision of at least one healthy meal for all kids in the nine (9) closest schools to the Molejon mine site.
- In five (5) communities near the Molejon mine site, work has started on the creation and upgrade of local roads to access the main road presently under construction.
- As part of projects to create sustainable long-term economic value to the local communities, PTQ has initiated a cattle-breeding program for local cattle ranchers near the mine site.

Optioned Lands

- In mid-May 2006, PTQ entered into a Joint Venture agreement with Eurogold Mining Inc. for the exploration and development of the San Juan concessions in Panama. Terms of that agreement require Eurogold to spend at least \$ 6,000,000 in exploration expenditures as well as additional consideration to earn a 60% interest. Eurogold may increase its interest to 70% by the expenditure of an additional \$ 3,000,000. PTQ is the Operator of the Joint Venture.
- In late May 2006, Gold Dragon Capital Management Ltd. exercised its options to the 68.88% Zone 1 Belencillo concession lands, having met all the option conditions. Transfer of title from PTQ to Gold Dragon is an ongoing process and is expected to take at least another 120 days, pursuant to the steps required for complying with Panamanian laws and regulations. PTQ will not receive percentage of shares in Gold Dragon, the consideration to be paid as part of the Option terms, until such formal title transfer has been completed.

Gold Dragon is a private holding company for equities of most major Exchange Listed Securities. The percentage share of Gold Dragon is to be calculated based on the Net Asset Value of Gold Dragon plus the sum of \$ 1,152,400 CDN = Post Issue Evaluation. The Net Asset Value of Gold Dragon will be based on the Mark-to-Market valuation of the Gold Dragon holdings plus the exploration expenditures listed in the Option Agreement. The shares of Gold Dragon to be then be issued to PTQ will be calculated using the formula

$$\frac{\$ 1,152,400}{\text{Post Issue Valuation}}$$

Private Placement

- On July 20, 2006 PTQ announced it had negotiated a non-brokered private placement of 11,250,000 Units at a price of \$ 2.40 per Unit for anticipated gross proceeds in the amount of \$ 27,000,000, subject to regulatory approval and the satisfaction of other conditions precedent. PTQ has also negotiated a non brokered private placement of 20,000,000 Units at \$ 2.00 per Unit for anticipated gross proceeds of \$ 40,000,000 (Follow On Financing).
- On August 31, 2006 PTQ amended terms of this Unit Offering of up to 9,400,000 Units at a price of \$ 2.40 per Unit for anticipated gross proceeds of \$ 22,560,000, subject to regulatory approval and the satisfaction of other customary conditions.

Each Unit will consist of one common and one transferable share purchase warrant, where each warrant entitles the holder to purchase an additional common share of PTQ for a period of five years at a price of \$ 3.00 per share. The warrants will be subject to a hold period expiring four months and one day from closing and will contain customary anti-dilution provisions and will be transferable in accordance with applicable legislation.

Any securities of Petaquilla Copper Ltd. issued following the Plan of Arrangement will be subject to resale restrictions until such time as Petaquilla Copper Ltd. becomes a reporting issuer or another exemption from resale restriction is available. The PTQ shares contemplated from this Unit Offering will be fully tradable following the Effective Date.

Finders' fees in the form of compensation warrants and cash will be paid in connection with the private placement.

- Petaquilla Copper Ltd. intends, after the Effective date, to conduct a non brokered private placement, subject to regulatory approval, of 20,000,000 Units at a price of \$ 2.00 per Unit for gross proceeds of \$ 40,000,000. Each Unit will consist of one common share and one half share purchase warrant, each full warrant entitling the holder to purchase an additional common share of Petaquilla Copper Ltd. for a period of five years at a price of \$ 3.50 per share.

RESULTS OF OPERATIONS – FOR THE SECOND QUARTER

PTQ's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and all amounts are expressed in Canadian dollars unless otherwise indicated.

The operating results of PTQ reflect its ongoing administrative costs, net of interest and other income. PTQ does not have any operating mining assets. However, significant development work is underway on the Molejon gold deposit with a present targeted production start up for the second calendar quarter of 2007.

Revenue

Interest and other income in the three months ended July 31, 2006 totaled \$39,225 compared to \$ 7,110 in the same period of the prior year.

Expenses

Expenses for the three months ended July 31, 2006 were \$3,104,651, a substantial increase from \$414,162 for the three months ended July 31, 2005. The increase in expenses is primarily based on the wages and benefits, travel, office and administration, stock based compensation, shareholder information, Plan of Arrangement costs, investor relations, all associated with the ongoing development activities of the Molejon gold deposit as well as the Ley Petaquilla concession lands. Stock-based compensation, a non-cash expense, increased to \$1,261,988 compared to \$33,789 in the same period of the prior year, as a result of options vested during the period that have been previously deferred.

During the three months ended July 31, 2006, PTQ recorded a foreign exchange gain of \$78,129 compared to a loss of \$102,700 in the same period of the prior year.

The net loss for the three months ended July 31, 2006 was \$2,987,297 or \$0.04 per share compared to a net loss for the three months ended July 31, 2005 of \$509,752 or \$0.01 per share.

Cash Flow

Operating Activities

Corporate and administrative cash costs, offset by interest and other income and changes in non-cash working capital resulted in a cash outflow of \$1,866,118 from continuing operating activities in the three months ended July 31, 2006. Operating activities in the three months period ended July 31, 2005 resulted in cash outflows of \$489,564. This increase in outflow was due to ongoing non-capitalized Molejon project development expenses.

Financing Activities

During the three months ended July 31, 2006, the exercise of stock options and warrants resulted in net proceeds of \$2,091,418. This compares to \$584,300 in the comparative period for the prior year. In addition, during the three months ended July 31, 2006 Long Term Debt of \$25,279 was incurred to fund acquisition of mining equipment assets. No long term debt was incurred in the comparative period for the prior year.

Investing Activities

Resource Property Development Agreements

Teck-Inmet Agreement – Ley Petaquilla Concession Lands

In January 1998, a bankable final Feasibility Study on the Ley Petaquilla concession was completed by H.A. Simons Ltd on behalf of Teck Cominco Ltd. (“Teck”). Teck is entitled to elect and has elected to defer its decision whether or not to place the Ley Petaquilla concession into production and thereby complete its acquisition of one half of PTQ’s interest in the Minera Petaquilla project. The deferral was based on Teck’s view that the property was uneconomic at that time.

On April 26, 2005, PTQ and Inmet Mining Corporation (“Inmet”) waived Teck’s annual obligation, under the Petaquilla Shareholders Agreement to update and deliver the final bankable Feasibility Study to PTQ in 2005. PTQ chose to waive Teck’s obligation due to our ongoing work on the proposed phased development plan. However, should delivery of an updated feasibility study become appropriate, PTQ will request Teck to deliver an updated version of the final bankable feasibility study.

On June 1 2005, PTQ entered into an agreement with Teck and Inmet whereby PTQ may obtain 100% of the Molejon gold deposit (a gold deposit within the Minera Petaquilla S.A. project), subject to the Panamanian Government accepting a phased mine development plan on terms acceptable to PTQ, Teck and Inmet.(see below).

On April 27, 2006 Teck, Inmet and PTQ, the partners in Minera Petaquilla project, agreed to proceed with an update of the January 1998 Feasibility Study to be completed by AMEC Americas Limited (“AMEC”), formerly H.A. Simons, for the Petaquilla Copper Project to more accurately reflect current prices and technological advances. September 30, 2006 is the targeted completion date for such study. The updated study by AMEC will include the following specific assessments:

- a. Reviewing the truck and shovel fleet equipment selection, with a view of utilization of larger equipment.
- b. Reviewing the grinding capacity to determine if a single grinding line would provide the capacity required for the anticipated 120,000 tpd throughput rate.
- c. Reviewing the flotation equipment selection in light of the larger equipment currently available.
- d. For any of the above revised approaches that appear technically feasible, to estimate their capital and operating cost impacts on the Project to the pre-feasibility level (+/- 25% to +/- 30%).

The January 1998 Feasibility Study was prepared prior to the introduction of National Instrument 43-101 and refers to categories of reserves which are not the same as those contained in the current National Instrument.

Building on the planned update of the Minera Petaquilla January 1998 Feasibility Study, PTQ plans to finance 100% of the cost of a full NI 43-101 compliant Feasibility Study on the Petaquilla Copper Project which will include appropriate field work to meet the NI 43-101 standards on reserve categorization.

Sources of financing may include additional equity offerings, terms of which have as yet to be determined.

The collective goal of all these efforts is to ensure all relevant data required for project financing considerations are available by the end of 2006.

Phased Mine Development Plan

According to the June 1, 2005 Agreement, Teck and Inmet agreed to transfer their interests in the Molejon gold deposit and 100% of any other gold and precious metal deposits occurring on the partners' joint venture lands to PTQ, net of a graduated net smelter return ranging from 1% -5% depending on the price of gold and also subject to the Government of Panama accepting a phased Mine Development Plan on terms acceptable to Teck, Inmet and PTQ.

In September 2005, the Government of Panama approved the phased mine development plan (the "Plan") submitted by PTQ and its joint venture partners. The first phase of the Plan is the development of the Molejon gold deposit by PTQ which commenced in January 2006 and continues.

The development of the world-class Petaquilla copper deposit is included in subsequent phases of the Plan, and will be the responsibility of Minera Petaquilla S.A., the joint venture company owned by PTQ, Teck and Inmet.

Molejon Gold Deposit

Since signing the Letter of Intent with Teck and Inmet on December 13, 2004, which resulted in the Agreement dated June 1, 2005, PTQ has achieved a number of its objectives.

PTQ spent \$2,911,448 in resource property costs during the three months ended July 31, 2006 in addition to the \$2,389,769 spent during the year ended January 31, 2006 and \$2,321,315 spent during the three months ended April 30, 2006. A base camp has been well established at PTQ's advanced stage epithermal Molejon gold deposit in Panama. PTQ continues to drill with both its infill drilling and trenching programs. In addition, further trenching is underway on the Botija Abajo and Mestizo sites that are adjacent to the Molejon gold deposit. PTQ is hopeful the ongoing drill program will add both ounces and grade to the published resource estimate for Molejon.

During the three months ended July 31, 2006, \$637,994 was spent on mining equipment, vehicles, software and office equipment, compared to \$5,232 in the same period of the prior year.

Steffan, Robertson & Kirsten ("SRK") completed a NI 43-101 compliant mineral resource estimate on the Molejon gold deposit and presented it to PTQ in October 2005. The report estimates the inferred mineral resource of the Molejon gold deposit to be 11.2 million tonnes grading 2.48 g/t for total contained gold of 893,000 ounces using a bottom cut-off grade of 0.500 g/t Au. This represents an increase of 35% over a 1995 pre 43-101 resource estimate of 7.8 million tonnes grading 2.63 g/t for total contained gold of 661,000 ounces using a bottom cut-off grade of 0.500 g/t Au.

PTQ intends to focus the first phase of the mine development plan on the Molejon gold deposit, and has begun further exploration and development work for the purposes of a feasibility study on the deposit. In addition, PTQ intends to perform further exploration on other identified gold targets within the Ley Petaquilla concession, and those within our wholly owned properties surrounding the Ley Petaquilla concession.

Rio Belencillo Option

On May 7, 2005, PTQ granted Gold Dragon Capital Management Ltd. (“Gold Dragon”) an option (the “Option”) to purchase its interests in the Rio Belencillo and Rio Petaquilla concessions in Panama for \$1,152,400, payable in capital stock of Gold Dragon. In September 2005, Gold Dragon activated the Option, by evidencing ownership of at least 2% of the issued and outstanding shares of PTQ.

Initial exploration on the Rio Belencillo by Madison Enterprises Corp. included 3,756 meters of diamond drilling. The Rio Petaquilla is a 45 square kilometer exploration stage property located adjacent to Zone 1 of the Rio Belencillo.

In late May 2006, Gold Dragon exercised its option to the 68.88% Zone 1 Belencillo concession lands, having met all the option conditions. Delivery of the final payment to PTQ in shares of Gold Dragon is scheduled to complete upon PTQ delivering to Gold Dragon appropriate title to the Optioned Land (see additional commentary under “Overall Performance”).

San Juan Option

PTQ has entered into an agreement with Eurogold Mining Inc. (“Eurogold”), for the exploration and development of the San Juan Concessions in Panama. The San Juan Property is adjacent to PTQ’s Molejon gold project and the Petaquilla porphyry copper project in west central Panama. Under the agreement, Eurogold may earn a 60% interest in the San Juan Property by incurring exploration expenditures of at least US\$6,000,000, by paying Petaquilla US\$600,000 in cash and by causing to be issued to Petaquilla 3,000,000 shares of the public company (“Pubco”) to which Eurogold will assign its interest in the property, all over a period of three years. If Pubco acquires a 60% interest in the property, it may increase its interest to 70% by incurring US\$3,000,000 in additional exploration expenditures in the fourth year. PTQ will be the operator of the project. PTQ has received the initial cash option payment of \$112,000 (US\$100,000).

Lidar Survey

PTQ had previously entered into an agreement for completion of a Light Detection and Ranging (“Lidar”) survey of 1,621 square kilometers of Panama including all PTQ’s concession lands. Lidar technology employs highly sophisticated laser light pulses striking the surfaces of the earth from an airplane mounted device, and measuring the time of pulse return. Using highly robust data storage capacity, the laser data is examined then compiled to give very detailed images of extraordinary refinement. This LIDAR technology is well suited for making digital elevation models, topographic mapping and automatic feature extraction. Forestry assessments including forestry biometrics, wireless communication design, coastal engineering, survey assessments and volumetric calculations are among the common applications. Field work is presently estimated at 74% complete with September 30, 2006 estimated for field work completion. Data gathering and interpretation will progress thereafter spanning October 2006 through February 2007. Cost of this survey is estimated at \$919,000 of which \$184,000 has been paid. The balance of \$ 735,000 is payable over the same period as the data gathering and interpretation work schedule.

Balance Sheet

As at July 31, 2006, PTQ had total assets of \$14,040,017 as compared with \$12,807,172 at January 31, 2006. This increase is primarily a result of equipment purchases and mineral property expenditures during the period. Working capital as at July 31, 2006 of \$790,160 decreased from working capital of \$8,689,060 at January 31, 2006 as a result of the equipment purchases, mineral property expenditures and general and administrative expenses. In addition, the January 31, 2006 working capital balance reflected the then very recent receipt of private placement proceeds closed during January 2006.

PTQ received net proceeds of \$2,091,418 from the issuance of capital stock as the result of the exercise of options and warrants, compared to \$584,300 in the same period of the previous year.

SUMMARY OF QUARTERLY RESULTS

	2006 July 31 Q2	2006 April 30 Q1	2006 January 31 Q4	2005 October 31 Q3
Net loss from continuing operations	\$ (2,987,297)	\$ (900,088)	\$ (782,183)	\$ (846,734)
Net loss	\$ (2,987,297)	\$ (900,088)	\$ (782,183)	\$ (846,734)
Loss per share from continuing operations – basic and diluted ⁽¹⁾	(0.04)	(0.01)	(0.01)	(0.02)
Loss per share – basic and diluted ⁽¹⁾	(0.04)	(0.01)	(0.01)	(0.02)
	2005 July 31 Q2	2005 April 30 Q1	2005 January 31 Q4	2005 October 31 Q3
Net loss from continuing operations	\$ (509,752)	\$ (429,089)	\$ (607,118)	\$ (434,242)
Net loss	\$ (509,752)	\$ (429,089)	\$ (607,118)	\$ (434,242)
Loss per share from continuing operations – basic and diluted ⁽¹⁾	(0.01)	(0.02)	(0.01)	(0.01)
Loss per share – basic and diluted ⁽¹⁾	(0.01)	(0.02)	(0.01)	(0.01)

- (1) The effect of potential share issuances pursuant to the exercise of options and warrants would be anti-dilutive and, therefore, basic and diluted losses per share are the same.

FIRST HALF RESULTS - SUMMARY

Expenses

Expenses, net of interest and other income, foreign exchange gains / losses, for the six months ended July 31, 2006 were \$3,887,385, a substantial increase from \$938,841 for same period in the prior year.

The increase in expenses is primarily based on the wages and benefits, travel, office and administration, stock based compensation, shareholder information, Plan of Arrangement costs, investor relations, all associated with the ongoing development activities of the Molejon gold deposit as well as the Ley Petaquilla concession lands.

Included in expenses is Stock-based compensation, a non-cash expense, of \$1,320,047 compared to \$202,245 in the same period of the prior year, as a result of options vested during the period that have been previously deferred.

The net loss for the six months ended July 31, 2006 was \$0.05 per share compared to \$0.02 per share for the six months ended July 31, 2005.

Cash Flow

Operating Activities

Corporate and administrative cash costs, offset by interest and other income and changes in non-cash working capital resulted in a cash outflow of \$2,292,237 in the six months ended July 31, 2006 compared to \$725,813 for the same period in the prior year. This increase in outflow was due to ongoing non-capitalized Molejon project development expenses.

Financing Activities

During the six months ended July 31, 2006, the exercise of stock options and warrants resulted in net proceeds of \$2,322,984 compared to \$629,837 for the comparative period in the prior year. In addition, during the six months ended July 31, 2006 long term debt of \$318,816 was incurred to fund acquisition of mining equipment assets compared to \$Nil in the comparative period for the prior year.

Investing Activities

For the six months ended July 31, 2006 acquisition costs of property and equipment of \$1,356,056 was incurred compared to \$100,443 during the comparative period for the prior year. Investment in mineral properties was \$ 5,232,763 for the six months ended July 31, 2006 compared to \$898,922 for the comparative period for the prior year. Additional investments of \$793,358 in performance bond and restricted cash that form as part of collateral to long term debt instruments were made during the six months ended July 31, 2006 compared to \$Nil for the comparative period for the prior year.

LIQUIDITY AND CAPITAL RESOURCES

PTQ does not currently own or have an interest in any mineral producing properties and has not derived any revenues from the sale of gold, copper or other materials in the last three financial years.

As at July 31, 2006, PTQ had working capital of \$790,160 (January 31, 2006 - \$8,689,060). During January 2006 PTQ raised funds from a private placement but will have to raise additional funds to meet its planned corporate and administrative expenses for the coming year and to undertake ongoing development and further exploration of the Molejon gold deposit. As described under the Private Placement heading, management is pursuing additional sources of financing and while it has been successful in the past there can be no assurance that it will be able to do so in the future. Accordingly, there is possible doubt about the ability of PTQ to continue as a going concern.

PTQ was required to post a performance bond of US\$780,000 to maintain its interest in the Ley Petaquilla concession. As at January 31, 2004, PTQ fulfilled this requirement by holding a Republic of Panama Sovereign Bond (the "Panama Bond") with a face value of US\$750,000, which PTQ 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 PTQ 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.

PTQ 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 \$873,834 as at July 31, 2006 after recognizing a foreign exchange loss of \$10,140 from the April 30, 2006 balance of \$882,102.

During the three months ended July 31, 2006, PTQ continued the previous pledge made during the three months ended April 30, 2006 of \$280,075 (US\$250,000) by way of a term deposit with a Panamanian bank as a reserve to meet statutory employer payroll obligations that will arise through the next six months ended December 31, 2006.

No further increases in long term debt was incurred during the three months ended July 31, 2006 over the bank loans arranged by PTQ during the three months ended April 30, 2006 in the amount of \$ 428,403 (US\$382,400) to acquire road and mine site equipment. The bank loan is repayable in 36 equal monthly installments of \$13,155 (US\$11,742) commencing in May 2006 and bears interest at an annual rate of 5.625%. Collateral for this equipment loan is in the form of a pledge of \$280,075 (US\$250,000) renewable term deposit and a fixed first charge by the bank on the purchased equipment. All payments are current.

PTQ had previously entered into an agreement for completion of a Light Detection and Ranging ("Lidar") survey of 1,621 square kilometers of Panama including all PTQ's concession lands. Cost of this survey is estimated at \$919,000 of which \$184,000 has been paid. The balance of \$ 735,000 is payable over the same period as the data gathering and interpretation work schedule.

Other than as discussed herein, PTQ is not aware of any trends, demands, commitments, events or uncertainties that may result in PTQ's liquidity either materially increasing or decreasing at present or in the foreseeable future. Material increases or decreases in the PTQ's liquidity will be substantially determined by the timing of any production decision on its Molejon gold deposit which, in turn, will be substantially determined by the price of gold.

Development of PTQ's Ley Petaquilla copper project, subject to the Plan of Arrangement, will also affect PTQ's liquidity and such effect will be determined by the timing of any production decision which in turn will be substantially determined by the price of copper.

CONTRACTUAL AND OTHER OBLIGATIONS

During the three months ended July 31, 2006, PTQ entered into a contract to acquire three used ball mills as part of the ongoing development plans for the Molejon Gold Project. Payments of \$89,928 were made during the three month period with the balance of \$916,531 fully paid prior to September 7, 2006. Delivery of these ball mills after completion of a refurbishing process is presently scheduled for prior to the end of 2006.

PTQ has a five-year lease for office premises. PTQ's contractual and other obligations as at July 31, 2006 are summarized as follows:

	Total	Less than 1 Year	2-3 Years	4-5 Years	More than 5 Years
Office Lease	\$ 305,560	\$ 61,112	\$ 122,224	\$ 122,224	Nil

PTQ had previously entered into an agreement for completion of a Light Detection and Ranging ("Lidar") survey of 1,621 square kilometers of Panama including all PTQ's concession lands. Field work is presently estimated at 74% complete with September 30, 2006 estimated for field work completion. Data gathering and interpretation will progress thereafter spanning October 2006 through February 2007. Cost of this survey is estimated at \$919,000 of which \$184,000 has been paid. The balance of \$ 735,000 is payable over the same period as the data gathering and interpretation work schedule.

CAPITAL STOCK

Authorized Capital

At the June 6, 2006 Annual General Meeting of the shareholders, a special resolution was authorized and approved changing the authorized capital of the Company to an unlimited number of common shares without par value and an unlimited number of preference shares without par value.

July 31, 2006	January 31, 2006
Unlimited common shares without par value	100,000,000 common shares without par value
Unlimited preference shares without par value	20,000,000 preference shares without par value

Issued Capital

As at July 31, 2006, an aggregate of 73,996,167 common shares were issued and outstanding of which 44,200 were repurchased and held as treasury stock. As of the date of this report, 75,435,382 common shares were issued and outstanding with 44,200 common shares being held as treasury stock.

PTQ had the following Warrants outstanding as at July 31, 2006:

Number of Shares	Exercise Price	Expiry Date
3,951,760	\$ 1.20	December 19, 2006
	Then at \$ 1.44	December 19, 2007
768,904	\$ 1.20	January 6, 2007
	Then at \$ 1.44	January 6, 2008
4,710,664		

In accordance with the terms and conditions attached to the Warrants, if the closing price of PTQ's shares, as traded on the Toronto Stock Exchange, is \$ 2.00 per share or more, for a period of 10 consecutive trading days, PTQ can trigger the accelerated expiry of the Warrants.

On August 31, 2006 PTQ completed the required Press release thereby triggering the acceleration of the Warrant expiry date to September 20, 2006.

The following summarizes information about the stock options outstanding as at July 31, 2006:

Number of Share Options Outstanding	Exercise Price	Expiry Date
110,000	\$ 0.50	September 21, 2007
279,407	0.50	April 21, 2010
1,544,700	0.50	July 11, 2010
88,000	0.385	August 23, 2010
66,000	0.50	September 13, 2010
385,000	0.62	October 5, 2010
193,000	1.00	December 31, 2010
131,000	1.00	December 31, 2010
2,478,000	1.05	February 1, 2011
200,000	1.73	March 7, 2011
<u>5,475,107</u>		

During the three months ended July 31, 2006 PTQ received \$2,091,418 shares from the exercise of stock options and warrants. For the subsequent period, July 31, 2006 through to the date of this report (September 8, 2006) \$247,608 was received from the exercise of stock options and warrants. During the three month period ended July 31, 2006, PTQ sold 500,000 of its shares held in treasury at a price of \$0.65 per share for net proceeds of \$319,985. These shares were previously issued and reacquired at a cost of \$3.79 per share by PTQ some years ago pursuant to an issuer bid. The loss of \$1,574,015 resulting from the sale of these shares and related broker fees has been charged to deficit in the period ended April 30, 2005.

On September 5, 2006 granted additional 5 Year Stock Options were granted for 1,693,425 shares at an exercise price of \$ 2.72 per share, subject to regulatory and shareholder approval.

RELATED PARTY TRANSACTIONS

During the six months ended July 31, 2006 PTQ had the following transactions with related parties:

- a) Paid consulting fees of \$103,603 in the aggregate (July 31, 2005 - \$53,377) to two companies, for senior financial management services provided to PTQ in the Chief Financial Officer capacity. Of the \$103,603, one of the two companies, controlled by a former director was paid \$9,640 with the other company controlled by the present Chief Financial Officer was paid \$ 93,963.
- b) Paid fees of \$484,303 in the aggregate (July 31, 2005 - \$65,600) to directors for technical and management services in the form of project, engineering and senior management services for PTQ's ongoing operations in both Panama and Vancouver. \$357,100 of the \$484,303 included \$ 250,000 that was accrued, of which \$ 55,000 was paid prior o July 31, 2006, as a settlement of a labor claim dating back to August 1998, by a present director for senior management services.
- c) Received \$7,573 (three months ended July 31, 2005 - \$Nil) for office rent charges for office space sublet from PTQ by from a company on which that a former director serves as an officer and director.
- d) PTQ paid legal fees of \$141,103 (three months ended July 31, 2005 - \$Nil) to a law firm controlled by an officer for ongoing corporate counsel and corporate secretary services.

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

PROPOSED TRANSACTIONS

Reorganization – Plan of Arrangement

Reference is made to the Plan of Arrangement section included in the Second Quarter Accomplishments and Subsequent Events section.

The Plan of Arrangement was given Court approval on June 19, 2006 by the British Columbia Supreme Court in Vancouver, British Columbia.

An Effective Date to the Plan of Arrangement will be set by the Directors upon the successful Closing of the pending Private Placement which is anticipated to conclude by the end of September 2006.

PTQ will be actively pursuing the filing of required applications to the Toronto Stock Exchange ("TSX") and other regulatory authorities to give effect to the Plan of Arrangement after the Effective Date has been set.

Private Placement

Reference is made to the Private placement section included in the Second Quarter Accomplishments and Subsequent Events section.

PTQ plans to pursue the closing of the previously announced amended terms of the Unit Offering of up to 9,400,000 Units at a price of \$ 2.40 per Unit for anticipated gross proceeds of \$ 22,560,000, subject to regulatory approval and the satisfaction of other customary conditions.

Petaquilla Copper Ltd. intends, after the Effective date, to conduct a non brokered private placement, subject to regulatory approval, of 20,000,000 Units at a price of \$ 2.00 per Unit for gross proceeds of \$ 40,000,000. Each Unit will consist of one common share and one half share purchase warrant, each full warrant entitling the holder to purchase an additional common share of Petaquilla Copper Ltd. for a period of five years at a price of \$ 3.50 per share.

CRITICAL ACCOUNTING ESTIMATES

The preparation of PTQ's consolidated financial statements requires management to use estimates and assumptions that affect the reported amounts of assets and liabilities, as well as revenues and expenses.

The most critical accounting estimates, upon which PTQ's financial statements depend, are those estimates of proven and probable reserves and resources, recoverable ounces there from, and assumptions of operating costs and future gold prices. Such estimates and assumptions affect the potential impairment of long-lived assets and the rate at which depreciation, depletion and amortization are charged to earnings. In addition, management must estimate costs associated with mine reclamation and closure costs.

During the year, PTQ has capitalized mineral property acquisition costs and mine development costs at cost since it has decided that the Molejon gold deposit has economically flexible production potential. It is in accordance with Canadian generally accepted accounting principles that PTQ should capitalize pre-production expenditures net of revenues received, until the commencement of commercial production. A significant portion of the PTQ's property, plant and equipment and mine development costs will then be depreciated and amortized on a unit-of-production basis. Under the unit-of-production method, the calculation of depreciation, depletion and amortization of property, plant and equipment and mine development costs is based on the amount of reserves expected to be recovered from each location.

The process of estimating quantities of gold reserves is complex, requiring significant decisions in the evaluation of all available geological, geophysical, engineering and economic data. The data for a given ore body may also change substantially over time as a result of numerous factors, including but not limited to, additional development activity, production history and the continual reassessment of the viability of ore bodies under various economic conditions. A material revision to existing reserve estimates could occur because of, among other things: revision to geological data or assumptions; a change in the assumed gold prices; and the results of drilling and exploration activities.

If estimates of reserves prove to be inaccurate, or a mining plan changes due to reductions in the price of gold or otherwise, resulting in a reduction in the reserves expected to be recovered, PTQ could be required to write-down the recorded value of its plant and equipment and mine development costs, or to increase the amount of future depreciation, depletion and amortization expense, both of which would adversely affect PTQ's earnings and net assets.

PTQ will have an obligation to reclaim its properties after the minerals have been mined from the site, and has estimated the costs necessary to comply with existing reclamation standards. These estimated costs will be recorded as a liability at their fair values in the periods in which they occur, and at each reporting period, are increased to reflect the interest element (accretion expense) considered in the initial fair value measurement of the liabilities. If the estimate of reclamation costs proves to be inaccurate, PTQ could be required to increase the provision for site closure and reclamation costs, which would increase the amount of future reclamation expense per ounce, resulting in a reduction in PTQ's earnings and net assets.

CHANGES IN ACCOUNTING POLICY

PTQ is not presently aware of any pending changes to Accounting Policies that would impact PTQ's financial reporting.

FINANCIAL INSTRUMENTS

PTQ's financial instruments consist of cash and cash equivalents, marketable securities, receivables, prepaid expenses, performance bond, accounts payable and other accrued liabilities. Unless otherwise noted, it is management's opinion that PTQ 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.

PTQ is subject to financial risk arising from fluctuations in foreign currency exchange rates. PTQ does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

RISK AND UNCERTAINTIES

The following is a brief discussion of those distinctive or special characteristics of PTQ's operations and industry, which may have a material impact on, or constitute risk factors in respect of PTQ's financial performance.

The next twelve months or more will see the continuation of the ongoing development of the Molejon gold deposit. This includes planned completion of road access with related bridge crossings where needed, evaluation of the optimal short and long term power supply and access to the potential mine site and ongoing engineering evaluation and possible acquisition of possible mill and production equipment alternatives.

Potential delays in the Development of Molejon Gold Deposit and Cost Overruns

Whilst the Molejon gold deposit development is underway, costs for required equipment remain under review and may escalate beyond original estimates. This possible cost escalation, along with other as yet unresolved logistical and engineering issues relating to the Molejon development, all part of a standard building, construction and anticipated start up of a new mining operation, may result in significant cost experiences that differ from present day estimates. These cost concerns are in addition to the tight labor market in the mining industry as well as rising material and fuel costs. There is no guarantee the Molejon gold project will, after more development and engineering work is completed, together with required capital equipment purchases, be an economically feasible production opportunity.

Mining Risks and Insurance

A risk analysis has as yet to be completed for the Molejon deposit. While it is not possible to speculate on possible risks associated with an open pit mining operation in Panama, there may be as yet to be identified significant risk factors. PTQ anticipates the planned Feasibility Study for the Molejon Project will in due course illuminate the knowledge data set on both potential risks and the plans to mitigate same where possible.

Any as yet to be identified risks cannot be completely eliminated and it is possible that the occurrence of one or more of such factors could have a material adverse effect on PTQ's financial condition and results of operations.

The business of gold mining is subject to certain types of risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected changes to rock formations, changes in the regulatory environment, cave-ins and flooding and gold bullion losses. Such occurrences could result in damage to, or destruction of, mineral properties or production facilities, personal injury or death, environmental damage, delays in mining, monetary losses and possible legal liability. Any payments made with regards to such liabilities may have a material adverse effect on PTQ's financial performance and results of operations. PTQ carries insurance to protect itself against certain risks of mining and processing to the extent that is economically feasible but which may not provide adequate coverage in all circumstances.

Gold Price Volatility

PTQ's development plans are highly sensitive to changes in the price of copper and gold. With the near term focus being on the Molejon gold deposit, ongoing development is highly dependent on gold prices as it affects the ability to raise required financing.

Gold prices fluctuate and are affected by numerous factors, including expectations with respect to the rate of inflation, exchange rates, interest rate, global and regional political and economic crises and governmental policies with respect to gold holdings by central banks. The demand for and supply of gold affects gold prices but not necessarily in the same manner as demand and supply affect the prices of other commodities.

The supply of gold consists of a combination of mine production and existing stocks of bullion and fabricated gold held by governments, public and private financial institution, industrial organization and private individuals. The demand for gold consists of jewelry and investment demand.

Uncertainty of Mineral Reserves

Mineral reserves and mineral resources are estimates of the size and grade of deposits based on limited sampling and on certain assumptions and parameters. No assurance can be given that the present inferred reserves and related grades will eventually be confirmed either in whole or in part, as measured or indicated reserves. Prolonged declines in the market price of gold may render inferred mineral reserves containing relatively lower grades of gold mineralization uneconomic to exploit and could materially reduce the PTQ's reserves. Should such reductions occur, PTQ could be required to delay or discontinue production plans or the development of new projects, resulting in increased net losses and reduced cash flow. Short-term factors relating to mineral reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may impair the potential economic feasibility of the Molejon gold deposit.

Replacement of Mineral Reserves

There are a number of uncertainties inherent in any program relating to the location of economic mineral reserves, the development of appropriate metallurgical processes, the receipt of necessary governmental permits and the construction of mining and processing facilities and the appropriate financing thereof. Accordingly, there can be no assurance that PTQ's programs will yield new mineral reserves to expand current inferred mineral reserves.

Financing of Exploration Programs

There are inferred mineral reserves on PTQ's Ley Petaquilla concession, but the PTQ may carry out further exploration on this property with the objective of establishing additional economic mineral reserves. Exploration for minerals is a speculative business necessarily involving a high degree of risk. It is not known if the expenditures to be made by PTQ on its mineral properties will result in discoveries of commercial mineral reserves. If PTQ's efforts are not successful at individual properties, the expenditures at those properties will be written off. If PTQ's exploration programs are successful, additional funds may be required for the development of economic mineral reserves in order to achieve commercial production. In addition, the exploration and development of PTQ's properties may depend upon PTQ's ability to obtain financing through the joint venturing of projects, sale of property interests, debt financing, equity financing or other means. There is no assurance that PTQ will be successful in obtaining the required financing, equity financing or other means on commercially reasonable terms, or at all. The inability of PTQ to obtain necessary financing could have a material adverse effect on PTQ's ability to explore and develop its properties.

Government Permits

Further development of the Molejon gold deposit to completion of an economic feasibility study, construction of mill facilities and commencement and continuation of production at the Molejon gold deposit will require additional approvals, permits and certificates of authorization from different government agencies on an on-going basis. Obtaining the necessary governmental permits is a complex and time consuming process involving numerous jurisdictions and may involve public hearings and costly undertakings on the part of PTQ. The duration and success of permitting efforts are contingent upon many variable not within PTQ's control.

Environmental protection permitting, including the approval of reclamation plans, could increase costs and cause delays in the development of the Molejon gold deposit, depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary permits will be obtained and, if obtained, that the costs involved will not exceed those previously estimated by PTQ. It is possible that the costs and delays associated with the compliance with such standards and regulations could become such that PTQ would not proceed with the development or operation of a mine or mines.

In late April 2006, the government of Panama announced it will take action to repeal its present legislation to significantly expand the Panama Canal Watershed in general. This will eliminate the risk of any potential overlap of part of the Ley Petaquilla concession.

Reclamation Obligations

Reclamation requirements may change and do vary depending on the location and the government regulatory body, but they are similar in that they aim to minimize long term effects of exploration and mining disturbance by requiring the operating company to control possible deleterious effluents and to re-establish to some degree pre-disturbance land forms and vegetation. All of PTQ's operations are subject to reclamation liability based on current laws and regulations and the expected future costs to be incurred in reclaiming, restoring and closing its operating mine sites. It is possible that PTQ's estimate of its ultimate reclamation liability could change in the near term due to possible changes in laws and regulations and changes in cost estimates.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to permit timely decisions regarding public disclosure.

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of July 31, 2006. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that PTQ's disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation are recorded, processed, summarized and reported within the time period specified in those rules.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal control and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. PTQ's board of directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's audit committee will meet with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

FORWARD-LOOKING STATEMENTS

Certain information regarding PTQ as set forth in the MD&A, including management's assessment of PTQ's future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuation, imprecision of reserve estimates, environmental risks, taxation policies, competition from other producers, the lack of qualified personnel or management, stock market volatility and the ability to access sufficient capital from external or internal sources. The actual results, performance or achievement could materially differ from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them does, what benefits PTQ will derive there from.

CAUTIONARY NOTE TO USA READERS

As a British Columbia corporation, PTQ is subject to certain rules and regulations issued by the British Columbia Securities Commission (“BCSC”). PTQ is required to provide detailed information regarding its properties including mineralization, drilling, sampling and analysis, security of samples and mineral resources and mineral reserve estimates. Further, PTQ describes mineral resources associated with its properties utilizing terminology such as “inferred” or “indicated” which are terms recognized by Canadian regulators but not recognized by the United States Securities and Exchange Commission (“SEC”).

Cautionary Note to USA Investors Regarding Mineral Resources

The SEC allows mining companies, in their filings with the SEC, to disclose only those mineral deposits they can economically and legally extract or produce. PTQ may use certain terms in this document, such as “mineral resources”, “indicated mineral resources” and “inferred resources” that are recognized and mandated by Canadian securities regulators but not recognized by the SEC.

This report may use the term “inferred resources”. USA readers are cautioned that while this term is recognized and required by Canadian regulations, the SEC does not recognize it. “Inferred resources” have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an Inferred Resources will ever be upgraded to a higher category. Under Canadian rules, estimates of Inferred Resources may not form the basis of feasibility or pre-feasibility studies, except in rare cases. USA Investors are cautioned not to assume that part or all of an inferred resource exists, or is economically or legally mineable.

ADDITIONAL INFORMATION

Additional information relating to PTQ, including News Releases, Financial Statements and prior period MD & A filings, PTQ’s Annual Information Form, is available on SEDAR at www.sedar.com.