

**PETAQUILLA MINERALS LTD.**

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

**Three Months Ended**  
**APRIL 30, 2006 and 2005**

**(Unaudited – Prepared by Management)**

**PETAQUILLA MINERALS LTD.**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

*"Michael Levy"*  
President

*"John S. Watt"*  
Chief Financial Officer

June 7, 2006

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

	April 30, 2006 (Unaudited)	January 31, 2006 (Audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 5,686,666	\$ 9,171,318
Receivables	43,231	32,188
Prepaid expenses	<u>117,709</u>	<u>36,650</u>
Total current assets	5,847,606	9,240,156
<b>Property and equipment</b> (Note 5)	969,644	285,005
<b>Mineral properties</b> (Note 6)	4,711,084	2,389,769
<b>Restricted cash</b> (Note 7)	<u>1,433,984</u>	<u>892,242</u>
	<u>\$ 12,962,318</u>	<u>\$ 12,807,172</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 842,471	\$ 499,261
Other accrued liabilities	45,831	51,835
Current portion of long term debt (Note 8)	<u>134,866</u>	<u>-</u>
Total current liabilities	<u>1,023,168</u>	<u>551,096</u>
<b>Long term debt</b> (Note 8)	<u>293,537</u>	<u>-</u>
<b>Shareholders' equity</b>		
Capital stock (Note 9)		
Authorized		
100,000,000 common shares without par value		
20,000,000 preferred shares without par value		
Issued and outstanding		
70,709,153 (January 31, 2006 – 70,246,303) common shares	63,289,473	62,977,209
Contributed surplus (Note 9)	981,841	1,004,480
Deficit	<u>(52,458,720)</u>	<u>(51,558,632)</u>
	11,812,594	12,423,057
Treasury stock, at cost (Note 12)		
Repurchased, not cancelled		
44,200 (January 31, 2006 – 44,200) common shares	<u>(166,981)</u>	<u>(166,981)</u>
	<u>11,645,613</u>	<u>12,256,076</u>
	<u>\$ 12,962,318</u>	<u>\$ 12,807,172</u>

**Nature of operations and going concern** (Note 1)

**Commitments** (Note 14)

**Subsequent events** (Note 17)

**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, Unaudited)  
**PERIODS ENDED APRIL 30**  
(Unaudited – Prepared by Management)

	Three Months Ended April 30, 2006	Three Months Ended April 30, 2005
<b>EXPENSES</b>		
Accounting and legal	\$ 94,313	\$ 49,317
Consulting fees	155,874	30,282
Depreciation	33,423	6,796
Filing fees	4,153	4,309
Investor relations and shareholder information	149,527	82,112
Office administration	114,512	44,720
Rent	17,837	25,926
Resource property costs	5,937	-
Stock-based compensation (Note 7)	58,059	168,456
Travel	169,698	52,203
Wages and benefits	<u>165,611</u>	<u>60,746</u>
Total expenses	(968,944)	(524,867)
<b>OTHER INCOME (EXPENSE)</b>		
Foreign exchange gain (loss)	(35,152)	87,566
Write-down of property and equipment	-	-
Gain on sale of marketable securities	21,191	-
Interest income	<u>82,817</u>	<u>8,212</u>
<b>Loss for the period</b>	(900,088)	(429,089)
<b>Deficit, beginning of period</b>	(51,558,632)	(44,143,412)
<b>Loss on sale of treasury stock (Note 12)</b>	<u>-</u>	<u>(1,574,015)</u>
<b>Deficit, end of period</b>	<u>\$ (52,458,720)</u>	<u>\$ (46,146,516)</u>
<b>Basic and diluted loss per share</b>	\$ (0.01)	\$ (0.01)
<b>Weighted average number of shares outstanding</b>	70,486,031	49,380,546

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, Unaudited)  
**PERIODS ENDED APRIL 30**  
(Unaudited – Prepared by Management)

	Three Months Ended April 30, 2006	Three Months Ended April 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (900,088)	\$ (429,089)
Items not affecting cash:		
Depreciation	33,423	6,796
Stock-based compensation	58,059	168,456
Foreign exchange gain on performance bond	18,408	(14,514)
Gain on sale of marketable securities	(21,191)	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(11,043)	15,854
(Increase) decrease in prepaid expenses	(81,059)	(30,512)
(Decrease) increase in accounts payable and accrued liabilities	<u>(39,115)</u>	<u>51,651</u>
Net cash used in operating activities	<u>(942,606)</u>	<u>(231,358)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of capital stock	231,566	45,537
Proceeds from long term debt	293,537	-
Net proceeds from sale of treasury stock	<u>-</u>	<u>319,985</u>
Net cash provided by financing activities	<u>525,103</u>	<u>365,522</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(718,062)	(100,102)
Investment in mineral properties	(1,810,128)	(640,705)
Proceeds from sale of marketable securities	<u>21,191</u>	<u>-</u>
Net cash provided used in investing activities	<u>(2,506,999)</u>	<u>(740,807)</u>
<b>Change in cash and cash equivalents</b>	<b>(2,924,502)</b>	<b>(606,643)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b><u>9,171,318</u></b>	<b><u>891,548</u></b>
<b>Cash and cash equivalents, end of period</b>	<b><u>\$ 6,246,816</u></b>	<b><u>\$ 284,905</u></b>

**Supplemental disclosure with respect to cash flows** (Note 16)

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

**PETAQUILLA MINERALS LTD.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

APRIL 30, 2006

(Unaudited – Prepared by Management)

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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 April 30, 2006, the Company has working capital of \$4,824,438 (January 31, 2006 - \$8,689,060). During the year ended January 31, 2006, 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), Petaquilla Gold, S.A. (a Panama corporation) and Petaquilla Copper Ltd. (a British Columbia 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.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

APRIL 30, 2006

(Unaudited – Prepared by Management)

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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 the following capital assets on the declining balance basis at rates as follows:

Furniture and fixtures	20%
Office equipment	20%
Computer equipment	30%
Equipment	30%
Vehicles	30%
Computer software	50%
Leasehold improvements	5 year straight line

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**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.

**PETAQUILLA MINERALS LTD.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

APRIL 30, 2006

(Unaudited – Prepared by Management)

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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 period-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 period.

Foreign currency denominated monetary accounts of the Company are translated at the period-end exchange rate. Exchange gains and losses on translation are recognized as a gain or loss in the period 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 periods presented, this calculation proved to be anti-dilutive.

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

**PETAQUILLA MINERALS LTD.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

APRIL 30, 2006

(Unaudited – Prepared by Management)

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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 period's presentation.

**3. MARKETABLE SECURITIES**

The Company holds shares of certain publicly traded companies with a book value of \$Nil (January 31, 2006 - \$Nil) and a market value of \$Nil (January 31, 2006 - \$15,375). During the period ended April 30, 2006, certain marketable securities were sold for net proceeds of \$21,191 and a gain of \$21,191.

**PETAQUILLA MINERALS LTD.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

APRIL 30, 2006

(Unaudited – Prepared by Management)

**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:

	April 30, 2006	January 31, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 54,175	\$ 5,907
Due from shareholders	-	-
Receivables	6,619	5,671
Prepaid expenses	-	2,357
	<u>\$ 60,794</u>	<u>\$ 13,935</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 3,320	\$ 9,367
Other liabilities	42,511	42,468
	<u>14,963</u>	<u>(37,900)</u>
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>	<u>\$ 60,794</u>	<u>\$ 13,935</u>

**PETAQUILLA MINERALS LTD.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

APRIL 30, 2006

(Unaudited – Prepared by Management)

**5. PROPERTY AND EQUIPMENT**

	April 30, 2006			January 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 179,563	\$ 31,489	\$ 148,074	\$ 127,650	\$ 22,329	\$ 105,321
Computer software	132,023	12,564	119,459	20,418	3,754	16,664
Equipment	536,324	20,092	506,232	74,173	15,045	59,128
Furniture and fixtures	23,375	5,259	18,116	23,375	4,330	19,045
Leasehold improvements	8,951	3,299	5,652	8,951	2,920	6,031
Office equipment	28,495	4,309	24,186	14,778	3,421	11,357
Vehicles	<u>168,480</u>	<u>20,555</u>	<u>147,925</u>	<u>79,803</u>	<u>12,344</u>	<u>67,459</u>
	\$ 1,067,211	\$ 97,567	\$ 969,644	\$ 349,148	\$ 64,143	\$ 285,005

**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.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

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(Unaudited – Prepared by Management)

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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.

**PETAQUILLA MINERALS LTD.**

(An Exploration Stage Company)

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

APRIL 30, 2006

(Unaudited – Prepared by Management)

**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.

As of April 30, 2006, the Company has incurred the following costs related to the Molejon gold deposit. These costs have been capitalized on the Company's consolidated balance sheet as mineral property costs:

	April 30, 2006	January 31, 2006
Trenching	\$ 1,210,779	\$ 811,037
Administration support	416,189	352,250
Road	968,407	293,407
Engineering and geology	381,386	275,372
Camp costs	287,823	197,300
Assaying	221,269	167,434
Drilling	847,634	106,842
Permits and licences	101,264	81,097
Data management	134,766	59,825
Community service plan	141,567	45,205
	\$ 4,711,084	\$ 2,389,769

**PETAQUILLA MINERALS LTD.**

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(Expressed in Canadian Dollars)

APRIL 30, 2006

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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.

Subsequent to period end:

- a) On May 17, 2006, the Company entered into an agreement with Eurogold Mining Inc. (“Eurogold”), for the exploration and development of the San Juan Concessions. The San Juan Property is adjacent to the Company’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\$60,000,000, 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. The Company will be the operator of the project. The Company has received the initial cash option payment of \$112,000 (US\$100,000).
- b) On May 24, 2006, Gold Dragon exercised its option having met all the option conditions. Delivery of the final payment to the Company in shares of Gold Dragon is scheduled to complete upon the Company delivering to Gold Dragon appropriate title to the Optioned Land.

**7. 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 \$873,834 as at April 30, 2006 after recognizing a foreign exchange loss of \$18,408 from the January 31, 2006 balance of \$892,242.

During the three months ended April 30, 2006, the Company pledged \$280,075 (US\$250,000) by way of a term deposit with the bank as a reserve to meet statutory employer payroll obligations that will arise through the next nine months ended December 31, 2006.

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**7. RESTRICTED CASH (cont'd...)**

During the three months ended April 30, 2006, the Company arranged a bank loan for \$428,403 (US\$382,400) to acquire road and mine site equipment. The bank loan is repayable in 36 equal monthly instalments 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 on the purchased equipment.

**8. LONG TERM DEBT**

During the three months ended April 30, 2006, the Company arranged a bank loan of \$428,403 (US\$382,400) to acquire road and mine site equipment. The loan is repayable in 36 equal monthly instalments of \$13,155 (US\$11,742) commencing in May 2006 and bears interest at an annual rate of 5.625%. Collateral for this loan is comprised of a pledge of a \$280,075 (US\$250,000) renewable term deposit and a fixed first charge on the purchased equipment. The current portion of the long term debt is \$134,866 and the long term portion is \$293,537.

**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
Issued			
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 (a)	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
Exercise of stock options	459,100	307,764	(80,698)
Exercise of warrants	3,750	4,500	-
Stock-based compensation	-	-	58,059
Balance as at April 30, 2006	70,709,153	\$ 63,289,473	\$ 981,841

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

- a) 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.
- b) During the fiscal year ended January 31, 2006, 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.
- c) During the period ended April 30, 2006, proceeds of \$231,566 is comprised of the net cash proceeds from the exercise of stock options and warrants.
- d) 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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**10. 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 5,367,247 has been exercised, leaving 2,068,911 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, 2004	3,089,297	0.18
Granted	2,770,000	0.43
Exercised	(2,185,497)	0.17
Expired	-	-
Forfeited	<u>(1,300,000)</u>	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	<u>(450,000)</u>	0.42
Balance at January 31, 2006	6,031,200	\$ 0.53
Granted	3,530,000	1.11
Exercised	(459,100)	0.49
Expired	(400,000)	1.24
Forfeited	-	-
Balance at April 30, 2006	<u>8,702,100</u>	<u>\$ 0.73</u>
Number of stock options exercisable	<u>1,312,900</u>	<u>\$ 0.51</u>

The weighted average fair value of stock options granted during the three months ended April 30, 2006 was \$0.71 (April 30, 2005 - \$0.24) per option.

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

As at April 30, 2006, the following stock options were outstanding as follows:

Number of Shares		Presently Authorized Under Stock Option Plan	Exercise Price	Expiry Date
Outstanding	Subject to Shareholder Approval (a)			
166,000	-	166,000	\$ 0.50	September 21, 2007
33,200	-	33,200	0.23	September 24, 2008
370,000	-	370,000	0.42	April 28, 2009
849,700	325,000	524,700	0.50	April 21, 2010
2,755,200	2,500,000	255,200	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
2,930,000	2,930,000	-	1.05	February 1, 2011
200,000	200,000	-	1.73	March 7, 2011
8,702,100	6,818,000	1,884,100		

(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 period ended April 30, 2006 are 3,530,000 of which 400,000 expired during the period. 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 three month period ended April 30, 2006 was \$58,059 (April 30, 2005 - \$168,456).

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

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

	Three Months Ended April 30, 2006	Year Ended January 31, 2006
Risk-free interest	4.03 – 4.08 %	3.34 – 4.20 %
Expected dividend yield	-	-
Expected stock price volatility	76% - 87%	47% - 65%
Expected option life in years	5 years	2 - 5 years

**11. SHARE PURCHASE WARRANTS**

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
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
Issued	-	-
Exercised	(3,750)	1.20
Expired	-	-
Balance at April 30, 2006	4,979,085	\$ 1.20/1.44

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

As at April 30, 2006, the following share purchase warrants were outstanding and exercisable as follows:

Number of Shares	Exercise Price	Expiry Date
4,025,180	\$ 1.20 then at \$ 1.44	December 19, 2006 December 19, 2007
185,000	\$ 1.20 then at \$ 1.44	December 22, 2006 December 22, 2007
768,905	\$ 1.20 then at \$ 1.44	January 6, 2007 January 6, 2008
4,979,085		

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.

**12. TREASURY STOCK**

During the period ended April 30, 2005, the Company 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 the Company 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.

**13. RELATED PARTY TRANSACTIONS**

During the period ended April 30, 2006:

- The Company paid consulting fees of \$63,565 (April 30, 2005 - \$27,377) to companies controlled by a director, a former director and an officer.
- The Company paid wages and benefits of \$74,346 (April 30, 2005 - \$33,600) to directors.
- The Company received \$5,679 (April 30, 2005 - \$Nil) for rent charges from a company with a common director.
- The Company paid legal fees of \$41,976 (April 30, 2005 - \$Nil) to a law firm controlled by an officer.

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

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.

**14. COMMITMENTS**

During the period ended April 30, 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 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.

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

	Three months ended April 30, 2006	Three months ended April 30, 2005
Investment in mineral properties - cash	\$ 1,810,128	-
Investment in mineral properties – non-cash	511,187	-
	\$ 2,321,315	-

  

	April 30, 2006	January 31, 2006
Cash and cash equivalents consist of:		
Cash	\$ 2,231,635	\$ 1,420,258
Term deposits	3,455,031	7,751,060
	5,686,666	9,171,318

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**17. SUBSEQUENT EVENTS**

Subsequent to April 30, 2006:

- a) The Company issued 256,621 shares on the exercise of stock options and warrants for proceeds of \$143,141.
- b) The Company 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 the Company’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\$60,000,000, 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. The Company will be the operator of the project. The Company has received the initial cash option payment of \$112,000 (US\$100,000).
- c) Gold Dragon exercised its option having met all the option conditions. Delivery of the final payment to the Company in shares of Gold Dragon is scheduled to complete upon the Company delivering to Gold Dragon appropriate title to the Optioned Land.
- d) The shareholders of PTQ voted in favour of the May 10, 2006 proposed Plan of Arrangement. Subject to Court approval in the Province of British Columbia, Terms of the Plan of Arrangement require PTQ to transfer title to its wholly-owned subsidiary, Georecursos, the holder of the Ley Petaquilla Concession Lands, to Petaquilla Copper Ltd. In addition, PTQ will invest \$500,000 in the common shares of Petaquilla Copper Ltd.