

PETAQUILLA MINERALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(An Exploration Stage Company)

Twelve Months Ended

January 31, 2007 and 2006

(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 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.

"John Cook"

President

"Tony M. Ricci"

Chief Financial Officer

March 17, 2007

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

	January 31, 2007 (Unaudited)	January 31, 2006 (Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 6,929,824	\$ 9,171,318
Receivables	108,318	32,188
Prepaid expenses	<u>689,118</u>	<u>36,650</u>
Total current assets	7,727,260	9,240,156
Property and equipment (Note 4)	1,686,480	285,005
Mineral properties (Note 5)	26,304,170	2,389,769
Restricted cash (Note 7)	<u>1,745,736</u>	<u>892,242</u>
	<u>\$ 37,463,646</u>	<u>\$ 12,807,172</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 3,480,337	\$ 551,096
Amount payable to Petaquilla Copper Ltd. (Note 6)	2,856,227	-
Current portion of long term debt (Note 8)	<u>470,493</u>	<u>-</u>
Total current liabilities	6,807,057	551,096
Long term debt (Note 8)	<u>869,990</u>	<u>-</u>
	<u>7,677,047</u>	<u>551,096</u>
Shareholders' equity		
Capital stock (Note 9)		
Authorized		
Unlimited common shares and preferred shares without par value (Note 9)		
Issued and outstanding		
89,367,031 (January 31, 2006 – 70,246,303) common shares	98,403,170	62,977,209
Contributed surplus (Note 9)	5,201,477	1,004,480
Deficit	<u>(73,651,067)</u>	<u>(51,558,632)</u>
	29,953,580	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>29,786,599</u>	<u>12,256,076</u>
	<u>\$ 37,463,646</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:

“John Cook”

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)
PERIODS ENDED JANUARY 31

	Three months ended January 31, 2007 (Unaudited)	Three months ended January 31, 2006 (Unaudited)	Twelve months ended January 31, 2007 (Unaudited)	Twelve months ended January 31, 2006 (Audited)
EXPENSES				
Accounting and legal	\$ 149,347	\$ 112,226	\$ 490,351	\$ 266,967
Consulting fees	420,630	70,493	756,452	291,034
Depreciation	115,126	29,671	335,912	56,697
Filing fees	27,293	20,500	76,329	30,637
Investor relations and shareholder information	505,374	174,924	1,114,102	388,991
Office administration	237,398	101,962	795,839	257,859
Rent	101,057	15,018	141,187	80,520
Resource property costs	-	(1,384,951)	-	11,105
Stock-based compensation (Notes 9 & 10)	1,100,019	(744,701)	10,007,962	410,301
Travel	427,351	137,165	1,419,788	346,332
Wages and benefits	<u>586,117</u>	<u>123,405</u>	<u>1,812,453</u>	<u>397,907</u>
Total expenses	<u>(3,669,712)</u>	<u>1,344,288</u>	<u>(16,950,375)</u>	<u>(2,538,350)</u>
OTHER INCOME (EXPENSE)				
Foreign exchange gain (loss)	72,580	(23,625)	40,718	(77,647)
Gain on sale of marketable securities	-	-	21,191	-
Interest income	<u>129,766</u>	<u>24,198</u>	<u>296,031</u>	<u>48,239</u>
	<u>202,346</u>	<u>573</u>	<u>357,940</u>	<u>(29,408)</u>
(Loss) earnings for the period	(3,467,366)	1,344,861	(16,592,435)	(2,567,758)
Deficit, beginning of period	(64,683,701)	(52,903,493)	(51,558,632)	(44,143,412)
Amount distributed to Petaquilla Copper Ltd. (Note 6)	(5,500,000)	-	(5,500,000)	-
Loss on sale of treasury stock (Note 12)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,847,462)</u>
Deficit, end of period	<u>\$ (73,651,067)</u>	<u>\$ (51,558,632)</u>	<u>\$ (73,651,067)</u>	<u>(51,558,632)</u>
Basic and diluted (loss) earnings per share	\$ (0.04)	\$ 0.02	\$ (0.21)	\$ (0.05)
Weighted average number of shares outstanding	89,225,058	64,219,888	77,695,782	56,115,596

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)
PERIODS ENDED JANUARY 31

	Three months ended January 31, 2007 (Unaudited)	Three months ended January 31, 2006 (Unaudited)	Twelve months ended January 31, 2007 (Unaudited)	Twelve months ended January 31, 2006 (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES				
(Loss) earnings for the period	\$ (3,467,366)	\$ 1,344,861	\$ (16,592,435)	\$ (2,567,758)
Items not affecting cash:				
Depreciation	115,126	29,671	335,912	56,697
Stock-based compensation	1,100,019	(744,701)	10,007,962	410,301
Gain on sale of marketable securities	-	-	(21,191)	-
Foreign exchange loss (gain) on restricted cash	(82,206)	27,969	(60,134)	73,813
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(58,224)	36,618	(76,130)	39,075
(Increase) decrease in prepaid expenses	(419,673)	8,338	(652,468)	(25,867)
(Decrease) increase in accounts payable and accrued liabilities	<u>2,435,073</u>	<u>228,991</u>	<u>2,929,241</u>	<u>255,887</u>
Net cash used in operating activities	<u>(377,251)</u>	<u>931,747</u>	<u>(4,129,243)</u>	<u>(1,757,852)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of capital stock	303,362	9,915,694	31,240,028	11,826,329
Share issuance costs	-	(573,165)	(1,625,033)	(573,165)
Net proceeds from sale of treasury stock	-	-	-	1,273,946
Proceeds from long term debt	<u>890,841</u>	<u>-</u>	<u>1,340,483</u>	<u>-</u>
Net cash provided by financing activities	<u>1,194,203</u>	<u>9,342,529</u>	<u>30,955,478</u>	<u>12,527,110</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment	(478,306)	(139,013)	(1,737,388)	(291,877)
Investment in mineral properties	(10,187,558)	(2,197,611)	(23,914,401)	(2,197,611)
Distribution to Petaquilla Copper Ltd.	(5,500,000)	-	(5,500,000)	-
Payments from (advances to) Petaquilla Copper Ltd.	3,519,626	-	2,856,227	-
Purchase of performance bond and restricted cash	-	-	(793,358)	-
Proceeds from sale of marketable securities	<u>-</u>	<u>-</u>	<u>21,191</u>	<u>-</u>
Net cash used in investing activities	<u>(12,646,238)</u>	<u>(2,336,624)</u>	<u>(29,067,729)</u>	<u>(2,489,488)</u>
Change in cash and cash equivalents	(11,829,286)	7,937,652	(2,241,494)	8,279,770
Cash and cash equivalents, beginning of period	<u>18,759,110</u>	<u>1,233,666</u>	<u>9,171,318</u>	<u>891,548</u>
Cash and cash equivalents, end of period	\$ 6,929,824	\$ 9,171,318	\$ 6,929,824	\$ 9,171,318

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)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

1. NATURE OF OPERATIONS

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

At January 31, 2007, the Company has working capital of \$920,203 (January 31, 2006 - \$8,689,060). 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 interim 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), Petaquilla Gold, S.A. (a Panama corporation).

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

Interim consolidated financial statements

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These interim consolidated financial statements do not include in all respects the annual disclosure requirements of generally accepted accounting principles.

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.

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

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

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

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 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)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

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)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

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

Stock-based compensation

The Company accounts for all stock-based payments and awards under the fair value based method.

Under the fair value based method, stock based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock based payments to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period.

During the twelve month period ended January 31, 2007 and 2006, the Company granted stock options to directors, officers, employees and non-employees as set out in note 10.

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.

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

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 January 31, 2007, all of the Company's holdings of marketable securities were sold for net proceeds of \$21,191 and a gain of \$21,191.

4. PROPERTY AND EQUIPMENT

	January 31, 2007			January 31, 2006		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 370,226	\$ 88,323	\$ 281,903	\$ 127,650	\$ 22,329	\$ 105,321
Computer software	526,252	138,975	387,277	20,418	3,754	16,664
Equipment	319,335	65,250	254,085	74,173	15,045	59,128
Furniture and fixtures	30,523	8,836	21,687	23,375	4,330	19,045
Leasehold improvements	8,951	8,951	-	8,951	2,920	6,031
Office equipment	30,657	7,280	23,377	14,778	3,421	11,357
Vehicles	410,273	82,441	327,832	79,803	12,344	67,459
Land	390,319	-	390,319	-	-	-
	<u>\$ 2,086,536</u>	<u>\$ 400,056</u>	<u>\$ 1,686,480</u>	<u>\$ 349,148</u>	<u>\$ 64,143</u>	<u>\$ 285,005</u>

5. MINERAL PROPERTIES

The Company has capitalized \$28,801,534 in mineral property costs as at January 31, 2007:

	January 31, 2007	January 31, 2006
Molejon property	\$ 26,301,911	\$ 2,389,769
Rio Belencillo concession	2,259	-
	<u>\$ 26,304,170</u>	<u>\$ 2,389,769</u>

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

5. MINERAL PROPERTIES (cont'd...)

Molejon Property – Panama

In June 2005, the shareholders of Minera Petaquilla S.A. (“Minera Petaquilla”) (a joint venture investment) 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.

(See Note 6).

Approval of the phased Mine Development Plan was obtained in September 2005.

Rio Belencillo Concession - Panama

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”), a company having a common director, 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.

During the period ended January 31, 2007, the Company received \$32,843 (US \$29,078) from Madison Minerals Ltd. (“Madison”), a joint venture partner, for exploration costs related to the Rio Belencillo concession. Exploration costs totalling \$35,102 were incurred during the period ended January 31, 2007 and have been offset against the amount received from Madison. These costs have been capitalized on the Company’s balance sheet.

San Juan Concessions - Panama

During the period ended January 31, 2007, 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\$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. The Company was to be the operator of the project. The Company received the initial cash option payment of \$111,120 (US\$100,000).

During the current period, the Company rescinded the above agreement and returned the initial cash option payment of \$111,120 (US\$100,000) to Eurogold.

PETAQUILLA MINERALS LTD.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

6. PLAN OF ARRANGEMENT AND ADVANCES TO PETAQUILLA COPPER LTD.

During the period ended January 31, 2007, the shareholders of the Company voted in favor of the May 10, 2006 proposed Plan of Arrangement. During the same period, the 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 the Company will receive one share of Petaquilla Copper Ltd. (“Copper”), a private company. Each shareholder will continue to hold one share of the Company and one share of Copper, for each one share of the Company held on the Effective date of the Plan of Arrangement.

The Effective Date of the Plan of Arrangement is October 18, 2006 whereby each holder of the common shares of the Company on October 17, 2006 is entitled to receive one common share of Copper for each common share of the Company held.

According to the terms of the Plan of Arrangement, the Company transferred title to Copper its wholly-owned subsidiary, Georecursos Internacional S.A., the holder of the 52% interest in the Ley Petaquilla concession lands. The Company 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.

The Company will distribute \$5,500,000 to Copper as part of the Plan of Arrangement. The Company will own 22,189,434 of the issued shares of Copper. 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. The amount to be distributed of \$5,500,000 has been charged to deficit in the current period.

During the twelve months ended January 31, 2007, the Company paid for mineral property costs and general administrative expenses related to Copper in the amount of \$2,643,773. This amount has been offset with the amount to be distributed to Copper of \$5,500,000 as part of the Plan of Arrangement. As at January 31, 2007, the amount payable to Copper is \$2,856,227.

Copper is in the process of applying to list its shares on the Toronto Stock Exchange.

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

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 term 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 \$919,776 as at January 31, 2007 after recognizing a foreign exchange gain of \$27,534 from the January 31, 2006 balance of \$892,242.

During the period ended January 31, 2007, the Company pledged \$383,240 (US\$325,000) by way of a term deposit to the bank as a reserve to meet statutory employer payroll obligations that will arise through the next six months ended July 31, 2007.

During the period ended January 31, 2007, 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 \$294,800 (US\$250,000) renewable term deposit and a fixed first charge on the purchased equipment.

During the period ended January 31, 2007, the Company pledged \$117,920 (US\$100,000) by way of term deposit with the bank as a performance bond with the Ministry of Commerce (Panama) for possible environmental impacts.

During the period ended January 31, 2007, the Company deposited \$30,000 with HSBC Bank to be used as collateral for the credit card used by the Company to pay ongoing travel and related costs.

	January 31, 2007	January 31, 2006
Performance bond	\$ 919,776	\$ 892,242
Payroll reserve	383,240	-
Equipment loan collateral	294,800	-
Environmental impact bond	117,920	-
Credit card collateral	30,000	-
	<u>\$ 1,745,736</u>	<u>\$ 892,242</u>

PETAQUILLA MINERALS LTD.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

JANUARY 31, 2007

(Unaudited – Prepared by Management)

8. LONG TERM DEBT

During the period ended January 31, 2007, the Company arranged a bank loan of \$450,926 (US\$382,400) to acquire road and mine site equipment. The loan is repayable in 36 equal monthly instalments of \$13,846 (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 \$294,800 (US\$250,000) renewable term deposit and a fixed first charge on the purchased equipment. As at January 31, 2007, the current portion of the long term debt is \$147,632 and the long term portion is \$199,427.

During the period ended January 31, 2007, the Company arranged a bank loan of \$92,933 (US\$78,810) to acquire vehicles to be used for the mine site. The loan is repayable in 36 equal monthly instalments of \$2,955 (US\$2,506) commencing in May 2006 and bears interest at an annual rate of 12%. Collateral for this loan is comprised of a fixed first charge on the purchased equipment. As at January 31, 2007, the current portion of the long term debt is \$29,924 and the long term portion is \$43,040.

During the period ended January 31, 2007, the Company arranged a bank loan of \$272,065 (US \$230,720) to acquire additional road and mine site equipment. The loan is repayable in 36 monthly instalments of \$8,779 (US \$7,445) commencing in October 2006 and bears interest at an annual rate of 10%. Collateral for this loan is comprised of a first charge on the purchased equipment. As at January 31, 2007, the current portion of the long term debt is \$83,660 and the long term portion is \$162,329.

During the period ended January 31, 2007, the Company arranged a bank loan of \$661,295 (US \$560,800) to acquire additional road and mine site equipment. The loan is repayable in 36 monthly instalments of \$21,338 (US \$18,095) commencing in January 2007 and bears interest at an annual rate of 10%. Collateral for this loan is comprised of a first charge on the purchased equipment. As at January 31, 2007, the current portion of the long term debt is \$200,537 and the long term portion is \$445,634.

During the period ended January 31, 2007, the Company arranged a bank loan of \$28,890 (US \$24,500) to acquire a vehicle to be used for the mine site. The loan is repayable in 36 monthly instalments of \$935 (US \$793) commencing in January 2007 and bears interest at an annual rate of 10.25%. Collateral for this loan is comprised of a first charge on the purchased vehicle. As at January 31, 2007, the current portion of the long term debt is \$8,740 and the long term portion is \$19,561.

During the period ended January 31, 2007

	January 31, 2007	January 31, 2006
Long term debt		
Equipment loan #1	\$ 347,059	\$ -
Vehicle loan #1	72,964	-
Equipment loan #2	245,989	-
Equipment loan #3	646,171	-
Vehicle loan #2	28,300	-
	<u>1,340,483</u>	
Less: current portion	<u>(470,493)</u>	<u>-</u>
	<u>\$ 869,990</u>	<u>\$ -</u>

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

- b) In October 2006, the Company completed a non-brokered private placement and issued 9,400,000 units at a price of \$2.40 per unit, for gross proceeds of \$22,560,000. Each unit consists of one common share and one share purchase warrant (see Note 11). The Company agreed to issue 398,000 share purchase warrants as finders' fees in connection with part of the private placement (see Note 11). The fair value of the finders' warrants is \$673,933 which was approved and recorded during the period. In addition, the company paid finders' fees of \$956,800 for net cash proceeds of \$21,603,200.
- c) 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

During the period ended January 31, 2007, the Company received approval for its new stock option plan (the “New 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 New Plan is 10,000,000.

On December 8, 2006, no shares remained in reserve under the Company’s former incentive stock option plan (the “Former Plan”). The 2,556,144 options that remained outstanding as of December 8, 2006 under the Former Plan were carried forward to the New Plan. In January 2007, the Company granted a total of 5,989,543 incentive stock options under the New Plan. As at January 31, 2007, the total number of outstanding incentive stock options under the New Plan is 8,495,687.

Prior to the Plan of Arrangement taking effect, and in order to create unallocated options to be granted in the future to new employees, officers and directors, the existing optionees were asked to voluntarily reduce the number of shares under option to each of them to 60% of the number of shares held under the option on the day before the Effective Date of the Plan of Arrangement. All of the optionees agreed to this arrangement except for an option holder holding 675,000 options who elected to retain the number of options held under the existing grants. Each revised option outstanding would enable the option holder to receive one share of the Company and one share of Copper upon exercising. For example, when an optionee prior to the Effective Date held an option to purchase 100,000 shares of the Company, that optionee after the Effective Date would hold an option to purchase 60,000 shares of the Company and 60,000 shares of Copper. Both options must be exercised together.

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

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 ⁽¹⁾
Granted	9,719,543	1.68 ⁽¹⁾
Exercised	(4,737,893)	0.54 ⁽¹⁾
Expired	(400,000)	1.24 ⁽¹⁾
Forfeited	(493,400)	0.98 ⁽¹⁾
Voluntary reduction	<u>(1,623,763)</u>	0.91 ⁽¹⁾
Balance at January 31, 2007	8,495,687	1.55 ⁽¹⁾
Number of stock options exercisable	2,506,144	\$ 0.94 ⁽¹⁾

⁽¹⁾ Exercise price is the aggregate exercise price required to exercise one option of PTQ and one option of the Company with half of the proceeds to be allocated to the Company and half to PTQ. Both options must be exercised together until such time as the Company is listed on the TSX.

The weighted average fair value of stock options granted during the twelve months ended January 31, 2007 was \$1.66 (January 31, 2006 - \$0.29) per option.

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

As at January 31, 2007, the following stock options were outstanding as follows:

Number of Shares Outstanding	Exercise Price	Expiry Date
44,200	\$ 0.50 ⁽¹⁾	September 21, 2007
87,064	0.50 ⁽¹⁾	April 21, 2010
440,700	0.50 ⁽¹⁾	July 11, 2010
19,440	0.50 ⁽¹⁾	September 13, 2010
231,000	0.62 ⁽¹⁾	October 5, 2010
115,800	1.00 ⁽¹⁾	December 31, 2010
1,447,940	1.05 ⁽¹⁾	February 1, 2011
120,000	1.73 ⁽¹⁾	April 27, 2011
5,989,543	2.01	January 15, 2012
8,495,687		

⁽¹⁾ Exercise price is the aggregate exercise price required to exercise one option of PTQ and one option of the Company with half of the proceeds to be allocated to the Company and half to PTQ. Both options must be exercised together until such time as the Company is listed on the TSX.

Total stock options granted during the twelve months ended January 31, 2007 are 9,719,543 of which 400,000 expired and 493,400 were forfeited during the period. Stock options granted that are not vested have been excluded from the calculation of stock-based compensation. Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the twelve month period ended January 31, 2007 was \$10,007,962 (January 31, 2006 - \$410,301).

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

	Twelve months ended January 31, 2007
Risk-free interest	4.03 % – 4.04 %
Expected dividend yield	-
Expected stock price volatility	80% - 84%
Expected option/warrant life in years	3-5 years

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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	9,798,000	3.00 ⁽¹⁾
Exercised	(4,982,835)	1.20
Expired	-	-
Balance at January 31, 2007	9,798,000	\$ 3.00 ⁽¹⁾

On October 17, 2006, the Company issued share purchase warrants in connection with the non-brokered private placement which closed during the period. Each warrant entitles the holder to purchase an additional common share of the Company for a period of five years at a price of \$3.00 per share. In addition, the Company agreed to issue an 398,000 finders' warrants, each finders' warrant entitling the holder to purchase one additional common share of the Company at an exercise price of \$3.00 per share for a period of five years.

On the Effective Date of the Plan of Arrangement, the warrant holders received:

- one share purchase warrant (a "PTQ Warrant"), where each PTQ Warrant entitles the holder to purchase one common share of the Company for a period of five years; and
- one share purchase warrant (a "Copper Warrant"), where each Copper Warrant entitles the holder to purchase one common share of Copper for a period of five years.

Until such time as Copper has been listed on a recognized Canadian stock exchange (the "Copper Listing Date"), the Copper Warrant and the PTQ Warrant must be exercised together. From and after the first five trading days after the Copper Listing Date, the Warrants can be exercised separately, and in that event, the respective exercise prices of the

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

PTQ Warrants and the Copper Warrants will be based on \$3.00 multiplied by the ratio of the five day volume weighted average price of each of the PTQ and Copper shares during the first five trading days for Copper.

The PTQ Warrants will be subject to a hold period expiring February 18, 2007. The Copper shares and Copper Warrants will be subject to resale restrictions until such time that Copper becomes a reporting issuer or another exemption from resale restrictions is available. The PTQ common shares will be freely tradable following the Effective Date.

As at January 31, 2007, the following share purchase warrants were outstanding and exercisable as follows:

Number of Shares	Exercise Price	Expiry Date
9,798,000	\$ 3.00 ⁽¹⁾	October 17, 2011

(1) Exercise price is the aggregate exercise price required to exercise one option of PTQ and one option of the Company with half of the proceeds to be allocated to the Company and half to PTQ. Both options must be exercised together until such time as the Company is listed on the TSX.

12. TREASURY STOCK

During the period ended January 31, 2006, the Company sold 1,616,000 of its shares held in treasury at an average price of \$0.79 per share for net proceeds of \$1,273,946. These shares were previously issued and reacquired at a cost of \$3.79 per share by the Company some years ago pursuant to an issuer bid. The loss of \$4,847,462 resulting from the sale of these shares and related broker fees has been charged to deficit during the period ended January 31, 2006. As at January 31, 2007, 44,200 common shares were held in treasury.

13. RELATED PARTY TRANSACTIONS

During the period ended January 31, 2007:

- The Company paid consulting fees of \$392,979 (January 31, 2006 - \$114,559) to companies controlled by a director, a former director and an officer.
- The Company paid wages and benefits of \$919,039 (January 31, 2006 - \$230,525) to directors and officers.
- The Company received \$7,573 (January 31, 2006 - \$Nil) and paid \$Nil (January 31, 2006 - \$9,446) for rent charges from a company with a former common director.
- The Company paid legal fees of \$230,061 (January 31, 2006 - \$Nil) and share issue costs of \$219,698 (January 31, 2006 - \$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

The Company is committed to the following plant and equipment acquisitions related to the mine site construction to be paid for by the end of the second quarter of fiscal 2008:

- a) \$1,524,000 for a CIP plant;
- b) \$5,286,000 for gold recovery equipment;
- c) \$3,580,000 for generators;
- d) \$2,880,190 for other support items.

During the period ended January 31, 2007, 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.

In April 2006, the Company entered into an agreement for completion of a Light Detection and Ranging survey of 1.621 square kilometres of Panama, including all of the Company's concession lands with initial field work scheduled for completion by September 30, 2006. 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 data gathering and interpretation phases, spanning October 2006 to February 2007.

15. FINANCIAL INSTRUMENTS

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

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

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16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	January 31, 2007	January 31, 2006
Cash and cash equivalents consist of:		
Cash	\$ 575,880	\$ 1,420,258
Term deposits	6,353,944	7,751,060
	\$ 6,929,824	\$ 9,171,318

17. SUBSEQUENT EVENTS

Subsequent to January 31, 2007:

- a) The Company issued 279,840 shares on the exercise of stock options for proceeds of \$107,340.