

**PETAQUILLA MINERALS LTD.**  
**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Fifteen Months Ended April 30, 2007**  
**And**  
**Twelve Months Ended January 31, 2006**

## REPORT OF INDEPENDENT AUDITORS

To the Shareholders of  
**Petaquilla Minerals Ltd. (an exploration stage company)**

We have audited the consolidated balance sheet of **Petaquilla Minerals Ltd. (an exploration stage company)** as of April 30, 2007 and the consolidated statements of operations and deficit and cash flows for the fifteen month period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of **Petaquilla Minerals Ltd. (an exploration stage company)**, as at April 30, 2007, and the results of its operations and its cash flows for the fifteen month period then ended in conformity with Canadian generally accepted accounting principles.

The consolidated financial statements as at January 31, 2006 and for the years ended January 31, 2006 and 2005 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated April 5, 2006.



Vancouver, Canada,  
September 21, 2007

Chartered Accountants

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

In the United States, reporting standards for auditors require the addition of an explanatory paragraph, following the opinion paragraph, when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Our report to the shareholders dated September 21, 2007 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.



Vancouver, Canada,  
September 21, 2007

Chartered Accountants

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

**See nature of operations and going concern uncertainty (Note 1)**

	April 30, 2007	January 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 665,290	\$ 9,171,318
Receivables	100,410	32,188
Prepaid expenses	<u>452,718</u>	<u>36,650</u>
Total current assets	1,218,418	9,240,156
Investment in Petaquilla Copper Ltd. (Note 7)	1,807,000	-
Amount receivable from Petaquilla Copper Ltd. (Note 14)	4,582,937	-
Property and equipment (Note 5 and Note 9)	5,343,147	285,005
Mineral properties (Note 6)	31,236,455	2,389,769
Restricted cash (Note 8)	<u>1,188,026</u>	<u>892,242</u>
<b>Total assets</b>	<u>\$ 45,375,983</u>	<u>\$ 12,807,172</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 14)	\$ 4,951,297	\$ 551,096
Current portion of long term debt (Note 9)	<u>487,882</u>	<u>-</u>
<b>Total current liabilities</b>	5,439,179	551,096
Asset retirement obligations (Note 20)	4,400,000	-
Long term debt (Note 9)	<u>699,185</u>	<u>-</u>
<b>Total liabilities</b>	<u>10,538,364</u>	<u>551,096</u>
<b>Commitments and contingencies (Notes 6 and 17)</b>		
<b>Shareholders' equity</b>		
Capital stock (Note 10)		
Authorized		
Unlimited common shares and preferred shares without par value (Note 10)		
Issued and outstanding		
89,876,951 (January 31, 2006 – 70,246,303) common shares	101,482,015	62,977,209
Shares subscribed	150,000	-
Contributed surplus (Note 10)	12,893,667	1,004,480
Deficit	<u>(79,521,082)</u>	<u>(51,558,632)</u>
	35,004,600	12,423,057
Treasury stock, at cost (Note 13)		
Repurchased, not cancelled		
44,200 (January 31, 2006 – 44,200) common shares	<u>(166,981)</u>	<u>(166,981)</u>
<b>Total shareholders' equity</b>	<u>34,837,619</u>	<u>12,256,076</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 45,375,983</u>	<u>\$ 12,807,172</u>

**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)

	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006	Twelve months ended January 31, 2005
<b>EXPENSES</b>			
Accounting and legal (Note 14)	\$ 726,929	\$ 266,967	\$ 161,203
Consulting fees (Note 14)	1,077,362	291,034	141,158
Amortization	471,309	56,697	7,660
Filing fees	82,669	30,637	33,679
Investor relations and shareholder information	1,267,505	388,991	98,790
Office administration	971,936	257,859	81,173
Rent (Note 14)	179,497	80,520	88,939
Mineral property costs	-	11,105	234,664
Stock-based compensation (Notes 10 & 11)	20,386,270	410,301	716,876
Travel	1,686,536	346,332	83,398
Wages and benefits (Note 14)	1,991,770	397,907	243,139
Total expenses	<u>(28,841,783)</u>	<u>(2,538,350)</u>	<u>(1,890,679)</u>
<b>OTHER INCOME (EXPENSE)</b>			
Foreign exchange loss	(836,847)	(77,647)	(79,147)
Gain on sale of marketable securities	21,191	-	-
Interest income	352,880	48,239	18,266
Interest on long-term debt	(68,239)	-	-
Asset usage fees	103,348	-	-
Gain on redemption of performance bond	-	-	198,142
Write-off of property and equipment	-	-	(44,855)
Loss from equity investment	(1,773,000)	-	-
Gain on dilution of equity investment	3,080,000	-	-
	<u>879,333</u>	<u>(29,408)</u>	<u>92,406</u>
<b>Loss for the period</b>	(27,962,450)	(2,567,758)	(1,798,273)
<b>Deficit, beginning of period</b>	(51,558,632)	(44,143,412)	(42,345,139)
<b>Loss on sale of treasury stock (Note 13)</b>	<u>-</u>	<u>(4,847,462)</u>	<u>-</u>
<b>Deficit, end of period</b>	<u>\$ (79,521,082)</u>	<u>\$ (51,558,632)</u>	<u>\$ (44,143,412)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.35)</u>	<u>\$ (0.05)</u>	<u>\$ (0.04)</u>
<b>Weighted average number of shares outstanding</b>	<u>79,992,262</u>	<u>56,115,596</u>	<u>50,370,747</u>

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

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

	Fifteen months ended April 31, 2007	Twelve months ended January 31, 2006	Twelve months ended January 31, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the period	\$ (27,962,450)	\$ (2,567,758)	\$ (1,798,273)
Items not affecting cash:			
Amortization	471,309	56,697	7,660
Gain on redemption of performance bond	-	-	(198,142)
Stock-based compensation	20,386,270	410,301	716,876
Write-off of property and equipment	-	-	44,855
Gain on sale of marketable securities	(21,191)	-	-
Foreign exchange loss on performance bond	-	-	69,005
Foreign exchange loss on restricted cash	29,016	73,813	-
Unrealized foreign exchange loss on long-term debt	35,567	-	-
Loss from equity investment	1,773,000	-	-
Gain on dilution of equity investment	(3,080,000)	-	-
Changes in non-cash working capital items:			
(Increase) decrease in receivables	(68,222)	39,075	17,129
Increase in prepaid expenses	(416,068)	(25,867)	(1,550)
(Decrease) increase in accounts payable and accrued liabilities	(127,333)	255,887	(23,890)
Net cash used in operating activities	<u>(8,980,102)</u>	<u>(1,757,852)</u>	<u>(1,166,330)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from issuance of capital stock	31,439,670	11,826,329	424,200
Proceeds from shares subscribed	150,000	-	-
Share issuance costs	(1,550,343)	(573,165)	-
Amount receivable from Petaquilla Copper Ltd.	(4,582,937)	-	-
Net proceeds from sale of treasury stock	-	1,273,946	-
Proceeds from long term debt	1,413,510	-	-
Repayment of long-term debt	(226,443)	-	-
Net cash provided by financing activities	<u>26,643,457</u>	<u>12,527,110</u>	<u>424,200</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(5,942,363)	(291,877)	(59,635)
Investment in mineral properties	(19,387,844)	(2,197,611)	-
Proceeds from redemption of performance bond	-	-	891,908
Purchase of performance bond and restricted cash	(324,800)	-	(1,035,060)
Proceeds from sale of marketable securities	21,191	-	-
Purchase of equity investment	(500,000)	-	-
Net cash used in investing activities	<u>(26,133,816)</u>	<u>(2,489,488)</u>	<u>(202,787)</u>
<b>Change in cash and cash equivalents</b>	(8,470,461)	8,279,770	(944,917)
<b>Impact of foreign exchange rates on cash balances</b>	(35,567)	-	-
<b>Cash and cash equivalents, beginning of period</b>	<u>9,171,318</u>	<u>891,548</u>	<u>1,836,465</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 665,290</u>	<u>\$ 9,171,318</u>	<u>\$ 891,548</u>

Supplemental disclosure with respect to cash flows (Note 19)

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

**1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY**

The Company was incorporated in the Province of British Columbia and is in process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing and permits to complete the development, and future profitable productions or proceeds from the disposition thereof.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has not generated any operating revenues to date and has experienced recurring operating losses and accumulated a deficit of \$79,521,082 as at April 30, 2007. Also the Company had a working capital deficiency of \$4,220,761 at April 30, 2007 (January 31, 2006 – working capital of \$8,689,060). These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continued operations, as intended, are dependent upon its ability to raise additional funding to meet its obligations and to attain profitable operations. Management's plan in this regard is to raise equity financing as required. There are no assurances that the Company will be successful in achieving these goals. These consolidated financial statements do not include any adjustments to the amounts and classifications of 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), Petaquilla Gold, S.A. (a Panama corporation), Aqua Azure S.A (a Panama corporation) and its 51% interest in Petaquilla Power and Water, S.A. ("PPW") (a Panama corporation). The Company proportionately consolidates its 69% interest in a joint venture investment, Compania Minera Belencillo, S.A. ("Belencillo") (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 the disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenues and expenses reported during the period. Actual results could differ from these estimates.

**Accounting Policy for Petaquilla Copper Ltd.**

The Company has significant influence in Petaquilla Copper Ltd. ("Copper"), and uses the equity method to account for the investment. The two companies share common directors and management. The Company's proportionate share of income and expenses is recorded with a corresponding entry made to the investment account. The Company assesses whether there have been any indications of impairment and if there are and the carrying amount would not be expected to be recovered, there would be a write down to fair value.

**PETAQUILLA MINERALS LTD.**  
(An Exploration Stage Company)  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Expressed in Canadian Dollars)  
APRIL 30, 2007

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 amortization, which is provided 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
Buildings	4%

**Mineral properties**

Acquisition costs of mineral 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 mineral properties are, where necessary, written down to the fair value if the carrying value is not recoverable. 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 mineral 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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. Subsequently, these capitalized asset retirement costs will be amortized to expense over the life of the related assets using the unit-of-production method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs).

**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 operations 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.

The Company considers all of its subsidiaries and joint venture investments to be integrated operations.

**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 as a result of 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.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Stock-based compensation**

The Company accounts for all stock-based payments and awards using 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.

During the fifteen month period ended April 30, 2007 and the twelve month period ended January 31, 2006, the Company granted stock options to directors, officers, employees and non-employees as set out in note 11.

**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 or loss 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 to 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, 2007, all of the Company's holdings of marketable securities were sold for net proceeds of \$21,191 resulting in a gain of \$21,191.

**PETAQUILLA MINERALS LTD.**  
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(Expressed in Canadian Dollars)  
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**4. INVESTMENT IN JOINT VENTURES**

**a) Investment in Compania Minera Bellencillo, S.A.**

The Company owns a 69% joint venture interest in Minera Bellencillo S.A., which is proportionately consolidated in the financial statements. The Company's interest is summarized as follows:

	2007
	\$
<b>ASSETS</b>	
Mineral properties	26,006
	26,006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>	
Other liabilities	25,802
Shareholders' equity (deficiency)	204
	26,006
<b>Cash flows provided by (used in)</b>	
Operating activities	204
Financing activities	25,802
Investing activities	(26,006)

**5. PROPERTY AND EQUIPMENT**

	April 30, 2007			January 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 395,852	\$ 118,321	\$ 277,531	\$ 127,650	\$ 22,329	\$ 105,321
Computer software	526,252	187,329	338,923	20,418	3,754	16,664
Equipment	4,393,729	681,008	3,712,721	74,173	15,045	59,128
Furniture and fixtures	30,523	9,905	20,618	23,375	4,330	19,045
Leasehold improvements	8,951	8,951	-	8,951	2,920	6,031
Office equipment	36,101	8,553	27,548	14,778	3,421	11,357
Vehicles	600,671	107,909	492,762	79,803	12,344	67,459
Land	34,130	-	34,130	-	-	-
Buildings	445,169	6,255	438,914	-	-	-
	\$ 6,471,378	\$ 1,128,231	\$ 5,343,147	\$ 349,148	\$ 64,143	\$ 285,005

**PETAQUILLA MINERALS LTD.**  
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**6. MINERAL PROPERTIES**

	April 30, 2007	January 31, 2006
Molejon property	\$ 31,210,449	\$ 2,389,769
Rio Belencillo concession	26,006	-
	<b>\$ 31,236,455</b>	<b>\$ 2,389,769</b>

The Company has capitalized \$31,236,455 in mineral property costs as at April 30, 2007:

	Molejon	Rio Belencillo	Total
Drilling costs	\$ 5,947,874	\$ -	\$ 5,947,874
Trenching	3,929,987	26,006	3,955,993
Plant equipment	3,901,761	-	3,901,761
Plant-site	3,703,891	-	3,703,891
Engineering and consulting	2,152,648	-	2,152,648
Camp costs	2,103,628	-	2,103,628
Roads	1,729,614	-	1,729,614
Geologist	663,641	-	663,641
Property permits	374,558	-	374,558
Environment	359,780	-	359,780
Logistics	299,939	-	299,939
Indirect drilling costs	199,218	-	199,218
Engineering and design	149,392	-	149,392
Transportation	145,347	-	145,347
Communications	128,729	-	128,729
Topography	113,008	-	113,008
Technical support	110,248	-	110,248
Bridges	63,332	-	63,332
Communications - plant	6,179	-	6,179
Road agreements	4,127	-	4,127
Water samples	3,857	-	3,857
Total	26,090,758	26,006	26,116,764
Deferred amortization on mining equipment	601,295	-	601,295
Reclamation costs (Note 20)	4,400,000	-	4,400,000
Stock-based compensation (Notes 10 and 11)	118,396	-	118,396
	<b>\$ 31,210,449</b>	<b>\$ 26,006</b>	<b>\$ 31,236,455</b>

**PETAQUILLA MINERALS LTD.**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**6. MINERAL PROPERTIES (continued)**

***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 7).

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.

The payment of \$100,000 on account of exploration expenditures has not been made in accordance with the terms and conditions of the May 7, 2005 agreement. The Company is in the process of amending the agreement with Gold Dragon.

During the period ended April 30, 2007, the Company received \$32,843 (US \$29,078) from Madison Minerals Ltd. (“Madison”), the Company’s joint venture partner, for exploration costs related to the Rio Belencillo concession. The Company’s proportionate share of exploration costs totalling \$26,006 have been capitalized on the Company’s balance sheet.

***San Juan Concessions - Panama***

During the period ended April 30, 2007, the Company entered into an agreement with Geneva Gold, formerly 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, Geneva Gold may earn a 60% interest in the San Juan Property by incurring exploration expenditures of at least US\$6,000,000, by paying Petaquilla Minerals Ltd. US\$600,000 in cash and by causing to be issued to Petaquilla Minerals Ltd. 9,000,000 shares of the public company (“Pubco”) to which Geneva Gold 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 Geneva Gold.

Geneva Gold has claimed a loss in the share value said to be caused by the Company’s news release announcing that the agreement with the Company has been rescinded. The amount of the claim has not been quantified, and according to the Company’s counsel it is too early to provide an opinion on either party’s chances of success as discoveries have not yet taken place. Legal fees of \$14,251 were incurred up to April 30, 2007.

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**7. PLAN OF ARRANGEMENT AND ADVANCES TO PETAQUILLA COPPER LTD.**

During the period ended April 30, 2007, the shareholders of the Company voted in favor of the April 21, 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 of 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 transactions were accounted on the continuity of interest's basis.

The Company owns 22,189,434 of the issued shares of Copper at a cost of \$500,000. This initial 20% equity stake has been and may be further diluted upon future share capital financings that are anticipated to be necessary for the ongoing funding of the Copper deposit project.

As a result of the Plan of Arrangement, the Company now accounts for Copper on an equity basis resulting in an equity loss of \$1,773,000 and dilution gains of \$3,080,000 for the period ended April 30, 2007.

During the period ended April 30, 2007, the Company paid for mineral property costs and general administrative expenses related to Copper in the amount of \$5,082,937. This amount has been offset with the amount payable to Copper of \$500,000 as part of the Plan of Arrangement. As at April 30, 2007, the amount receivable from Copper is \$4,582,937.

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**8. RESTRICTED CASH**

The Company is required to post a performance bond of US\$780,000 to maintain its interest in the Company's Molejon 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 \$863,226 as at April 30, 2007 after recognizing a foreign exchange loss of \$29,016 from the January 31, 2006 balance of \$892,242.

During the period ended April 30, 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. The Company also pledged as security for financings (note 9) a term deposit in the amount of \$294,800 (US \$250,000).

**9. LONG TERM DEBT**

During the period ended April 30, 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) including principal and interest 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 April 30, 2007, the current portion of the long term debt is \$152,309 and the long term portion is \$150,894.

During the period ended April 30, 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) including principal and interest commencing in May 2006 and bears interest at an annual rate of 9.25%. Collateral for this loan is comprised of a fixed first charge on the purchased equipment. As at April 30, 2007, the current portion of the long term debt is \$31,194 and the long term portion is \$32,867.

During the period ended April 30, 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) including principal and interest commencing in October 2006 and bears interest at an annual rate of 9.00%. Collateral for this loan is comprised of a first charge on the purchased equipment. As at April 30, 2007, the current portion of the long term debt is \$87,121 and the long term portion is \$130,994.

During the period ended April 30, 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) including principal and interest commencing in January 2007 and bears interest at an annual rate of 9.25%. Collateral for this loan is comprised of a first charge on the purchased equipment. As at April 30, 2007, the current portion of the long term debt is \$208,180 and the long term portion is \$368,263.

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**9. LONG TERM DEBT** (continued)

During the period ended April 30, 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) including principle and interest commencing in January 2007 and bears interest at an annual rate of 9.25%. Collateral for this loan is comprised of a first charge on the purchased vehicle. As at April 30, 2007, the current portion of the long term debt is \$9,078 and the long term portion is \$16,167.

The following table summarizes the loans outstanding as at April 30, 2007:

	April 30, 2007
Long term debt	
Equipment loan #1	\$ 303,203
Vehicle loan #1	64,061
Equipment loan #2	218,115
Equipment loan #3	576,443
Vehicle loan #2	<u>25,245</u>
	1,187,067
Less: current portion	<u>(487,882)</u>
	<u>\$ 699,185</u>

Anticipated long term debt principal repayments are as follows:

2008	487,882
2009	523,309
2010	<u>175,876</u>
	<u>\$1,187,067</u>



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**10. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)**

- 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 12). The Company agreed to issue 398,000 share purchase warrants as finders' fees in connection with part of the private placement (see Note 12). The fair value of the finders' warrants is \$820,518 that was approved and recorded during the fiscal year. 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, which was approved by the shareholders and by the Toronto Stock Exchange on June 6, 2006. Under the new Plan, the Company issued 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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**11. STOCK OPTIONS**

During the period ended April 30, 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. 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. In April 2007, 150,000 incentive stock options were granted. As at April 30, 2007, the total number of outstanding incentive stock options under the New Plan is 8,115,767.

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 (“October 18, 2006”) 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. The modification of stock options as a result of the Plan of Arrangement resulted in no incremental stock based compensation expense to recognize.

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**11. STOCK OPTIONS** (continued)

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
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	<u>(450,000)</u>	0.42
Balance at January 31, 2006	6,031,200	0.53 <sup>(1)</sup>
Granted (re: Plan of Arrangement)	3,730,000	1.14 <sup>(1)</sup>
Granted	6,139,543	2.02
Exercised	(5,247,813)	0.59 <sup>(1)</sup>
Expired	(400,000)	1.24 <sup>(1)</sup>
Forfeited	(493,400)	0.98 <sup>(1)</sup>
Forfeited	(20,000)	2.01
Voluntary reduction	<u>(1,623,763)</u>	0.91 <sup>(1)</sup>
Balance at April 30, 2007	<u>8,115,767</u>	1.76 <sup>(1)</sup>
Number of stock options exercisable	3,638,613	\$ 1.44 <sup>(1)</sup>

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

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**11. STOCK OPTIONS** (continued)

As at April 30, 2007, the following stock options were outstanding as follows:

Number of Shares Outstanding	Exercise Price	Expiry Date
87,064	0.50 <sup>(1)</sup>	April 21, 2010
381,300	0.50 <sup>(1)</sup>	July 11, 2010
115,800	1.00 <sup>(1)</sup>	December 31, 2010
1,292,060	1.05 <sup>(1)</sup>	February 1, 2011
120,000	1.73 <sup>(1)</sup>	April 27, 2011
5,969,543	2.01	January 15, 2012
150,000	2.25	October 19, 2008
<b>8,115,767</b>		

- <sup>(1)</sup> Exercise price is the aggregate exercise price required to exercise one option of Petaquilla Copper Ltd. and one option of the Company with half of the proceeds to be allocated to the Company and half to Petaquilla Copper Ltd. Both options must be exercised together until such time as Petaquilla Copper Ltd. is listed on the TSX.

Total stock options granted during the fifteen months ended April 30, 2007 are 9,869,543 of which 400,000 expired and 513,400 were forfeited during the period. Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the fifteen month period ended April 30, 2007 was \$20,504,666 (January 31, 2006 - \$410,301), of which \$20,386,270 was expensed (January 31, 2006 - \$410,301) and \$118,396 was capitalized to Mineral Properties (January 31, 2006 – nil). These costs can be categorized as to employee compensation of \$15,424,973 and non-employees compensation of \$5,079,693.

These financial statements include the stock based compensation costs associated with the exchange of options and warrants in connection with the Plan of Arrangement, and the options and warrants issued to Copper in respect thereof.

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

**Options**

The weighted average fair value of stock options granted is estimated approximately \$1.22 and \$1.20 for twelve months ended January 31, 2006 and fifteen months ended April 30, 2007, respectively, by using the Black-Scholes option pricing model with the following weighted average assumptions:

	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
Risk-free interest	4.04 %	4.2 %
Expected dividend yield	-	-
Expected stock price volatility	105.33 %	65%
Expected option life in years	4.94 years	5 years

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**12. 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
Exercised	<u>(249,498)</u>	0.25
Balance at January 31, 2005	7,550,496	0.25
Issued	4,982,835	1.20/1.44
Exercised	<u>(7,550,496)</u>	0.25
Balance at January 31, 2006	4,982,835	1.20/1.44
Issued	9,798,000	3.00 <sup>(1)</sup>
Exercised	<u>(4,982,835)</u>	1.20
<b>Balance at April 30, 2007</b>	<b>9,798,000</b>	<b>\$ 3.00<sup>(1)</sup></b>

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 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.

The weighted average fair value of the finders' warrants issued is estimated approximately \$2.06 for twelve months ended January 31, 2006 and fifteen months ended April 30, 2007 by using the Black-Scholes option pricing model with the following assumptions:

	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006
Risk-free interest	4.04 %	-
Expected dividend yield	-	-
Expected stock price volatility	108.00%	-
Expected warrant life in years	5 years	-

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**12. SHARE PURCHASE WARRANTS (continued)**

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

- a. 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
- b. 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 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 were subject to a hold period that expired on 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 April 30, 2007, the following share purchase warrants were outstanding and exercisable as follows:

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

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- (1) Exercise price is the aggregate exercise price required to exercise one share purchase warrant of Petaquilla Copper Ltd. and one share purchase warrant of the Company with half of the proceeds to be allocated to the Company and half to Petaquilla Copper Ltd. Both share purchase warrants must be exercised together until such time as Petaquilla Copper Ltd. is listed on the TSX.

**13. 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 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 April 30, 2007, 44,200 common shares were held in treasury.

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**14. RELATED PARTY TRANSACTIONS**

During the period ended April 30, 2007:

- a) The Company paid consulting fees of \$426,726 (12 months ended January 31, 2006 - \$114,559) to companies controlled by a director, a former director and an officer.
- b) The Company received \$7,573 (12 months ended January 31, 2006 - \$9,446) and paid \$Nil (12 months ended January 31, 2006 - \$Nil) for rent charges from a company with a former common director.
- c) The Company paid legal fees of \$274,584 (12 months ended January 31, 2006 - \$Nil) and share issue costs of \$113,097 (12 months ended January 31, 2006 - \$Nil) to a law firm controlled by an officer.
- d) The Company paid \$134,127 for supplies (January 31, 2006 - \$61,749) to a company controlled by a director and officer.
- e) The amount receivable from Petaquilla Copper Ltd. is non-interest bearing, unsecured and without specific terms of repayment. Subsequent to April 30, 2007 the amount was repaid in full.
- f) Included in accounts payable is \$55,901 (January 31, 2006 - \$1,241) due to directors, officers, and companies controlled by an officer and a director all of which are payable within 30 days. The amount is non-interest bearing and unsecured. Subsequent to April 30, 2007 the amount was repaid in full.
- g) During the period the Company charged \$103,348 in asset usage fees to Copper. This costs recovery arrangement will be subject to review and revised to reflect changes to the operations.
- h) The Company received \$16,122 in rent payments from Copper.

These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the transacting parties.

**15. INCOME TAXES**

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

	15 months ended April 30, 2007	12 months ended January 31, 2006	12 months ended January 31, 2005
Statutory tax rate	34.12%	34.7%	35.6%
Loss for the period	\$ (27,942,450)	\$ (2,567,758)	\$ (1,798,273)
Income tax recovery	\$ (9,533,900)	\$ (892,168)	\$ (640,185)
Permanent differences	6,740,964	117,045	307,836
Income tax rate change	491,760	14,107	4,558
Change in valuation allowance	<u>2,301,176</u>	<u>761,016</u>	<u>327,791</u>
Income tax recovery	\$ -	\$ -	\$ -

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**15. INCOME TAXES** (continued)

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

	15 months ended April 30, 2007	12 months ended January 31, 2006
Future income tax assets (liabilities)		
Non-capital and other loss carry-forwards	\$ 4,264,620	\$ 1,409,133
Equipment and exploration properties	235,412	247,380
Other	<u>386,036</u>	<u>156,445</u>
Total future income tax assets	4,886,068	1,812,958
Valuation allowance	<u>(4,886,068)</u>	<u>(1,812,958)</u>
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$12,371,372 available for deduction against future years' taxable income in Canada. These losses, if unutilized, will expire beginning in 2008 as follows:

2008	\$ 289,652
2009	184,526
2010	133,088
2011	420,267
2015	882,063
2026	1,932,414
2027	<u>8,529,362</u>
	<u>\$ 12,371,372</u>

Subject to certain restrictions, the Company also has approximately \$1,191,626 in share issue costs available to reduce taxable income of future years in Canada plus resource related deductions available to reduce future taxable income in Panama.

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**16. SEGMENT INFORMATION**

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

<b>April 30, 2007</b>	Canada	Panama	Total
Interest income	311,833	41,047	352,880
Property and equipment	63,284	5,279,863	5,343,147
Mineral properties	-	31,236,455	31,236,455
<b>January 31, 2006</b>	Canada	Panama	Total
Interest income	\$ 48,239	\$ -	\$ 48,239
Property and equipment	\$ 45,970	\$ 239,035	\$ 285,005
Mineral properties	-	2,389,769	2,389,769
<b>January 31, 2005</b>	Canada	Panama	Total
Interest income	\$ 17,956	\$ 310	\$ 18,266

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**17. COMMITMENTS AND CONTINGENCIES**

- (a) The Company is committed to the following plant and equipment acquisitions related to the mine site construction:
- a) \$4,981,000 for gold recovery equipment;
  - b) \$3,345,000 for generators;
  - c) \$1,788,000 for other support items.
  - d) \$1,428,000 for other construction in progress

All commitments will become payable during the fiscal year 2008.

During the period ended April 30, 2007, the Company entered into a five-year lease for office premises at an estimated annual cost of \$66,240 effective January 1, 2007. Cancellation of two previous lease obligations was obtained effective May 15, 2006.

From October 18, 2006, the office leasing costs have been split equally between the Company and Petaquilla Copper Ltd., as a result of the Plan of Arrangement (see Note 7 Plan of Arrangement and Advances to Petaquilla Copper Ltd.) Therefore the estimated annual cost is \$33,120 to the Company

During the period ended April 30, 2007, the Company entered into a contract relating to an environmental impact study. The amount payable at the end of the contract is \$131,776.

- (b) Geneva Gold Ltd. has claimed for loss in share value said to be caused by Petaquilla's news release announcing that the agreement with the Company has been rescinded. The amount of the claim has not been quantified, and according to Company counsel it is too early to provide an opinion on either party's chances of success as discoveries have not yet taken place. The claim is currently under the review of an arbitrator whose decision will be final and binding on all parties.

**18. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable, long term debt, restricted cash, and the amount receivable from Petaquilla Copper Ltd. 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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**19. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	Fifteen months ended April 30, 2007	Twelve months ended January 31, 2006	Twelve months ended January 31, 2005
Non-cash financing activities			
Finders' fee warrants	\$ 820,518	\$ -	\$ -
Share issue costs	(820,518)	-	-
Non-cash investing activities			
Property and equipment incurred through payables	188,383	-	-
Mineral property costs incurred through payables	4,339,151	192,158	-
Stock based compensation capitalized to mineral properties	118,396	-	-

	April 30, 2007	January 31, 2006
Cash and cash equivalents consist of:		
Cash	\$ 258,216	\$ 1,420,258
Term deposits	407,074	7,751,060
	\$ 665,290	\$ 9,171,318

	April 30, 2007	January 31, 2006
Interest paid in cash	\$ 68,239	\$ -
Income taxes paid in cash	-	-

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**20. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligation relates to site-restoration and clean-up costs related to its Molejon gold project located in Panama.

A reconciliation of the provision for asset retirement obligations is as follows:

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Beginning balance – January 31, 2006	\$	-
Liabilities incurred in the current period		4,400,000
Ending balance – April 30, 2007	\$	4,400,000

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The provision for asset retirement obligations is based upon the following assumptions:

- The total undiscounted cash flow required to settle the obligation is approximately \$6,848,000 (\$US 6,225,000);
- Asset retirement obligation payments are expected to occur during fiscal year 2014 and 2015;
- A credit adjusted risk-free rate of 7.65% has been used to discount cash flows.

**21. SUBSEQUENT EVENTS**

Subsequent to April 30, 2007:

- The Company issued 468,344 shares on the exercise of stock options for proceeds of \$575,429.
- The Company closed a non-brokered private placement comprising of 1,387,879 units at \$2.00 per unit, and 24,033 units at \$2.02 per unit for gross proceeds of \$2,824,305. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable into a common share at a price of \$3.50 per share for a period of two years following closing of the private placement. The share purchase warrants are subject to an accelerated expiry provision that, if the volume weighted average trading price of the common shares of the Company as traded on the Toronto Stock Exchange exceeds \$7.00 per share for at least 30 consecutive trading days, the Company shall have the right, exercisable within 30 days thereafter, to give notice to each warrant holder requiring the exercising of the warrants within a 30 day period. If the Company exercises such right, the warrant will, if not exercised by the warrant holder in accordance with their terms and conditions, expire at the end of such 30 day period. The securities issued under this private placement are subject to a four-month and a day resale restriction in effect until September 10, 2007.
- The Company entered into a capital lease arrangement with Banco Bilbao Vizcaya Argentaria (Panama) S.A. ("BBVA") for the purchase of equipment to advance the Molejon project into production.

The facility will be advanced in the following concurrent trenches:

- Financial leasing of US\$2,012,200 and US\$431,186, together totalling US\$ 2,443,386; and
- Financial leasing of US\$9,006,256 (or 70% of equipment valued at US\$12,866,080).

The equipment includes but is not restricted to: ball mills, Metso crushing plant; cranes and an aggregate crushing plant.

The interest rate on this financial leasing facility is 9% per annum and, as a condition of the loan, the equipment will serve as collateral throughout the amortization period and will be registered with the Public Registry of the Republic of Panama.

- The Company granted an aggregate of 900,000 stock options to employees, consultants, a director and an officer with exercise prices between \$2.22 to \$2.54 and expiry dates between June 12, 2012 and July 23, 2012.

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

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

**Loss for the year**

	<b>2007</b>	<b>2006</b>	<b>2005</b>
Loss for the year – Canadian GAAP	\$ (27,962,450)	\$ (2,567,758)	\$ (1,798,273)
Gain on dilution of equity investment (a)	(3,080,000)	-	-
Mineral properties expensed under U.S. GAAP (b)	(31,236,455)	(2,389,769)	-
Equity investment (e)	<u>(1,807,000)</u>	<u>-</u>	<u>-</u>
Loss for the year – U.S. GAAP	(64,085,905)	(4,957,527)	(1,798,273)
Holding losses on marketable securities (c)	<u>-</u>	<u>(22,044)</u>	<u>(7,587)</u>
Comprehensive loss – U.S. GAAP	<u>\$ (64,085,905)</u>	<u>\$ (4,979,571)</u>	<u>\$ (1,805,860)</u>
Basic and diluted loss per share – U.S. GAAP	\$ (0.80)	\$ (0.09)	\$ (0.04)

	<b>2007</b>	<b>2006</b>
<b>Current assets</b>		
Current assets – Canadian GAAP	\$ 1,218,418	\$ 9,240,156
Bank overdraft – U.S GAAP (f)	1,205,382	-
Cumulative adjustments:		
Holding gains on marketable securities (c)	<u>-</u>	<u>15,375</u>
Current assets – U.S. GAAP	<u>\$ 2,423,800</u>	<u>\$ 9,255,531</u>

	<b>2007</b>	<b>2006</b>
<b>Current liabilities</b>		
Current liabilities – Canadian GAAP	\$ 5,439,179	\$ 551,096
Bank overdraft – U.S GAAP (f)	<u>1,205,382</u>	<u>-</u>
Current liabilities – U.S. GAAP	<u>\$ 6,644,561</u>	<u>\$ 551,096</u>

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**22. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)**

	2007	2006
<b>Mineral properties</b>		
Mineral properties – Canadian GAAP	\$ 31,236,455	\$ 2,389,769
Mineral properties expensed under U.S. GAAP (b)	<u>(31,236,455)</u>	<u>(2,389,769)</u>
Mineral properties – U.S. GAAP	\$ -	\$ -

	2007	2006
<b>Equity investments</b>		
Equity investments – Canadian GAAP	\$ 1,807,000	\$ -
Equity investments expensed under U.S. GAAP (e)	<u>(1,807,000)</u>	<u>-</u>
Equity investments – U.S. GAAP	\$ -	\$ -

	2007	2006
<b>Shareholders' equity</b>		
Shareholders' equity – Canadian GAAP	\$ 34,837,619	\$ 12,256,076
Cumulative adjustments:		
Mineral properties (b)	(31,236,455)	(2,389,769)
Holding gains on marketable securities (c)	-	15,375
Share capital – private placement warrants (d)	(9,885,980)	(1,292,993)
Contributed surplus – private placement warrants (d)	9,885,980	1,292,993
Additional loss from equity investment (e)	<u>(1,807,000)</u>	<u>-</u>
Shareholders' equity – U.S. GAAP	\$ 1,794,164	\$ 9,881,682

	2007	2006	2005
<b>Statement of Cash Flows</b>			
Cash used in operating activities – Canadian GAAP	\$ (8,980,102)	\$ (1,757,852)	\$ (1,166,330)
Expenditures on mineral properties	<u>(19,387,844)</u>	<u>(2,197,611)</u>	<u>-</u>
Cash used in operating activities – U.S. GAAP	\$ (28,367,946)	\$ (3,955,463)	\$ (1,166,330)
Cash from financing activities – Canadian GAAP	\$ 26,643,457	\$ 12,527,110	\$ 424,200
Bank overdraft	<u>1,205,382</u>	<u>-</u>	<u>-</u>
Cash from financing activities – U.S. GAAP	\$ 27,848,839	\$ 12,527,110	\$ 424,200
Cash used in investing activities – Canadian GAAP	\$ (26,133,816)	\$ (2,489,488)	\$ (202,787)
Expenditures on mineral properties	<u>19,387,844</u>	<u>2,197,611</u>	<u>-</u>
Cash used in investing activities – U.S. GAAP	\$ (6,745,972)	\$ (291,877)	\$ (202,787)
Cash and cash equivalents, end of period – Canadian GAAP	\$ 665,290	\$ 9,171,318	\$ 891,548
Bank overdraft	<u>1,205,382</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of period – U.S. GAAP	\$ 1,870,672	\$ 9,171,318	\$ 891,548

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**22. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** (continued)

<b>Statements of Operations</b>	<b>Three months ended April 30, 2007 (unaudited)</b>	<b>Twelve months ended January 31, 2007 (unaudited)</b>
Expenses		
Accounting and legal	\$ 236,578	\$ 490,351
Consulting fees	320,910	756,452
Amortization	135,397	335,912
Filing fees	6,340	76,329
Investor relations and shareholder information	153,403	1,114,102
Mineral properties – exploration expenditures	7,203,658	23,914,401
Office administration	176,097	795,839
Rent	38,310	141,187
Stock-based compensation	10,496,704	10,007,962
Travel	266,748	1,419,788
Wages and benefits	179,317	1,812,453
Total expenses	<u>(19,213,462)</u>	<u>(40,864,776)</u>
Other income (expenses)	<u>(4,365,607)</u>	<u>357,940</u>
Net loss during the period	<u>\$ (23,579,069)</u>	<u>\$ (40,506,836)</u>

<b>Statements of Cash Flows</b>	<b>Three months ended April 30, 2007 (unaudited)</b>	<b>Twelve months ended January 31, 2007 (unaudited)</b>
Cash flow from/(used in) operating activities	\$ (324,302)	\$ (28,043,644)
Cash flow from/(used in) financing activities	(3,106,639)	30,955,478
Cash flow from/(used in) investing activities	<u>(1,592,644)</u>	<u>(5,153,328)</u>
Change in cash and cash equivalents	(5,023,585)	(2,241,494)
Impact of foreign exchange rates on cash balances	(35,567)	=
Cash and cash equivalents, beginning of period	<u>6,929,824</u>	<u>9,171,318</u>
Cash and cash equivalents, end of period	<u>\$ 1,870,672</u>	<u>\$ 6,929,824</u>

**22. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** (continued)

a) Gain on dilution of equity investment

Under U.S. GAAP, changes in the parent company's proportionate share of subsidiary equity resulting from the additional equity raised by a subsidiary in the development stage are accounted for as an equity transaction on consolidation. Under Canadian GAAP, these gains have been credited to income.

b) Mineral properties and deferred costs

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

c) Marketable securities

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

d) Bifurcation of warrants

For U.S. reporting purposes the Company has bifurcated its unit financings. The current period's issuances have been adjusted to take into consideration the amounts associated with the exercising of warrants in the current period.

e) Accounting for Equity Investment.

In 2006, the Company disposed of its Copper interests in exchange for common shares. The Company accounts for this investment under the equity method. The Company recorded its proportionate share of cumulative net losses totalling \$3,580,000 based on U.S. GAAP adjusted financial statements.

f) Bank overdraft

For U.S. reporting purposes, the Company has shown bank overdrafts as part of financing activities. Under the U.S. GAAP, bank overdrafts can not be presented as cash and cash equivalents.

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**22. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** (continued)

g) Stock-based compensation

On February 1, 2006 the Company adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard (“SFAS”) No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123(R)”), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) requires all share based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. As the Company previously used the fair value based method to account for all stock option grants the adoption of SFAS 123(R) did not have a significant impact on the consolidated financial statements.

Under Canadian GAAP, the Company accounts for stock-based compensation using the fair value based method (Note 2). Accordingly, there is no difference between Canadian GAAP and U.S. GAAP.

h) Reporting comprehensive income

Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* (SFAS 130) establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income equals net income (loss) for the year as adjusted for all other non-owner changes in shareholders’ equity. SFAS 130 requires that all items that are to be recognized under accounting standards as components of comprehensive income be reported in a financial statement.

i) Development stage company

Pursuant to US GAAP, the Company would be subject to the disclosure requirements applicable to a development stage enterprise as the Company is devoting its efforts to establishing commercially viable mineral properties. However, the identification of the Company as such for accounting purposes does not impact the measurement principles applied to these consolidated financial statements.

j) Income taxes

Under Canadian GAAP, future tax assets and liabilities are recorded at substantively enacted tax rates. Under US GAAP, deferred tax assets and liabilities are recorded at enacted rates. There were no significant differences between enacted and substantively enacted rates for the periods presented.

k) Reclassification

Certain comparative numbers have been reclassified to take into consideration the current periods financial statement presentation.

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**22. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** (continued)

l) Recent accounting pronouncements:

- i. Statement of Financial Accounting Standards No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, SFAS 157 does not require any new fair value measurements. The adoption of SFAS 157 is not expected to have an impact on the Company's consolidated financial statements.
- ii. Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Liabilities, provides companies with an option to report selected assets and liabilities (principally financial assets and liabilities) at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurements attributes for similar types of assets and liabilities. SFAS 159 requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements included in other accounting standards. The adoption of SFAS 159 is not expected to have an impact on the Company's consolidated financial statements.
- iii. In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Tax Positions, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 addresses the recognition and measurement of all tax positions. The recognition process involves determining whether it is more likely than not that a tax position would be sustained on audit based solely on its technical merits. The amount of benefit recognized in the financial statements is the maximum amount which is more likely than not to be realized based on a cumulative probability approach. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that the adoption of FIN 48 will have a material impact on the consolidated financial statements.