

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Six Months Ended November 30, 2008, and Six Months Ended October 31, 2007

(Unaudited – Prepared by Management)

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)

(the “Company”)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
Six months ended November 30, 2008, and six months ended October 31, 2007

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of 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.

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

(Unaudited, expressed in Canadian Dollars) (See Note 1 Nature of Operations and Going Concern Uncertainty)

	November 30, 2008	May 31, 2008
ASSETS (Note 11)		
Current		
Cash and cash equivalents (Note 3)	\$ 26,020,134	\$ 12,775,606
Receivables	41,248	448,270
Inventory	1,083,139	-
Prepaid expenses	542,383	308,456
Total current assets	27,686,904	13,532,332
Restricted cash (Note 6)	825,331	666,288
Investment in Petaquilla Copper Ltd. (Note 5)	-	9,452,421
Deposit on equipment and construction material	3,924,292	-
Property and equipment	17,287,592	16,681,830
Mineral properties (Note 4)	83,899,706	67,149,615
Total assets	\$ 133,623,825	\$ 107,482,486
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	\$ -	\$ 2,087,820
Operating credit line facility (Note 7)	7,378,013	3,849,974
Accounts payable and accrued liabilities	6,895,401	8,444,198
Current portion of deferred services and materials (Note 9)	228,651	247,343
Current portion of obligation under capital leases (Note 10)	2,725,126	2,162,289
Current portion of long-term debt (Note 8)	443,670	433,621
Total current liabilities	17,670,861	17,225,245
Deferred services and materials (Note 9)	3,901,927	3,980,203
Asset retirement obligations (Note 19)	5,579,914	4,308,083
Senior secured notes (Note 11)	50,360,046	26,630,004
Long-term debt (Note 8)	26,861	161,625
Obligations under capital leases (Note 10)	3,313,603	3,968,591
Total liabilities	80,853,212	56,273,751
Commitments and contingencies (Notes 17 and 21)		
Shareholders' equity		
Share capital (Note 12)		
Authorized		
Unlimited common shares and preferred shares without par value (Note 12)		
Issued and outstanding		
96,040,121 (May 31, 2008 – 95,958,641) common shares	105,865,153	105,858,083
Warrants (Notes 12 and 14)	13,911,643	12,976,997
Treasury shares, at cost		
44,200 (May 31, 2008 – 44,200) common shares	(166,981)	(166,981)
Contributed surplus (Note 12)	16,994,641	16,406,018
Deficit	(83,833,843)	(83,865,382)
Total shareholders' equity	52,770,613	51,208,735
Total liabilities and shareholders' equity	\$ 133,623,825	\$ 107,482,486

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

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT

(Unaudited, expressed in Canadian Dollars)

	Three months ended November 30, 2008	Three months ended October 31, 2007	Six months ended November 30, 2008	Six months ended October 31, 2007
EXPENSES				
Accounting and legal	\$ 484,555	\$366,038	892,830	\$ 557,138
Accretion of asset retirement obligation	95,366	84,250	180,478	168,500
Consulting fees	68,129	170,168	101,429	467,087
Amortization	96,888	350,254	181,706	787,387
Filing fees	7,339	28,214	109,860	50,909
Investor relations and shareholder information	231,846	256,445	339,160	460,986
Office administration	194,059	1,176,006	521,674	1,804,693
Rent	39,482	69,400	76,306	114,096
Stock-based compensation	479,521	2,195,689	750,386	4,304,693
Travel	494,301	239,921	616,625	501,484
Debt issuance costs	1,262,341	-	4,419,474	-
Wages and benefits	785,077	509,705	1,546,691	1,002,674
Total expenses	(4,238,904)	(5,446,090)	(9,736,619)	(10,219,647)
OTHER INCOME (EXPENSE)				
Foreign exchange gain (loss)	(4,394,241)	1,840,587	(7,761,999)	1,365,387
Gain on sale of Petaquilla Copper Ltd. shares	35,564,723	-	35,564,723	-
Interest income	67,173	30,120	149,175	58,187
Interest on long-term debt	(9,988)	-	(23,787)	-
Asset usage fees	(2,044)	205,629	(4,111)	401,626
Power and drilling services	30,562	-	91,145	-
Loss from equity investment	(647,905)	(1,303,442)	(1,901,051)	(2,565,199)
Loss on senior secured notes	(15,136,619)	-	(18,150,687)	-
Gain on dilution of equity investment	765,280	8,107,807	1,804,750	8,470,129
Total other income (expenses)	16,236,941	8,880,701	9,768,158	7,730,130
Net (Loss) income and comprehensive (loss) income for the period	11,998,037	3,434,611	31,539	(2,489,517)
Deficit, beginning of period	(95,831,880)	(85,445,210)	(83,865,382)	(79,521,082)
Deficit, end of period	(83,833,843)	\$ (82,010,599)	(83,833,843)	\$ (82,010,599)
Basic and diluted (loss)gain per share	0.12	0.04	0.00	(0.03)
Weighted average number of common shares outstanding	96,037,761	91,617,222	95,998,968	91,381,065

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

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, expressed in Canadian Dollars)

	Three Months Ended November 30, 2008	Three Months Ended October 31, 2007	Six Months Ended November 30, 2008	Six Months Ended October 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	11,998,037	3,434,611	31,539	(2,489,517)
Items not affecting cash:				
Accretion of asset retirement obligation	95,366	84,250	180,478	168,500
Amortization	96,888	350,254	181,706	787,387
Gain on dilution of equity investment	(765,280)	(8,107,807)	(1,804,750)	(8,470,129)
Loss from equity investment	647,905	1,303,442	1,901,051	2,565,199
Stock-based compensation	479,521	2,195,689	750,386	4,304,693
Loss on senior secured notes	15,136,619	-	18,150,687	-
Debt issuance costs	1,262,341	-	4,419,474	-
Foreign exchange (gain) loss on restricted cash	(112,602)	(3,030)	(159,043)	57,325
Gain on sale of Petaquilla Copper Ltd. shares	(35,564,723)	-	(35,564,723)	-
Unrealized foreign exchange loss	4,246,112	-	7,697,091	-
Changes in non-cash working capital items:				
(Increase) decrease in receivables	6,820	38,803	407,022	(10,342)
(Increase) decrease in prepaid expenses	(82,110)	306,752	(233,927)	(943,030)
Prepaid services and materials	(30,562)	-	(91,145)	-
(Decrease) increase in accounts payable and accrued liabilities	2,054,070	1,191,206	193,362	661,266
Net cash used in operating activities	(531,598)	794,170	(3,940,792)	(3,368,648)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from exercise of warrants and options				
Proceeds from issuance of capital stock	9,495	6,843,058	40,995	9,730,214
Proceeds from shares subscribed	-	-	-	(150,000)
Share issuance costs	-	(223,125)	-	(253,693)
Repayment of bank overdraft	-	-	(2,087,820)	-
Proceeds from senior secured notes	21,370,000	-	49,581,000	-
Redemption of senior secured notes	(44,920,843)	-	(44,920,843)	-
Proceeds from capital leases	-	1,504,166	-	8,201,425
Prepaid interest on senior secured notes	(3,205,500)	-	(7,437,150)	-
Repayment of capital leases	(717,306)	(292,800)	(1,117,429)	(292,800)
Debt issuance costs	(1,262,341)	-	(4,419,474)	-
Repayment of long-term debt	(142,373)	(204,222)	(215,847)	(386,845)
Net cash provided by financing activities	(28,868,868)	7,627,077	(10,576,568)	16,848,301
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property and equipment	(207,993)	(2,443,633)	(1,230,521)	(8,720,040)
Investment in mineral properties	(6,589,000)	(8,346,336)	(14,976,625)	(13,409,780)
Deposits for equipment and construction material	(3,628,598)	-	(5,666,451)	-
Payments from Petaquilla Copper Ltd	-	5,751,650	-	14,061,732
Proceed from sale of Petaquilla Copper Ltd shares	44,920,843	-	44,920,843	-
Redemption (purchase) of performance bond and restricted cash	-	863,226	-	863,226
Net cash used in investing activities	34,495,252	(4,175,093)	24,789,405	(7,204,862)
Impact of exchange rate changes on cash and cash Equivalents	3,731,463	-	4,714,642	-
Change in cash and cash equivalents	8,826,249	4,246,154	13,244,528	6,274,791
Cash and cash equivalents, beginning of period	17,193,885	2,693,927	12,775,606	665,290
Cash and cash equivalents, end of period	26,020,134	6,940,081	26,020,134	6,940,081

Supplemental disclosure with respect to cash flows
(Note 20)

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

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, expressed in Canadian Dollars)

November 30, 2008, and October 31, 2007

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Petaquilla Minerals Ltd. (the "Company") was incorporated in the Province of British Columbia. The Company's main focus is the commissioning of the Molejon Project and the exploration of its 659 square kilometre concessions surrounding the Petaquilla concession located in the District of Donoso, Province of Colon, Panama.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves. The recoverability of the amounts shown for mineral properties is dependent upon the ability of the Company to obtain the necessary financing to complete the exploration and development and upon future profitable production or proceeds from the disposition of properties. The Company will have to raise additional funds to complete the development phase of its programs and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

The amounts shown as mineral properties represent costs to date and do not necessarily represent present or future values. Changes in future conditions could require material write-downs of the carrying amounts of the mineral properties.

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles, except that they do not contain all disclosures as required for annual financial statements. The interim consolidated financial statements have been prepared following the same accounting policies as for the consolidated financial statements for the year ended May 31, 2008, except as noted. Accordingly, they should be read in conjunction with the 2008 consolidated financial statements and the notes thereto.

2. SIGNIFICANT ACCOUNTING POLICIES

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 Infraestructura Ltd. ("PQI") formerly 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 inter-company transactions and balances have been eliminated upon consolidation.

Inventory

Inventory consists of materials and supplies. Inventory is valued at net realizable value. Net realizable value is determined based on current replacement cost.

Adoption of new accounting policies

On June 1, 2008, the Company adopted new accounting standards related to general standards of financial statement presentation, capital disclosure and financial instruments that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new CICA standards are as follows:

Section 1400. General Standards of Financial Statement Presentation

This Section specifies the requirements for assessing an entity's ability to continue as a going concern and disclosing any material uncertainties that cast doubt on its ability to continue as a going concern. The Company's disclosure reflects such assessment.

PETAQUILLA MINERALS LTD.

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, expressed in Canadian Dollars)

November 30, 2008, and October 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)Section 1535, Capital Disclosures

This Section specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about these objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences of non-compliance. Disclosure requirements pertaining to this Section are contained in note 18.

Section 3862, Financial Instruments – DisclosuresSection 3863, Financial Instruments – Presentation

These Sections replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. Disclosure requirements pertaining to this section are contained in note 18.

Convergence with International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards (IFRS) over a transitional period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Canadian GAAP will be converged with IFRS through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS. Also the United States' Financial Accounting Standards Board and the International Accounting Standards Board have completed a joint-project on business combinations and non-controlling interests. As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in new pronouncements that continue to evolve IFRS, and as this Canadian convergence initiative is in an early stage as of the date of these consolidated financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company.

3. CASH AND CASH EQUIVELANTS

	November 30, 2008	May 31, 2008
Cash and cash equivalents consist of:		
Cash	\$ 4,996,153	\$ 6,357,871
Term deposits	21,023,981	6,417,735
	<u>26,020,134</u>	<u>\$ 12,775,606</u>

PETAQUILLA MINERALS LTD.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, expressed in Canadian Dollars)

November 30, 2008, and October 31, 2007

4. MINERAL PROPERTIES

	November 30, 2008	May 31, 2008
Molejon property	\$ 83,850,834	\$ 67,100,743
Other	48,872	48,872
	<u>\$ 83,899,706</u>	<u>\$ 67,149,615</u>

Molejon Property – Panama

The Molejon Property is located in the District of Donoso, Province of Colon, Panama. The project forms part of the Petaquilla Concession. In June 2005, the shareholders of Minera Petaquilla S.A. (“Minera Petaquilla”) (formerly a joint venture investment) agreed to separate the gold deposit and other precious metal mineral deposits that might be developed within the Petaquilla Concession from the copper mineral deposits within the Petaquilla 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 Petaquilla Concession, subject to a graduated 1% - 5% Net Smelter Return, based on the future gold price at the time of production, payable to the former joint venture partners as to 35.135% and 64.865% respectively.

A phased Mine Development Plan was approved by Ministerial Resolution of the Government of Panama in September 2005. The Company proceeded with the development of the property and construction of the processing mill commenced in July of 2007.

5. INVESTMENT IN PETAQUILLA COPPER LTD.

During the period ended April 30, 2007, the shareholders of the Company voted in favour of the April 21, 2006, proposed Plan of Arrangement. During the same period, Supreme Court approval in the Province of British Columbia was obtained for the Plan of Arrangement.

The result of the Plan of Arrangement was that each shareholder of the Company received one share of Petaquilla Copper Ltd. (“Copper”), a private company. Each shareholder continued 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 was October 18, 2006, whereby each holder of the common shares of the Company on October 17, 2006, was 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 International 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 Petaquilla Concession as well as all the other concession lands adjacent to the Petaquilla Concession.

The Company initially owned 22,233,634 of the issued shares of Copper at a cost of \$500,000. Subsequent to the Plan of Arrangement, the Company has accounted for Copper on an equity basis. Under the equity method, the Company records the percentage of net income (loss) that would be attributed to the investment by adjusting the carrying value of the investment. If the percentage of loss from the investee is greater than carrying cost, the amount is not reduced beyond the full carrying value. Dilution gains arise whenever Copper issues equity at a price greater than the carrying value of the equity investment.

On September 19, 2008, the Company disposed of its 20,418,565 common shares of Copper to a wholly-owned subsidiary of Inmet Mining Corporation at a price of \$2.20 per common share, for proceeds for \$44,920,843. The Company did not incur any transaction cost in disposing of the shares.

PETAQUILLA MINERALS LTD.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, expressed in Canadian Dollars)

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6. RESTRICTED CASH

The Company deposited \$31,603 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 has pledged as security for financings (Note 8) a term deposit in the amount of \$496,080 (US\$400,000). The Company is required to post a performance bond to comply with Environmental law, article 112 in Panama, and the Company has posted a term deposit for \$248,040 (US\$200,000) as a guarantee. Also, the Company posted a term deposit for \$49,608 (US\$40,000) for a performance bond with the Ministry of Commerce and Trade in Panama. Interest rates on these deposits ranges from 1.25% to 4.875%.

7. OPERATING CREDIT LINE FACILITY

The Company has an operating credit line facility with BBVA up to a maximum of \$16,593,323 (US\$13,379,554) (May 31 2008 – \$13,301,952 (US\$13,379,554)). The facility is drawdown, reduced and converted to a capital lease on the 25th of each month. The facility has a fixed rate of 9% on \$13,665,089 (US\$11,018,456) (May 31, 2008 – \$10,954,549 (US\$11,018,456)) and fixed rate of 6% on \$2,928,234 (US\$2,361,098) (May 31, 2008 – \$2,347,403 (US\$2,361,098)). The facility is secured by the assets purchased under the facility and is registered with the Public Registry of the Republic of Panama.

8. LONG-TERM DEBT

During the period ended April 30, 2007, the Company arranged a bank loan of \$474,252 (US\$382,400) to acquire road and mine site equipment. The loan is repayable in 36 equal monthly instalments of \$14,562 (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 Fixed First charge on the purchased equipment and \$310,050 (US\$250,000) renewable term deposit.

During the period ended April 30, 2007, the Company arranged a bank loan of \$97,740 (US\$78,810) to acquire vehicles to be used for the mine site. The loan is repayable in 36 equal monthly instalments of \$3,108 (US\$2,506) 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.

During the period ended April 30, 2007, the Company arranged a bank loan of \$285,986 (US\$230,720) to acquire additional road and mine site equipment. The loan is repayable in 36 monthly instalments of \$9,233 (US\$7,445) 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.

During the period ended April 30, 2007, the Company arranged a bank loan of \$695,504 (US\$560,800) to acquire additional road and mine site equipment. The loan is repayable in 36 monthly instalments of \$22,441 (US\$18,095) commencing in January 2007 and bears interest at an annual rate of 9.25%. Collateral for this loan is comprised of a pledge of a first charge on the purchased equipment and \$186,030 (US\$150,000) renewable term deposit.

During the period ended April 30, 2007, the Company arranged a bank loan of \$30,385 (US\$24,500) to acquire a vehicle to be used for the mine site. The loan is repayable in 36 monthly instalments of \$983 (US\$793) 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.

PETAQUILLA MINERALS LTD.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, expressed in Canadian Dollars)

November 30, 2008, and October 31, 2007

8. LONG-TERM DEBT(continued)

The following table summarizes the loans outstanding as at November 30, 2008, and May 31, 2008:

	November 30, 2008	May 31, 2008
Long-term debt		
Equipment loan #1	\$ 89,051	\$ 125,053
Vehicle loan #1	17,665	27,978
Equipment loan #2	72,716	110,984
Equipment loan #3	278,860	317,324
Vehicle loan #2	12,239	13,907
	<u>470,531</u>	<u>595,246</u>
Less: current portion	(443,670)	(433,621)
	<u>\$ 26,861</u>	<u>\$ 161,625</u>

Anticipated long-term debt principal repayments are as follows:

2009	\$ 443,670
2010	26,861
	<u>\$ 470,531</u>

9. DEFERRED SERVICES AND MATERIALS TO BE PROVIDED TO PETAQUILLA COPPER LTD.

On September 30, 2007, Petaquilla Gold S.A. ("Gold"), a subsidiary of the Company entered into a Service Agreement with Petaquilla Copper, S.A. ("Copper") to provide electric generation, aggregate for construction and the rental of a drill machine (collectively, the "services") for a 3-year period. In return for receiving certain benefits and assurances, payment for services has been assumed and prepaid by Petaquilla Copper Ltd. in the amount of \$4,387,705 (US\$4,404,000) as per the following table, which details Copper's minimum needs:

Service/Supply	Minimum Requirement	Estimated Cost per Unit	Estimated Cost per Month	Estimated cost for 3-year contract
Electric Generation	350,000 kw.hr/month	0.19 USD/kw.hr	\$ 66,254	\$ 2,385,142
Aggregate for construction, including transportation to site	100,000 yd ³	16.5 USD/yd ³	-	1,643,895
Rental of LF 70 Drill Machine	-	-	9,963	358,668
Total prepaid services				\$ 4,387,705
Balance at November 30, 2008				4,130,578
Current portion				228,651
Non-current portion				3,901,927

During the first two years of the Service Agreement, Copper shall have the option to purchase the equipment from Gold at the market price of the equipment less the unamortized amount of rental costs prepaid.

During the period, the Company provided \$91,145 (US\$90,808) in services under this agreement.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, expressed in Canadian Dollars)

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10. CAPITAL LEASE OBLIGATIONS

The Company entered into two capital lease arrangements with Banco Bilbao Vizcaya Argentaria (Panama) S.A. ("BBVA") for the purchase of equipment to advance the Molejon project into production.

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

As a condition of the lease, the equipment will serve as collateral throughout the amortization period and will be registered with the Public Registry of the Republic of Panama. Further, an unrelated company IMN Resources Inc (formerly Petaquilla Copper Ltd), has pledged a term deposit in the amount of \$2,928,234 (US\$2,361,098) (May 31, 2008 - \$2,347,403 (US\$2,361,098)) as additional security.

Future minimum lease payments on the capital lease obligation are as follows:

	November 30, 2008	May 31, 2008
2009	\$ 3,160,200	\$ 2,648,121
2010	2,607,056	2,648,121
2011	916,539	1,674,278
	<u>6,683,795</u>	<u>6,970,520</u>
Less imputed interest of 9%	(645,066)	(839,640)
Total	6,038,729	6,130,880
Current obligation	<u>2,725,126</u>	<u>2,162,289</u>
Long- term obligation	\$ 3,313,603	\$ 3,968,591

11. SENIOR SECURED NOTES

	November 30, 2008	May 31, 2008
US\$ 60 Million Senior Secured Notes	\$ 50,360,046	\$ 26,630,004

As at November 30, 2008, the Company had issued \$54,528,647 (US\$43,967,624) (May 31, 2008 - \$31,746,900 (US\$32,250,000)) of its US\$60 Million senior secured notes ("Notes"). The Notes bear interest at an annual rate of 15%. The Notes will mature five years from date of issuance at 120% of the principal. The Company has the right to redeem the Notes at any time at 120% of the principal amount plus any accrued or unpaid interest on the Notes. If the Notes are redeemed within one year of issuance, all prepaid interest is forfeited. After 24 months from the date of issuance of the Notes (May 21, 2010 – 16,877.202 Notes and July 9, 2010 – 27,090.422 Notes), holders of the Notes shall have the right to cause the Company to purchase all of the Notes then outstanding at a price equal to the sum of (a) 120% of the principal amount of such Notes to be purchased and (b) accrued and unpaid interest on the principal amount of the Notes. On an annual basis, the Note holders can cause the Company to redeem Notes equal to 35% of Distributable Cash. Distributable cash flow is defined as cash available after:

- a) satisfaction of the Company's debt obligations (principal and interest);
- b) satisfaction of the Company's general and administration expenses, capital expenditures and other expense obligations;
- c) deduction for income tax obligations; and
- d) retaining reasonable working capital or other reserves

Reasonable working capital and other reserves are to be defined mutually between the company and the Note holders. As of November 30, 2008 none of these has been defined

The Company initially issued 60,000 Notes. Each Note was issued with 382 share purchase warrants. Each warrant entitles the holder to purchase one common share at CDN \$2.30 for a period of five years from the date of purchase.

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11. SENIOR SECURED NOTES (continued)

The warrants are subject to a weighted average anti-dilution price protection with a floor equivalent to CDN \$2.15. On September 30, 2008 the Company redeemed 36,032,376 Notes at 120% of their principal value for a total payment of \$44,890,576 (US\$43,238,852).

On October 1, 2008, the Company issued an additional 20,000 notes under the US\$60 Million senior secure notes indenture for net proceeds of \$ 16,962,393 (US\$ 15,874,958). These Notes contain the same terms and conditions as the previous issue under the indenture with the exception of the 382 share purchase warrants. These Notes did not contain any warrants.

The Notes have been accounted for in accordance with HB 3855 "Financial Instruments – Recognition and Measurement", HB 3862 "Financial Instruments – Disclosure" and HB 3863 "Financial Instruments – Presentation". Under this guidance, the Company valued the liability component of the Notes and assigned the difference to the warrants. On the valuation date, the value of the Notes was calculated to be \$58,487,339 (US\$58,474,937) and the amount allocated to the warrants \$1,525,386 (US\$1,525,063). Prepaid interest of \$8,993,685 (US\$9,000,000) was applied as a reduction of the Notes. The liability component was calculated using a discount rate of 26.65% and a maturity date of two years from issue. The senior secured notes contain embedded derivatives as a result of the call and put options. The Company is unable to fair value the embedded derivatives component separately and thus has classified the combined contract as a financial liability that is held for trading.

During the six months ended November 30, 2008, the Company had incurred \$4,419,474 (US\$4,136,246) (six months period ended October 31, 2007 – \$nil) in financing costs. These costs had been expensed in the period they are incurred in accordance with the Company's accounting policy.

The Notes are guaranteed, on a joint and several basis, by all the assets of the Company and of the Company's subsidiaries.

12. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

Authorized Capital

Unlimited common shares without par value

Unlimited preference shares without par value – rights and privileges conferred on issuance

	Number of Common Shares	Amount	Contributed Surplus	Warrants
Issued				
Balance as at April 30, 2007	89,876,951	\$ 91,596,035	\$ 12,073,149	\$ 10,706,498
Non-brokered private placement, net of finders' fees (a)	4,552,412	10,918,342	-	1,327,463
Exercise of stock options	1,055,883	3,110,114	(2,026,487)	-
Exercise of warrants	373,395	1,153,659	-	(578,617)
Share issue relating to legal settlement	100,000	261,000	-	-
Stock-based compensation	-	-	6,359,356	-
Senior secured notes warrants	-	-	-	808,327
Share issuance costs	-	(1,181,067)	-	713,326
Balance as at May 31, 2008	95,958,641	\$105,858,083	\$16,406,018	\$12,976,997
Exercise of stock options	81,480	224,657	(183,662)	-
Stock-based compensation	-	-	772,285	-
Senior secured notes finders warrants cost	-	(217,587)	-	217,587
Senior secured notes warrants	-	-	-	717,059
Balance as at November 30, 2008	96,040,121	\$105,865,153	\$ 16,994,641	\$ 13,911,643

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12. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS (continued)

In May 2007, 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 were subject to a four-month and a day resale restriction that expired on September 10, 2007. The fair value of the warrants issued on this private placement is \$291,274.

In October 2007, the Company closed the first tranche of the non-brokered private placement announced in October 2007 comprising 2,093,500 units at \$3.00 per unit for gross proceeds of \$6,280,500. 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 Company paid \$222,375 and agreed to issue 74,125 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$52,584.

In December 2007, the Company closed the second tranche of the non-brokered private placement announced in October 2007 comprising of 339,000 units at \$3.00 per unit for gross proceeds of \$1,017,000. 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 Company paid \$43,500 and agreed to issue 12,500 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$8,304.

In January 2008, the Company closed the third tranche of the non-brokered private placement announced in October 2007 comprising of 708,000 units at \$3.00 per unit for gross proceeds of \$2,124,000. 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 Company paid \$105,000 and agreed to issue 35,000 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$22,957.

In May 2008, the Company closed the first tranche of its Senior Secured Notes issuing 32,250 units with gross proceeds of US\$ 32,250,000. Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. Each warrant entitles the holder to purchase one common share at CDN \$2.30 for a period of five years from the date of purchase. The warrant is subject to a weighted average anti-dilution price protection with a floor equivalent to \$2.15. The Notes will mature at 120% of the principal amount. The Notes also carry a 15% interest of which the first year's interest is prepaid at the date the funds were received. The Company agreed to issue 492,780 share purchase warrants as finders' fees in connection with this tranche of the private placement. The fair value of the finders' warrants is \$629,481.

In June 2008, the Company closed the second tranche of its Senior Secured Notes issuing 10,000 units with gross proceeds of US\$ 10,000,000. Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. Each warrant entitles the holder to purchase one common share at CDN \$2.30 for a period of five years from the date of purchase. The warrant is subject to a weighted average anti-dilution price protection with a floor equivalent to \$2.15. The Notes will mature at 120% of the principal amount. The Notes also carry a 15% interest of which the first year's interest is prepaid at the date the funds were received. The Company to issue 152,800 share purchase warrants as finders' fees in connection with this tranche of the private placement. The fair value of the finders' warrants is \$ 55,890.

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12. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS (continued)

In July 2008, the Company closed the first tranche of its Senior Secured Notes issuing 27,750 units with gross proceeds of US\$ 27,750,000. Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. Each warrant entitles the holder to purchase one common share at CDN \$2.30 for a period of five years from the date of purchase. The warrant is subject to a weighted average anti-dilution price protection with a floor equivalent to \$2.15. The Notes will mature at 120% of the principal amount. The Notes also carry a 15% interest of which the first year's interest is prepaid at the date the funds were received. The Company agreed to issue 271,220 share purchase warrants as finders' fees in connection with this tranche of the private placement. The fair value of the finders' warrants is \$ 45,883.

13. STOCK OPTIONS

During the period ended April 30, 2007, the Company received approval for its stock option plan (the "New Plan") which authorizes the board of directors to grant incentive stock options to directors, officers and employees. The New Plan was amended on November 18, 2008, to increase the maximum number of shares reserved for issuance under the Company's Plan to 10,700,000 from 10,000,000.

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.

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 five day volume weighted average price of the Company's shares prior to the 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:

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13. STOCK OPTIONS (continued)

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2006	6,031,200	0.53
Granted (re: Plan of Arrangement)	3,730,000	1.14
Granted	6,139,543	2.02
Exercised	(5,247,813)	0.59
Expired	(400,000)	1.24
Forfeited	(493,400)	0.98
Forfeited	(20,000)	2.01
Voluntary reduction	(1,623,763)	0.91
Balance at April 30, 2007	8,115,767	1.76
Granted	1,375,000	1.16
Exercised	(1,055,883)	0.53
Cancelled	(319,750)	2.49
Balance at May 31, 2008	8,115,134	1.83
Granted	770,000	1.16
Exercised	(81,480)	0.50
Cancelled	(75,000)	2.67
Forfeited	(150,000)	2.25
Balance at November 30, 2008	8,578,654	1.76
Number of stock options exercisable	7,449,279	\$ 1.78

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13. STOCK OPTIONS (continued)

As at November 30, 2008, the following stock options were outstanding as follows:

Number of Shares Outstanding	Exercise Price	Expiry Date
30,000	0.26	April 21, 2010
193,800	0.26	July 11, 2010
919,200	0.54	February 1, 2011
96,000	0.89	April 27, 2011
5,409,654	2.01	January 15, 2012
200,000	2.22	June 12, 2012
500,000	2.25	June 20, 2012
50,000	2.48	July 11, 2012
50,000	2.49	July 12, 2012
50,000	2.54	July 23, 2012
5,000	3.04	November 15, 2012
75,000	2.70	February 14, 2013
100,000	2.80	February 11, 2013
30,000	1.96	May 5, 2013
400,000	1.96	May 5, 2013
60,000	1.25	September 1, 2013
410,000	0.56	November 18, 2013
<hr/> <hr/>		
8,578,654		

Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the directors during the six months period ended November 30, 2008, was \$750,386 (six months period ended October 31, 2007 - \$4,304,693).

Stock-based compensation charged to mineral property costs amounted to \$21,899 for the six months ended November 30, 2008 (six months ended October 31, 2007 - \$nil).

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 Company issued 770,000 stock options during the six months period ended November 30, 2008, the weighted average fair value of the stock options granted was \$0.46. The weighted average fair value of stock options granted is \$1.77 for the six months ended October 31, 2007, by using the Black-Scholes options pricing model with the following weighted average assumptions:

	Six months ended November 30, 2008	Six months ended October 31, 2007
Risk-free interest	2.80%	4.65%
Expected dividend yield	-	-
Expected stock price volatility	69%	87%
Expected option life in years	5 years	5 years

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14. SHARE PURCHASE WARRANTS

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2006	4,982,835	1.20/1.44
Issued	9,798,000	-
Exercised	(4,982,835)	1.20
Balance at April 30, 2007	9,798,000	1.54
Issued	15,210,110	2.30
Exercised	(373,395)	-
Balance at May 31, 2008	24,634,715	2.18
Issued	11,024,520	2.30
Exercised	-	-
Balance at November 30, 2008	35,659,235	\$ 2.18

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 finder's 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 of the Company (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 had been listed on a recognized Canadian stock exchange (the "Copper Listing Date"), the Copper Warrant and the PTQ Warrant had to 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 were subject to resale restrictions until such time that Copper became a reporting issuer or another exemption from resale restrictions is available. The PTQ common shares were freely tradable following the Effective Date.

On December 31, 2007, Copper commenced trading on the Toronto Stock Exchange. The respective exercise prices of the PTQ Warrants and the Copper Warrants have been determined to be \$1.54 and \$1.46 based on \$3.00 multiplied by the ratio of the five day weighted average price of each of the PTQ and Copper shares during the first five trading days of Copper.

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14. SHARE PURCHASE WARRANTS (continued)

On May 10, 2007, 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 (See Note 14). The fair value of the warrants issued on this private placement is \$291,274.

In October 2007, the Company closed a non-brokered private placement comprising of 2,093,500 units at \$3.00 per unit for gross proceeds of \$6,280,500. Each unit consists of one common share and one-half of one common share purchase warrants, 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 Company paid \$222,375 and agreed to issue 74,125 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the warrants issued on this tranche of the private placement is \$720,134. The fair value of the finders' warrants is \$52,584.

In December 2007, the Company closed the second tranche of the non-brokered private placement announced in October 2007 comprising of 339,000 units at \$3.00 per unit for gross proceeds of \$1,017,000. Each unit consists of one common share and one-half of one common share purchase warrants, 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 Company paid \$43,500 and agreed to issue 12,500 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the warrants issued on this tranche of the private placement is \$103,549. The fair value of the finders' warrants is \$8,304.

In January 2008, the Company closed the third tranche of the non-brokered private placement announced in October 2007 comprising of 708,000 units at \$3.00 per unit for gross proceeds of \$2,124,000. Each unit consists of one common share and one-half of one common share purchase warrants, 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 Company paid \$105,000 and agreed to issue 35,000 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the warrants issued on this tranche of the private placement is \$212,504. The fair value of the finders' warrants is \$22,957.

In May 2008, the Company closed the first tranche of its Senior Secured Notes issuing 32,250 units with gross proceeds of US\$32,250,000. Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. Each warrant entitles the holder to purchase one common share at CDN \$2.30 for a period of five years from the date of purchase. The warrant is subject to a weighted average anti-dilution price protection with a floor equivalent to \$2.15. The Notes will mature at 120% of the principal amount. The Notes also carry a 15% interest of which the first year's interest is prepaid at the date the funds were received. The Company paid \$1,612,500 and agreed to issue 492,780 share purchase warrants as finders' fees in connection with part of the private placement. The fair value of the finders' warrants is \$629,481.

In June 2008, the Company closed the second tranche of its Senior Secured Notes issuing 10,000 units with gross proceeds of US\$10,000,000. Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. Each warrant entitles the holder to purchase one common share at CDN \$2.30 for a period of five years from the date of purchase. The warrant is subject to a weighted average anti-dilution price protection with a floor equivalent to \$2.15. The Notes will mature at 120% of the principal amount. The Notes also carry a 15% interest of which the first year's interest is prepaid at the date the funds were received. The Company issued 152,800 share purchase warrants as finders' fees in connection with this tranche of the private placement. The fair value of the finders' warrants is \$ 55,890.

In July 2008, the Company closed the first tranche of its Senior Secured Notes issuing 27,750 units with gross proceeds of US\$27,750,000. Each unit of US\$ 1,000 consists of one Secured Senior Note and a warrant to purchase 382 Common shares. Each warrant entitles the holder to purchase one common share at CDN \$2.30 for a period of five years from the date of purchase. The warrant is subject to a weighted average anti-dilution price protection with a floor equivalent to \$2.15. The Notes will mature at 120% of the principal amount. The Notes also carry a 15% interest of

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14. SHARE PURCHASE WARRANTS (continued)

which the first year's interest is prepaid at the date the funds were received. The Company agreed to issue 271,220 share purchase warrants as finders' fees in connection with this tranche of the private placement. The fair value of the finders' warrants is \$ 45,883.

The weighted average fair value of the finders' warrants issued is estimated to be approximately \$0.24 and \$0.71 for the six months ended November 30, 2008, and the six months ended October 31, 2007, respectively, by using the Black-Scholes options pricing model with the following assumptions:

	Six months ended November 30, 2008	Six months ended October 31, 2007
Risk-free interest	3.29%	4.17%
Expected dividend yield	-	-
Expected stock price volatility	43%	47%
Expected option life in years	5.00 years	2.00 years

15. RELATED PARTY TRANSACTIONS

During the six months ended November 30, 2008, PTQ had the following transactions with related parties:

- The Company paid consulting fees of \$3,500 (six months period ended October 31, 2007 - \$61,943) to companies controlled by a director, a former director and a former officer.
- The Company paid wages and benefits of \$149,801 (six months period ended October 31, 2007 - \$139,191) to companies controlled by a director, a former director and an officer.
- The Company paid legal fees of \$103,788 (six months period ended October 31, 2007 - \$53,258) and financing costs of \$10,334 (six months period ended October 31, 2007 - \$35,640) to a law firm controlled by an officer. The Company paid for services and goods of \$91,749 (six months period ended October 31, 2007 - nil) to a company controlled by an officer.

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

16. SEGMENT INFORMATION

The Company has one operating segment being the exploration of resource properties. The Company has not earned revenues from any projects.

17. COMMITMENTS

- 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 commencing September 1, 2006. 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., consequent to the Plan of Arrangement. Therefore the estimated annual cost is \$33,120 to the Company.
- As of November 30, 2008, the Company had a commitment to purchase plant equipment of \$1,201,395 (US\$968,711) and other support equipment of \$1,388,959 (US\$1,119,948).

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18. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Fair Values

The Company's financial instruments consist of cash and cash equivalents, receivables, restricted cash, operating credit line facility, accounts payable, long-term debt, and the amount payable to Petaquilla Copper Ltd. The fair value of these financial instruments approximates their carrying values due to the immediate or short-term maturity of these financial instruments

The Company's senior secured notes are measured on initial recognition using the residual method (see Note 11). Subsequent fair value measurement is based on a discounted cash flow model using a discount rate of 26.65% and a maturity date of two years from issue.

(b) Financial instrument risk exposure

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, restricted cash, and accounts receivable. The Company has reduced its credit risk by investing its cash and cash equivalents and restricted cash in term deposits with financial institutions that operate globally. Also, as the majority of its receivables are with the governments of Canada in the form of sales tax and, the credit risk is minimal. Therefore, the Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares, senior secured debt and leasing arrangements to develop the project and may require doing so again in the future. Under the US\$ 60 Million senior secured notes indenture, the Company can issue an additional 16,032.376 Notes for gross proceeds of \$19,883,353(US\$16,032,376).

On an annual basis the Company may be required to pay 35% of its distributable cash as defined in its senior secured notes (Note 11).

Market risk

(i) Currency risk

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: United States dollar denominated cash and cash equivalents, restricted cash, accounts receivable, operating credit line facility, accounts payable, leases, long-term debt and senior secured notes. The sensitivity of the Company's net earnings and other comprehensive income due to changes in the exchange rate between the Canadian dollar and the United States dollar is summarized in the table below:

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18. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)

	As at November 30, 2008	
	10% Increase in the United States Dollar	10% decrease in the United States Dollar
(Decrease) increase in net earnings	\$ (3,150,972)	\$ 3,150,972
(Decrease) increase in other comprehensive (loss) income	-	-
Comprehensive (loss) income	\$ (3,150,972)	\$ 3,150,972

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash and cash equivalents, and restricted cash bear interest at fixed rates.

Other current financial assets and liabilities are not exposed to interest rate because they are non-interest bearing.

The operating credit line facility, leases, long-term debt and senior secured notes bear interest at a fixed rate and are also not exposed to interest rate risk.

(C) Capital Management

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital structure of the Company consists of long-term debt (Note 8), leases (Note 10) and senior secured notes (Note 11) and equity attributable to common shareholders, comprising of issued capital, contributed surplus and deficit. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares, senior secured debt and leasing arrangements to develop the project and may require doing so again in the future.

The Company is monitoring market conditions to secure the funding at the lowest cost of capital. The Company is exposed to various funding and market risks which could curtail its access to funds.

19. 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:

Balance at May 31, 2008	\$	4,308,083
Accretion		180,478
Foreign exchange loss on remeasurement		1,091,353
Balance at November 30, 2008	\$	5,579,914

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

- The total undiscounted cash flow required to settle the obligation is approximately \$7,720,245 (US\$ 6,225,000);
- Asset retirement obligation payments are expected to occur during fiscal years 2014 and 2015;
- A credit adjusted risk-free rate of 7.65% has been used to discount cash flows.

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20. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Three months ended November 30, 2008	Three months ended October 31, 2008	Six months ended November 30, 2008	Six months ended October 31, 2008
Non-cash investing activities				
Property and equipment acquired through credit line facility	\$ 1,125,446	\$ -	\$ 2,072,151	\$ -
Deferred services and materials financed by a reduction in amounts payable to Petaquilla Copper Ltd.	-	4,368,133	-	4,368,133
Stock-based compensation capitalized to mineral properties	(438)	-	22,337	-
	Three months ended November 30, 2008	Three months ended October 31, 2008	Six months ended November 30, 2008	Six months ended October 31, 2008
Interest paid in cash	\$ 3,604,549	\$ -	\$ 8,043,618	\$ -
Income taxes paid in cash	-	-	-	-

21. CONTINGENCIES

The Company is engaged in certain legal actions in the ordinary course of business and believe that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

On November 13, 2008, the Autoridad Nacional del Ambiente (“ANAM”), the environmental agency of the Government of the Republic of Panama, issued a Resolution purporting to fine the Company and its present and former affiliates US\$1,000,000 for alleged violations of environmental laws that took place on the main Petaquilla Copper Concession in 2005 and an additional US\$934,695 for damages. On November 26, 2008, ANAM by Resolution approved the Company’s Environmental Impact Study (“EIS”) Category III for the Molejon Gold Project. The Resolution sets out a number of conditions to be satisfied before the Company can attain full commercial production. Based on the approval of the EIS and other issues, the Company filed for reconsideration with ANAM to have the fines reduced to nil. The outcome of the reconsideration and the amount, if any, that may ultimately be payable by the Company cannot be determined. Should the Company be unsuccessful in having the fines reduced to nil, the Company intends to pursue other legal means available to it to have these fines reduced to nil.

22. SUBSEQUENT EVENTS

Subsequent to November 30, 2008:

- The company issued 459,063 stock options and cancelled 35,000 stock options.
- The Company has been advised that ANAM has not accepted the Company’s request for reconsideration that the amount of the financial sanctions purportedly levied against the Company and its present and former affiliates be reduced to nil. The Company has been advised by Panama counsel that there are several grounds on which the validity of the November 13 Resolution can be challenged. The Company is currently assessing the situation to

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22. SUBSEQUENT EVENTS (continued)

- determine what action, if any, should be taken. Consequently, the amount, if any, that may ultimately be payable by the Company cannot be determined