

PETAQUILLA MINERALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

**Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008,
Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007
and Twelve Months Ended January 31, 2007**

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
Petaquilla Minerals Ltd.

We have audited the consolidated balance sheets of **Petaquilla Minerals Ltd.** (the "Company") as at May 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss and deficit and cash flows for the year ended May 31, 2009, the one month period ended May 31, 2008, the year ended April 30, 2008, the three month period ended April 30, 2007 and the year ended January 31, 2007. 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. 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 audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company, as at May 31, 2009 and 2008, and the results of its operations and its cash flows for the year ended May 31, 2009, the one month period ended May 31, 2008, the year ended April 30, 2008, the three month period ended April 30, 2007 and the year ended January 31, 2007 in conformity with Canadian generally accepted accounting principles.

As discussed in note 2, during 2009 the Company changed its accounting policy for mineral properties. Also, as discussed in note 2 to the consolidated financial statements, during 2009 the Company changed its reporting currency to U.S. dollars.

As discussed in notes 28 and 29, the Company has restated the accompanying consolidated financial statements as at and for the periods ended May 31, 2008, April 30, 2008, April 30, 2007 and January 31, 2007 to correct errors in the accounting for its equity method investment and mineral properties. Also, as discussed in note 29, the Company has restated the accompanying consolidated financial statements as at and for the period ended May 31, 2008 to correct an error in the accounting for debt issue costs.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as at May 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 31, 2009 expressed an adverse opinion thereon.

Vancouver, Canada,
September 1, 2009.

Ernst & Young LLP

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 1, 2009 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 1, 2009.

Ernst + Young LLP

Chartered Accountants

PETAQUILLA MINERALS LTD.
CONSOLIDATED BALANCE SHEETS

(in United States Dollars) (See Note 1 Nature of Operations and Going Concern Uncertainty)

	May 31, 2009	May 31, 2008 (Notes 2 and 29)
ASSETS (Notes 14 and 15)		
Current		
Cash and cash equivalents (Notes 9 and 24)	\$ 3,575,168	\$ 12,850,137
Receivables	144,225	450,885
Inventory (Note 3)	1,038,999	-
Prepaid expenses	591,847	310,255
Total current assets	<u>5,350,239</u>	<u>13,611,277</u>
Restricted cash (Note 8)	707,480	670,175
Investment in Petaquilla Copper Ltd. (Note 7)	-	2,408,443
Deposit on equipment and construction materials	1,762,945	-
Property and equipment (Notes 4 and 13)	12,879,658	16,779,149
Mineral properties (Note 5)	60,843,501	37,739,133
Total assets	<u>\$ 81,543,823</u>	<u>\$ 71,208,177</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft (Note 9)	\$ -	\$ 2,100,000
Operating credit line facility (Note 10)	-	3,872,434
Accounts payable and accrued liabilities	8,746,892	8,493,460
Current portion of deferred services and materials (Note 12)	120,000	248,786
Current portion of obligations under capital leases (Note 13)	5,054,987	2,174,903
Current portion of long-term debt (Note 11)	160,993	436,151
Current portion of senior secured notes (Note 14)	15,653,483	-
Total current liabilities	<u>29,736,355</u>	<u>17,325,734</u>
Deferred services and materials (Note 12)	3,123,394	4,003,423
Asset retirement obligation (Note 25)	4,664,720	4,333,216
Senior secured notes (Note 14)	13,754,019	26,785,359
Convertible senior secured notes (Note 15)	34,794,455	-
Long-term debt (Note 11)	-	162,568
Obligations under capital leases (Note 13)	4,391,168	3,991,743
Total liabilities	<u>90,464,111</u>	<u>56,602,043</u>
Commitments and contingencies (Notes 22 and 26)		
Shareholders' (deficit) equity		
Share capital		
Authorized		
Unlimited common shares and preferred shares without par value (Note 16)		
Issued and outstanding		
96,040,121 (May 31, 2008 – 95,958,641) common shares	89,208,668	89,002,273
Treasury shares, at cost		
44,200 (May 31, 2008 – 44,200) common shares	(122,193)	(122,193)
Warrants (Notes 16 and 18)	14,109,097	11,771,374
Contributed surplus (Note 16)	13,897,197	14,714,276
Equity component of convertible senior secured notes (Note 15)	495,121	-
Accumulated comprehensive income (Note 2)	(6,733,242)	(2,084,526)
Deficit	(119,774,936)	(98,675,070)
Total shareholders' (deficit) equity	<u>(8,920,288)</u>	<u>14,606,134</u>
Total liabilities and shareholders' (deficit) equity	<u>\$ 81,543,823</u>	<u>\$ 71,208,177</u>

On behalf of the Board:

"Richard Fifer" - Director

"John Cook" - Director

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

PETAQUILLA MINERALS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS AND DEFICIT
(in United States Dollars)

	Twelve months ended May 31 2009	One month ended May 31 2008 (Notes 2 and 29)	Twelve months ended April 30 2008 (Note 2)	Three months ended April 30 2007 (Note 2)	Twelve months ended January 31 2007 (Notes 2 and 29)
EXPENSES					
Accounting and legal (Note 19)	\$ 1,944,302	\$ 15,536	\$ 1,306,921	\$ 204,246	\$ 433,266
Accretion of asset retirement obligation (Note 25)	331,504	52,098	305,692	-	-
Consulting fees (Note 19)	370,248	21,170	943,250	277,051	667,788
Amortization	336,602	35,511	344,968	116,893	296,442
Filing fees	115,295	280	87,005	5,473	67,027
Investor relations and shareholder information	1,121,895	54,595	1,012,822	132,438	979,155
Office administration	2,152,886	177,657	2,366,940	152,031	700,350
Rent	240,693	1,630	122,495	33,074	124,344
Exploration and development costs (Note 6)	7,761,862	562,237	11,690,204	2,167,355	10,930,276
Stock-based compensation (Note 17)	898,454	77,890	5,561,247	2,915,884	14,962,731
Travel	1,014,530	121,849	857,907	230,293	1,248,787
Debt issuance costs (Notes 14 and 15)	6,398,825	3,894,873	-	-	-
Wages and benefits (Note 19)	2,916,615	177,329	1,668,455	154,811	1,591,959
Total expenses	(25,603,711)	(5,192,655)	(26,267,906)	(6,389,549)	(32,002,125)
OTHER INCOME (EXPENSE)					
Foreign exchange (loss) gain	(8,157,720)	295,059	1,342,442	(757,632)	23,723
Gain on sale of marketable securities	-	-	-	-	18,584
Interest income	169,366	78,658	51,926	49,080	260,393
Interest on long-term debt	(37,382)	(15,613)	(68,465)	(59,845)	-
Asset usage fees	(4,155)	(695)	126,775	90,635	-
Gain on sale of equity investment (Note 7)	40,604,938	-	4,347,077	-	-
Power and drilling services	156,597	70,094	76,430	-	-
Loss from equity investment (Note 7)	(2,396,011)	(779,846)	(8,301,371)	(2,057,724)	(714,756)
Gain on dilution of equity investment (Note 7)	2,238,492	-	12,582,085	632,396	1,701,589
Redemption loss on senior secured notes	(13,130,982)	-	-	-	-
Mark-to-market loss on senior secured notes and convertible senior secured notes	(14,939,298)	-	-	-	-
Total other income (expenses)	4,503,845	(352,343)	10,156,899	(2,103,090)	1,289,533
Net loss for the period	(21,099,866)	(5,544,998)	(16,111,007)	(8,492,639)	(30,712,592)
Other comprehensive (loss) gain:					
Unrealized (loss) gain on translating financial statements to U.S. reporting currency (Note 2)	(4,648,716)	487,574	716,555	923,990	(598,731)
Comprehensive loss for the year	\$(25,748,582)	\$(5,057,424)	\$(15,394,452)	\$(7,568,649)	\$(31,311,323)
Basic and diluted loss per share	\$(0.22)	\$(0.06)	\$(0.17)	\$(0.09)	\$(0.40)
Weighted average number of common shares outstanding	96,019,488	93,131,030	93,131,030	89,615,924	77,695,782

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

PETAQUILLA MINERALS LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in United States dollars)

	Number of Common Shares	Amount of Common Shares (Note 2)	Contributed Surplus (Note 2)	Warrants (Note 2)	Accumulated Other Comprehensive Income (Note 2)	Retained Earnings (Accumulated Deficit) (Note 2)
Balance as at January 31, 2006	70,246,303	\$ 48,567,732	\$ 762,248	\$ 1,018,052	\$(3,613,914)	\$(37,813,834)
Non-brokered private placement, net of finders' fees	9,400,000	10,296,327	-	8,687,152	-	-
Exercise of stock options	4,737,893	9,904,961	(7,618,555)	-	-	-
Exercise of warrants	4,982,835	6,368,665	-	(1,018,052)	-	-
Stock-based compensation	-	-	15,066,563	-	-	-
Share issuance costs	-	(1,247,623)	-	721,018	-	-
Net loss	-	-	-	-	-	(30,712,592)
Exchange difference from translation of financial statements to US reporting currency	-	-	-	-	(598,731)	-
Balance as at January 31, 2007	89,367,031	\$ 73,890,062	\$ 8,210,256	\$ 9,408,170	\$(4,212,645)	\$(68,526,426)
Exercise of stock options	509,920	904,299	(658,177)	-	-	-
Stock-based compensation	-	-	2,915,884	-	-	-
Net loss	-	-	-	-	-	(8,492,639)
Exchange difference from translation of financial statements to US reporting currency	-	-	-	-	923,990	-
Balance as at April 30, 2007	89,876,951	\$ 74,794,361	\$ 10,467,963	\$ 9,408,170	\$(3,288,655)	\$(77,019,065)
Non-brokered private placement, net of finders' fees	4,552,412	10,953,460	-	1,335,817	-	-
Exercise of stock options	1,055,883	3,047,984	(1,986,003)	-	-	-
Exercise of warrants	373,395	1,142,295	-	(517,130)	-	-
Share issue relating to legal settlement	100,000	264,438	-	-	-	-
Stock-based compensation	-	-	6,154,426	-	-	-
Share issuance costs	-	(561,911)	-	86,439	-	-
Net loss	-	-	-	-	-	(16,111,007)
Exchange difference from translation of financial statements to US reporting currency	-	-	-	-	716,555	-
Balance as at April 30, 2008	95,958,641	\$ 89,640,627	\$ 14,636,386	\$ 10,313,296	\$(2,572,100)	\$(93,130,072)
Stock-based compensation	-	-	77,890	-	-	-
Senior secured notes warrants	-	-	-	819,724	-	-
Share issuance costs	-	(638,354)	-	638,354	-	-
Net loss	-	-	-	-	-	(5,544,998)
Exchange difference from translation of financial statements to US reporting currency	-	-	-	-	487,574	-
Balance as at May 31, 2008	95,958,641	\$ 89,002,273	\$ 14,714,276	\$ 11,771,374	\$(2,084,526)	\$(98,675,070)
Exercise of stock options	81,480	206,395	(168,732)	-	-	-
Stock-based compensation	-	-	869,890	-	-	-
Senior secured notes finders warrants	-	-	-	215,230	-	-
Senior secured notes warrants	-	-	-	706,802	-	-
Expiration of warrants	-	-	263,263	(263,263)	-	-
Warrant issue costs	-	-	-	(102,546)	-	-
Repricing of senior secured notes warrants	-	-	(1,781,500)	1,781,500	-	-
Net loss	-	-	-	-	-	(21,099,866)
Exchange difference from translation of financial statements to US reporting currency	-	-	-	-	(4,648,716)	-
Balance as at May 31, 2009	96,040,121	\$ 89,208,668	\$ 13,897,197	\$ 14,109,097	\$(6,733,242)	\$(119,774,936)

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

PETAQUILLA MINERALS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in United States Dollars)

	Twelve months ended May 31, 2009	One month ended May 31, 2008 (Note 2)	Twelve months ended April 30, 2008 (Note 2)	Three months ended April 30, 2007 (Note 2)	Twelve months ended January 31, 2007 (Notes 2 and 29)
CASH FLOWS FROM OPERATING ACTIVITIES	\$ (21,099,866)	\$ (5,544,998)	\$ (16,111,007)	\$ (8,492,639)	\$ (30,712,592)
Loss for the period					
Items not affecting cash:					
Accretion of asset retirement obligation	331,504	52,098	305,692	-	-
Amortization	336,602	35,511	344,968	116,893	296,442
Gain on dilution of equity investment	(2,238,492)	-	(12,582,085)	(632,396)	(1,701,589)
Gain on sale of equity investment	(40,604,938)	-	(4,347,077)	-	-
Loss from equity investment	2,396,011	779,846	8,301,371	2,057,724	714,756
Stock-based compensation	898,454	77,890	5,561,247	2,915,884	14,962,731
Stock-based compensation included in exploration and development expenses	(28,564)	12,113	581,068	-	103,832
Amortization included in exploration and development expenses	4,033,720	368,809	2,901,942	104,346	422,985
Debt issuance costs	6,398,825	3,894,872	-	-	-
Redemption loss on senior secured notes	13,130,982	-	-	-	-
Mark-to-market loss on senior secured notes and convertible senior secured notes	14,939,298	-	-	-	-
Gain on sale of marketable securities	-	-	-	-	(18,584)
Unrealized foreign exchange (gain) loss	8,648,330	-	-	-	-
Unrealized loss on restricted cash	2,695	-	90,696	48,822	(24,240)
Unrealized foreign exchange loss on asset retirement obligation	-	(81,014)	(366,857)	-	-
Unrealized foreign exchange loss on capital leases and lease credit facility	-	(155,700)	98,636	-	-
Unrealized foreign exchange loss on senior secured notes	-	(155,332)	3,080	-	-
Unrealized foreign exchange loss on long-term debt	-	(5,707)	(60,303)	67,137	(37,149)
Changes in non-cash working capital items:					
Decrease (increase) in receivables	306,660	(187,614)	(153,297)	6,827	(67,022)
(Increase) decrease in prepaid expenses	(281,592)	343,861	(202,481)	204,092	(574,406)
(Increase) in inventory	(1,038,999)	-	-	-	-
Deferred services and materials	(156,597)	(70,094)	(76,430)	-	-
(Decrease) increase in accounts payable and accrued liabilities	(1,984,118)	(9,498,857)	9,042,977	(77,780)	2,127,961
Net cash used in operating activities	(16,010,085)	(10,134,316)	(6,667,860)	(3,681,090)	(14,506,875)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds from exercise of warrants and options	37,662	-	1,625,520	172,358	7,641,542
Proceeds from shares subscribed	-	-	12,142,274	129,500	19,782,532
Share issuance costs	-	-	(458,397)	-	(1,359,473)
Advances from (to) Petaquilla Copper Ltd. (Repayment of) proceeds from bank overdraft	(2,100,000)	(32,125)	17,682,808	(2,105,813)	(1,887,290)
Proceeds of long term debt	-	-	-	-	1,277,230
Proceeds from senior secured notes	47,750,000	32,250,000	-	-	-
Repayment of senior secured notes	(64,238,852)	-	-	-	-

Proceeds from convertible senior secured	40,000,000	-	-	-	-
Prepaid interest on senior secured notes	(7,162,500)	(4,837,500)	-	-	-
Prepaid interest on convertible senior	(6,000,000)	-	-	-	-
Payment of capital lease obligations	(2,824,140)	(60,390)	(700,022)	-	-
Debt issuance costs	(6,286,138)	(3,894,872)	-	-	-
Repayment of long-term debt	(436,230)	(45,005)	(534,993)	(92,202)	(105,331)
Net cash provided by financing activities	(1,260,198)	23,380,108	30,654,125	(855,509)	25,349,210
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property and equipment	(1,631,883)	-	(6,579,011)	(109,962)	(5,064,168)
Deposit on equipment	(1,762,945)	-	-	-	-
Investment in mineral properties	(31,679,647)	(1,289,902)	(13,909,888)	-	(6,130,457)
Redemption (purchase) of performance bond and restricted cash	-	-	511,315	334,456	(780,000)
Proceeds from sale of marketable securities	-	-	-	-	18,656
Proceeds (purchase) from sale of equity investment	43,238,852	-	-	-	(439,986)
Net cash used in investing activities	8,164,377	(1,289,902)	(19,977,584)	224,494	(12,395,955)
Impact of exchange rate changes on cash and cash equivalents	(169,063)	(872,009)	(3,849,118)	31,097	(610,758)
Change in cash and cash equivalents	(9,274,969)	11,083,881	159,563	(4,281,008)	(2,164,378)
Cash and cash equivalents, beginning of period	12,850,137	1,766,256	1,606,693	5,887,701	8,052,079
Cash and cash equivalents, end of period	\$3,575,168	\$12,850,137	\$1,766,256	\$1,606,693	\$5,887,701

Supplemental disclosure with respect to cash flows (Note 24)

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

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 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 is engaged in mine development and mineral exploration activities of gold-bearing mineral properties in Panama. The Company operates under the rules and regulations of Ley Petaquilla No. 9 and accordingly requires approval from the Ministry of Industry and Commerce in Panama before commercial production may commence. The Company’s main focus has been the development of the Molejon Gold Project which is expected to be in commercial production in fiscal 2010. Exploration activities have centered on the Company’s 659 square kilometre concessions surrounding the Petaquilla concession located in the Province of Colon, Panama.

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, has experienced recurring operating losses and has accumulated an operating deficit of \$119,774,936 as at May 31, 2009 (May 31, 2008 - \$98,675,070) and a shareholders’ deficit of \$8,920,288 at May 31, 2009 (May 31, 2008 – shareholders’ equity of \$14,606,134). Also the Company had a working capital deficiency of \$24,386,116 at May 31, 2009 (May 31, 2008 - \$3,714,457). Working capital is defined as current assets less current liabilities and provides a measure of the Company’s ability to settle liabilities that are due within one year with assets that are also expected to be converted to cash within one year.

The Company has a scheduled senior secured notes repayment of \$6,000,000 on September 15, 2009. Management’s plan in this regard is to raise equity, debt financing and cash from forward gold sales as required. There are no assurances that the Company will be successful in achieving these goals.

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. 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.

The operating cash flow and profitability of the Company are also affected by various factors, including the amount of gold produced and sold, the market price of gold, operating costs, interest rates, environmental costs, the level of exploration activity, labour risk, environmentalist risk and political risk. The Company seeks to manage the risks associated with its business; however, many of the factors affecting these risks are beyond the Company’s control.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and accompanying notes have been prepared in conformity with Canadian Generally Accepted Accounting Principles (“GAAP”). For a description of the differences between Canadian GAAP and United States GAAP for the Company, see note 29.

These consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries Adrian Resources (BVI) Ltd. (a British Virgin Island corporation), Petaquilla Minerals, S.A. (a Panama corporation), Instituto Petaquilla, S.A. (a Panama corporation), Petaquilla Gold, S.A. (a Panama corporation), Brigadas Verdes, S.A. (a Panama corporation), Aqua Azure, S.A. (a Panama corporation), Petaquilla Infrastructure Ltd. (a Canadian corporation), Petaquilla Infraestructura Ltd. (a British Virgin Island corporation), Petaquilla Hidro, S.A. (a Panama corporation), Panama Central Electrica, S.A. (a Panama corporation) and a 51% interest in Petaquilla Infraestructura, S.A. (a Panama corporation). The Company proportionately consolidates its 69% interest in a joint venture investment, Compania Minera Belencillo, S.A. (“Belencillo”) (a Panama corporation).

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, 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.

Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, recoverability of accounts receivable and investments, estimates of the useful life of properties and equipment, the future cost of asset retirement obligations, the amount and likelihood of contingencies, the discount rate used for valuation of senior secured and convertible senior secured notes, the valuation allowance for future income tax assets and the accounting for stock-based compensation and warrants.

Cash and cash equivalents

Cash and cash equivalents are classified as held for trading and include 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. The Company places its deposits with financial institutions with high credit standings. The Company regularly maintains cash balances in financial institutions in excess of insured limits.

Inventory

Materials and supplies inventory are valued at the lower of cost and net realizable value. Net realizable value is determined based on current replacement cost.

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 under capital lease	30%
Equipment	30%
Vehicles	30%
Computer software	50%
Buildings	4%

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Mineral properties

Exploration and development costs are expensed until such time as reserves are proven and financing to complete development has been obtained. Acquisition costs of mineral properties and tangible development costs 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 fair value if carrying value is not recoverable. Costs relating to properties abandoned are written off when the decision to abandon is made. Capitalized costs are depleted using a unit-of-sale method over the estimated economic life of the mine to which they relate.

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 all 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.

Restricted cash

The Company has elected to classify restricted cash as held for trading.

Receivables

Receivables are classified as loans and receivables and are measured at amortized costs. Receivables consist of refundable government value added taxes and travel advances.

Asset retirement obligation

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-sale method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and adjusted for changes in the estimated future cash flows underlying any initial fair value measurements (an increase or decrease in asset retirement costs).

Impairment of long-lived assets

A long-lived asset which includes property and related costs and equipment 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

Prior to March 1, 2009, the Canadian dollar was determined to be the measurement currency of the Company's operations and these operations have been translated into United States dollars up until this date using the current rate method as follows: all assets and liabilities are translated into United States dollars at

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

the exchange rate prevailing at the balance sheet date; all revenue and expense items are translated at the average rate of exchange for the period; and the resulting translation adjustment is recorded as accumulated other comprehensive income ("AOCI"), a separate component of shareholders' equity. Subsequent to the change in measurement currency described below, the AOCI balance will remain the same until the entities which gave rise to the AOCI balance are disposed of. In addition, unrealized gains and losses due to movements in exchange rates on balances held in foreign currencies are shown separately on the Consolidated Statement of Cash Flows.

Due to several financings in U.S. dollars, the most recent in March 2009, as well as the commencement of startup operations in Panama and expected revenue generation in U.S. dollars, it has been determined that as of March 1, 2009, the United States dollar is the reporting and measurement currency of the Company's operations and therefore these operations have been translated using the temporal method from that date onward. Under this method, foreign currency monetary assets and liabilities are translated into United States dollars at the exchange rates prevailing at the balance sheet date; non-monetary assets denominated in foreign currencies are translated using the rate of exchange at the transaction date; and foreign exchange gains and losses are included in the determination of earnings.

Revenue Recognition

Revenue from the sale of metals is recognized in the accounts when persuasive evidence of an arrangement exists, title and risk passes to the buyer, collection is reasonably assured and the price is reasonably determinable. During the pre-operating period, revenues and related expenses are recognized as a reduction / increase to mineral properties.

Debt issuance costs

Debt issuance costs, which include legal fees, trustee fees, due diligence fees, finders' fees, and finders' warrants, are expensed in the year that they are incurred.

Interest expense

Interest expense on financing related to project development, construction and mill equipment is capitalized to mineral properties to be amortized over the recoverable reserves on a unit-of-sale basis. Interest on operating long-term debt is expensed to operations as it is incurred since it relates to the acquisition of equipment used for general corporate purposes rather than for production.

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 all periods presented, all outstanding options and warrants were anti-dilutive since the proceeds to be received would be below the market value of the Company's shares.

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

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Income taxes

Future income taxes are recorded using the 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.

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.

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 23.

Section 3862, Financial Instruments – Disclosures

Section 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 23.

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable for the Company's annual consolidated financial statements for its fiscal year ending May 31, 2009, with retroactive application. The adoption of EIC-173 did not result in a material impact on the Company's consolidated financial statements.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In March 2009, the CICA issued EIC Abstract 174 - Mining Exploration Costs ("EIC-174") which supercedes EIC Abstract 126 -Accounting by Mining Enterprises for Exploration Costs ("EIC-126"), to provide additional guidance for mining exploration enterprises on the accounting for capitalization of exploration costs and when an impairment test of these costs is required. EIC 174 is applicable for the Company's annual consolidated financial statements for its fiscal year ending May 31, 2009, with retroactive application. The adoption of EIC – 174 did not result in a material impact on the Company's consolidated financial statements.

Accounting Policies to be Implemented Effective June 1, 2009

In February 2008, the CICA issued a new Handbook Section 3064 - Goodwill and Intangible Assets ("Section 3064"), which replaces CICA Handbook Sections 3062 - Goodwill and Other Intangible Assets ("Section 3062") and 3450 - Research and Development Costs. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the standards included in Section 3062. The new Section is applicable to the Company's financial statements for its fiscal year beginning June 1, 2009. The adoption of this section in fiscal 2010 will not have a material impact on the Company's consolidated financial statements.

Accounting Policies to be Implemented Effective June 1, 2011

In January 2009, the CICA issued Handbook Sections 1582 – Business Combinations ("Section 1582"), 1601 – Consolidated Financial Statements ("Section 1601") and 1602 – Non-controlling Interests ("Section 1602") which replaces CICA Handbook Sections 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601, together with Section 1602, establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning June 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time.

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 June 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.

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The conversion to IFRS will impact the Company's accounting policies, information technology and data systems, internal control over financial reporting and disclosure controls and procedures. The transition may also impact business activities such as certain contractual arrangements, capital requirements and compensation arrangements.

Changes in Accounting Policies

(a) Change in Reporting Currency

Effective March 1, 2009, the Company changed its reporting currency to the U.S. Dollar (USD). The change in reporting currency increases transparency of the financial results of the Company and provides better visibility for the stakeholders.

Prior to March 1, 2009, the Company reported its annual and quarterly consolidated balance sheets and the related consolidated statements of operations, deficit, comprehensive income, accumulated other comprehensive income and cash flows in Canadian dollars (CAD). In making the change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee (EIC) of the Canadian Institute of Chartered Accountants (CICA), set out in EIC-130 – "Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency."

In accordance with EIC-130, the financial statements for all the years and periods presented have been translated to the new reporting currency (USD) using the current rate method. Under this method, the statements of operations, deficit and comprehensive (loss) income and cash flows statement items for each year and period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheets dates. Shareholders' equity transactions have been translated using the rates of exchange in effect as at the date of the various capital transactions.

All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US dollars.

(b) Mineral Properties

During the current fiscal year, as a result of the initiation of a new exploration program, the Company commenced its review of the impact of International Financial Reporting Standards ("IFRS") on its accounting policies including an examination of the Company's current accounting policies. Due to this review, the Company determined that it was appropriate to change its accounting policy for mineral properties whereby exploration and development costs are to be expensed until such time as reserves are proven and financing to complete development has been obtained. Previously, the Company capitalized its exploration and development expenditures as incurred, which is permitted under Canadian generally accepting accounting principles ("Canadian GAAP"). This change in accounting policy has also been applied to the calculation of dilution gains and equity losses from the Company's equity investment in Petaquilla Copper Ltd.

Management believes that this revised accounting policy will provide a more relevant and reliable basis of accounting. Among other benefits, the revised accounting policy aligns the accounting treatment of mineral property expenditures with standards used by producing mining companies in the resource sector and with global accounting standards. The change in accounting policy has been applied retrospectively, and the comparative statements for May 31, 2008, April 30, 2008, April 30, 2007 and January 31, 2007 have been restated.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The effect of the adjustment on the financial statements is summarized in the tables below.

Consolidated balance Sheet	May 31, 2008 as previously reported	Restatement Adjustment (Note 28)	Change in Accounting Policy Adjustment	May 31, 2008 restated
Mineral properties	\$ 67,541,355	-	\$ (29,802,222)	\$ 37,739,133
Investment in Petaquilla Copper Ltd.	9,507,564	(1,207,000)	(5,892,121)	2,408,443

Consolidated Statement of Operations and Comprehensive Loss and Deficit	May 31, 2008 as previously reported	Restatement Adjustment (Note 28)	Change in Accounting Policy Adjustment	May 31, 2008 restated
Exploration and development costs	\$ -	-	\$ (562,237)	\$ (562,237)
Loss from equity investment	(230,752)	-	(549,094)	(779,846)
Net loss/comprehensive loss for the period	(4,433,667)	-	(1,111,331)	(5,544,998)
Loss per share – basic and diluted	(0.05)	-	(0.01)	(0.06)

Consolidated Statement of Cash Flows	May 31, 2008 as previously reported	Restatement Adjustment (Note 28)	Change in Accounting Policy Adjustment	May 31, 2008 restated
Operating activities	\$ (9,953,001)	-	\$ (181,315)	\$ (10,134,316)
Investing activities	(1,471,217)	-	181,315	(1,289,902)

Consolidated Statement of Operations and Comprehensive Loss and Deficit	April 30, 2008 as previously reported	Restatement Adjustment (Note 28)	Change in Accounting Policy Adjustment	April 30, 2008 restated
Exploration and development costs	\$ -	-	\$ (11,690,204)	\$ (11,690,204)
Gain on dilution of equity investment	13,011,861	(529,212)	99,436	12,582,085
Loss from equity investment	(4,390,462)	-	(3,910,909)	(8,301,371)
Gain on sale of equity investment	4,603,347	(646,815)	390,545	4,347,077
Net loss/comprehensive loss for the period	176,152	(1,176,027)	(15,111,132)	(16,111,007)
Loss per share – basic and diluted	(0.00)	(0.01)	(0.16)	(0.17)

Consolidated Statement of Cash Flows	April 30, 2008 as previously reported	Restatement Adjustment (Note 28)	Change in Accounting Policy Adjustment	April 30, 2008 restated
Operating activities	\$ 1,539,335	-	\$ (8,207,195)	\$ (6,667,860)
Investing activities	(28,184,779)	-	8,207,195	(19,977,584)

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidated Statement of Operations and Comprehensive Loss and Deficit	April 30, 2007 as previously reported	Change in Accounting Policy Adjustment	April 30, 2007 restated
Exploration and development costs	\$ -	\$ (2,167,355)	\$ (2,167,355)
Gain on dilution of equity investment	700,626	(68,230)	632,396
Loss from equity investment	(1,363,509)	(694,215)	(2,057,724)
Net loss/comprehensive loss for the period	(5,562,839)	(2,929,800)	(8,492,639)
Loss per share – basic and diluted	(0.06)	(0.03)	(0.09)

Consolidated Statement of Cash Flows	April 30, 2007 as previously reported	Change in Accounting Policy Adjustment	April 30, 2007 restated
Operating activities	\$ (1,618,081)	\$ (2,063,009)	\$ (3,681,090)
Investing activities	(1,838,515)	2,063,009	224,494

Consolidated Statement of Operations and Comprehensive Loss and Deficit	January 31, 2007 as previously reported	Restatement Adjustment (Note 28)	Change in Accounting Policy Adjustment	January 31, 2007 restated
Exploration and development costs	\$ -	\$ -	\$ (10,930,276)	\$ (10,930,276)
Gain on dilution of equity investment	-	2,000,514	(298,925)	1,701,589
Loss from equity investment	-	(191,400)	(523,356)	(714,756)
Stock-based compensation	(8,805,950)	(6,156,781)	-	(14,962,731)
Net loss/comprehensive loss for the period	(14,612,368)	(4,347,667)	(11,752,557)	(30,712,592)
Loss per share – basic and diluted	(0.19)	(0.06)	(0.15)	(0.40)

Consolidated Statement of Cash Flows	January 31, 2007 as previously reported	Change in Accounting Policy Adjustment	January 31, 2007 restated
Operating activities	\$ (4,103,416)	\$ (10,403,459)	\$ (14,506,875)
Investing activities	(22,799,414)	10,403,459	(12,395,955)

3. INVENTORY

	May 31, 2009	May 31, 2008
Raw materials and supplies	\$ 1,038,999	\$ -

PETAQUILLA MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

4. PROPERTY AND EQUIPMENT

	May 31, 2009			May 31, 2008 (Note 2)		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 221,489	\$ 69,909	\$ 151,580	\$ 59,776	\$ 40,850	\$ 18,926
Computer software	201,187	129,915	71,272	168,826	112,481	56,345
Equipment under capital leases	10,808,072	3,956,113	6,851,959	10,988,907	1,648,336	9,340,571
Equipment	7,922,073	3,421,173	4,500,900	9,450,318	2,601,201	6,849,117
Furniture and fixtures	822,714	316,311	506,403	21,123	7,227	13,896
Vehicles	25,016	8,752	16,264	-	-	-
Office equipment	167,499	27,257	140,242	-	-	-
Land	189,353	-	189,353	126,172	-	126,172
Buildings	472,783	21,098	451,685	382,888	8,766	374,122
	\$20,830,186	\$ 7,950,528	\$ 12,879,658	\$ 21,198,010	\$ 4,418,861	\$ 16,779,149

5. MINERAL PROPERTIES

The Company has capitalized \$60,843,501 in mineral property costs, net of revenue of \$653,941 as at May 31, 2009 and \$37,739,133 as at May 31, 2008:

	May 31, 2009	May 31, 2008 (Note 2)
Plant	\$ 47,610,795	\$ 22,402,691
Plant equipment	2,973,133	3,950,618
Camp	5,252,168	6,189,910
Asset retirement obligation (Note 25)	3,458,304	4,425,669
Capitalized interest expense	1,549,101	770,245
	\$ 60,843,501	\$ 37,739,133

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. The Company, through Petaquilla Gold, S.A., owns 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 5% - 7% net smelter return, based on the future gold price at the time of production.

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. Mill commissioning was initiated in November 2008 and the first gold pour occurred on April 7, 2009.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

6. EXPLORATION AND DEVELOPMENT COSTS

Exploration and development costs incurred to develop the Company's Molejon property and for exploration of other properties are detailed below:

	Twelve months ended May 31, 2009	One month ended May 31, 2008	Twelve months ended April 30, 2008
Drilling costs	\$ 1,410,591	\$ 3,842	\$ 4,992,578
Trenching	78,024	22,862	370,845
Engineering and consulting	979,463	1,186	640,722
Geologist	201,258	37,921	417,351
Property permits	-	33,818	-
Environment	162,859	8,153	117,545
Logistics	153,229	7,921	85,810
Indirect drilling costs	192,953	36,739	852,446
Engineering and design	145,285	25,224	335,193
Transportation	-	-	102,686
Communications	49,396	-	62,370
Topography	7,531	1,956	37,797
Technical support	68	-	9,824
Bridges	353,468	-	(12,810)
Roads	22,581	1,693	8,727
Amortization on operating equipment	4,033,720	368,809	2,901,942
Stock-based compensation (Note 16)	(28,564)	12,113	581,068
Capitalized interest expense	-	-	186,110
	\$ 7,761,862	\$ 562,237	\$ 11,690,204

	Three months ended April 30, 2007	Twelve months ended January 31, 2007
Drilling costs	\$ 764,340	\$ 4,358,203
Trenching	1,162,227	1,595,877
Engineering and consulting	101,475	1,036,658
Geologist	432,252	149,757
Property permits	1,004	256,359
Environment	13,958	265,305
Logistics	112,109	150,935
Indirect drilling costs	156,399	18,314
Engineering and design	53,041	77,975
Transportation	34,103	93,365
Communications	11,000	107,314
Topography	13,926	85,181
Technical support	18,010	78,677
Bridges	10,247	45,295
Roads	(821,082)	2,084,244
Amortization on operating equipment	104,346	422,985
Stock-based compensation (Note 16)	-	103,832
	\$ 2,167,355	\$ 10,930,276

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

7. INVESTMENT IN PETAQUILLA COPPER LTD.

The Company initially owned 22,233,634 of the issued shares of Copper at a cost of \$439,367 (CAD\$ 500,000). Subsequent to the spin out of Copper, the Company accounted for Copper on an equity basis. Under the equity method, the Company recorded 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 was greater than the carrying cost, the amount was not reduced below zero. Dilution gains arose whenever Copper issued 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 CAD\$ 2.20 per common share, for proceeds of \$43,238,852 (CAD\$ 44,920,843). The Company did not incur any transaction costs in disposing of the shares.

8. RESTRICTED CASH

The Company has \$707,480 in term deposits (May 31, 2008 - \$670,175) which are being held to guarantee debt financings and a performance bond for compliance with environmental laws in Panama. Interest rates on these deposits range from 0.05% to 4.875%.

9. BANK OVERDRAFT

The Company had a bank overdraft facility with one of its financial institutions. The balance was \$nil at May 31, 2009 (May 31, 2008 - \$2,100,000). The overdraft bore fixed interest of 7.5% per annum and was secured by one of the Company's savings accounts up to \$1,175,098. This facility was terminated in June 2008 at the Company's request.

10. OPERATING CREDIT LINE FACILITY

The Company has an operating credit line facility with Banco Bilbao Vizcaya Argentaria (Panama) S.A. ("BBVA") up to a maximum of \$13,379,554. The facility is converted to capital leases when the asset purchases are completed. The facility has a fixed rate of 9% on \$11,018,456 and 6% on \$2,361,098, is secured by the assets purchased and is registered with the Public Registry of the Republic of Panama. At May 31, 2009 there is a remaining credit line balance of \$332,511 available upon which the Company may draw.

11. LONG-TERM DEBT

During the fiscal year ended April 30, 2007, the Company arranged bank loans totalling \$1,277,230 for the purchase of equipment and vehicles. The loans are secured by the purchased assets plus term deposits in the amount of \$400,000.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

11. LONG-TERM DEBT (continued)

The following table summarizes the loans outstanding as at May 31, 2009 and May 31, 2008:

	May 31, 2009	May 31, 2008 (Note 2)
Equipment loan #1, repaid May 2009	\$ -	\$ 125,783
Vehicle loan #1, repaid May 2009	-	28,141
Equipment loan #2, repayable at \$7,445 per month including interest at 9.0%, maturing October 2009	29,891	111,631
Equipment loan #3, repayable at \$18,095 per month including interest at 9.25%, maturing January 2010	125,575	319,176
Vehicle loan #2, repayable at \$793 per month, including interest at 9.25%, maturing January 2010	5,527	13,988
	160,993	598,719
Less: current portion	(160,993)	(436,151)
	\$ -	\$ 162,568

12. DEFERRED SERVICES AND MATERIALS TO BE PROVIDED TO IMN RESOURCES INC.

On September 30, 2007, Petaquilla Gold S.A. ("Gold"), a subsidiary of the Company entered into a Service Agreement with Minera Panama S.A. ("MPSA") (formerly Petaquilla Copper S.A.) 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 was assumed and prepaid by IMN Resources Inc. ("IMN") (formerly Petaquilla Copper Ltd.), a wholly owned subsidiary of Inmet Mining Corporation, in the amount of \$4,404,000. Services provided to date include the rental of a drill and the generation of electricity.

	May 31, 2009	May 31, 2008 (Note 2)
Current portion	\$ 3,243,394	\$ 4,252,209
Non-current portion	120,000	248,786
	\$ 3,123,394	\$ 4,003,423

13. CAPITAL LEASE OBLIGATIONS

The Company entered into four 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 leases, the equipment will serve as collateral throughout the amortization period and will be registered with the Public Registry of the Republic of Panama. Further, IMN has pledged a term deposit in the amount of \$2,361,098 (May 31, 2008 - \$2,361,098) as additional security.

PETAQUILLA MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

13. CAPITAL LEASE OBLIGATIONS (continued)

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

	May 31, 2009	May 31, 2008 (Note 2)
2010	\$5,741,567	\$2,663,569
2011	4,164,972	2,663,569
2012	461,907	1,684,045
	10,368,446	7,011,183
Less imputed interest of 9%	(922,291)	(844,537)
Total	9,446,155	6,166,646
Current obligation	5,054,987	2,174,903
Long- term obligation	\$4,391,168	\$3,991,743

14. SENIOR SECURED NOTES

	May 31, 2009	May 31, 2008 (Note 2)
Senior secured notes	\$ 29,407,502	\$ 26,785,359
Less estimated current portion based on a projected gold price from \$900 to \$1,000 as noted below and earliest redemption dates	15,653,483	-
	\$ 13,754,019	\$ 26,785,359

At May 31, 2009, there are 26,467.624 senior secured notes ("Notes") outstanding (May 31, 2008 – 32,250). The Notes bear interest at an annual rate of 15%. Semi-annual principal repayments on the Notes range from \$nil to \$8,000,000 depending upon the weighted average market price of gold during the six months prior to the payment date as follows:

Weighted Average Market Gold Price	Aggregate Pro Rata Principal Payment
Over \$1,000	\$8,000,000
\$900 to \$1,000	\$6,000,000
\$800 to \$900	\$4,000,000
Less than \$800	-

The Notes will mature five years from date of issuance at 120% of 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 of \$12,000,000 is forfeited. After 18 or 24 months from the date of issuance of the Notes, depending upon the agreement reached with the Note holders, the holders of the Notes can give six months notice 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 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 administrative 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 March 31, 2009 neither of these has been defined.

PETAQUILLA MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

14. SENIOR SECURED NOTES (continued)

The Company initially issued 60,000 Notes. Each Note was issued with 382 share purchase warrants. Each warrant entitled the holder to purchase one common share at CAD\$ 2.30 for a period of five years from the date of purchase. On April 17, 2009 the Company repriced these warrants to entitle the holder to purchase one common share at CAD \$0.65 for the remainder of the warrant period with the provision that, if the closing trading price of the Company's common shares on the TSX is CAD\$ 1.00 or more for a period of 30 consecutive trading days, the Company has the option to require the earlier exercise of the warrants. The effect of repricing the warrants was an increase in the value of the warrants of \$1,781,500 and a decrease in contributed surplus for the same amount.

On September 30, 2008 the Company redeemed 36,032.376 Notes at 120% of their principal value for a total payment of \$43,238,852, resulting in a loss of \$10,983,735.

On October 1, 2008, the Company issued an additional 20,000 Notes under the \$60 million senior secured notes indenture for net proceeds of \$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 include any warrants.

On March 25, 2009, the Company redeemed 17,500 Notes at 120% of their principal value for a total payment of \$21,000,000, resulting in a loss of \$2,147,247.

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 dates, the value of the Notes was calculated to be \$58,474,937 and the amount allocated to the warrants was \$1,525,063. Prepaid interest of \$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 date of issue. The senior secured notes contain an embedded derivative as a result of the call and put options. The Company is unable to fair value the embedded derivative component separately and thus has classified the combined contract as a financial liability that is held for trading. On February 28, 2009 the discount rate on the Notes was reduced to 20.58% from 26.65% due to mark-to-market accounting. This resulted in a loss of \$3,863,189. At May 31, 2009, the Notes have been adjusted to their fair market value of \$29,407,502

During the fiscal year ended May 31, 2009 the Company incurred \$3,931,861 (thirteen months ended May 31, 2008 – \$3,894,873) in financing costs related to the Notes. These costs were expensed in the period in which they were incurred in accordance with the Company's accounting policy.

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

Estimated principal repayments, assuming a future gold price from \$900 to \$1,000 and earliest redemption dates, are as follows:

2010	\$15,653,483
2011	16,107,666
	<u>\$31,761,149</u>

15. CONVERTIBLE SENIOR SECURED NOTES

	May 31, 2009	May 31, 2008
Convertible senior secured notes	\$ 34,794,455	\$ -
Less estimated current portion	-	-
	<u>\$ 34,794,455</u>	<u>\$ -</u>

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

15. CONVERTIBLE SENIOR SECURED NOTES (continued)

On March 25, 2009 the Company closed \$40,000,000 of a convertible senior secured note (“Convertible Notes”) financing. The Convertible Notes bear interest at an annual rate of 15%, of which the first year is prepaid. The Convertible Notes mature two years from the date of issuance at 110% of the principal. The Company has the right to redeem the notes at any time at 110% of the principal amount plus any accrued or unpaid interest. If the Convertible Notes are redeemed within one year of issuance, all prepaid interest is forfeited. Each Convertible Note in the principal amount of \$1,000 is convertible into common shares at CAD\$ 2.25 per share.

On an annual basis, the Convertible Note holders can cause the Company to redeem Convertible Notes equal to 35% of Distributable Cash. Distributable Cash 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 administrative 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 March 31, 2009 neither of these has been defined.

On a semi annual basis, commencing September 15, 2010, the Company shall make principal payments under each holder’s Convertible Notes ranging from \$nil to \$8,000,000 depending upon the weighted average market price of gold for the six months prior to the payment date as follows:

Weighted Average Market Gold Price	Aggregate Pro Rata Principal Payment
Over \$1,000	\$ 8,000,000
\$900 to \$1,000	\$ 6,000,000
\$800 to \$900	\$ 4,000,000
Less than \$800	-

The Convertible Notes have been accounted for in accordance with HB 3855 “Financial Instruments – Recognition and Measurement,” HB 3862 “Financial Instruments – Disclosure,” HB 3863 “Financial Instruments – Presentation” and EIC 164 “Convertible and Other Debt Instruments with Embedded Derivatives”. Under this guidance, the Company valued the liability component of the Convertible Notes and assigned the difference to the conversion feature. On the valuation date, the value of the liability component of the Convertible Notes was calculated to be \$39,504,879. The conversion feature was valued at \$495,121. Prepaid interest of \$6,000,000 was applied as a reduction of the Convertible Notes. The liability component was calculated using a discount rate of 20.58%. The convertible senior secured notes contained an embedded derivative as a result of the call option. The Company is unable to fair value the embedded derivative component separately and thus has classified the combined contract as a financial liability that is held for trading.

The Company incurred \$2,466,964 in financing costs related to the Convertible Notes. These costs have been expensed in the period in which they were incurred in accordance with the Company’s accounting policy.

The Convertible Notes are guaranteed, on a joint and several basis, by all of the assets of the Company and of the Company’s subsidiaries. The indebtedness represented by the Convertible Notes is senior to all other indebtedness of the Company and ranks pari passu with the previously issued senior secured notes.

Estimated principal payments are as follows:

2010	\$ -
2011	44,000,000
	\$ 44,000,000

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

16. SHARE CAPITAL, WARRANTS AND CONTRIBUTED SURPLUS

At May 31, 2009, the Company had unlimited authorized common shares without par value and unlimited authorized preference shares without par value. The Board of Directors will assign the rights and privileges to each series of preference shares upon issue.

In May 2007, the Company closed a non-brokered private placement comprising 1,387,879 units at CAD\$ 2.00 per unit and 24,033 units at CAD\$ 2.02 per unit for gross proceeds of \$2,552,698. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement. The fair value of the warrants issued on this private placement was \$263,263.

In October 2007, the Company closed the first tranche of a non-brokered private placement comprising 2,093,500 units at CAD\$ 3.00 per unit for gross proceeds of \$6,611,749. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement. The Company paid \$234,104 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 was \$55,357.

In December 2007, the Company closed the second tranche of the non-brokered private placement announced in October 2007 comprising 339,000 units at CAD\$ 3.00 per unit for gross proceeds of \$1,018,732. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement.

The Company paid \$43,574 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 was \$8,318.

In January 2008, the Company closed the third tranche of the non-brokered private placement announced in October 2007 comprising 708,000 units at CAD\$ 3.00 per unit for gross proceeds of \$2,106,098. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement. The Company paid \$104,115 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 was \$22,764.

In May 2008, the Company closed the first tranche of its senior secured notes issuing 32,250 units for gross proceeds of \$32,250,000. Each unit of \$1,000 consisted of one Note and a warrant to purchase 382 common shares. Each warrant entitled the holder to purchase one common share at CAD\$ 2.30 for a period of five years from the date of purchase. 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 was \$638,354.

In June 2008, the Company closed the second tranche of its senior secured notes issuing 10,000 units for gross proceeds of \$10,000,000. Each unit of \$1,000 consisted of one Note and a warrant to purchase 382 common shares. Each warrant entitled the holder to purchase one common share at CAD\$ 2.30 for a period of five years from the date of purchase. The Company agreed 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 was \$104,496.

PETAQUILLA MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

In July 2008, the Company closed the third tranche of its senior secured notes issuing 17,750 units for gross proceeds of \$17,750,000. Each unit of \$1,000 consisted of one Note and a warrant to purchase 382 common shares. Each warrant entitled the holder to purchase one common share at CAD\$ 2.30 for a period of five years from the date of purchase. 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 was \$110,736.

On April 17, 2009 the Company repriced the warrants issued with the Notes to allow the holder to purchase one common share at CAD \$0.65 for the remainder of the warrant period with the provision that, if the closing trading price of the Company's common shares on the TSX is CAD\$ 1.00 or more for a period of 30 consecutive trading days, the Company has the option to require the earlier exercise of the warrants. The effect of repricing the warrants was an increase in the value of the warrants by \$1,781,500 and a decrease in contributed surplus by the same amount.

17. STOCK OPTIONS

During the twelve months ended January 31, 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 maximum number of shares reserved for issuance under the Company's Plan is 10,000,000.

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:

	Number of Shares	Weighted Average Exercise Price (CAD\$)
Balance at April 30, 2007	8,115,767	1.76
Granted	1,375,000	2.41
Exercised	(1,055,883)	0.53
Expired	(319,750)	2.42
Balance at May 31, 2008	8,115,134	1.83
Granted	1,370,000	0.85
Exercised	(81,480)	0.50
Expired	(909,676)	2.17
Forfeited	(58,125)	2.32
Balance at May 31, 2009	8,435,853	1.64
Number of stock options exercisable	7,592,103	1.72

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

17. STOCK OPTIONS (continued)

As at May 31, 2009, the following stock options were outstanding as follows:

Number of Shares Outstanding	Exercise Price (CAD\$)	Expiry Date
30,000	0.26	April 25, 2010
193,800	0.26	July 11, 2010
919,200	0.54	February 1, 2011
96,000	0.89	April 27, 2011
4,826,853	2.01	January 15, 2012
200,000	2.22	June 12, 2012
500,000	2.25	June 20, 2012
50,000	2.49	July 12, 2012
50,000	2.54	July 23, 2012
100,000	2.80	February 11, 2013
400,000	1.96	May 5, 2013
60,000	1.25	September 1, 2013
410,000	0.56	November 18, 2013
300,000	0.52	December 1, 2013
200,000	0.39	January 5, 2014
100,000	0.39	March 1, 2014
8,435,853		

Subsequent to year end, 3,245,080 stock options were cancelled (see note 27).

Total stock options granted during the twelve months ended May 31, 2009 were 1,370,000 (one month ended May 31, 2008 – 130,000, twelve months ended April 30, 2008 – 1,245,000, three months ended April 30, 2007 – 150,000 and twelve months ended January 31, 2007 – 9,719,543), of which nil (one month ended May 31, 2008 – nil, twelve months ended April 30, 2008 – nil, three months ended April 30, 2007 – nil and twelve months ended January 31, 2007 – 400,000) were expired and nil (one month ended May 31, 2008 – nil, twelve months ended April 30, 2008 – nil, three months ended April 30, 2007 – nil and twelve months ended January 31, 2007 – 155,200) were forfeited during the period. Stock options granted that are not vested have been excluded from the calculation of stock-based compensation. Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the twelve months ended May 31, 2009 was \$898,454 (one month ended May 31, 2008 - \$77,890, twelve months ended April 30, 2008 - \$5,561,247, three months ended April 30, 2007 - \$2,915,884 and twelve months ended January 31, 2007 - \$14,962,731). Stock-based compensation charged to exploration costs amounted to \$(28,564) for the twelve months ended May 31, 2009 (one month ended May 31, 2008 -\$12,113, twelve months ended April 30, 2008 - \$581,068, three months ended April 30, 2007 - \$nil and twelve months ended January 31, 2007 - \$103,832).

The weighted average fair value of stock options granted is estimated to be approximately CAD\$ 0.22, CAD\$ 1.18, CAD\$ 1.65, CAD\$ 0.32 and CAD\$ 1.21 for the twelve months ended May 31, 2009, the one month ended May 31, 2008, the twelve months ended April 30, 2008, the three months ended April 30, 2007 and the twelve months ended January 31, 2007 respectively, by using the Black-Scholes options pricing model with the following weighted average assumptions:

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

17. STOCK OPTIONS (continued)

	Twelve Months Ended May 31, 2009	One Month Ended May 31, 2008	Twelve Months Ended April 30, 2008
Risk-free interest	2.45%	3.05 %	4.44 %
Expected dividend yield	-	-	-
Expected stock price volatility	64%	74 %	87 %
Expected option life in years	4.90	5.00	5.00

	Three Months Ended April 30, 2007	Twelve Months Ended January 31, 2007
Risk-free interest	4.16%	4.04 %
Expected dividend yield	-	-
Expected stock price volatility	39%	106 %
Expected option life in years	1.00	5.00

18. SHARE PURCHASE WARRANTS

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price (CAD\$)
Balance at April 30, 2007	9,798,000	1.54
Issued	15,210,110	3.50
Exercised	(373,395)	1.54
Balance at April 30, 2008	24,634,715	1.94
Issued	12,812,280	2.30
Balance at May 31, 2008	24,634,715	2.13
Issued	11,024,520	0.65
Expired	(705,955)	3.50
Balance at May 31, 2009	34,953,280	1.03

On May 10, 2007, the Company closed a non-brokered private placement comprising 1,387,879 units at CAD\$ 2.00 per unit, and 24,033 units at CAD\$ 2.02 per unit for gross proceeds of \$2,552,698. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement (See Note 14). The fair value of the warrants issued on this private placement was \$263,263.

In October 2007, the Company closed a non-brokered private placement comprising 2,093,500 units at CAD\$ 3.00 per unit for gross proceeds of \$6,611,749. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement. The Company paid \$234,104 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 was \$758,116. The fair value of the finders' warrants was \$55,357.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

18. SHARE PURCHASE WARRANTS (continued)

In December 2007, the Company closed the second tranche of the non-brokered private placement announced in October 2007 comprising 339,000 units at CAD\$ 3.00 per unit for gross proceeds of \$1,018,732. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement. The Company paid \$43,574 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 was \$103,725. The fair value of the finders' warrants was \$8,318.

In January 2008, the Company closed the third tranche of the non-brokered private placement announced in October 2007 comprising 708,000 units at CAD\$ 3.00 per unit for gross proceeds of \$2,106,098. Each unit consisted 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 CAD\$ 3.50 per share for a period of two years following the close of the private placement. The Company paid \$104,115 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 was \$210,713. The fair value of the finders' warrants was \$22,764.

In May 2008, the Company closed the first tranche of its senior secured notes financing issuing 32,250 units for gross proceeds of \$32,250,000. Each unit of \$1,000 consisted of one Note and a warrant to purchase 382 Common shares. Each warrant entitled the holder to purchase one common share at CAD\$ 2.30 for a period of five years from the date of purchase. The Notes mature at 120% of the principal amount and carry 15% interest of which the first year's interest was prepaid at the date the funds were received. The Company paid \$1,635,230 and 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 was \$638,354.

In June 2008, the Company closed the second tranche of its senior secured notes financing issuing 10,000 units for gross proceeds of \$10,000,000. Each unit of \$1,000 consisted of one Note and a warrant to purchase 382 common shares. Each warrant entitled the holder to purchase one common share at CAD\$ 2.30 for a period of five years from the date of purchase. The Notes mature at 120% of the principal amount and carry 15% interest of which the first year's interest was prepaid at the date the funds were received. The Company agreed 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 was \$104,196.

In July 2008, the Company closed the third tranche of its senior secured notes financing issuing 17,750 units for gross proceeds of \$17,750,000. Each unit of \$1,000 consisted of one Note and a warrant to purchase 382 common shares. Each warrant entitled the holder to purchase one common share at CAD\$ 2.30 for a period of five years from the date of purchase. The Notes mature at 120% of the principal amount and carry 15% interest of which the first year's interest was 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 was \$110,734.

On April 17, 2009 the Company repriced the warrants issued with the Notes to entitle the holder to purchase one common share at CAD\$ 0.65 for the remainder of the warrant period. Under the revised terms of the warrants, if the common shares of the Company trade at a weighted average trading price of CAD\$ 1.00 or more per share for 30 consecutive trading days, the holders of the warrants must exercise the warrants within 30 days. The repricing of the warrants resulted in an increase in the value of the warrants by \$1,781,500 and a decrease in contributed surplus by the same amount.

The weighted average fair value of the finders' warrants issued is estimated to be approximately CAD\$ 0.54, CAD\$ 1.28, CAD\$ 0.69, \$nil, and CAD\$ 2.06 for the twelve months ended May 31, 2009, the one month ended May 31, 2008, the twelve months ended April 30, 2008, the three months ended April 30, 2007 and the twelve months ended January 31, 2007 respectively, by using the Black-Scholes options pricing model with the following assumptions:

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

18. SHARE PURCHASE WARRANTS (continued)

	Twelve Months Ended May 31, 2009	One Month Ended May 31, 2008	Twelve Months Ended April 30, 2008	Three Months Ended April 30, 2007	Twelve Months Ended January 31, 2007
Risk-free interest	3.29%	3.18%	4.00%	-	4.04%
Expected dividend yield	-	-	-	-	-
Expected stock price volatility	43%	74%	47%	-	108%
Expected warrant life in years	5.00	5.00	2.00	-	5.00

As at May 31, 2009, the following warrants were outstanding as follows:

Number of Warrants Outstanding	Exercise Price (CAD\$)	Expiry Date
1,120,875	\$3.50	October 31, 2009
182,000	\$3.50	December 20, 2009
389,000	\$3.50	May 9, 2010
9,424,605	\$1.54	October 17, 2011
12,812,280	\$0.65	May 21, 2013
3,972,800	\$0.65	June 4, 2013
7,051,720	\$0.65	July 8, 2013
34,953,280		

19. RELATED PARTY TRANSACTIONS

During the twelve months ended May 31, 2009:

- The Company paid consulting fees of \$4,234 (one month ended May 31, 2008 - \$1,890, twelve months ended April 30, 2008 - \$103,965, three months ended April 30, 2007 - \$13,421 and twelve months ended January 31, 2007 - \$361,985) to related companies controlled by a director and a former officer.
- The Company paid consulting fees and wages of \$252,334 (one month ended May 31, 2008 - \$9,051, twelve months ended April 30, 2008 - \$140,535, three months ended April 30, 2007 - \$nil and twelve months ended January 31, 2007 - \$nil) to companies controlled by directors and an officer.
- The Company paid legal fees of \$269,526 (one month ended May 31, 2008 - \$nil, twelve months ended April 30, 2008 - \$107,329, three months ended April 30, 2007 - \$38,438 and twelve months ended January 31, 2007 - \$202,536), share issue costs of \$nil (one month ended May 31, 2008 - \$nil, twelve months ended April 30, 2008 - \$162,523, three months ended April 30, 2007 - \$nil and twelve months ended January 31, 2007 - \$99,566) and financing costs of \$104,272 (one month ended May 31, 2008 - \$95,257, twelve months ended April 30, 2008 - \$nil, three months ended April 30, 2007 - \$nil and twelve months ended January 31, 2007 - \$nil) to a law firm controlled by an officer. The Company paid for goods and services of \$155,805 (one month ended May 31, 2008 - \$nil, twelve months ended April 30, 2008 - \$127,326, three months ended April 30, 2007 - \$23,110 and twelve months ended January 31, 2007 - \$94,514) to a company controlled by an officer.
- The Company sold dore bars containing 256 ounces to a director and officer for net proceeds of \$220,060 (thirteen months ended May 31, 2008 - \$nil). The sale was completed using the London Gold Market PM fix price.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

19. RELATED PARTY TRANSACTIONS (continued)

e) At May 31, 2009, \$25,925 was owed to an officer of the Company.

20. INCOME TAXES

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

	Twelve months ended May 31, 2009	One month ended May 31, 2008	Twelve months ended April 30, 2008	Three months ended April 30, 2007	Twelve months ended January 31, 2007
Statutory tax rate	30.38%	30.67%	33.08%	34.12%	34.12%
(Loss) for the period	\$(21,099,866)	\$(5,544,998)	\$(16,111,008)	\$(8,492,637)	\$(30,712,592)
Income tax recovery	(6,409,084)	(1,700,651)	(5,329,521)	(2,897,688)	(10,479,136)
Permanent differences	(4,746,965)	(145,691)	508,419	807,187	4,956,888
Income tax rate change and differential	5,551,802	630,937	4,933,488	1,548,509	4,413,448
Foreign exchange	(1,131,760)	-	-	-	-
Cost of previously unrecognized tax pools	1,480,781	-	-	-	-
Change in functional currency foreign exchange impact	4,010,847	-	-	-	-
Change in valuation allowance	1,244,379	1,215,405	(112,386)	541,992	1,108,800
Income tax recovery	-	-	-	-	-

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

	May 31, 2009	May 31, 2008 (Note 2)
Future income tax assets (liabilities)		
Non-capital and other loss carry-forwards	\$ 4,573,299	\$ 3,268,748
Equipment and exploration properties	48,335	55,198
Deferred financing costs	2,261,949	1,633,312
Future income tax on investment	-	(290,579)
Foreign exchange gain on notes	(556,181)	-
Senior secured notes	(442,636)	-
Other	12,285	13,136
Total future income tax assets	\$ 5,897,051	\$ 4,679,815
Valuation allowance	(5,897,051)	(4,679,815)
Net future income tax assets	-	-

PETAQUILLA MINERALS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

20. INCOME TAXES (continued)

The Company has non-capital losses of \$18,293,198 available for deduction against future years' taxable income in Canada. These losses, if unutilized, will expire beginning in 2010 as follows:

2010	\$ 121,909
2014	384,966
2015	807,972
2026	1,770,096
2027	4,738,720
2028	3,188,007
2029	7,281,528
	\$18,293,198

The Company will not be subject to any income taxes in Panama until all of the debts incurred by all of the affiliated / subsidiary companies have been repaid in full, the timing of which cannot be estimated due to the uncertainty inherent in the future price of gold. At that time the Company will be able to claim accelerated write-offs for all Panamanian subsidiaries.

21. SEGMENT INFORMATION

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

May 31, 2009	Canada	Panama	Total
Interest income	\$ 120,735	\$ 48,631	\$ 169,366
Property and equipment	-	\$12,879,658	\$12,879,658
Mineral properties	-	\$60,843,501	\$60,843,501
May 31, 2008			
Interest income	\$ 2,825	\$ 75,833	\$ 78,658
Property and equipment	-	\$16,779,149	\$16,779,149
Mineral properties	-	\$37,739,133	\$37,739,133
April 30, 2008			
Interest income	\$ 39,627	\$ 12,299	\$ 51,926
Property and equipment	-	\$16,862,789	\$16,862,789
Mineral properties	-	\$35,394,279	\$35,394,279
April 30, 2007			
Interest income	\$ 41,115	\$ 7,965	\$ 49,080
Property and equipment	\$ 57,183	\$ 4,770,816	\$ 4,827,999
Mineral properties	-	\$12,748,966	\$12,748,966
January 31, 2007			
Interest income	\$232,599	\$ 27,794	\$ 260,393
Property and equipment	\$ 73,157	\$ 4,362,739	\$ 4,435,896
Mineral properties	-	\$ 7,034,686	\$ 7,034,686

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

22. COMMITMENTS

	Less than 1 Year	2 Years	3 Years	4-5 Years	More than 5 Years
Office lease	\$ 60,676	\$ 60,676	\$ 15,168	Nil	Nil
Capital expenditure commitment	\$ 950,013	Nil	Nil	Nil	Nil
Equipment lease	\$ 5,741,567	\$ 4,164,972	\$ 461,907	Nil	Nil
Senior secured notes	\$18,811,500	\$16,800,010	Nil	Nil	Nil
Convertible senior secured notes	Nil	\$49,616,537	Nil	Nil	Nil
Long-term debt	\$178,760	Nil	Nil	Nil	Nil
Asset retirement obligation	Nil	Nil	Nil	Nil	\$6,701,000

23. 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 risk. 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, accounts payable and long-term debt. 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 and convertible senior secured notes are measured on initial recognition using the residual method (see Notes 14 and 15). Subsequent fair value measurement is based on a discounted cash flow model using a discount rate of 20.58% and a maturity date of two years from date of issue based on the ability of the Note holders to demand repayment after two years and the expectation that Note holders will make this demand.

(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, 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, convertible senior secured debt and leasing arrangements to develop the Molejon gold project and may require doing so again in the future. On an annual basis the Company may be required to pay 35% of its distributable cash as defined in its senior secured notes and convertible senior secured notes indenture (Notes 14 and 15).

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

23. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)***Market risk******(i) Currency risk***

Financial instruments that impact the Company's net earnings or other comprehensive income due to currency fluctuations include: Canadian dollar denominated cash and cash equivalents, restricted cash, accounts receivable and accounts payable. The sensitivity of the Company's net earnings and other comprehensive income to changes in the exchange rate between the Canadian dollar and the United States dollar is summarized in the table below:

	As at May 31, 2009	
	10% Increase in the Canadian Dollar	10% decrease in the Canadian Dollar
(Decrease) increase in net earnings	\$61,184	\$(61,184)
(Decrease) increase in other comprehensive (loss) income	-	-
Comprehensive (loss) income	\$ 61,184	\$(61,184)

(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 risk because they are non-interest bearing.

The operating credit line facility, leases, and long-term debt 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 11), leases (Note 13), senior secured notes (Note 14), convertible senior secured notes (Note 15) and equity attributable to common shareholders, comprised 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, convertible 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 funding at the lowest cost of capital. The Company is exposed to various funding and market risks which could curtail its access to funds.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

24. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	Twelve Months ended May 31, 2009	One Month ended May 31, 2008	Twelve months ended April 30, 2008	Three months ended April 30, 2007	Twelve months ended January 31, 2007
Non-cash investing and financing activities					
Finder's fees	\$ -	\$ 638,354	\$ 86,439	\$ -	\$ 721,018
Share issue costs	-	(638,354)	(86,439)	-	(721,018)
Debt issuance costs	112,686	-	-	-	-
Warrants	(112,686)	-	-	-	-
Settlement of advances for deferred services	-	-	(4,404,000)	-	-
Settlement of advances for property and equipment and mineral properties	-	-	(3,394,847)	-	-
Shares issued for legal settlement	-	-	264,438	-	-
Property and equipment acquired through credit line facility and capital leases	2,058,197	-	10,541,877	-	-
Mineral properties incurred through payables	5,147,462	1,441,668	2,539,496	3,304,493	450,353
Property and equipment incurred through payables	1,071,255	-	-	162,637	-
Deferred services and materials financed by a reduction in amounts payable to Petaquilla Copper Ltd.	156,597	11,271	135,252	-	-
Asset retirement obligation capitalized to mineral properties	-	-	-	4,000,000	-
Interest paid in cash	\$ 14,224,440	\$ 5,751,180	\$ 68,618	\$ 58,990	\$ -
Income taxes paid in cash	-	-	-	-	-

	May 31, 2009	May 31, 2008
Cash and cash equivalents consist of:		
Cash	\$3,440,168	\$ 6,394,962
Term deposits	135,000	6,455,175
	<u>\$3,575,168</u>	<u>\$12,850,137</u>

25. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation relates to site restoration and cleanup costs for its Molejon gold project located in Panama.

A reconciliation of the provision for asset retirement obligation is as follows (Note 2):

Balance at April 30, 2008	\$4,306,000
Accretion	52,098
Foreign exchange translation difference	(24,882)
Balance at May 31, 2008	\$4,333,216
Accretion	331,504
Balance at May 31, 2009	<u>\$4,664,720</u>

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

- The total undiscounted cash flow required to settle the obligation is approximately \$6,701,000;
- 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.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

26. CONTINGENCIES

- 1) 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 submitted in July 2007 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, the Company filed for reconsideration by ANAM to have the fines reduced to nil. In January 2009, the Company was advised that ANAM had 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. On March 10, 2009, the Supreme Court of the Republic of Panama suspended the imposition of ANAM’s fine until the matter of the Company’s appeal is resolved. Consequently, the amount, if any, that may ultimately be payable by the Company cannot be determined.
- 2) The Company is engaged in certain other legal actions in the ordinary course of business and believes that the ultimate outcome of these actions will not have a material adverse effect on our operating results, liquidity or financial position.

27. SUBSEQUENT EVENTS

Subsequent to May 31, 2009 the following events took place:

- 1) The Company’s wholly-owned subsidiary Panama Central Electrica, S.A. (“PCE”) entered into a Memorandum of Understanding (“MOU”) with Generadora Hidroelectrica Santa María, S.A. (“Santa Maria”) for the development of a 25MW hydroelectric plant (the “Hydro Project”) in the Province of Veraguas, Panama.
- 2) The Company granted 150,000 stock options, 60,000 options expired and 3,245,080 options were cancelled. The Company is currently reviewing the accounting impact of the option cancellations.
- 3) The Company is currently conducting an internal investigation under the oversight of the Audit Committee and with the assistance of independent counsel of certain of our international operations, focusing on the material weakness identified during the Company’s assessment of internal controls as at May 31, 2009.

28. RESTATEMENT OF JANUARY 31, 2007 INTERIM FINANCIAL STATEMENTS AND MAY 31, 2008 BALANCE SHEET

During the fourth quarter of fiscal 2009, the Company concluded that:

- The accounting for the spin-out of Petaquilla Copper Ltd. was not properly recorded in the financial statements for the period ended January 31, 2007.
- Stock-based compensation relating to the options issued prior to the Plan of Arrangement was not properly recorded in the financial statements for the period ended January 31, 2007.
- Certain capital assets were recorded as mineral properties in the financial statements as at January 31, 2007.
- Dilution gains and equity losses for the equity investment in Petaquilla Copper Ltd. which were applicable to the twelve months ended January 31, 2007 were not recorded in that period.
- The carrying value of the Investment in Petaquilla Copper Ltd. was not correctly recorded during the period ended May 31, 2008.

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

28. RESTATEMENT OF JANUARY 31, 2007 INTERIM FINANCIAL STATEMENTS AND MAY 31, 2008 BALANCE SHEET (continued)

The Plan of Arrangement, 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, was accounted for, in the twelve months ended January 31, 2007, based on a tentative plan. According to the terms of the initial plan, Copper was to receive \$4,833,040 (CAD\$ 5,500,000). The plan was later revised and this amount was no longer required to be transferred to Copper. The effect of this change to the January 31, 2007 financial statements was to decrease the amount payable to a related company by \$2,426,701, increase the amount receivable from a related company by \$1,821,387, decrease other comprehensive income by \$584,952 and decrease the amount distributed to Petaquilla Copper Ltd. by \$4,833,040.

Incorrect accounting was applied to options issued prior to the Plan of Arrangement. The effect of the adjustment to the January 31, 2007 financial statements was to increase stock-based compensation by \$6,141,087, increase contributed surplus by \$3,723,515, increase share capital by \$2,497,743 and increase mineral properties by \$103,832.

Certain capital assets acquired during the twelve months ending January 31, 2007 were incorrectly recorded as mineral properties. As a result, equipment was understated by \$3,411,215, accumulated amortization on production equipment was understated by \$408,182 and mineral properties were overstated by \$3,003,033. The effect of the adjustment to the January 31, 2007 financial statements is an increase in property and equipment of \$3,003,033 and a decrease in mineral properties of \$3,003,033.

The Company was required to record the investment in Copper using the equity method commencing October 18, 2006, the date of the Plan of Arrangement. Dilution gains resulting from the issue of additional shares by Copper as well as the Company's proportionate share of losses incurred by Copper were required to be recorded by the Company in the period in which these transactions occurred. Due to the inability of Copper to provide information on a timely basis, the dilution gain and equity loss for the twelve months ended January 31, 2007 were not recorded until the period ending April 30, 2007. The result of the adjustment required to the January 31, 2007 financial statements was to increase the investment in Petaquilla Copper Ltd. by \$2,187,611, increase the gain on dilution of equity investment by \$1,989,882 and increase the loss from equity investment by \$169,866. In the current year the Company has adopted a change in accounting policy which affects the measurement of dilution gains and equity losses on a retroactive basis and therefore this error has been corrected as part of this change.

The proceeds used in the calculation of dilution gains did not include transaction costs and the gain on sale of Petaquilla Copper Ltd. shares did not exclude the gain attributable to Petaquilla Minerals Ltd.'s equity interest in Petaquilla Copper Ltd. As a result, the investment in Petaquilla Copper Ltd. was overstated at May 31, 2008 by \$1,207,000. The impact of this adjustment is reflected in the 12 month period ended April 30, 2008 which was previously presented as part of the 13 month period ended May 31, 2008. In the current year the Company has adopted a change in accounting policy which affects the measurement of dilution gains and equity losses on a retroactive basis and therefore this error has been corrected as part of this change.

29. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

29. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)**Loss for the periods**

	Twelve months ended May 31, 2009	One month ended May 31, 2008 (Note 2)	Twelve months ended April 30, 2008 (Note 2)
(Loss) for the period – Canadian GAAP	\$(21,099,866)	\$(5,544,998)	\$(16,111,007)
Gain on dilution of equity investment (b)	(2,238,492)	-	(12,582,085)
Mineral properties expensed under U.S. GAAP (c)	(17,562,548)	(1,884,160)	(22,680,970)
Revenue recognized (k)	653,941	-	-
Cost of goods sold (k)	(1,260,127)	-	-
Amortization (k)	(640,425)	-	-
Write down of inventory in finished goods and work in progress	(2,404,695)	-	-
Change in fair value of warrants denominated in Canadian dollars under U.S. GAAP (l)	22,871,582	-	-
Foreign exchange on difference in mineral properties expensed under U.S. GAAP	(9,639,262)	-	1,622,000
Foreign exchange on difference in senior secured notes under U.S. GAAP	3,180,313	-	-
Additional loss relating to redemption and modification of senior secured note agreement under U.S. GAAP (h)	(18,712,488)	3,831,931	-
Net loss – U.S. GAAP	\$(46,852,067)	\$(3,597,227)	\$(49,752,062)
Other comprehensive (loss) gain			
Unrealized (loss) gain on translating financial statements to U.S. reporting currency	(4,648,716)	487,574	716,555
Foreign exchange on difference in mineral properties expensed under U.S. GAAP	9,639,262	-	(1,622,000)
Foreign exchange on difference in senior secured notes under U.S. GAAP	(3,180,313)	-	-
Comprehensive loss for the year	\$(45,041,834)	\$(3,106,653)	\$(50,657,507)
Basic and diluted loss per share – U.S. GAAP	\$(0.49)	\$(0.04)	\$(0.53)

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

	Three months ended April 30, 2007	Twelve months ended January 31, 2007
	(Note 2)	(Note 2)
(Loss) for the period – Canadian GAAP	\$ (8,492,639)	\$(30,712,592)
Gain on dilution of equity investment (b)	(632,396)	(1,701,589)
Mineral properties expensed under U.S. GAAP (c)	(5,510,801)	(3,540,104)
Foreign exchange on difference in mineral properties under U.S. GAAP	-	272,000
Net loss – U.S. GAAP	\$(14,635,836)	\$(35,682,285)
Other comprehensive (loss) gain		
Unrealized (loss) gain on translating financial statements to U.S. reporting currency	923,990	(598,731)
Foreign exchange on difference in mineral properties expensed under U.S. GAAP	-	(272,000)
Comprehensive loss for the year	(13,711,846)	\$(36,553,016)
Basic and diluted loss per share – U.S. GAAP	\$(0.16)	\$(0.46)

Balance Sheets	May 31, 2009	May 31, 2008
		(Note 2)
Total assets – Canadian GAAP	\$ 81,543,823	\$ 71,208,177
Mineral properties expensed or charged to cost of sales and revenue under U.S. GAAP (c)(k)	(55,001,369)	(33,788,515)
Total assets – U.S. GAAP	\$ 26,542,454	\$ 37,419,662
Liabilities – Canadian GAAP	\$ 90,464,111	\$ 56,602,043
Allocation of fair value of senior notes under U.S. GAAP (h)	-	(13,636,333)
Derivative liability – warrants (l)	6,292,830	-
Equity component of convertible debt treated as a liability under U.S. GAAP (i)	495,121	-
Liabilities – U.S. GAAP	\$ 97,252,062	\$ 42,965,710
Shareholder' s equity (deficit) - Canadian GAAP	\$(8,920,288)	\$ 14,606,134
Mineral properties expensed or charged to cost of sales and revenue under U.S. GAAP (c)(k)	(55,001,369)	(33,788,515)
(Decrease) increase in retained earnings due to translation of prior year mineral property expenses and senior secured notes	(4,564,949)	1,622,000
Difference in accumulated other comprehensive income	4,564,949	(1,622,000)
Increase in net income due to the change in fair value of warrants denominated in Canadian dollars under U.S. GAAP (l)	22,871,582	-
Decrease in warrants due to fair value of warrants denominated in Canadian dollars under U.S. GAAP (l)	(29,164,412)	-
Additional loss relating to redemption and modification of senior secured note agreement under U.S. GAAP (h)	(14,903,816)	3,831,931
Allocation of fair value of senior secured notes under U.S. GAAP (h)	14,903,816	9,804,402
Equity component of convertible debenture treated as a liability under U.S. GAAP (i)	(495,121)	-
Shareholders' equity (deficit) – U.S. GAAP	\$(70,709,608)	\$ (5,546,048)

PETAQUILLA MINERALS LTD.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

Mineral Properties	May 31, 2009	May 31, 2008
		(Notes 2 and 28 (a))
Mineral properties – Canadian GAAP	\$ 60,843,501	\$ 37,739,133
Amortization (k)	(640,425)	-
Revenue recognized under U.S. GAAP (k)	653,941	-
Cost of goods sold (k)	(1,260,127)	-
Inventory write-down (k)	(2,404,695)	-
Reclassification of work-in-progress and finished goods to current assets	(2,868,999)	-
Mineral properties expensed under U.S. GAAP (c)	(51,350,063)	(33,788,515)
Mineral properties – U.S. GAAP	\$ 2,973,133	\$ 3,950,618

Statement of Cash Flows	Twelve months ended May 31, 2009	One month ended May 31, 2008	Twelve months ended April 30, 2008
		(Note 2)	(Notes 2 and 28 (a))
Cash (used in) provided by operating activities – Canadian GAAP	\$ (16,010,085)	\$ (10,134,316)	\$ (6,667,860)
Expenditures on mineral properties	(27,201,810)	(1,884,160)	(21,058,970)
Cash used in operating activities – U.S. GAAP	\$(43,211,895)	\$(12,018,476)	\$(27,726,830)
Cash from (used in) financing activities – Canadian	\$ (1,260,198)	\$ 23,380,108	\$ 30,654,125
Cash from (used in) financing activities – U.S. GAAP	\$ (1,260,198)	\$ 23,380,108	\$ 30,654,125
Cash from (used in) investing activities – Canadian GAAP	\$ 8,164,377	\$ (1,289,902)	\$(19,977,584)
Expenditures on mineral properties	27,201,810	1,884,160	21,058,970
Cash from investing activities – U.S. GAAP	\$ 35,366,187	\$ 594,258	\$ 1,081,386
Cash and cash equivalents, end of period – Canadian GAAP	\$ 3,575,168	\$ 12,850,137	\$ 1,766,256
Cash and cash equivalents, end of period – U.S. GAAP	\$ 3,575,168	\$ 12,850,137	\$ 1,766,256

Statement of Cash Flows	Three months ended April 30, 2007	Twelve months ended January 31, 2007
Cash (used in) provided by operating activities – Canadian GAAP	\$(3,681,090)	\$(14,506,875)
Expenditures on mineral properties	(5,510,801)	(3,268,104)
Cash used in operating activities – U.S. GAAP	\$(9,191,891)	\$(17,774,979)
Cash from (used in) financing activities – Canadian GAAP	\$ (855,509)	\$ 25,349,210
Cash from (used in) financing activities – U.S. GAAP	\$ (855,509)	\$ 25,349,210
Cash from (used in) investing activities – Canadian GAAP	\$ 224,494	\$(12,395,955)
Expenditures on mineral properties	5,510,801	3,268,104
Cash from investing activities – U.S. GAAP	\$ 5,735,295	\$ (9,127,851)
Cash and cash equivalents, end of period – Canadian GAAP	\$ 1,606,693	\$ 5,887,701
Cash and cash equivalents, end of period – U.S. GAAP	\$ 1,606,693	\$ 5,887,701

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

a) Restatement

Certain capital assets purchased in the twelve months ending January 31, 2007 were included in mineral properties and were incorrectly expensed for accounting purposes under U.S. GAAP. The effect of the restatement is to decrease mineral properties expensed under U.S. GAAP by \$3,950,618, increase total assets under U.S. GAAP by \$3,950,618 and increase shareholders' equity under U.S. GAAP by \$3,950,618 at May 31, 2008 and decrease mineral properties expensed under U.S. GAAP by \$3,525,581, increase total assets under U.S. GAAP by \$3,525,581 and increase shareholders' equity under U.S. GAAP by \$3,525,581 at April 30, 2007.

As a result of a review of the accounting for the investment in Petaquilla Copper Ltd. under U.S. GAAP, the presentation of the investment balance and the dilution gains and equity losses have been adjusted. The effect of these adjustments is to increase the investment in Petaquilla Copper Ltd. at May 31, 2008 by \$2,432,220, and increase shareholders' equity by \$2,432,220. In the current year the Company has adopted a change in accounting policy which affects the measurement of dilution gains and equity losses and is applied on a retroactive basis. This change in accounting policy harmonizes the U.S. and Canadian GAAP treatment of the dilution gains and equity losses. This error has therefore been eliminated as part of this change.

Debt issuance costs of \$3,831,931 were written off during the month ending May 31, 2008 rather than being capitalized. The effect of this restatement is to decrease the senior secured notes under U.S. GAAP by \$3,831,931, decrease debt issuance costs expensed under U.S. GAAP by \$3,831,931 and increase shareholders' equity under U.S. GAAP by \$3,831,931.

b) Equity investment in Petaquilla Copper Ltd.

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

c) 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.

d) Marketable securities

Under Canadian GAAP, the marketable securities held by the Company were 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. Effective May 1, 2007 Canadian and U.S. GAAP relating to accounting for investments has converged and no differences exist for the period ended May 31, 2008 and May 31, 2009.

e) Development stage company

Pursuant to U.S. 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.

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

f) Income taxes

Under Canadian GAAP, future tax assets and liabilities are recorded at substantively enacted tax rates. Under U.S. 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.

g) Accounting for uncertainty in income taxes

In July 2006, the Financial Accounting Standards Board issued FIN 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 ("FIN 48"). This interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Effective May 1, 2007 the Company adopted FIN 48. The adoption did not result in any adjustment to opening retained earnings under U.S. GAAP. As a result of the implementation of FIN 48, the Company did not recognize any liabilities for unrecognized tax benefits. In the event that the Company recognizes accrued interest related to unrecognized tax benefits, it will be recorded in interest expense. Any penalties will be recorded in general and administrative expenses.

The Company is subject to taxation in Canada and various other foreign jurisdictions. The Company is currently open to audit under the statute of limitations by the Canada Revenue Agency for years ended January 31, 2005 through May 31, 2009.

h) Senior secured notes

Under Canadian GAAP, compound financial instruments can be accounted for using the residual method when allocating between the liability and the equity component of the instrument. Under U.S. GAAP, compound financial instruments are accounted for using the fair value method when allocating between the liability and the equity component. On the modification of the senior secured note agreement on March 25, 2009, the senior secured notes were required to be marked to market and the Company recognized additional losses relating to redemption and inception losses in the amount of \$14,903,816. This resulted in harmonizing both Canadian GAAP and U.S. GAAP with no differences going forward.

i) Convertible senior secured notes

Under U.S. GAAP, convertible debt instruments are classified as debt until converted to equity, whereas under Canadian GAAP, the proceeds of the convertible debt instrument are allocated to both debt and equity components, with the debt component being accreted over time to its face value and accretion charged to earnings. Under U.S. GAAP, a value is assigned to the conversion feature only if the effective conversion rate is less than the market price of the common stock at the commitment date. No value would be assigned under U.S. GAAP to the conversion feature and thus, the entire value of the convertible notes is classified as debt. This difference resulted in liabilities being increased by \$495,121 and shareholders' equity being decreased by \$495,121.

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

j) Deferred financing costs

Accounting Principles Board Opinion No. 21, "Interest on Receivables and Payables" requires that debt issue costs be reported in the balance sheet as deferred charges and amortized over the term of the debt. Upon issuance, the Company reduced the carrying value of the senior secured notes by debt issuance costs. On modification of the senior secured note agreement as stated above in (h), an inception loss wrote off all deferred financing costs. No differences exist for the period ended May 31, 2009.

k) Commencement of production

Under Canadian GAAP, the Company uses specific criteria to assess the point at which an operation commences commercial production (Note 1). Under U.S. GAAP, commercial production is considered to have commenced when saleable minerals are extracted (produced) from an ore body, regardless of the level of production. However, commercial production does not commence with the removal of de minimus saleable mineral material that occurs in conjunction with the removal of overburden or waste material for the purpose of obtaining access to an ore body. For the year ended May 31, 2009, there was one Canadian/U.S. GAAP difference with respect to the determination of commercial production.

Under Canadian GAAP, at May 31, 2009, the Molejon gold mine is at a pre-commercial production phase whereas for U.S. GAAP purposes, commercial production commenced on the date on which revenue was earned from the sale of gold. For U.S. GAAP purposes, the impact of this difference was to increase revenues, cost of sales, amortization and inventory write-down for the year ended May 31, 2009 by \$653,941, \$1,260,127, \$640,425, and \$2,404,695, respectively, and decrease exploration expenses and net earnings for the year ended May 31, 2009 by \$4,305,247, and \$3,651,306, respectfully.

l) Warrants

Warrants that are issued with an exercise price denominated in a currency other than the Company's functional currency are required to be classified and accounted for as financial liabilities and re-measured under the Black-Scholes model at each period end. For the year ended May 31, 2009, under U.S. GAAP, other income was increased by \$22,871,582 arising from a decrease in fair value of the warrants granted in which the exercise price denominated currency is different from the Company's functional currency. As of May 31, 2009, the liability relating to warrants granted for which the exercise price denominated currency is different from the Company's functional currency was \$6,292,830 and the warrant account was reduced by \$29,164,412 as a result of the reclassification of the warrants to liabilities pursuant to U.S. GAAP.

m) Adoption of new accounting policies

Statement of Financial Accounting Standards No. 157 ("SFAS 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. SFAS 157-2 defers the Statement's effective date for certain nonfinancial assets and liabilities to fiscal years beginning after November 15, 2008, and interim periods within those years. The adoption of SFAS 157-2 is not expected to have an impact on the Company's consolidated financial statements.

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

Statement of Financial Accounting Standards No. 159 (“SFAS 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 measurement 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.

n) Recent Account Pronouncements

SFAS-160, “Non-controlling Interests in Consolidated Financial Statements”

In December 2007, FASB issued SFAS-160, “Non-controlling Interests in Consolidated Financial Statements” (“SFAS-160”), which specifies that non-controlling interests are to be treated as a separate component of equity, not as a liability or other item outside of equity. Because non-controlling interests are an element of equity, increases and decreases in the parent’s ownership interest that leave control intact are accounted for as capital transactions. The Statement is effective for business combinations entered into on or after December 15, 2008, and is to be applied prospectively to all non-controlling interests, including any that arose before the effective date. The Company is evaluating the impact of this new standard on the Company’s consolidated financial statements.

SFAS 141R, “Business Combinations”

In December 2007, the FASB issued a revised standard on accounting for business combinations, SFAS-141R. The Statement is effective for periods beginning on or after December 15, 2008. SFAS-141R requires fair value measurement for all business acquisitions including pre-acquisition contingencies. The standard also expands the existing definition of a business and removes certain acquisition related costs from the purchase price consideration. The Company is evaluating the impact of this new standard on the Company’s consolidated financial statements.

FSP APB 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion”

In May 2008, FASB issued FASB Staff Position Accounting Principles Board 14-1 (“APB 14-1”), which revises the accounting treatment for convertible debt instruments that may be settled in cash upon conversion, including partial cash settlement. APB 14-1 requires the issuer to separately account for the liability and equity components of convertible debt instruments. The value assigned to the liability component would be the estimated fair value, as of the date of issuance, of similar debt without the conversion option, but including any other embedded features. The difference between the proceeds of the debt and the value allocated to the liability component would be recorded in equity. The standard is effective for periods beginning on or after December 15, 2008, and is to be applied retrospectively. The Company is evaluating the impact of APB 14-1 on the Company’s consolidated financial statements.

EITF 07-5, “Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock”

In June 2008, FASB Task Force reached a consensus on EITF Issue No. 07-5, “Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock” (“EITF 07-5”). The standard provides that an equity-linked financial instrument (or embedded feature) would not be considered indexed to the entity’s own stock if the strike price is denominated in a currency other than the issuer’s functional currency. EITF 07-5 is effective for periods beginning on or after December 15, 2008. The Company is evaluating the impact of EITF 07-5 on the Company’s consolidated financial statements.

PETAQUILLA MINERALS LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(in United States Dollars)

Twelve Months Ended May 31, 2009, One Month Ended May 31, 2008, Twelve Months Ended April 30, 2008, Three Months Ended April 30, 2007 and Twelve Months Ended January 31, 2007

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

EITF 08-4, “Transition Guidance for Conforming Changes to EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”

In June 2008, FASB Task Force provided transition guidance for conforming changes made to EITF 98-5, “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios that resulted from Issue 00-27 and Statement 150. EITF 08-4 is effective for fiscal years ending after December 15, 2008. The Company is evaluating the impact of EITF 08-4 on the Company’s consolidated financial statements.

EITF 08-6, “Equity Method Investment Accounting Considerations”

In November 2008, FASB Task Force clarified the accounting for certain transactions and impairment considerations involving equity method investments. Topics related to equity method investments include the initial carrying value of an equity method investment, impairment assessment of an investee’s intangibles and an equity investee’s issuance of shares. EITF 08-6 is effective for fiscal years beginning on or after December 15, 2008. The Company is evaluating the impact of EITF 08-6 on the Company’s consolidated financial statements.