Zacks Small-Cap Research

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Petaquilla Minerals Ltd. (T.PTQ – TSX)

T.PTQ: Labor dispute and loss of Lomero-Poyatos weigh heavily on Petaquilla's stock

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	01/02/2014
Current Price (04/15/14)	$0.20
Six- Month Target Price	**$0.77**

OUTLOOK

The labor dispute that began in December will probably result in little or no production during the third fiscal quarter. Management continues to be in discussions with First Quantum Minerals concerning an amendment to the agreement originally entered into with Inmet Mining, which First Quantum acquired in April 2013. Despite the ongoing labor dispute, we maintain our neutral rating due to the possibility of a significant announcement of a material event as a result of the negotiations between Petaquilla Minerals and First Quantum Minerals, on which the future of the Cobre Panamá copper project depends.

SUMMARY DATA

52-Week High	**$0.51**
52-Week Low	**$0.19**
One-Year Return (%)	**-45.9**
Beta	**2.99**
Average Daily Volume (shrs.)	**260,698**
Shares Outstanding (million)	**236.6**
Market Capitalization ($ mil.)	**$47.3**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6.8**
Insider Ownership (%)	**2.1**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2014 Estimate	**N/M**
P/E using 2015 Estimate	**N/M**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Mining - Gold**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2012	26.2 A	25.3 A	18.8 A	24.0 A	94.3 A
2013	25.9 A	29.5 A	27.5 A	24.1 A	110.7 A
2014	20.6 A	10.5 A	0.9 E	2.1 E	34.1 E
2015	5.5 E	10.5 E	14.7 E	18.8 E	49.5 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2012	$0.03 A	$0.03 A	$0.02 A	$0.02 A	$0.10 A
2013	$0.02 A	$0.01 A	$0.07 A	-$0.11 A	-$0.02 A
2014	-$0.01 A	-$0.05 A	-$0.07 E	-$0.06 E	-$0.20 E
2015	-$0.05 E	-$0.05 E	-$0.02 E	$0.00 E	-$0.12 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Fiscal years ended May 31st prior to 2013.

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KEY POINTS

- Petaquilla Minerals is a junior gold production and exploration company with a producing mine in Panamá and numerous mineral exploration properties in Panamá and Portugal. The **Molejón gold project** in north-central **Panamá** achieved commercial production in January 2010 and **has poured 257,885 ounces of gold**. Approximately **470,000 ounces** have yet to be monetized from the proven and probable reserve delineated in the most recent 43-101 compliant mineral reserve report at Molejón. Within 20 kilometers, the company controls the **Palmilla gold deposit** (M&I resource of **509,000 ounces** Au) and the **Botija Abajo deposit** (proven and probable resource of **106,739 ounces** Au).
- Petaquilla Minerals holds the mineral exploration and development rights to 842 square kilometers of concession lands that contain gold, copper and molybdenum deposits in Panamá. Oro del Norte and Brazo, continue to be advanced with exploration programs.
- **NI 43-101 compliant estimates for the Botija Abajo and Palmilla deposits** were released in the early 2013 adding $34.5 million (or $0.12 per diluted share) to the NPV to our valuation model.
- An **updated NI 43-101 compliant estimate** on the **Palmilla gold deposit** was announced on October 9, 2013. **The report expanded and upgraded the resources** from an estimated inferred resource of 502,800 gold equivalent ounces (using a cutoff grade of 0.30 g/t Au Eq.) to an estimated **measured & indicated resource of 841,000 gold equivalent ounces and an inferred resource of 269,000 gold equivalent ounces** (using a cutoff grade of 0.35 g/t Au Eq. Without even considering the significant upgrade of the resource, it can be stated that **the estimate increased 120%.** The updated estimate contributes $53.2 million (or $0.21 per diluted share) to the NPV to our valuation model.
- Petaquilla successfully asserted its rights over claims in the area of the Cobre Panamá copper project being advanced by First Quantum Minerals. In consideration for land access, Petaquilla received (through PDI) a $75 million contract for aggregate procurement (which was subsequently increased to $100 million), $13 million for 10 years of land lease, $13.3 million waiver of royalties, etc., all of which total approximately $150 million.
- **On/off leach pads** have been constructed at Molejón. During fiscal 2012, the on/off leach operation produced approximately 300 ounces. The start-up and construction of the operation continues, though no additional production was reported during fiscal 2013. Management expects this incremental leach operation to be commissioned during calendar 2014, though the timetable most likely will be again extended due to the **labor dispute**.
- On January 2, 2014, the Regional Ministry of Economy, Innovation, Science and Employment announced that the **mining permits for the Lomero-Poyatos concessions were revoked** due to inactivity. Petaquilla Minerals had owned a 100% interest in Lomero-Poyatos through the acquisition of Iberian Resources. Management may pursue a judicial remedy to the loss of the mining rights to the Lomero-Poyatos concessions.
- During the fourth fiscal quarter, the status of the Forward Gold Purchase Agreement with Deutsche Bank required the declassification of PDI as held-for-distribution despite management's continued plans for a spin-out. Therefore, the company is pursuing a course to refinance and close the gold and silver contracts. Also, both events had impacts on the balance sheet and income statement.
- Management's focus during fiscal 2014 lies in boosting gold production at Molejón gold project, though initial expectations of producing approximately 100,000 ounces appears far out of reach. In addition, management is actively pursuing financing alternatives to fund developmental plans (including exploration at Brazo and Oro del Norte in Panamá and Jales-Gralheira in Portugal), re-finance short-term liabilities and terminate the Deutsche Bank forward gold and silver purchase agreements and convertible loan.
- We maintain our Neutral rating despite the loss of mining rights to Lomero-Poyatos, an increasing working capital deficiency and lower-than-expected gold production due to a prolonged labor dispute. There is value in the gold and silver deposits at the Molejón mine and surrounding environs, along with the well-designed and functional processing plant. Management's announcement that a material event is forthcoming may serve as a catalyst to reverse the deteriorating circumstances at Petaquilla Minerals.

OPERATIONAL UPDATE

During the first fiscal quarter ending September 30, 2013, gold equivalent production declined 22.5% sequentially from 12,191 ounces to 9,452 ounces despite an easy comparison. Mining operations continued to be disrupted from the reassignment of some mining and crushing equipment towards the efforts to make timely deliveries of aggregate to the Cobre Panamá copper project. However, beginning in December, a major labor dispute led to a work stoppage the Molejón gold project throughout the third fiscal quarter. We only expect approximately 3,000 ounces of gold production during the second fiscal quarter and little or no production during the third fiscal quarter. Nevertheless, the company has *in situ* gold assets (albeit at a lower grade than the previously mined ore) that will require supplementary heavy equipment to mine and the addition of a different complementary process (on/off leach pads) to fully extract.

RECENT NEWS

Labor Protests

On December 31, 2013, Panamanian newspapers reported that workers at the Molejón gold project were protesting in the streets of Penonomé and along the road to the Cobre Panamá copper project. The workers are demanding the payment of wages due December 15th and the 13th month payment required according to their Collective Agreement.

Additional newspaper articles in March and April 2014 indicate that **worker protests continue** in the streets of Penonomé and elsewhere. The concerns of the workers have expanded to also include lost vacation days, social security accounting disputes and safety issues. Given the extent of the press coverage of the worker protests, we expect the company to report that little or no gold production occurred during the third fiscal quarter

Negotiations with First Quantum

On February 12th, an article in PanamaAmerican.com stated that Petaquilla Minerals entered into a mediation process to settle dispute with Minera Panama S.A. (First Quantum). Prior to First Quantum's acquisition of Inmet, Petaquilla Minerals and Inmet signed an agreement for the delivery of aggregate materials and screened rocks with a total value up to $100 million over a three-year period. News flow appears to indicate that First Quantum is not adhering to the agreement, and the situation has entered into mediation. Management's announcements of an expected material event and continuing discussions with First Quantum Minerals appear related to the resolution of the strained relationship.

Results for Second Fiscal Quarter

On February 17, 2014, Petaquilla Minerals filed second fiscal quarter results for the period ending December 30, 2013. Gold equivalent production declined 67.0% sequentially from 9,452 ounces to 3,120 ounces despite an easy comparison. Management stated that mining operations continued to be disrupted from the reassignment of some mining and crushing equipment towards the efforts to make timely deliveries of aggregate to the Cobre Panamá copper project. The requirement for increased capacity is necessary since lower ore grades are being processed now. Management had expected that the mining and process operations would be re-balanced during the course of the third fiscal quarter. Management also cited general maintenance of the Molejón processing plant was conducted during most of the month of December 2013 as the cause for the lower gold production. However, articles in Panamanian newspapers report that a labor protest concerning non-payment of wages by Petaquilla Minerals to its employees was occurring during December, which would have been also a factor related

to the lower-than-expected gold production and aggregate revenue. In addition, the average realized gold equivalent price declined 5.0% sequentially to $1,247 per ounce. The company again drew upon inventoried bullion and sold 4,852 gold equivalent ounces. Sequential revenues from the sale of gold equivalent ounces declined 53.4%. Revenue from the aggregate business was $4.58 million, representing a 42.6% decline sequentially. The company reported a loss of $10,934,700 (or $0.05 per diluted share). The company's working capital deficiency expanded to $111,509,500 as accounts payable and accrued liabilities expanded $19.9 million, which was partially offset by a benefit of an $11.7 million decline in the current portion of derivative obligation to Deutsche Bank.

Deutsche Bank Liabilities

Though management is committed to physically delivering the required ounces of gold and silver to Deutsche Bank pursuant to Forward Gold Purchase Agreement and Forward Silver Purchase Agreement, Petaquilla Minerals has recently failed to meet the physical delivery requirements and has settled its obligations in cash. In October 2013, Petaquilla paid $1.7 million to Deutsche Bank to settle the September delivery requirements. As of September 30, 2013, the company was in negotiations with Deutsche Bank to reschedule the October delivery requirements. With the work stoppage related to labor protests that appeared to begin in earnest in late December 2013, the operational disruptions contributed to the continuing inability for Petaquilla to fulfill its gold and silver delivery obligations to Deutsche Bank. The company and Deutsche Bank continue to negotiate an agreement to resolve the situation. In addition, the company’s working capital deficiency continues to expand.

Lomero-Poyatos

On January 2, 2014, the Regional Ministry of Economy, Innovation, Science and Employment for the province of Huelva announced that the **mining permits for the Lomero-Poyatos concessions were revoked** due to inactivity. A delegate of governmental body, Eduardo Manuel Muñoz García, explained that the decision to revoke the mining rights was due to repeated failures to meet the conditions of the Unified Environmental Authorization (Autorización Ambiental Unificada or AAU) issued in October 2012, along with other developmental requirements. He cited that Petaquilla’s subsidiary, Iberian Resources, failed to present a complete project plan and the associated restoration plan. In addition, Iberian Resources has not provided the additional information requested by the Geological Mining Institute of Spain (Instituto Geológico y Minero de España or IGME), has only completed 10 of the 170 proposed exploratory surveys, has not constructed settling tanks and has not made the required deposit guarantee. The Ministry estimates that in recent months, Iberian Resources has not made any exploratory or construction progress since May when a rudimentary access ramp was constructed in the form of earthworks creating a channel, which the Ministry estimated to represent at most ten working days.

The Ministry of Economy mentioned that Iberian Resources had requested to delay the work requirements citing lack of sufficient funds. The Ministry denied the request and is moving forward to make the mining rights available again to interested companies. Apparently, the Ministry warned the Petaquilla that the mining rights would be forfeited if certain requirements were not executed by the end of the 2013.

Petaquilla Minerals had owned a 100% interest in Lomero-Poyatos through the acquisition of Iberian Resources. The most recent financial report books the value of the company’s Iberian assets as $35,830,876, which predominately reflected Lomero-Poyatos. Petaquilla may appeal the decision in court.

Financing

On November 21, 2013, Petaquilla Minerals announced the closing of a private placement of 14,285,714 Units at C$0.35 per Unit, each of which consists of one common share and one common share warrant exercisable at C$0.45 per share. **Gross proceeds** were **$5,000,000** from which a $200,000 finders' fee was paid. Management is actively pursuing financing alternatives to fund developmental plans, re-finance

short-term liabilities and terminate the Deutsche Bank forward gold and silver purchase agreements and convertible loan.

At the end second fiscal quarter, the company's working capital deficiency has expanded 30.3% since the last fiscal end to $111,509,500. Since the decline in gold production is contributing to the company missing gold delivery requirements to Deutsche Bank that are required under its Forward Gold and Silver Purchase Agreements, an IAS requirement stipulates that the Forward Gold Purchase Agreement and Forward Silver Purchase Agreement with Deutsche Bank (both totaling $14,170,000) be classified as a current liability. Despite Petaquilla Minerals having belatedly satisfied the delivery requirements with cash payments, the company continues to be in arrears as of the end of the second fiscal quarter. There are concerns that the company may possibly be under pressure from a shortage of working capital.

Miscellaneous

On August 19, 2013, Petaquilla announced that the company has changed its fiscal year from May 31 to June 30. As a result, the company had a transitional 13-month financial year ending June 30, 2013 including a transitional 4-month fourth fiscal quarter.

OVERVIEW

Based in Vancouver, British Columbia, Petaquilla Minerals Ltd. (PTQ: TO, PTQMF: OTCOB) is a junior gold production and exploration company with a producing gold concession located in the Republic of Panamá and with numerous mineral exploration properties in Panamá. Management continues to focus on expanding production capacity at the **Molejón** mine. Molejón is situated in one of the four zones of the Cerro Petaquilla Concession which operates under a unique set of rules and regulations known as **Ley Petaquilla No. 9**. Having successfully reached commercial production in January 2010, **Molejón poured gold 67,493 ounces during the fiscal 2013 year** from a carbon-in-pulp (CIP) leaching process and a carbon-in-column (CIC) gold adsorption stack.

Management believes that the low grade gold resource (between 0.2 g/t and 1.0g/t) at Molejón can be economically processed through on/off pad leaching. After conducting column leach tests on the low grade material at laboratory facilities in Arizona, an on/off pad leach project was advanced, and a stockpile of low grade ore is being accumulated. The leach pad and a pregnant solution processing plant have been constructed, and management expects the leach operation to be commissioned during calendar 2014.

In total, Petaquilla Minerals Ltd. holds gold exploration and development rights to 842 square kilometers of concession lands in north-central Panamá, including the Cerro Petaquilla Concession, and Oro del Norte. Exploration programs at Botija Abajo and Palmilla resulted in the completion of NI 43-101 compliant resource estimates for both deposits. Exploration continues at Brazo and Oro del Norte.

On September 1, 2011, Petaquilla Minerals **acquired Iberian Resources Corp**., **which held a 100% interest in the Lomero-Poyatos concessions in Spain.** Located in the northeast part of the Iberian Pyrite Belt, Lomero-Poyatos contains an estimated inferred mineral resource of 830,000 ounces Au and 17.3 ounces Ag 2.07 million ounces Au and 41.98 million ounces Ag in an underground mining scenario. On January 2, 2014, the Regional Ministry of Economy, Innovation, Science and Employment announced that **the mining permits for the Lomero-Poyatos concessions were revoked due to inactivity.**

COBRE PANAMA COPPER PROJECT

Beginning in September 2012, the controlling partner of the $6.18 billion Cobre Panamá copper project, Inmet Mining, attempted to takeover Petaquilla Minerals, targeting its Panamanian assets. Petaquilla's lands, mining concessions and licenses are critical to the advancement of the Cobre Panamá project. On February 25, 2013, Petaquilla Minerals and Inmet Mining reached a binding agreement which resolved the issues.

The terms of the agreement include an annual rental of $1.3 million for certain lands to be used for camp space, a three-year contract for aggregates totaling between $75 million and $100 million for the Cobre Panamá project and forgiveness of royalties and release of certain monetary claims by Inmet. The value of the arrangements is estimated to total approximately $150 million. Petaquilla immediately received a **$13 million payment** from Inmet for the in-advance payment of a 10-year land lease. In addition, Inmet waived its right on a 5% royalty from sales at the Molejón mine, resulting in a **reversal of a $13.3 million accrual**. On May 23, 2013, the agreement was amended to include the contemplation of joint venture agreements.

On April 30, 2013, First Quantum Minerals Ltd. (FM: TO) acquired Inmet Mining. Inmet Mining is now known as FQM (Akubra) Inc, a wholly owned subsidiary of First Quantum Minerals. Minera Panama, S.A., which is now 80% owned by FQM (Akubra), remains as the entity charged with the development of the Cobre Panamá project. After discussions with First Quantum, Petaquilla and Minera Panama executed a **contract for the purchase of $75 million of aggregate and screened rock over three years** from Petaquilla's wholly owned subsidiary, Panama Desarrollo de Infraestructuras, S.A. (PDI). The contract included the option to purchase up to **an additional $25 million of aggregate and screened rock**, which was exercised during the fourth fiscal quarter of 2013.

However, disruptions in workflow caused by labor disputes have interrupted the fulfillment of the contract. In addition, management has issued several press releases relating to the renegotiation of the previously executed agreement between Petaquilla Minerals and First Quantum Minerals. The most recent announcement on March 31st indicated the companies are still in negotiations.

VALUATION

Managements of mineral production and exploration companies create value through evaluating, acquiring, exploring and/or developing mining properties. In the case of Petaquilla Minerals, management's strategy is to increase shareholder value through developing the Molejón gold project and other properties in north-central Panamá, along with evaluating and acquiring other projects, such as Lomero-Poyatos in Spain. Also, Petaquilla Minerals has achieved the status of an exploration/production company, in which the reserves at Molejón warrant a higher valuation than typical junior gold exploration companies. Therefore, we believe it would be inappropriate to value Petaquilla Minerals on a current earnings, cash flow or book value basis. Both earnings and cash flow are ramping up and do not adequately capture the value of the company's resource base. Book value can often represent the value of a junior gold exploration company, but **Molejón mine has evolved well beyond the exploration phase** and **Petaquilla Minerals has the potential to become a mid-tier producer**.

Our calculation of **share value of attributable reserves and resources** is based on the ascertained value of each property plus balance sheet adjustments for working capital, PPE (property, plant and equipment) and marketable securities. **The value of each individual property is determined by adjusting the value of current reserves/resources for the expected recovery rate, mining/processing costs and royalties, if any.** The reserves/resources are assigned a **confidence factor** that attempts to take into account the risks of each project, such as the locality of the deposits, the

assurance level of the reserves/resources, various technical mining/production risks, etc. The current price of gold is utilized. The reserve/resource valuation methodology involves the following assumptions:

1) At Molejón, a 90% confidence factor is applied to proven and probable reserves with an average grade of 1.305 g/t since the production facility has been operating consistently since 2009. The grade of ore is quite high for an open pit mine.
2) At Molejón, a 60% confidence factor is applied to measured & indicated reserves with an average grade of 0.70 g/t for a combination of factors, but primarily since the on/off leach operations have begun recently and the company has yet to report production from the process.
3) At Molejón, only a 10% confidence factor is applied to measured & indicated reserves with an average grade of 0.50 g/t. According to laboratory column leach tests, only low grade oxide materials can be processed economically on the on/off leach pads. The low recovery rate of fresh ore in the laboratory (between 38% and 53%) impedes its profitable extraction. A breakdown of low grade oxide materials and fresh ore is not available.
4) At Botija Abajo, an 80% confidence factor is applied to the proven & probable reserve and measured & indicated resource. The recovery rates for gold and copper are 76% and 72%, respectively, which are derived from the NI 43-101 compliant report. Production is not expected until 2015.
5) At Palmilla, an 80% confidence factor is applied to the measured & indicated resource. The recovery rates for gold and copper are 76% and 72%, respectively. A 35% confidence factor is applied to the inferred resource of Palmilla. The resource estimates are NI 43-101 compliant, and production is expected to begin in 2015.
6) At Oro del Norte, a 20% confidence factor is applied to inferred resource. The inferred resource is not yet NI 43-101 compliant, and production is not expected until 2016.
7) At Lomero-Poyatos, a 35% confidence factor is applied to inferred resource. The property was previously mined for pyrite, but not for precious metals. The copper, lead and zinc deposits are currently not included in the valuation; however, when a feasibility study provides sufficient information for their evaluation, they will be included. We conservatively estimate the life of mine (LOM) to be nine years (conservative in comparison to management's six year goal).
8) The royalties and Net Smelter Return for Molejón include both the Government of Panamá's 2% royalty on gold and silver sold and the graduated 1% to 5% NSR provided by the June 2005 agreement. The royalty on copper is 5%.
9) In the case of PDI Panama, only the announced contracts are being used to value the operations on a price-to-sales (P/S) basis. Small-capitalization companies with a sales profile that should grow and expand over time historically are valued in a P/S range between 1.1 and 3.2. Given the limited information on PDI Panama, the valuation target is based on a third quartile 1.6 price-to-sales ratio valuation. Only Petaquilla's percentage interest in PDI is attributed in the valuation model.
10) With the issuance of a significant number of warrants and options, we use fully diluted shares instead of shares outstanding.

Since our last report, the following **important modifications** affected our valuation model:

1) The rally in the price of gold increased the price target by $0.09.
2) The decline in the price of copper decreased the price target by $0.02
3) The increased working capital deficiency and other balance sheet items reduced the target by $0.08.

Based on our calculation of share value of attributable resources (see table below), **our target for Petaquilla Minerals stock is $0.77**, of which $0.07 is attributable to gold and copper resources at Botija Abajo.

Petaquilla Minerals Ltd.

Projects	Metal	Proven & Probable Reserve (oz or lb)	Measured & Indicated Resource (oz)	Grade (g/t or %)	Inferred Resource (oz or lb)	Recovery Rate	Average Production Costs (per oz)	Current Price	Royalties & Net Smelter Return (NSR)	% Ownership	Net Value to PTQ	Net Present Value to PTQ
PANAMA												
Molejón	Au	470,000		1.305	37,100	90%	600	1,303	4.0%	100%	268,193,938	202,685,848
	Ag	736,998		2.050		85%	15.00	19.60	4.0%	100%	2,489,756	1,881,617
(CIP/CIC)												
Molejón	Au		163,130	0.700		70%	625	1,303	4.0%	100%	44,594,783	29,838,317
(on/off leach)												
Molejón	Au		191,669	0.500		45%	650	1,303	4.0%	100%	5,406,906	3,617,754
(on/off leach)												
Belencillo	Au			0.500	318,500	45%	650	1,303	4.0%	100%	35,939,030	24,172,919
(on/off leach)												
PDI Panama	N/A									47.48%	5,348,147	5,348,147
BALANCE SHEET ADJUSTMENTS												
Working capital											(111,509,500)	(111,509,500)
Long-term debt											(11,626,810)	(11,626,810)
Community support obligation											(14,067,746)	(14,067,746)
Asset retirement obligation											(12,833,374)	(12,833,374)
								Net Assets & Resources			211,935,130	117,507,172
								Fully Diluted Shares			259,296,079	259,296,079
					Management Inferred Resource (oz)				**Discounted Asset Value** (Molejón only)			**0.45**
PANAMA												
Oro Del Norte	Au			0.47	276,383	85%	800	1,303	4.0%	100%	39,704,297	7,258,333
Botija Abajo	Au	106,739	3,303	0.49		76%	800	1,303	4.0%	100%	32,307,345	8,603,863
Botija Abajo	Cu	48,718,000	1,507,000	44%		72%	1.84	3.00	5.0%	100%	29,631,639	7,891,288
Palmilla	Au		509,400	0.59	144,000	76%	800	1,303	4.0%	100%	168,051,511	35,803,429
Palmilla	Ag		755,800	0.87	239,200	76%	15.00	19.60	4.0%	100%	2,183,417	465,178
Palmilla	Cu		143,900,000	24%	54,600,000	72%	1.84	3.00	5.0%	100%	99,930,455	21,290,216
									Discounted Asset Value			**0.77**

PROJECTED INCOME STATEMENT

Petaquilla Minerals Ltd.

Consolidated Statements of Operations and Retained Earnings (US $)

Years ending June 30 (and May 31 prior to 2013)	Year (May) 2012	2013 JJA 1Q	2013 SON 2Q	2013 DJF 3Q	2013 MAMJ 4Q	Year (June) 2013
Gold poured (ounces)	68,002	17,882	20,025	17,674	11,912	67,493
Gold eqivalent ounces poured	69,503	18,459	20,518	18,013	12,191	69,181
Gold eqivalent ounces sold	62,870	17,597	17,905	14,598	14,196	64,296
Avg. realized gold price	$1,520	$1,595	$1,695	$1,647	$1,473	$1,601
Revenue - gold eqivalents	92,909,992	25,369,422	27,423,000	22,732,000	20,400,000	95,924,053
Revenue - aggregates	1,234,520	377,364	1,172,000	167,000	4,366,000	6,082,073
Total revenues	**94,297,396**	**25,925,176**	**29,463,602**	**27,498,989**	**27,779,254**	**110,667,021**
Production costs	44,064,034	10,810,988	10,772,638	10,188,141	21,168,741	52,940,508
Depreciation and depletion	15,301,328	4,503,543	3,833,829	3,270,436	10,126,285	21,734,093
Gross operating profit	**34,932,034**	**10,610,645**	**14,857,135**	**14,040,412**	**(3,515,772)**	**35,992,420**
General and administrative	14,228,500	3,025,648	4,307,117	3,787,856	6,272,261	17,392,882
Donations and community relations	1,542,860	275,537	477,061	413,408	4,394,993	5,560,999
Exploration and development costs	9,903,665	1,983,809	2,008,241	3,131,931	3,991,432	11,115,413
Stock-based compensation	514,799	108,365	59,782	126,319	297,952	592,418
Debt issuance costs	-	-	-	-	-	-
Other operating expenses	0	0	0	0	0	0
Operating expenses	**26,189,824**	**5,393,359**	**6,852,201**	**7,459,514**	**14,956,638**	**34,661,712**
Gain (loss) from operations	**8,742,210**	**5,217,286**	**8,004,934**	**6,580,898**	**(18,472,410)**	**1,330,708**
Finance (expense)	(2,174,462)	(735,124)	(440,439)	(187,201)	(3,122,623)	(4,485,387)
(Loss) on equity investments	(485,104)	0	0	0	0	0
Inmet's waiver of 5% royalty on Molejon mine	-	-	-	9,373,191	3,975,150	13,348,341
Mark-to-market gain (loss) on share purchase warrants	10,564,194	0	0	0	0	0
Mark-to-market gain (loss) on share embedded derivatives	3,265,000	-	-	-	-	0
Mark-to-market gain (loss) on share conversion feature	866,963	-	-	-	-	0
Mark-to-market gain (loss) on senior & conv. secured notes	(505,523)	0	0	0	0	0
Non-operating income (expenses)	2,146,356	(761,790)	(5,502,823)	0	(8,530,740)	(14,795,353)
Total other income (expense)	**13,677,424**	**(1,496,914)**	**(5,943,262)**	**9,185,990**	**(7,678,213)**	**(5,932,399)**
Income (loss) before minority interest and income taxes	**22,419,634**	**3,720,372**	**2,061,672**	**15,766,888**	**(26,150,623)**	**(4,601,691)**
Non-controlling interests	1,793,434	(29,421)	(7,632)	(41,127)	(435,345)	(513,525)
Shareholders income (loss) before income taxes	**20,626,200**	**3,749,793**	**2,069,304**	**15,808,015**	**(25,715,278)**	**(4,088,166)**
Other comprehensive income	(5,187,200)	558,460	1,085,646	183,686	(237,716)	1,590,076
Net comprehensive income (continuing operations)	**15,439,000**	**4,308,253**	**3,154,950**	**15,991,701**	**(25,952,994)**	**(2,498,090)**
Net income per common share (diluted) - continuing ops.	**0.10**	**0.02**	**0.01**	**0.07**	**(0.11)**	**(0.02)**
Net comprehensive income per share (diluted)	0.07	0.02	0.01	0.07	(0.11)	(0.01)
Weighted average common shares outstanding - diluted	206,560,782	230,200,617	226,222,082	231,651,958	226,825,979	214,891,382
Gross margin (net of amortization & depletion)	53.27%	58.30%	63.44%	62.95%	23.80%	52.16%

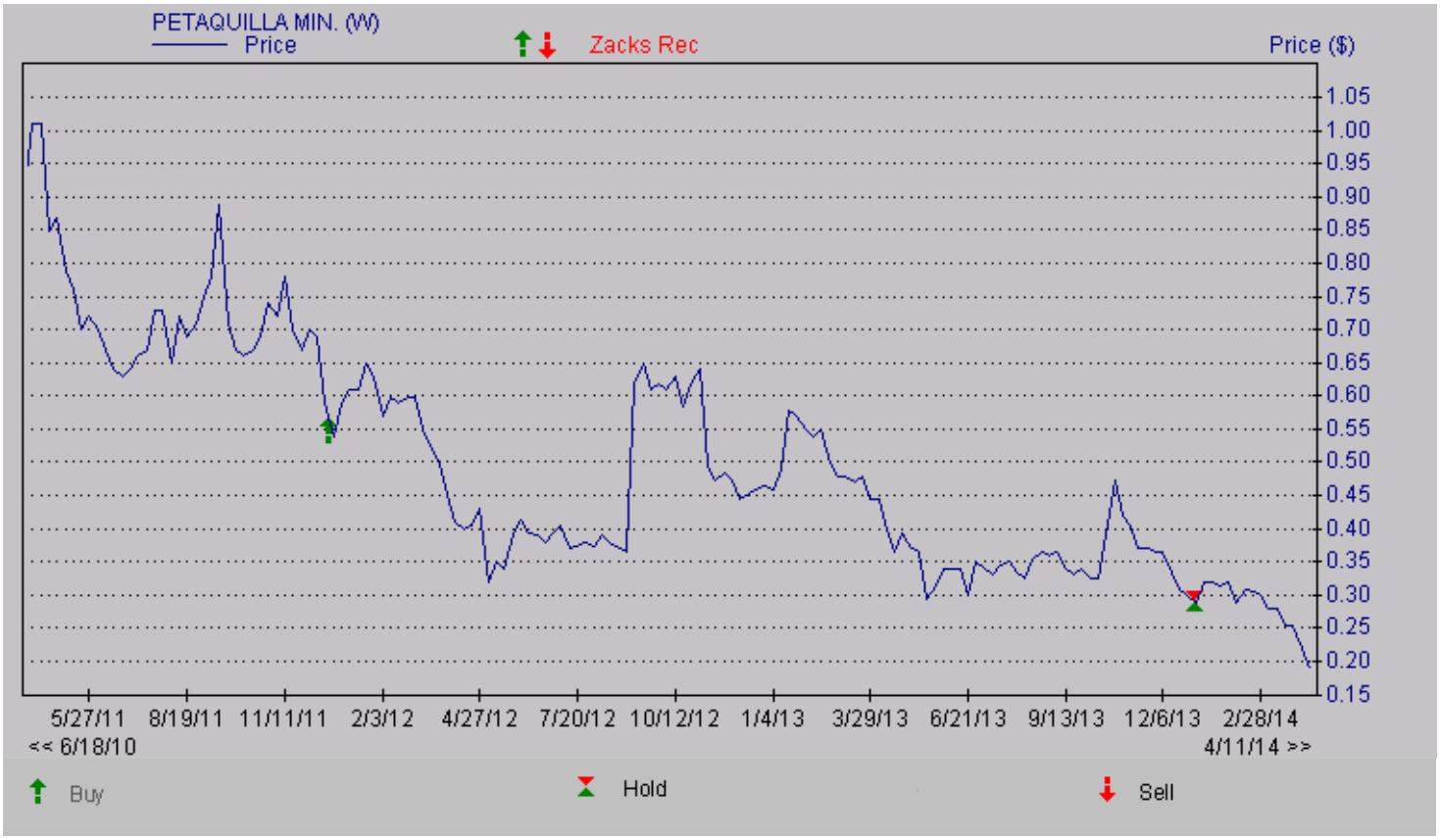
Years ending June 30 (and May 31 prior to 2013)	Year (June) 2013	2014 JAS 1Q	2014 OND 2Q	2014 JFM 3Q E	2014 AMJ 4Q E	Year (June) 2014 E
Gold poured (ounces)	67,493	9,171	3,028	0	1,500	13,699
Gold eqivalent ounces poured	69,181	9,452	3,120	0	1,546	14,118
Gold eqivalent ounces sold	64,296	10,191	4,852	500	1,607	17,150
Avg. realized gold price	$1,601	$1,312	$1,247	$1,250	$1,300	$1,277
Revenue - gold eqivalents	95,924,053	12,646,470	5,890,255	625,000	2,089,617	21,251,342
Revenue - aggregates	6,082,073	7,980,580	4,581,933	250,000	50,000	12,862,513
Total revenues	**110,667,021**	**20,627,308**	**10,472,188**	**875,000**	**2,139,617**	**34,114,113**
Production costs	52,940,508	15,918,157	20,920,725	9,209,721	9,025,526	55,074,129
Depreciation and depletion	21,734,093	2,172,501	2,530,776	2,351,639	2,304,606	9,359,521
Gross operating profit	**35,992,420**	**2,536,650**	**(12,979,313)**	**(10,686,359)**	**(9,190,515)**	**(30,319,537)**
General and administrative	17,392,882	3,649,803	4,731,889	4,873,846	5,020,061	18,275,599
Donations and community relations	5,560,999	134,064	70,208	250,000	50,000	504,272
Exploration and development costs	11,115,413	1,717,589	958,236	200,000	100,000	2,975,825
Stock-based compensation	592,418	149,693	88,751	71,001	56,801	366,245
Debt issuance costs	-	-	-	-	-	-
Other operating expenses	0	0	0	0	0	0
Operating expenses	**34,661,712**	**5,651,149**	**5,849,084**	**5,394,846**	**5,226,862**	**22,121,941**
Gain (loss) from operations	**1,330,708**	**(3,114,499)**	**(18,828,397)**	**(16,081,205)**	**(14,417,377)**	**(52,441,478)**
Finance (expense)	(4,485,387)	(671,686)	(340,740)	(506,213)	(531,524)	(2,050,163)
(Loss) on equity investments	0	0	0	0	0	0
Inmet's waiver of 5% royalty on Molejon mine	13,348,341	-	-	-	-	-
Mark-to-market gain (loss) on share purchase warrants	-	-	-	-	-	-
Mark-to-market gain (loss) on share embedded derivatives	-	-	-	-	-	-
Mark-to-market gain (loss) on share conversion feature	-	-	-	-	-	-
Mark-to-market gain (loss) on senior & conv. secured notes	-	-	-	-	-	-
Non-operating income (expenses)	(14,795,353)	1,644,070	8,197,757	0	0	9,841,827
Total other income (expense)	**(5,932,399)**	**972,384**	**7,857,017**	**(506,213)**	**(531,524)**	**7,791,664**
Income (loss) before minority interest and income taxes	**(4,601,691)**	**(2,142,115)**	**(10,971,380)**	**(16,587,418)**	**(14,948,900)**	**(44,649,814)**
Non-controlling interests	(513,525)	(36,680)	(36,680)	(36,680)	(36,680)	(146,720)
Shareholders income (loss) before income taxes	**(4,088,166)**	**(2,105,435)**	**(10,934,700)**	**(16,550,738)**	**(14,912,220)**	**(44,503,094)**
Other comprehensive income	1,590,076	1,445,296	397,519	921,408	967,478	3,731,700
Net comprehensive income (continuing operations)	**(2,498,090)**	**(660,139)**	**(10,537,181)**	**(15,629,331)**	**(13,944,742)**	**(40,771,393)**
Net income per common share (diluted) - continuing ops.	**(0.02)**	**(0.01)**	**(0.05)**	**(0.07)**	**(0.06)**	**(0.20)**
Net comprehensive income per share (diluted)	(0.01)	(0.00)	(0.05)	(0.07)	(0.06)	(0.18)
Weighted average common shares outstanding - diluted	214,891,382	214,779,688	221,674,098	228,837,049	236,231,456	225,380,573
Gross margin (net of amortization & depletion)	52.16%	22.83%	N/M	N/M	N/M	N/M

BALANCE SHEET

Petaquilla Minerals Ltd.

Consolidated Balance Sheets (in $ US) (as reported prior to application of IFRS) (in Canadian $ prior to FY 2009, in US $ starting in FY 2009) For the years ending as noted	Canadian GAAP 2006 ending 1/31	 2007 ending 4/30	Canadian GAAP 2008 ending 4/30	 2009 ending 5/31	IFRS 2010 ending 5/31	IFRS 2011 ending 5/31	IFRS 2012 ending 5/31	IFRS 2013 ending 6/30	IFRS 2Q 2014 ending 12/31
ASSETS									
Cash and cash equivalents	9,171,318	665,290	12,850,137	3,575,168	4,625,649	5,712,792	1,975,660	1,855,544	1,314,364
Short-term investments	-	-	-	-	-	200,000	340,000	340,000	340,000
Accounts receivable	32,188	100,410	450,885	144,225	116,326	-	-	-	-
Prepaid expenses	36,650	452,718	310,255	591,847	690,152	-	-	-	-
Accounts receivable, prepaids, etc.		-	-	-	-	1,599,301	4,525,236	5,732,751	5,733,599
Inventory and stockpiled ore	-	-	-	1,038,999	3,634,715	11,657,676	15,446,317	27,349,785	23,466,910
Assets (PDI) held for distribution to owners	-	-	-	-	-	-	16,532,176	-	-
Current Assets	**9,240,156**	**1,218,418**	**13,611,277**	**5,350,239**	**9,066,842**	**19,169,769**	**38,819,389**	**35,278,080**	**30,854,873**
Other Assets									
Restricted cash - reclamation obligations	892,242	1,188,026	670,175	707,480	566,708	-	2,300,000	2,300,000	0
Long term investments	-	1,807,000	2,408,443	-	-	2,400,000	-	-	-
Inventories (stockpiled ore)	-	-	-	1,762,945	1,107,316	2,228,405	14,077,466	35,348,467	40,868,942
Advances to suppliers	-	-	-	-	816,461	-	-	-	-
Other assets	-	4,582,937	-	-	-	10,381,872	6,710,884	708,123	914,966
Property, plant and equipment (net)	285,005	5,343,147	16,779,149	12,879,658	-	-	-	-	-
Mineral properties	2,389,769	31,236,455	37,739,133	60,843,501	-	-	-	-	-
Exploration and evaluation assets (primarily Iberian)		-	-	-	-	-	31,170,407	32,947,253	36,408,325
Mineral property, plant & equipment	-	-	-	-	78,700,875	94,553,369	93,173,045	111,394,926	117,242,286
Total Assets	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**90,258,202**	**128,733,415**	**186,251,191**	**217,976,849**	**226,289,392**
LIABILITIES									
Accounts payable and accrued liabilities	551,096	4,951,297	8,493,460	8,746,892	17,586,683	30,318,558	44,211,407	61,640,691	97,340,368
Deferred services and materials	-	-	248,786	120,000	-	-	-	-	-
Current obligations under capital leases	-	-	2,174,903	5,054,987	4,136,032	1,468,561	-	-	-
Current porton of long-term debt	-	487,882	436,151	160,993	-	-	4,927,642	19,635,805	24,386,957
Current porton of bank loans		-	-	-	35,465	435,733			
Current other liabilities - Community support	-	-	-	-	5,184,816	1,424,290	1,396,856	6,560,375	6,467,048
Current portion of deferred revenue	-	-	-	-	0	9,246,437	14,216,977	800,000	0
Current portion of derivative obligation	-	-	-	-	-	-	-	32,250,000	14,170,000
Bank overdraft	-	-	2,100,000	-	-	-	-	-	-
Operating credit line facility	-	-	3,872,434	-	-	-	-	-	-
Senior secured notes	-	-	-	15,653,483	26,646,631	217,984	-	-	-
Convertible senior secured notes	-	-	-	-	45,094,084	276,983	-	-	-
Liabilities (PDI) held for distribution to owners	-	-	-	-	-	-	15,841,613	-	-
Current Liabilities	**551,096**	**5,439,179**	**17,325,734**	**29,736,355**	**98,683,711**	**43,388,546**	**80,594,495**	**120,886,871**	**142,364,373**
Long term debt	-	699,185	162,568	-	-	-	-	15,357,903	11,626,810
Bank loans		-	-	-	80,235	1,840,500	8,430	-	-
Accounts payable and accrued liabilities	-	-	-	-	-	1,866,667	-	-	-
Obligations under capital leases	-	-	3,991,743	-	440,229	3,850,475	801,750	-	-
Senior secured notes	-	-	26,785,359	13,754,019	-	2,906,453	-	-	-
Convertible senior secured notes	-	-	-	34,794,455	0	3,693,122	4,705,428	-	-
Other liabilities - Community support obligation		-	-	4,391,168	6,453,281	6,703,799	5,681,936	15,424,746	14,067,746
Share purchase warrants	-	-	-	-	5,030,904	11,064,020	499,826	749	1,688,856
Deferred revenue	-	-	4,003,423	3,123,394		33,390,472	26,750,484	-	-
Derivative obligation			-	-	-	-	217,000	-	-
Asset retirement obligation	-	4,400,000	4,333,216	4,664,720	4,816,121	9,630,851	11,062,579	12,997,029	12,833,374
Long-term liabilities	**0**	**5,099,185**	**39,276,309**	**60,727,756**	**16,820,770**	**74,946,359**	**49,727,433**	**43,780,427**	**40,216,786**
Share capital (no par value)	62,977,209	101,482,015	89,002,273	89,208,668	(25,246,279)	7,891,354	48,454,407	46,348,220	36,820,262
Treasury shares	(166,981)	(166,981)	(122,193)	(122,193)	N/A	N/A	N/A	N/A	N/A
Warrants	-	-	11,771,374	14,109,097	N/A	N/A	N/A	N/A	N/A
Shares subscribed	-	150,000	-	-	-	-	-	-	-
Additional paid-in capital	1,004,480	12,893,667	14,714,276	13,897,197	N/A	N/A	N/A	N/A	N/A
Equity component of cv. sr. secured notes	-	-	-	495,121	N/A	N/A	N/A	N/A	N/A
Accumulated comprehensive income	-	-	(2,084,526)	(6,733,242)	N/A	N/A	N/A	N/A	N/A
Retained earnings (deficit)	(51,558,632)	(79,521,082)	(98,675,070)	(119,774,936)	N/A	N/A	N/A	N/A	N/A
Equity attributed to non-controlling interests			-	-		2,507,156	7,474,856	6,961,331	6,887,971
SHAREHOLDERS' EQUITY	**12,256,076**	**34,837,619**	**14,606,134**	**(8,920,288)**	**(25,246,279)**	**10,398,510**	**55,929,263**	**53,309,551**	**43,708,233**
Total Liabilities and Equity	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**90,258,202**	**128,733,415**	**186,251,191**	**217,976,849**	**226,289,392**
Common shares outstanding	89,876,951	89,876,951	95,958,641	96,040,121	125,281,951	176,429,501	221,863,781	222,330,161	236,615,875

HISTORICAL ZACKS RECOMMENDATIONS



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