Zacks Small-Cap Research

December 24, 2012

Steven Ralston, CFA
312-265-9426
sralston@zacks.com

scr.zacks.com

111 North Canal Street, Chicago, IL 60606

Petaquilla Minerals Ltd. (T.PTQ – TSE)

T.PTQ: Petaquilla produces over 20,000 ounces of gold in latest quarter**.**

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (12/21/12)	$0.46
Six- Month Target Price	**$1.70**

OUTLOOK

Recently, Petaquilla announced preliminary production statistics for the second fiscal quarter of 2013. For the first time, gold ounces poured exceeded 20,000 ounces for a given quarter. Also, in the last four months, NI 43-101 compliant estimates for the Botija Abajo and Palmilla deposits have been released, adding significantly to the valuation of Petaquilla stock. As a result, despite the recent decline in the prices of gold, silver and copper, we maintain our price target of $1.70, specifically due to the incorporation of the estimated inferred resource of Palmilla into our NPV valuation model.

SUMMARY DATA

52-Week High	**$0.67**
52-Week Low	**$0.30**
One-Year Return (%)	**-14.8**
Beta	**1.53**
Average Daily Volume (shrs.)	**917,952**
Shares Outstanding (million)	**222.2**
Market Capitalization ($ mil.)	**$102.2**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**21.2**
Insider Ownership (%)	**2.0**
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	**5.1**
P/E using 2013 Estimate	**6.6**
P/E using 2014 Estimate	**3.1**
Zacks Rank	**3**

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)
2011	14.7 A	17.4 A	18.7 A	19.8 A	71.7 A
2012	26.2 A	25.3 A	18.8 A	24.0 A	94.3 A
2013	25.9 A	28.2 E	32.5 E	35.1 E	121.7 E
2014					155.1 E

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

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2011	-$0.05 A	-$0.18 A	$0.01 A	$0.04 A	-$0.01 A
2012	$0.03 A	$0.03 A	$0.02 A	$0.02 A	$0.10 A
2013	$0.02 A	$0.01 E	$0.02 E	$0.02 E	$0.07 E
2014					$0.15 E

Zacks Projected EPS Growth Rate - Next 5 Years % **15.0**

Quarterly financials do not equal annual due to adoption of IFRS.

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

KEY POINTS

- Petaquilla Minerals is a junior gold production and exploration company with numerous mineral exploration properties in Panamá and Spain. The **Molejón gold project** in north-central Cobre **Panamá** achieved commercial production in January 2010 and **has poured 216,100 ounces of gold**. Approximately **512,072 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.
- **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 the first quarter of fiscal 2013. Management expects this incremental leach operation to reach a monthly production rate of 1,500 ounces monthly by the end of fiscal 2013.
- 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 last four months adding $34.5 million (or $0.12 per diluted share) to the NPV to our valuation model.
- In **Spain**, Petaquilla Minerals owns a 100% interest in **Lomero-Poyatos** through the acquisition of Iberian Resources. Based on historical drilling results, a NI 43-101 compliant Technical Report (dated May 21, 2012) estimates that the inferred mineral resource in an underground mining scenario contains **830,000 ounces Au** and **17.3 ounces Ag**. The initial development plan includes shipping 20-ton containers of Spanish ore to the Molejón project in Panamá for processing. The project requires capital financing for further development. When the bulk volume test commences, the resource will be upgraded, by definition, to a reserve.
- Management's focus fiscal 2013 lies in boosting gold production at Molejón gold project through capacity expansion (including a new floatation circuit for processing polymetallic ore), advancing the Lomero-Poyatos concessions to production and continuing exploration at Brazo and Oro del Norte, along with pursuing the spin-out of Panamanian Development and Infrastructure Ltd. (PDI). During fiscal 2013, management expects to complete initial resource reports for Oro del Norte and Brazo in Panamá and an updated mineral resource estimate for Lomero-Poyatos in Spain.
- We maintain our Outperform rating on Petaquilla Minerals and maintain our target of $1.70.

RECENT NEWS

Inmet's Offer of $0.60 per Petaquilla Share Expired on November 6th
Subsequently, Inmet receives three Offers from First Quantum

Inmet (IMN: TO) is developing the Cobre Panamá copper-gold project in Panamá. With an estimated capital cost of US$6.18 billion over four years, the project is fully financed with current capital commitments over $2.9 billion including the $950 million expected to be spent during 2012. Inmet, which owns an 80% interest in Cobre Panamá (KPMC owns the other 20%), is a well-capitalized mining company operating copper and zinc projects in Finland, Turkey and Spain.

Inmet filed its initial formal offer of $0.48 per share for all the outstanding common shares of Petaquilla on September 28, 2012, and on October 24th **increased its offer to $0.60.** Inmet's offer included plans to spin-off the Petaquilla's Spanish assets to existing shareholders of Petaquilla. We concur with the opinion of UBS Securities Canada, Petaquilla's financial advisor, that Inmet's revised offer was inadequate and did not sufficiently reflect Petaquilla's value. Though Inmet's CEO indicated that the $0.60 per share was a final offer, Petaquilla is a strategic asset in the completion of Inmet's Cobre Panamá project for two important reasons.

First, the Cobre Panamá project consists of several conventional open pit mines and the associated infrastructure to produce copper, gold, silver and molybdenum. The Basic Engineering Summary Report (dated May 2012 and available on Inmet's website: see figure 2-9) proposes the construction of three pits (Colina, Valle Grande and Botija) and four associated waste dumps. **Inmet has been rebuffed multiple times by Government of Panamá.** Three recent, significant and clear rulings by the Panamanian government denied Inmet's requests and reaffirmed Petaquilla's rights to three concessions to which Minera Panama, Inmet's subsidiary, requested access: San Juan (on September 25th by the Department of Mineral Resources and on October 18th by the National Authority of Land Administration), La Esperanza (on October 18th by the National Authority of Land Administration) and Rio Belencillo (on October 22nd by the National Directorate). Currently, without an agreement with Petaquilla, Minera Panama is unable to locate the waste dumps as planned increasing project risk.

Inmet through its subsidiary, Minera Panama, may still be able to develop the Cobre Panamá project but with inefficiencies that will require additional capital costs. Minera Panama has the required permits to begin construction of the project; however, the construction and optimal placement of the waste dumps will require either the acquisition of Petaquilla's Panamanian assets or the consent of Petaquilla for access to the land, which at this point would most likely require a sizable negotiated fee or compensation set by arbitration as provided for in Petaquilla Law 9. As stated by Inmet's management, though in a different context, the acquisition of Petaquilla would eliminate a potential source of disruption to the development of Cobre Panamá.

In developing Cobre Panamá, Inmet has committed considerable capital, approximately $2.9 billion by the end of 2012, with the projected total capital cost of the project being $6.18 billion. The current $140 million offer for Petaquilla Minerals is minor (less than 3%) compared to the potential sub-optimal development of Cobre Panamá and/or the legal costs to acquire access to the required lands.

Second, Petaquilla Minerals retains the claim to the gold rights throughout the area being developed by Minera Panama under certain conditions. Originally, when the Petaquilla Law 9 was enacted in February 1997, the right to mine copper, gold and other mineral deposits in the entire 13,600 hectare Cerro Petaquilla concession were united, and only subsequently in 2005, were 100% of the gold rights in the Molejón area assigned to Petaquilla, along with the gold rights throughout the entire Cerro Petaquilla concession if the value of the gold resource supersedes the value of the copper-molybdenum resources. Therefore, if a particular deposit currently under development by Minera Panama (Inmet) contains a larger dollar value in gold than copper and molybdenum, Petaquilla Minerals would lay claim to the gold in the deposit. A specific case in point is the Whittle shell of the Palmilla deposit in the Belencillo Concession. It is hard to believe that Inmet's management is not aware of the potential effect of this scenario. Even the Basic Engineering Summary Report reflects that there are significant gold resources within the Cobre Panamá project in its projection of initial annual production of 106,000 ounces of gold concurrent with 298,000 tonnes of copper.

However, Inmet Mining allowed the tender offer to expire on November 5, 2012. We believe Inmet's management is now pre-occupied with the three unsolicited offers received by First Quantum (FM: TO). Apparently, Inmet received an unsolicited C$62.50 per share proposal from First Quantum during the time period of its offer for Petaquilla, followed by higher offers of C$70.00 and C$72.00 on November 25th and December 16th, respectively. We believe that the focus of Inmet's management has been diverted from the acquisition of Petaquilla to bolstering the value of Inmet evidenced by Inmet's announcement on December 13th that proven and probable mineral reserves increased at the Cobre Panamá project, namely contained copper increased by 27% and contained gold by 41%. Interestingly, the announcement specifically cites additional reserves from the Balboa, Brazo and Botija Abajo deposits, the latter of which (Botija Abajo) was the subject of an NI 43-101 compliant estimate announced by Petaquilla on September 5th (see below).

Petaquilla's rights to mineral concessions are critical for the development of the Cobre Panamá project, whether pursued by Inmet Mining or First Quantum. Given the scope and value of Cobre

Panamá, the management of project risk necessitates minimally the cooperation of Petaquilla's management and optimally the control of Petaquilla.

Preliminary Second Fiscal Quarter Results

On December 17, 2012, Petaquilla preliminary results for the second fiscal quarter ending November 30th. **For the first time, quarterly gold production exceeded 20,000 ounces** as ounces poured increased 12.0% sequentially to 20,025. Gold equivalent production increased 11.2 % sequentially from 18,459 ounces to 20,518 ounces. We expect production to ramp up during the third fiscal quarter since the completion of the gold plant's capacity expansion program was announced on November 27th. The mill's capacity is being increased approximately 30% through the installation and commissioning of a fourth ball mill, along with two LIX leach tanks, two carbon-in-pulp (CIP) tanks, a third thickener and a second electro-winning circuit.

During the second fiscal quarter, the company sold 17,545 ounces of gold and 31,400 ounces of silver generating revenues of $28.2 million. Approximately 1,590 ounces of gold were inventoried, which raised the total amount of gold inventoried to 6,270 ounces. With the cash cost per ounce of gold sold remaining below $600, the company's cash position increased 29% sequentially to $16.5 million.

NI 43-101 report - Botija Abajo deposit

A NI 43-101 compliant estimate for the Botija Abajo deposit was released in September **adding $13.0 million (or $0.05 per diluted share) to the NPV calculated by our valuation model**. The resource and reserve estimate was completed by Behre Dolbear & Company (USA) Inc. with an effective date of September 1st. The estimate adds 210,000 gold equivalent ounces (110,042 ounces Au and 50,225,000 pounds Cu) to Petaquilla's Molejón project.

MEASURED AND INDICATED MINERAL RESOURCES WITHIN THE FINAL PIT DESIGN (AS OF SEPTEMBER 1, 2012)

	Au			Cu		
	Kt	Contained		Kt	Contained	
		g/t	oz		%	Klbs
Measured	4,454	0.572	81,906	1,705	0.487	18,295
Indicated	1,846	0.474	28,136	2,981	0.486	31,929
Total	**6,300**	**0.543**	**110,042**	**4,687**	**0.486**	**50,225**

Slight numerical differences may exist in table values due to rounding

PROVEN AND PROBABLE MINERAL RESERVES WITHIN THE FINAL PIT DESIGN (AS OF SEPTEMBER 1, 2012)

	Au					Cu				
		Contained		Recovered			Contained		Recovered	
	Kt	g/t	oz	g/t	oz	Kt	%	Klbs	%	Klbs
Proven	4,753	0.55	79,448	0.438	60,524	1,820	0.44	17,747	0.32	12,640
Probable	1,970	0.25	27,291	0.201	20,642	3,181	0.44	30,971	0.32	22,156
Total	**6,723**	**0.49**	**106,739**	**0.376**	**81,166**	**5,001**	**0.44**	**48,718**	**0.32**	**34,796**

Numerical differences may exist in table values due to rounding
Reserves include 3% Mining Losses and 10% Dilution

The Botija Abajo deposit contains zones of low-grade gold mineralization with an in situ value greater than the value of the copper. If other deposits in the Cerro Petaquilla Concession exhibit the same characteristic, by contract, those gold deposits will no longer be under the purview of Cobre Panamá but

rather will become mineable assets of Petaquilla Minerals. The new reserve and resource estimates have been included into our valuation model.

NI 43-101 report - Palmilla Gold Project

On December 13, 2012, Petaquilla filed a NI 43-101 compliant technical report on its **Palmilla gold project** on SEDAR. The report includes an **estimated inferred resource of 502,800 gold equivalent ounces** composed of 318,500 ounces gold (19,725,000 tonnes grading 0.50 g/t Au), 345,600 ounces silver (19,725,000 tonnes grading at 0.54 g/t Ag) and 80,368,000 pounds of copper (19,725,000 tonnes grading 0.18% Cu). The resource estimation utilized the drilling results from 21 holes drilled by Petaquilla in 2012 and 23 holes drilled by Adrian Resources between 1994 and 1996. The resource continues to be explored as Petaquilla has now completed drilling at least 37 out of 42 planned holes in the drilling program.

Inferred Mineral Resources Within Whittle Shell Design
(As of October 26, 2012)

Gold Cut-off Grade (g/t Au)	Kt	Au Contained		Cu Contained		Ag Contained		Au Equivalent Contained oz
		g/t	oz	%	K lbs	g/t	oz	
>0.3	13,499	0.64	276,,800	0.20	60,908	0.60	261,400	416,500
>0.2	17,008	0.56	305,100	0.19	72,842	0.57	309,900	472,100
>0.1	**19,725**	**0.50**	**318,500**	**0.18**	**80,368**	**0.54**	**345,600**	**502,800**

Expected NI 43-101 reports

During the current fiscal year, management expects additional NI 43-101 compliant resource reports to be completed, specifically for Oro del Norte and Brazo in Panamá and Lomero-Poyatos in Spain.

Plant Capacity Expansion Project Complete at the Molejón Mine

On November 27, 201, Petaquilla announced that the capacity expansion of the Molejón processing plant would be 100% complete that week. At the time of the announcement, the plant expansion was 85% complete and had reached commercial production status (the expansion components were operating at 70% of designed capacity).

Lomero-Poyatos Project (Spain)

On November 12, 2012, Petaquilla Minerals announce that the titling process for the Lomero-Poyatos project had been completed. During the ensuing six months, management expects to advance the final engineering and design, the developmental drilling project, bulk volume testing, and a NI 43-101 compliant feasibility study.

Financing

During the first fiscal quarter, Petaquilla received $4,596,618 through new bank loans in order to finance the expansion project at Molejón.

Petaquilla's management continues to proceed with the offering of US$210 million in notes first announced in July. The primary use of the net proceeds of this major debt financing is two-fold: to pursue

the development of Lomero-Poyatos project in Spain and to unwind the forward gold and silver purchase contracts with Deutsche Bank, which contracts Petaquilla to sell gold at $1,090 per ounce and silver at $26.50 per ounce. Approximately $80 million is slated for further development of the Lomero-Poyatos mine, namely drilling, metallurgical test work, process flow-sheet and engineering design for a full feasibility study, along with the construction of water treatment plants and a floatation circuit. Approximately $70 million is earmarked for debt repayment including the unwinding of the forward gold and silver purchase contracts. Lastly, $20 million will be directed towards the construction of a floatation circuit for the processing of the polymetallic ore from Botija Abajo.

The notes were rated Caa1 by Moody's in early October. The Moody's ratings outlook is stable, and is not expected to be upgraded until "Petaquilla successfully completes its expansion plans and demonstrates that it can generate positive free cash flow to repay debt."

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 and Spain. Management plans to start producing gold and silver from the Lomero-Poyatos concessions in Spain during fiscal 2013 and expects to reach a production level between 130,000 and 140,000 gold equivalent ounces in fiscal 2014.

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 68,002 ounces during the fiscal year 2012** from a carbon-in-pulp (CIP) leaching process and a carbon-in-column (CIC) gold adsorption stack.

At current gold prices, 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 has been accumulated. **The leach pad and a pregnant solution processing plant have been constructed.** Management expects the leach operation to recover 1,500 ounces Au per month by the end of fiscal 2013.

In return for the 100% interest in Molejón, Petaquilla Minerals transferred its interest in the copper and molybdenum deposits of Cerro Petaquilla Concession to Petaquilla Copper Ltd., which was acquired by Inmet Mining Corporation (IMN: TSE). **However, if the value of the gold resource supersedes the value of the copper-molybdenum resources within deposits of the Cerro Petaquilla Concession, Petaquilla Minerals has a claim to the gold rights.** The development of the copper project will benefit **Panamanian Development and Infrastructure Ltd.**, which has received a contract to aid in the construction of the project's infrastructure, namely the supply of aggregate for roads to the planned copper mines.

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. An exploration program at Botija Abajo resulted in the release of a NI 43-101 compliant reserve and resource in September 2012. Exploration continues at Brazo, Palmilla and Oro del Norte.

On September 1, 2011, Petaquilla Minerals **acquired Iberian Resources Corp**., **which holds 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. Though the acquisition provides geographic diversification, the transaction is indicative of the opportunistic nature of management. The initial development plan includes shipping 20-ton containers of Spanish ore to the Molejón project in Panamá for processing. With the anticipated gold value of $750 per ton, the estimated transportation costs of $75 per ton are considered economically feasible.

The company has been successful in obtaining capital through equity and debt offerings. During fiscal 2010, Petaquilla Minerals not only raised equity capital, but also entered into a $45,000,000 prepaid Forward Gold Purchase Agreement with Deutsche Bank AG, requiring Petaquilla Minerals to deliver 66,650 ounces of gold to Deutsche Bank over a five-year period. With the cash flow from gold sales, successful equity offerings and the proceeds from the Forward Gold Purchase Agreement, management was able to retire most of the debt issued in fiscal 2008 and 2009. The acquisition of Iberian Resources was financed through the issuance of 44,635,225 newly issued common shares, along with warrants and options exercisable into 4,997,732 shares. The closing of a CAD$6,000,000 Convertible Loan Agreement and a US$11,300,000 Forward Silver Purchase Agreement in March 2012 enabled the company to retire the remainder the debt issued in fiscal 2008 and 2009.

MOLEJÓN MINE (PANAMÁ) - GOLD

Petaquilla Minerals acquired 100% of the gold rights and related surface rights on the Cerro Petaquilla Concession, including the Molejón gold property (Zone 3) from an **Agreement** among Teck Cominco (now Teck Resources Ltd. - TCK-A & TCK-B: TSE), Inmet Mining Corporation (IMN: TSE) and Petaquilla Minerals in June 2005. Located in the Republic of Panamá (District of Donoso, Province of Colon), the Molejón property is approximately 130 kilometers west of Panama City, 20 kilometers inland from the Caribbean coast and 54 kilometers from the Penonomé exit of the Pan-American Highway (13 kilometers by paved road and 41 kilometers by a maintained gravel road[1]). **Since 2009 through the fiscal year of 2012, the Molejón gold property has produced 178,193 poured ounces of gold, of which 171,910 ounces have been sold** by the company. Thus far during the fiscal year of 2013, an additional 37,907 ounces of gold have been poured, of which 33,750 ounces have been sold.

Reserves

The most recent 43-101 compliant mineral reserve report for the Molejón project area was completed in May 2012 by Behre Dolbear with a revised reserve estimated as of January 1, 2011. The proven and probable gold reserve totals **643,266 ounces Au** (15.33 million tonnes graded at 1.305 g/t), along with a proven and probable silver reserve of **1,008,693 ounces Ag** (15.33 million tonnes graded at 2.05 g/t). Since January 1, 2011 (the effective date of the Behre Dolbear revised resource estimate), approximately 131,194 ounces Au have been poured, **leaving about 512,072 ounces yet to be monetized**.

The Behre Dolbear 43-101 Technical Report outlines **two processes at Molejón**:

1) milled ore with an average grade of 1.77 g/t processed through the carbon-in-pulp (CIP) column leaching process with an expected 93% recovery rate and
2) leached ore with an average grade of 0.56 g/t with an expected peak recovery rate of 82%[2].

The Molejón deposit contains zones of both high-grade and low-grade gold mineralization. With the availability of multiple grades of ore at the Molejón project, low-grade material is blended with high-grade tonnage which enhances the recovery of gold resources by the CIP process. In addition, management has embarked on the construction of leach pad for low-grade ore (between 0.2 g/t to 1.0 g/t). As a result, the 43-101 Technical Report revised in 2012 conclude that the Molejón deposit contains **817,400 ounces Au** (31.6 million tonnes graded at 0.80 g/t) and **1,447,200 ounces Ag** (26.4 million tonnes graded at 1.74 g/t) in the measured and indicated categories **utilizing a cut-off grade of 0.20 g/t**.

[1] The gravel road was constructed in 2006, and later bridges spanning the San Juan and Coclesito rivers were built.
[2] Molejón NI 43-101 Technical Report, May 2012, page 108.

Management believes that resources with a cut-off grade of 0.18 g are economically recoverable through on/off pad leaching. The **revised technical report on the Molejón project** also identifies 61.4 million tonnes of waste material as construction-grade aggregate.

Proven and Probable Reserves (as of January 1, 2011)

	Tonnes (000s)	GOLD Grade (g/t)	GOLD Contained (oz)	SILVER Grade (g/t)	SILVER Contained (oz)
Gold Mineralization					
Proven	9,072	1.549	451,884	2.39	697,315
Probable	6,259	0.951	191,382	1.55	311,378
Total	**15,330**	**1.305**	**643,266**	**2.05**	**1,008,693**

Measured and Indicated Mineral Resources (as of January 1, 2011)

Category	GOLD Tonnes (000s)	GOLD Grade (g/t)	GOLD Contained (oz)	SILVER Tonnes (000s)	SILVER Grade (g/t)	SILVER Contained (oz)
Measured	14,743	1.09	514,500	11,417	2.23	819,100
Indicated	16,843	0.56	302,900	14,968	1.31	628,100
Total	**31,586**	**0.80**	**817,400**	**26,385**	**1.74**	**1,447,200**

NI 43-101 compliant estimates for the Botija Abajo deposit and the Palmilla project were completed in September and December, respectively (see Recent News section). In the future, management expects that NI 43-101-compliant technical reports will be completed on adjacent exploration targets, namely Brazo and Oro del Norte.

Production

After Petaquilla Minerals obtained the gold rights for Molejón, the open pit gold project officially began in September 2005 when governmental approval was attained for the Mine Development Plan. In 2008 and 2009, Petaquilla Minerals developed the Molejón open pit mine and constructed the gold processing plant. During the commissioning period, which included the testing of gold room recovery processes, approximately 29,500 ounces of gold were poured. In November 2009, the project received an operating permit from the Government of the Republic of Panamá to advance to **commercial production**, which **was achieved on January 8, 2010**[3]**.**

Currently, ore is extracted from the open pit mine through a combination of blasting and mechanized mining with stripping shovels, and then loaded by excavators into dump trucks. The ore is transported to either the processing plant or staged for later processing. Once at the processing plant, ore is crushed by a series of three crushers and ground/milled into smaller particles of 74 microns or less by one of three ball mills operated in parallel. With approximately 60% of the gold being released during the milling process, the classified ore material is treated with thickeners to separate the clear fraction of the pulp, which is fed directly to the carbon-in-column (CIC) adsorption stack for gold recovery. The remaining milled ore slurry undergoes a carbon-in-pulp (CIP) leaching process before entering the CIC circuit. During the CIP process, the ore is mixed with cyanide leach solution and granular hard carbon, and then agitated in leach tanks. The leached gold is retained by the carbon, which is removed by screening. The carbon is then subjected to a cyanide solution, the gold is re-dissolved and the resulting pregnant solution enters the CIC stack. During the carbon-in-column process, activated carbon absorbs the gold from the pregnant solutions. Afterwards, the loaded activated carbon is transferred to the elution (desorption) circuit and then fed through electrowinning cells, where gold is precipitated onto cathodes.

[3] In January 2010, the Molejón Gold project continuously maintained a processing rate of 1,500 tonnes per day or an operating rate of approximately 70% of the designed capacity 2,200 tonnes per day for a period of 30 days with metallurgical recoveries approaching forecast levels.

The gold is removed from the cathodes and melted to produce doré bars. Tailings are detoxified and stored at a 40 hectare, high-density polyethylene lined facility.

Initially constructed with a capacity of 2,200 tons of ore per day (tpd), the installation of a third drum scrubber and an additional horizontal Carbon-in-Column circuit increased the processing mill's capacity to approximately 3,000 tpd[4]. A fourth ball mill, two leach tanks and two CIP tanks have been installed, which should boost capacity by between 800 and 1,000 tpd sometime during the third fiscal quarter. The fourth ball mill the two leach tanks, two CIP tanks and a second electro-winning circuit were operating at 70% of designed capacity as of the end of November 2012. The full commissioning of this new equipment will increase plant capacity by 1,100 tonnes per day enhancing production by approximately 30%.

Due to the addition of significant NI 43-101 compliant non-gold resources recently, management has begun reporting gold-equivalent production, sales, realized prices and cash costs in addition to legacy gold only statistics. Tables of these metrics are presented below.

Gold and Gold Equivalents Poured

Molejón Gold poured (ounces)	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2009	0	0	0	2,973	**2,973**
FY 2010	13,256	10,482	13,756	14,158	**51,652**
FY 2011	10,738	15,268	12,825	16,735	**55,566**
FY 2012	18,014	18,100	14,163	17,725	**68,002**
FY 2013	17,882	20,025			

Molejón Gold poured (ounces)	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2011 (Equivalents)	10,864	15,451	13,020	17,240	**56,575**
FY 2012 (Equivalents)	18,458	18,496	14,427	18,122	**69,503**
FY 2013 (Equivalents)	18,459	20,518			

Gold and Gold Equivalents Sold

Molejón Gold sold (ounces)	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2009	0	0	0	703	**703**
FY 2010	15,440	10,558	13,350	14,100	**53,448**
FY 2011	12,211	13,166	13,880	14,608	**53,865**
FY 2012	17,418	15,959	12,701	15,546	**61,624**
FY 2013	N/A	N/A			

[4] In May 2011, the installation of a third drum scrubber and a new horizontal carbon-in-column circuit increased throughput capacity of the plant by 40%.

Molejón Gold sold (ounces)	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2011 (Equivalents)	12,390	13,320	14,064	14,843	**54,617**
FY 2012 (Equivalents)	17,987	16,297	13,040	15,546	**62,870**
FY 2013 (Equivalents)	17,597	17,545			

Average Realized Prices

Molejón Avg. realized gold price	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2010	-	-	$1,079	$1,151	**$1,115**
FY 2011	$1,210	$1,312	$1,340	$1,413	**$1,319**
FY 2012	$1,508	$1,592	$1,520	$1,617	**$1,640**
FY 2013	$1,595				

Molejón Avg. realized gold price	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2011 (Equivalents)	$1,206	$1,328	$1,377	$1,472	**$1,348**
FY 2012 (Equivalents)	$1,600	$1,717	$1,622	$1,617	**$1,640**
FY 2013 (Equivalents)	N/A				

Cash Costs

Molejón Cash cost per oz. Au sold[5]	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2010	-	-	$574	$601	**$590**
FY 2011	$740	$647	$610	$557	**$634**
FY 2012	$554	$557	$633	$612	**$574**

Molejón Cash cost per oz. Au sold[6]	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2011 (Equivalents)	$729	$640	$627	$525	**$625**
FY 2012 (Equivalents)	$537	$546	$616	$612	**$574**
FY 2013 (Equivalents)	$524				

[5] Cash cost includes mine site operating costs (such as mining, processing and administration) but does not include amortization, depletion, reclamation, capital costs, exploration costs, corporate administration costs and royalties. Contrary to most mining companies, Petaquilla Minerals began excluding royalties from cash cost in FY 2011, restating FY 2010's cash cost to $590 from $681.

[6] Cash cost includes mine site operating costs (such as mining, processing and administration) but does not include amortization, depletion, reclamation, capital costs, exploration costs, corporate administration costs and royalties. Contrary to most mining companies, Petaquilla Minerals began excluding royalties from cash cost in FY 2011, restating FY 2010's cash cost to $590 from $681.

Leaching Project

At current gold prices, 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**. Initially, Petaquilla Minerals conducted column leach tests on the low grade material at laboratory facilities in Arizona (Phase 1). Following positive results for oxide material[7], a Phase 2 metallurgical testing program was performed on-site in Panamá during 2010. Gold recoveries from large diameter column leach tests of four oxide ore types ranged between 72.4% and 97.0% and was achieved with modest consumption of sodium cyanide (0.14 kg/t to 0.44 kg/t) and lime (0.93 kg/t to 5.07 kg/t)[8]. The evaluation of leach parameters, such as crush size, agglomeration, leach solution concentration and irrigation flow rates, is being systematically conducted in order to identify a cost effective gold extraction process. Currently, the majority of the low-grade oxide ore is prepared by crushing to 3.0 inches (7.6 cm) while sulfide ore requires a secondary crushing to ⅜ inch (0.95 cm). The crushed ore undergoes an agglomeration pretreatment to enhance the material's percolation characteristics, thereby improving the gold extraction process and decreasing the leaching period. Portland cement is added (2 kg/t), along with lime (4 kg/t) to maintain a pH between 10.5 and 11.0. Cyanide solution is applied to the top of the leach pad at a flow rate between 4 ℓ/hr/m^2 and 6 ℓ/hr/m^2. The column leach tests indicate that the leach time required for oxidized material will be approximately 47 days, though a 23 to 28 day leach cycle appears to be economically optimal. Actual production will help determine the most advantageous leach time.

During fiscal 2011, the on/off pad leach project was advanced, and a stockpile of low grade ore was accumulated. Having completed the final engineering and design of the project (Phase 3), the construction of a leach pad and a pregnant solution processing plant occurred during the dry season of 2011. Having commenced production at the end of the second fiscal quarter of 2012, management had expected the on/off leach operation initially to recover 3,000 ounces Au during the third fiscal quarter of 2012. However, the four-month delay in the installation of a new Metso Crusher 125 mobile crushing system delayed the advancement of the on/off leach operation, and during fiscal 2012, the on/off leach operation produced approximately 300 ounces. The start-up and construction of the on/off leach operation continues, though no additional production was reported during the first quarter of fiscal 2013. Currently, the plan calls for an initial pad with a capacity of approximately 40,000 tons of ore and the construction of a second pad with a capacity of 300,000 tons. Management estimates that gold production from the on/off leach pads will increase to a production rate of 1,500 ounces monthly by the end of fiscal 2013.

Botija Abajo and Palmilla Gold Projects (*Panamá*)

During the second half of 2012, NI 43-101 compliant reserve and resource estimates for the Botija Abajo and Palmilla gold projects have been completed and filed with SEDAR (see Recent News section above). Ultimately, these reserves and resources will be processed through the facilities at Molejón.

LOMERO – POYATOS MINING CONCESSIONS (SPAIN) - GOLD

Petaquilla Minerals acquired a 100% interest in the Lomero-Poyatos concessions through the acquisition of Iberian Resources Corp. by way of a "three-cornered amalgamation" in September 2011[9]**.** Located in the Kingdom of Spain (Huelva Province, Andalusia Autonomous Community), Lomero-Poyatos is approximately 85 kilometers northwest of Seville and 60 kilometers north of the major port of Huelva. Though first worked by the Romans, the mine was rediscovered in 1853 by Ernesto Deligny and mining re-commenced in the late 1850's. The mining complex includes two open pits (one at Lomero and

[7] Recovery rates for oxide material ranged between 80% and 98%, while fresh primary sulfide ore only achieved rates between 38% and 53%.
[8] Petaquilla Minerals announced Phase 2 results of the Column Leach Test Program on November 1, 2010.
[9] On September 1, 2011, Petaquilla Minerals acquired Iberian Resources Corp. for 44,635,225 newly issued common shares and 1,511,248 warrants to purchase 1,640,419 shares at prices between US$0.14 and US$0.60, along with options to purchase 3,357,313 shares between CAD$0.10 and US$0.60.

the other at Poyatos) and a six level underground mine[10] with a central shaft between the open pits. At least 2.6 million tonnes of massive sulphide ore was mined for pyrite content, which was smelted to manufacture sulfuric acid. Lomero-Poyatos was mined continuously from 1905 to 1982 solely as a sulphide (pyrite) mine. Since then, several companies, including the pyrite smelter[11], have investigated Lomero-Poyatos as a possible gold-silver deposit and/or a base metal (copper-lead-zinc) deposit. The project is currently at the exploration stage with an inferred mineral resource estimate based on historical data and relatively wide-spaced drilling.

Description

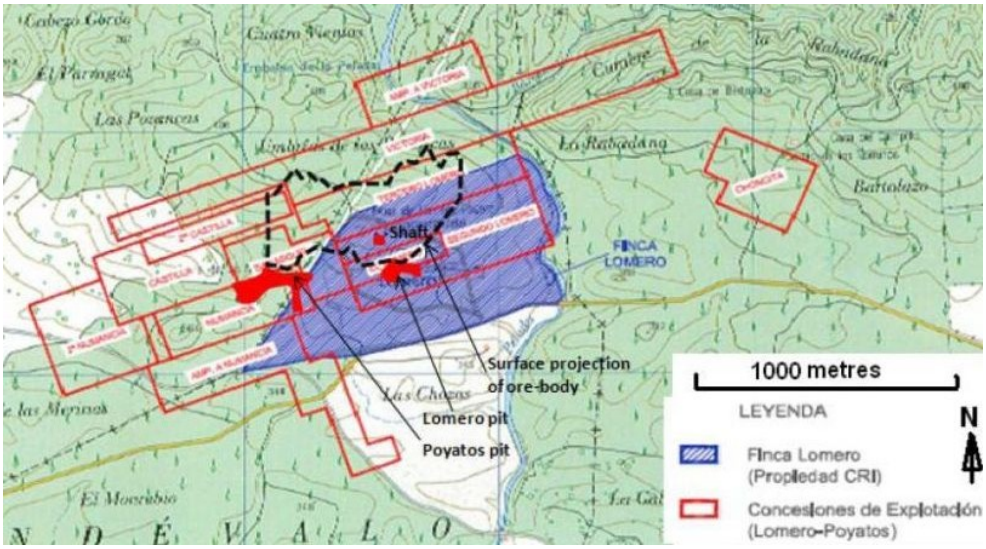
Lomero-Poyatos is a poly-metallic, massive-sulphide deposit, in which pyrite is the predominant sulphide. When mined for pyrite, sulfur mineralization greater than 43% sulfur was regarded as ore. However, the sulphide zones are significantly enriched in gold with two drill holes assaying with grades above 14 g/t[12]. According to work by University of Madrid in April 2011, there are at least three different ore types at Lomero-Poyatos: cupriferous ore assaying 1.0% to 1.5% Cu, arsenic/pyrite ore containing gold and massive sulphide ore containing copper, lead and zinc (with silver associated with lead and gold associated with sulphides). The cupriferous ore lies predominately in the central area while the zinc-lead-gold enrichment is predominate at the eastern and western borders.

Located in the northeast part of the Iberian Pyrite Belt, the Lomero-Poyatos permit block consists of **13 concessions** (El Lomero, Ampliación a Numancia, Segundo Lomero, Castilla, Numancia, San Miguel, Ampliación Victoria, Victoria, Segunda A Castilla, Demasía San Miguel, Segunda Numancia, Tercer Lomero and Conchita). In mid-2001, the Andalusia Autonomous Community granted a consolidation of these concessions, which are valid until August 2033.



Mineral Concessions (red) and Surface Rights (blue)

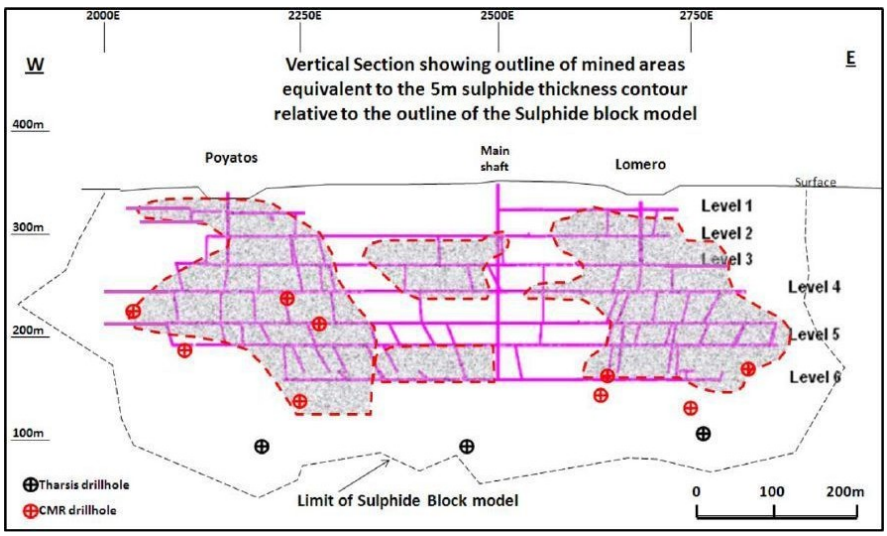
[10] The underground mine was begun in 1905.
[11] Indumetal, the smelting company that treated the roasted pyrite residue from Lomero-Poyatos, conducted some underground mapping and sampling in 1986 in order to assess the gold grades and delineate the gold reserves.
[12] During the drilling program of Cambridge Mineral Resources, a drill hole returned 14.1 g/t Au over 2.0 meters and another assayed 0.55m at 16.84 g/t Au over 0.55 meters within a northeast target.



Lomero-Poyatos contains two independent ore bodies (Lomero and Poyatos) that form a single ore body at depth, over 800 meters in strike. Initially, each ore body was opened to the surface by small open pit mines. Later, in the twentieth century, a main shaft and an underground mine complex with at least six levels that intersected both ore bodies was developed. The underground mine has been flooded for the about 20 years.

Resources

During the last decade, the mineral resources at the Lomero-Poyatos concessions have been reviewed and estimated by three consultant companies: Steffen Robertson and Kirsten Ltd. (SRK) in 2002[13], Wardell Armstrong International (WAI) in 2005 and 2007[14] and Behre Dolbear International Ltd. in 2011 and 2012. Primarily based on the 2,490 meter diamond drill hole program conducted by Newmont Mining, in 2002, SRK estimated an inferred mineral resource of 2.05 million ounces Au under an open-pit mining scenario (20.6 million tonnes at an average grade of 3.1 g/t Au), which included an indicated resource of 389,894 ounces Au attainable by underground mining (3.71 million tonnes at an average grade of 3.26 g/t Au at 1.5 g/t Au cut-off). Also, SRK estimated that Lomero-Poyatos contains 46.3 million ounces Ag, 675,000 tonnes Zn and 250,000 tonnes Cu. SRK indicated that expected recoveries were approximately 76% for gold, 78% for zinc and 50% for copper.



Behre Dolbear NI43-101 Technical Report July 29, 2011

[13] This upgraded Conceptual Mining Study was completed in 2002; SRK produced another updated report in September 2010.
[14] In 2005, WAI completed a NI 43-101 compliant pre-feasibility study and in April 2007 a Competent Persons Report based upon the 2005 resource data.

Behre Dolbear International Limited completed a NI 43-101 compliant Technical Report on the Lomero-Poyatos in July 2011. Based primarily on historical drill-hole data of the 124 known drill holes (roughly one-half surface and one-half underground) and augmented by mineral resource estimation reviews generated by Gemcom's deposit block model software, Behre Dolbear estimated an inferred mineral resource of 2.07 million ounces Au under an open-pit mining scenario (20.93 million tonnes at an average grade of 3.08 g/t Au at a 1.0 g/t Au cut-off) [15]. However, the open pit scenario is currently considered uneconomic, for various reasons including that the depth of the deposit would require an open-pit depth of at least 250 meters, which is on the verge of the transition depth from open-pit to underground mining. As a consequence, the permitting would be difficult, and the waste:ore ratio would probably exceed 50:1. Subsequently, **a revised NI 43-101 compliant Technical Report** was completed by Behre Dolbear in **May 2012** in which **inferred resources** were estimated to be approximately **830,000 ounces Au** and **17.3 ounces Ag** in the **underground** mining scenario (6.07 million tonnes at an average grade of 4.25 g/t Au at a 1.0 g/t Au cut-off and 88.74 g/t Ag)**.**

Lomero-Poyatos Project Resources[16]
(underground mining scenario)
(Behre Dolbear NI 43-101 compliant Technical Report dated May 21, 2012**)**

Cut-off Grade (g/t)	Inferred tonnes	Grade (g/t Au)	Contained ounces Au	Grade (g/t Ag)	Contained ounces Ag
> 6.0	590,000	6.51	123,500	124.57	2,363,000
≥ 5.0	1,920,000	5.77	356,000	111.60	6,890,000
≥ 4.0	3,630,000	5.16	602,000	102.24	11,930,000
≥ 3.0	4,890,000	4.74	745.000	96.47	15,168,000
≥ 2.0	5,660,000	4.45	810,000	92.33	16,800,000
≥ 1.0	**6.070,000**	**4.25**	**830,000**	88.74	**17,320,000**

In the studies at Lomero-Poyatos in the most recent NI 43-101 compliant Technical Report by Behre Dolbear International, the mineral resource at Lomero-Poyatos deposit has been categorized as an Inferred Mineral Resource since the estimate is based on relatively wide-spaced drilling. The revised Behre Dolbear NI 43-101 Technical Report again recommends drilling an additional 20,080 meters of drill holes to better define the deposits in two parts: a scoping study and a pre-feasibility study. The Phase 1 drilling program would be composed of drilling at 50 meter intervals along N-S lines 100 meters apart (10,040 meters) and a scoping study (costing €6 million). The drilling results of Phase 1 should be sufficient to upgrade the inferred resource to the indicated resource classification. Phase 2 consists of a pre-feasibility study that would require in-fill drilling at 50 meter intervals along N-S section lines 50 meters apart (10,040 meters costing €7 million).

The revised Behre Dolbear Technical Report replaces and supersedes the report completed in July 2011. The revised report omits the preliminary economic valuation of the Lomero-Poyatos deposit based on equal weightings of 1) average global stock market valuations per ounce of in-situ gold resources and 2) the value of comparable acquisition transactions.

The titling process for the Lomero-Poyatos project was completed in November 2012. Having secured the initial environmental permit to dewater the pit and the submerged galleries and the Andalusian Autonomous Government's administrative authorization, Petaquilla is now awaiting capital financing prior to proceeding with the construction of a treatment plant to treat the wastewater discharged from the pit and underground mine. Thereafter, the shaft and headgear will be refurbished. Management expects to

[15] The 2011 estimate also included 62.38 g/t Ag.
[16] Lomero-Poyatos NI 43-101 Technical Report, May 21, 2012, Table 12, page 59.

begin a bulk volume test by shipping ore in 20-ton containers to Panamá for processing by the end of calendar 2012. Having considered conducting this test in the UK and Panamá, management opted for the Panamá location. Shipping costs to Panamá are only slightly above those to the UK, and Petaquilla can maintain better control over the ore and the processing methodology by utilizing facilities at Molejón. The estimated transportation costs are $75 per ton on ore with an anticipated gold value of $750 per ton. Concurrently, management plans to advance the final engineering and design, a developmental drilling project and a NI 43-101 compliant feasibility study.

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) A 20% confidence factor is applied to the inferred resource of Palmilla. The inferred resource is 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, **important modifications** affected our valuation model:

1) A NI 43-101 compliant inferred resource estimate for the **Palmilla** deposit was released adding $11.1 million (or $0.04 per diluted share) to the NPV to our valuation model.
2) The decline in the prices of **gold, silver and copper** reduced the price target by $0.04.

Based on our calculation of share value of attributable resources (see table below), **our adjusted target for Petaquilla Minerals stock remains $1.70.**

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	512,072		1.305	37,100	90%	600	1,660	4.0%	100%	435,669,484	329,254,418
	Ag	802,970		2.050		85%	15.00	30.00	4.0%	100%	8,845,520	6,684,945
(CIP/CIC)												
Molejón	Au		163,130	0.700		70%	625	1,660	4.0%	100%	68,076,107	48,809,792
(on/off leach)												
Molejón	Au		191,669	0.500		45%	650	1,660	4.0%	100%	8,362,902	5,996,105
(on/off leach)												
Belencillo	Au			0.500	318,500	45%	650	1,660	4.0%	100%	55,587,168	37,388,435
(on/off leach)												
PDI Panama	N/A									47.48%	5,348,147	5,348,147
BALANCE SHEET ADJUSTMENTS												
Working capital											(42,214,189)	(42,214,189)
Capital leases											(801,913)	(801,913)
Convertible senior secured notes											(2,905,322)	(2,905,322)
Community support obligation											(5,331,258)	(5,331,258)
Deferred revenue											(23,064,205)	(23,064,205)
Asset retirement obligation											(11,098,849)	(11,098,849)
								Net Assets & Resources			496,473,592	348,066,107
								Fully Diluted Shares			273,181,862	273,181,862
									Asset Value (Molejon)		1.82	
									Discounted Asset Value (Molejón only)			**1.27**
PANAMA												
Oro Del Norte	Au			0.470	276,383	85%	800	1,660	4.0%	100%	38,790,907	7,091,357
Botija Abajo	Au	106,739	3,303	0.490		76%	800	1,660	4.0%	100%	55,237,211	12,622,377
Botija Abajo	Cu	48,718,000	1,507,000	44%		72%	1.72	3.56	5.0%	100%	47,190,135	10,783,522
Palmilla	Au			0.500	318,500	76%	800	1,660	4.0%	100%	39,968,947	7,306,714
Palmilla	Ag			0.540	345,600	76%	15.00	30.00	4.0%	100%	756,449	138,286
Palmilla	Cu			18%	80,368,000	72%	1.72	3.56	5.0%	100%	20,136,462	3,681,142
SPAIN												
Lomero-Poyatos	Au			3.080	829,502	75%	725	1,660	0.0%	100%	203,590,897	62,672,138
	Ag			88.740	17,320,000	75%	15	30.00	0.0%	100%	68,197,500	20,993,489
									Asset Value		2.70	
									Discounted Asset Value			**1.73**

PROJECTED INCOME STATEMENT

Petaquilla Minerals Ltd.

Consolidated Statements of Operations and Retained Earnings (US $)

For the years ending May 31	IFRS 2012 JJA 1Q	IFRS 2012 SON 2Q	IFRS 2012 DJF 3Q	IFRS 2012 MAM 4Q	IFRS Year (May) 2012	IFRS 2013 JJA 1Q	IFRS 2013 SON 2Q E	IFRS 2013 DJF 3Q E	IFRS 2013 MAM 4Q E	IFRS Year (May) 2013 E
Gold poured (ounces)	18,014	18,100	14,163	17,725	68,002	17,882	20,025	21,500	23,000	82,407
Gold eqivalent ounces poured	18,458	18,496	14,427	18,122	69,503	18,459	20,518			
Gold sold (ounces)	17,418	15,959	12,701	15,546	61,624	16,205	17,545	19,483	20,843	74,076
Gold eqivalent ounces sold	17,987	16,297	13,040	15,546	62,870	17,597				
Avg. realized gold price	$1,508	$1,592	$1,520	$1,617	$1,520	$1,595	$1,550	$1,630	$1,650	$1,606
Silver sold (ounces)							31,400			
Revenue	**26,176,900**	**25,310,502**	**18,831,519**	**23,978,000**	**94,297,396**	**25,925,176**	**28,215,250**	**32,456,760**	**35,147,212**	**121,744,397**
Production costs	11,549,160	10,708,285	9,419,019	12,387,570	44,064,034	10,810,988	14,360,855	15,418,646	16,494,365	57,084,854
Depreciation and depletion	4,792,464	3,972,940	3,082,762	3,453,162	15,301,328	4,503,543	4,578,396	5,266,652	5,703,222	20,051,813
Gross operating profit	**9,835,276**	**10,629,277**	**6,329,738**	**8,137,268**	**34,932,034**	**10,610,645**	**9,275,999**	**11,771,462**	**12,949,624**	**44,607,730**
General and administrative	1,965,505	3,492,388	2,339,269	6,431,338	14,228,500	3,025,648	3,116,417	3,209,910	3,306,207	12,658,183
Donations and community relations	344,931	639,618	(62,755)	621,066	1,542,860	275,537	280,000	285,000	290,000	1,130,537
Exploration and development costs	1,371,658	2,824,101	3,477,251	2,230,655	9,903,665	1,983,809	2,043,323	2,104,623	2,167,762	8,299,517
Stock-based compensation	130,310	283,988	52,429	48,072	514,799	108,365	400,000	50,000	100,000	658,365
Debt issuance costs	-	-	-	-	-	-	-	-	-	-
Other operating expenses	0	0	0	0	0	0	0	0	0	0
Operating expenses	**3,812,404**	**7,240,095**	**5,806,194**	**9,331,131**	**26,189,824**	**5,393,359**	**5,839,741**	**5,649,533**	**5,863,969**	**22,746,602**
Gain (loss) from operations	**6,022,872**	**3,389,182**	**523,544**	**(1,193,863)**	**8,742,210**	**5,217,286**	**3,436,258**	**6,121,929**	**7,085,655**	**21,861,129**
Finance (expense)	(160,918)	(151,103)	(499,338)	(1,363,103)	(2,174,462)	(735,124)	(1,400,000)	(1,400,000)	(1,400,000)	(4,935,124)
(Loss) on equity investments	(431,130)	0	0	(53,974)	(485,104)	0	0	0	0	0
Gain on disposal of Vintage Mining Corp	-	-	-	-	-	-	-	-	-	
Gain on expiry of deferred services contract	-	-	-	-	-	-	-	-	-	-
Mark-to-market gain (loss) on share purchase warrants	(495,635)	0	4,537,060	6,522,769	10,564,194	0	0	0	0	0
Mark-to-market gain (loss) on share embedded derivatives	-	-	-	3,265,000	3,265,000	-	-	-	-	0
Mark-to-market gain (loss) on share conversion feature	-	-	-	866,963	866,963	-	-	-	-	0
Mark-to-market gain (loss) on senior & conv. secured notes	34,209	-	(54,710)	(485,022)	(505,523)	0	0	0	0	0
Non-operating income (expenses)	0	5,658,973	0	(843,503)	2,146,356	(761,790)	0	0	0	0
Total other income (expense)	**(1,053,474)**	**5,507,870**	**3,983,012**	**7,909,130**	**13,677,424**	**(1,496,914)**	**(1,400,000)**	**(1,400,000)**	**(1,400,000)**	**(4,935,124)**
Income (loss) before minority interest and income taxes	**4,969,398**	**8,897,052**	**4,506,556**	**6,715,267**	**22,419,634**	**3,720,372**	**2,036,258**	**4,721,929**	**5,685,655**	**16,926,005**
Non-controlling interests	(219,878)	2,118,831	(70,774)	(34,745)	1,793,434	(29,421)	(29,421)	(29,421)	(29,421)	(117,684)
Shareholders income (loss) before income taxes	**5,189,276**	**6,778,221**	**4,577,330**	**6,750,012**	**20,626,200**	**3,749,793**	**2,065,679**	**4,751,350**	**5,715,076**	**16,808,321**
Other comprehensive income	0	0	(2,484,188)	(2,703,012)	(5,187,200)	558,460	0	0	0	0
Net comprehensive income (continuing operations)	**5,189,276**	**6,778,221**	**2,093,142**	**4,047,000**	**15,439,000**	**4,308,253**	**2,065,679**	**4,751,350**	**5,715,076**	**16,808,321**
Net income per common share (diluted) - continuing ops.	**0.03**	**0.03**	**0.02**	**0.03**	**0.10**	**0.02**	**0.01**	**0.02**	**0.02**	**0.07**
Net comprehensive income per share (diluted)	0.03	0.03	0.01	0.02	0.07	0.02	0.01	0.02	0.02	0.07
Weighted average common shares outstanding - diluted	178,684,859	221,658,390	215,065,874	210,833,000	206,560,782	230,200,617	230,891,219	231,583,893	232,278,644	231,238,593
Gross margin (net of amortization & depletion)	55.88%	57.69%	49.98%	48.34%	53.27%	58.30%	49.10%	52.49%	53.07%	53.11%

The following line item reported in the unaudited quarterly Income Statements (Canadian GAAP) did not appear in the audited Annual Income Statement (IFRS):
Cost associated with forward sales agreement of $399,662 in the third fiscal quarter on 2011

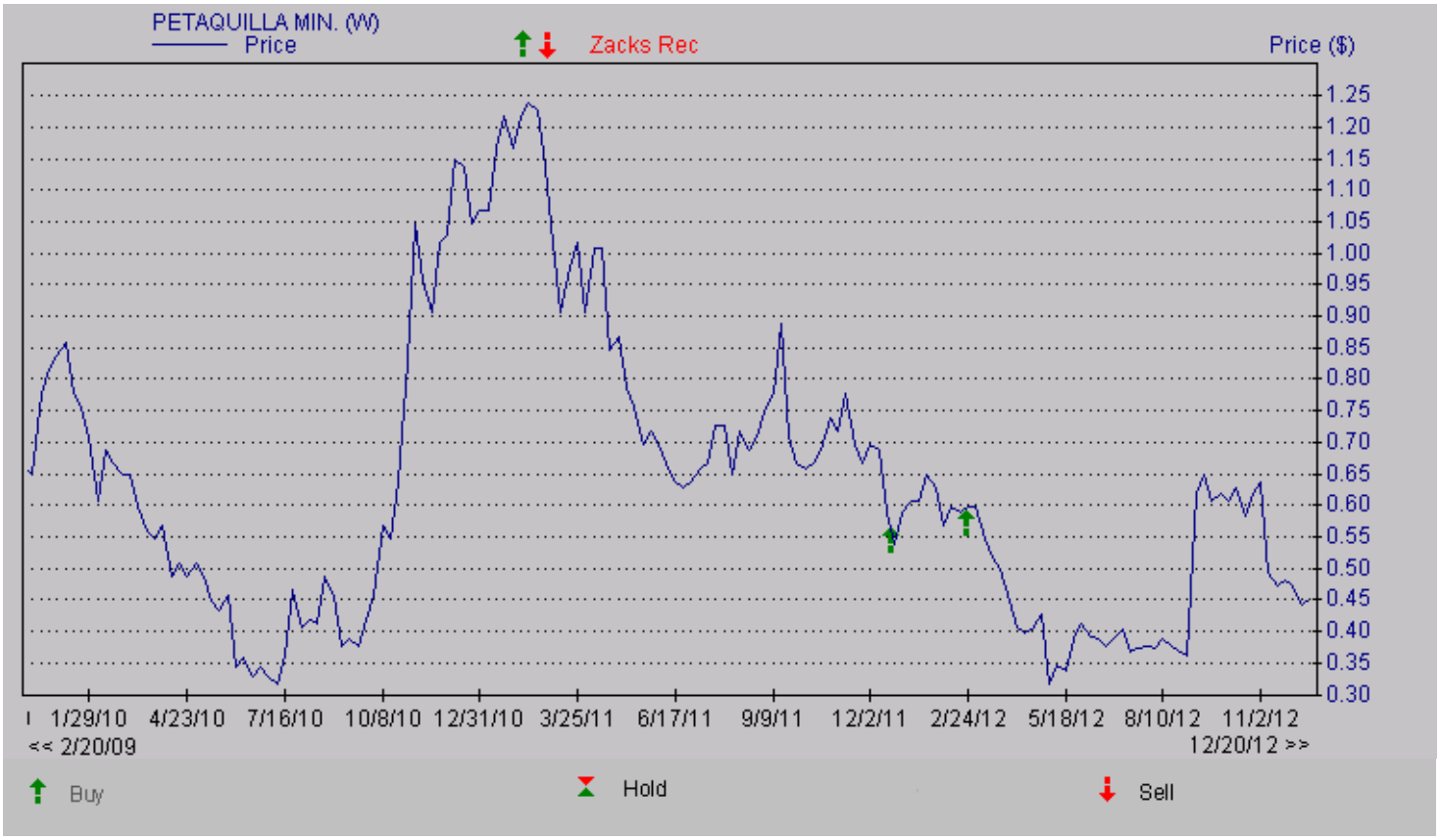
BALANCE SHEET

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	Canadian GAAP 2010 ending 5/31	2011 ending 5/31	IFRS 2010 ending 5/31	IFRS 2011 ending 5/31	IFRS 2012 ending 5/31	IFRS 1Q 2013 ending 8/31
ASSETS										
Cash and cash equivalents	9,171,318	665,290	12,850,137	3,575,168	4,625,649	5,712,792	4,625,649	5,712,792	1,975,660	549,502
Short-term investments	-	-	-	-	-	200,000	-	200,000	340,000	340,000
Accounts receivable	32,188	100,410	450,885	144,225	116,326	460,324	116,326	-	-	-
Prepaid expenses	36,650	452,718	310,255	591,847	690,152	1,138,977	690,152	-	-	-
Accounts receivable, prepaids, etc.		-	-	-	-	-	-	1,599,301	4,525,236	7,132,033
Inventory and stockpiled ore	-	-	-	1,038,999	3,634,715	11,613,321	3,634,715	11,657,676	15,446,317	12,991,509
Assets (PDI) held for distribution to owners	-	-	-	-	-	-	-	-	16,532,176	17,492,483
Current Assets	**9,240,156**	**1,218,418**	**13,611,277**	**5,350,239**	**9,066,842**	**19,125,414**	**9,066,842**	**19,169,769**	**38,819,389**	**38,505,527**
Other Assets										
Restricted cash - reclamation obligations	892,242	1,188,026	670,175	707,480	566,708	255,091	566,708	-	2,300,000	2,300,000
Long term investments	-	1,807,000	2,408,443	-	-	2,400,000	-	2,400,000	-	-
Inventories (stockpiled ore)	-	-	-	1,762,945	1,107,316	2,228,405	1,107,316	2,228,405	14,077,466	20,811,892
Advances to suppliers	-	-	-	-	816,461	3,509,817	816,461	-	-	-
Other assets	-	4,582,937	-	-	-	6,616,964	-	10,381,872	6,710,884	7,326,950
Property, plant and equipment (net)	285,005	5,343,147	16,779,149	12,879,658	9,916,595	14,713,518	-	-	-	-
Mineral properties	2,389,769	31,236,455	37,739,133	60,843,501	58,788,273	66,670,067	-	-	-	-
Exploration and evaluation assets (primarily Iberian)		-	-	-	-	-	-	-	31,170,407	31,965,296
Mineral property, plant & equipment	-	-	-	-	-	-	78,700,875	94,553,369	93,173,045	92,580,253
Total Assets	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**80,262,195**	**115,519,276**	**90,258,202**	**128,733,415**	**186,251,191**	**193,489,918**
LIABILITIES										
Accounts payable and accrued liabilities	551,096	4,951,297	8,493,460	8,746,892	17,586,683	30,318,558	17,586,683	30,318,558	44,211,407	44,696,925
Deferred services and materials	-	-	248,786	120,000	3,153,394	-	-	-	-	-
Current obligations under capital leases	-	-	2,174,903	5,054,987	4,136,032	1,468,561	4,136,032	1,468,561	-	-
Current porton of long-term debt	-	487,882	436,151	160,993	35,465	435,733	-	-	4,927,642	3,854,319
Current porton of bank loans		-	-	-	-	-	35,465	435,733		
Current other liabilities - Community support	-	-	-	-	-	-	5,184,816	1,424,290	1,396,856	1,399,197
Current portion of deferred revenue	-	-	-	-	-	9,246,437	0	9,246,437	14,216,977	14,533,863
Bank overdraft	-	-	2,100,000	-	-	-	-	-	-	-
Operating credit line facility	-	-	3,872,434	-	-	-	-	-	-	-
Senior secured notes	-	-	-	15,653,483	26,646,631	217,984	26,646,631	217,984	-	-
Convertible senior secured notes	-	-	-	-	44,837,991	276,983	45,094,084	276,983	-	-
Liabilities (PDI) held for distribution to owners	-	-	-	-	-	-	-	-	15,841,613	16,235,412
Current Liabilities	**551,096**	**5,439,179**	**17,325,734**	**29,736,355**	**96,396,196**	**41,964,256**	**98,683,711**	**43,388,546**	**80,594,495**	**80,719,716**
Long term debt	-	699,185	162,568	-	80,235	1,840,500	-	-	-	11,140,646
Bank loans		-	-	-	-	-	80,235	1,840,500	8,430	-
Accounts payable and accrued liabilities	-	-	-	-	-	1,866,667	-	1,866,667	-	-
Obligations under capital leases	-	-	3,991,743	-	440,229	3,850,475	440,229	3,850,475	801,750	-
Senior secured notes	-	-	26,785,359	13,754,019	-	2,906,453	-	2,906,453	-	-
Convertible senior secured notes	-	-	-	34,794,455	-	3,693,111	0	3,693,122	4,705,428	-
Other liabilities - Community support obligation		-	-	4,391,168	-	-	6,453,281	6,703,799	5,681,936	5,331,258
Share purchase warrants	-	-	-	-	-	-	5,030,904	11,064,020	499,826	560,784
Deferred revenue	-	-	4,003,423	3,123,394	-	33,390,472		33,390,472	26,750,484	23,064,205
Derivative obligation			-	-	-	-	-	-	217,000	1,258,000
Asset retirement obligation	-	4,400,000	4,333,216	4,664,720	4,698,650	5,687,236	4,816,121	9,630,851	11,062,579	11,098,849
Long-term liabilities	**0**	**5,099,185**	**39,276,309**	**60,727,756**	**5,219,114**	**53,234,914**	**16,820,770**	**74,946,359**	**49,727,433**	**52,453,742**
Share capital (no par value)	62,977,209	101,482,015	89,002,273	89,208,668	102,334,997	131,078,574	(25,246,279)	7,891,354	48,454,407	52,871,025
Treasury shares	(166,981)	(166,981)	(122,193)	(122,193)	(122,193)	(122,193)	N/A	N/A	N/A	N/A
Warrants	-	-	11,771,374	14,109,097	13,209,412	26,874,201	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	16,219,808	17,367,137	N/A	N/A	N/A	N/A
Equity component of cv. sr. secured notes	-	-	-	495,121	495,121	42,817	N/A	N/A	N/A	N/A
Accumulated comprehensive income	-	-	(2,084,526)	(6,733,242)	(6,733,242)	(6,733,242)	N/A	N/A	N/A	N/A
Retained earnings (deficit)	(51,558,632)	(79,521,082)	(98,675,070)	(119,774,936)	(146,757,018)	(150,694,344)	N/A	N/A	N/A	N/A
Equity attributed to non-controlling interests			-	-	-	2,507,156		2,507,156	7,474,856	7,445,435
SHAREHOLDERS' EQUITY	**12,256,076**	**34,837,619**	**14,606,134**	**(8,920,288)**	**(21,353,115)**	**20,320,106**	**(25,246,279)**	**10,398,510**	**55,929,263**	**60,316,460**
Total Liabilities and Equity	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**80,262,195**	**115,519,276**	**90,258,202**	**128,733,415**	**186,251,191**	**193,489,918**
Common shares outstanding	89,876,951	89,876,951	95,958,641	96,040,121	125,281,951	176,429,501	125,281,951	176,429,501	221,863,781	221,863,781

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1,003 companies covered: Buy/Outperform- 13.5%, Hold/Neutral- 78.6%, Sell/Underperform – 7.3%. Data is as of midnight on the business day immediately prior to this publication.