Zacks Small-Cap Research

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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: Inmet intends to make an offer for PTQ. Also, PTQ holds first Analyst Day and announces initial reserve estimate on Botija Abajo. Raise target to $1.70.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (09/17/12)	$0.63
Six- Month Target Price	**$1.70**

OUTLOOK

There have been several significant developments and announcements concerning Petaquilla Minerals in the last few weeks: 1) Inmet intends to make an offer for PTQ (currently at $0.48 per share); 2) management hosted the company's first Analyst Day and 3) a NI 43-101 compliant reserve report on Botija Abajo was released. In addition, Petaquilla announced a major debt financing both for the development of Lomero-Poyatos and Molejón and for unwinding the forward gold and silver purchase contracts with Deutsche Bank. Incorporating recent developments into our valuation model, we have raised our price target to $1.70.

SUMMARY DATA

52-Week High	**$0.94**
52-Week Low	**$0.30**
One-Year Return (%)	**-29.2**
Beta	**1.53**
Average Daily Volume (shrs.)	**797,952**
Shares Outstanding (million)	**221.5**
Market Capitalization ($ mil.)	**$139.6**
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	**6.3**
P/E using 2013 Estimate	**5.3**
P/E using 2014 Estimate	**4.5**
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)
2010	0.0 A	0.0 A	11.4 A	16.4 A	27.8 A
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	29.6 E	31.0 E	33.4 E	37.0 E	131.0 E

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

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2010	-$0.07 A	-$0.08 A	-$0.05 A	-$0.05 A	-$0.25 A
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	$0.02 A	$0.03 A	$0.04 A	$0.12 E

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

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

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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 **Panamá** achieved commercial production in January 2010 and **has poured 178,193 ounces of gold**. Approximately **535,525 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, and production is currently ramping up from a base of 300 ounces produced during the fiscal 2012. 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. Certain mineral concessions, such as Brazo, Palmilla and Oro del Norte, are being advanced with exploration programs.
- A NI 43-101 compliant estimate for the Botija Abajo deposit was released in early Septemberadding $13.0 million (or $0.05 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, in approximately six-to-nine months, 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 another stage of capacity expansion (including a new floatation circuit for processing polymetallic ore), advancing the Lomero-Poyatos concessions to production, continuing exploration at Brazo, Palmilla and Oro del Norte, along with pursuing the spin-out of Panamanian Development and Infrastructure Ltd. (PDI). During fiscal 2013, management expects resource reports to be completed for the Palmilla and Oro del Norte deposits.
- We maintain our Outperform rating on Petaquilla Minerals and raise our target to $1.70.

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.

RECENT NEWS

Inmet Intends to Offer $122 million for Petaquilla Minerals

On September 5, 2012, Inmet Mining Corporation (INM: TO) announced it's intention to make an offer to acquire all of the outstanding common shares of Petaquilla Minerals for C$0.48 in cash or .0109 Inmet share for each Petaquilla common share or combination thereof. The value of the offer is approximately C$112 million. If the acquisition is supported by Petaquilla's Board, Inmet would permit the spin-out of Petaquilla's Spanish assets (Lomero-Poyatos) to PTQ shareholders. Petaquilla's stock rallied 65.7% to $0.58 on the news.

Inmet is developing Cobre Panama copper-gold project in Panamá. With an estimated capital cost of US$6.2 billion, the Cobre Panama project is fully financed with $4.0 billion to be committed by the end of 2012. Inmet, which owns an 80% interest in Cobre Panama (KPMC owns the other 20%), is a well-capitalized mining company operating copper and zinc projects in Finland, Turkey and Spain.

The offer, when officially made in accordance to the security laws of Canada, is fully financed and does not require approval by Inmet's shareholders. Also, the offer is contingent on receiving at least 50.1% of Petaquilla's shares (on a fully diluted basis) and on no further debt or equity financings being completed by Petaquilla, specifically mentioning the recently announced US$210 million debt offering.

The Board of Directors and management of Petaquilla are in the process of considering and evaluating the Inmet's announcement. Meanwhile, management is continuing with the road shows for the planned $210 million debt offering.

We believe that Inmet's intended offer is related to Petaquilla Minerals claim to the gold rights when the value of the gold resource supersedes the value of the copper-molybdenum resources within deposits of the Cerro Petaquilla Concession. We further believe that the final offer price will need to be significantly increased if it is to be successful.

*Botija Abajo Gold Project (*Panamá*)*

On September 5, 2012, Petaquilla Minerals announced the results of NI 43-101 compliant resource and reserve estimate for the Botija Abajo deposit completed by Behre Dolbear. The technical report will be filed with SEDAR within 45 days.

Botija Abajo
Proven & Probable Reserves
(Behre Dolbear NI 43-101 compliant Technical Report dated September 1, 2012**)**

Tonnes	Grade (g/t Au)	Contained ounces Au	Tonnes	Grade (% Cu)	Contained pounds Cu
6,723,000	0.49	106,739	5,001,000	0.44	48,718,000

Botija Abajo
Measured & Indicated Resources
(includes Proven & Probable Reserves**)**
(Behre Dolbear NI 43-101 compliant Technical Report dated September 1, 2012**)**

Tonnes	Grade (g/t Au)	Contained ounces Au	Tonnes	Grade (% Cu)	Contained pounds Cu
6,301,000	0.54	110,042	4,687,000	0.49	50,225,000

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

Analyst Day

On September 5, 2012, Petaquilla Minerals hosted an Analyst Day in Toronto. Though much of the information communicated in the meeting is being relayed in the appropriate sections of this report, several key developments are highlighted:

1) A NI 43-101 compliant estimate for the **Botija Abajo** deposit was released adding $13.0 million (or $0.05 per diluted share) to the NPV to our valuation model.
2) The fourth ball mill at **Molejón** is now expected to be operational in November.
3) As part of a bulk volume test, the shipping of ore-laden earth from **Lomero-Poyatos** is still expected to begin in December 2012. A separate processing line will be assembled in Panamá and is currently projected to become operational by June 2012.
4) Management plans for a processing plant in Spain to be constructed within the next 12 to 15 months with processing operations targeted to begin by mid-2014.

Lomero-Poyatos Project (Spain)

Having secured the initial environmental permit to dewater the pit and the submerged galleries and the Andalusian Autonomous Government's administrative authorization, Petaquilla is 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[1] will be refurbished. Management expects to 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.

Panama Development of Infrastructure (PDI) spin-out

The company is still in the process of spinning out PDI to the shareholders of Petaquilla Minerals on a one share of PDI for each four shares PTQ owned. The Special Meeting scheduled for August 17th was canceled, delaying the setting of a record date for the spin-off. However, progress has been made with the assets and liabilities of PDI having been segregated into line items on Petaquilla's fiscal year-end balance sheet as assets and liabilities held for distribution to owners. Also, the Toronto Stock exchange has approved the plan of arrangement. Management now anticipates the spin-out to take place in the first half of fiscal 2013. We look forward to reviewing the financial filings of PDI and the MDA (Management Discussion and Analysis) in order to evaluate the potential of the contracts that have been secured. Also, the annual filing indicated that a $2.53 million fixed price contract (40% of a $6.33 million contract) for the construction of a Molejón by-pass road.

Financing

On July 17, 2012, Petaquilla Minerals announced the intention to offer a private placement of US$210 million senior secured notes due in 2017. Management plans to use the net proceeds finance the development of Lomero-Poyatos and Molejón mines, along with funding PDI in connection with its spin-off. In addition, the company intends to unwind its obligations under forward gold and silver purchase contracts with Deutsche Bank, thereby terminating the contractual selling levels of $1,090 per ounce on the remaining 46,485 gold ounces and $26.50 per ounce on the remaining 493,100 silver ounces. 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.

[1] Headgear is the structural frame above an underground mine shaft.

PANAMÁ

Panamá is a unique mining environment where mineral rights are governed by the Mineral Resources Code of Panamá and regulated by the Código de Recursos Minerales. The Code provides a framework for the exploration and extraction of minerals, including concession terms, surface taxes, royalties, income taxes on production and environmental requirements.



Petaquilla Minerals holds several mineral concessions in Panamá, of which one, the Cerro Petaquilla Concession, receives preferential treatment through Ley Petaquilla No. 9, which was approved by the National Assembly in 1997. The company's Molejón mine is situated in one of the four zones of the Cerro Petaquilla Concession. Under Ley Petaquilla, the gold extraction concession was granted for a 20-year period, which expires on February 25, 2017, with two renewal periods of 20 years also having been granted. The annual surface land taxes and mineral production royalty rates conform to the Mineral Resources Code of Panamá.

Ley 11 (Law 11), signed into law on March 26, 2012, establishes a special restrictions and procedures for the development of mineral, water and environmental resources within the Comarca (reservation) Ngäbe Buglé and adjoining areas. Ley 11 cancels and prohibits the concessions for the exploration, exploitation and extraction of mineral resources, and also prohibits the alteration of rivers and water sources. The Comarca Ngäbe Buglé for indigenous inhabitants contains lands from the Provinces of provinces of Bocas del Toro, Chiriquí and Veraguas. Petaquilla's Molejón gold is located in the Province of Colon, approximately 75 kilometers east from the closest border of Comarca Ngäbe Buglé. Petaquilla's management is sensitive to the desires of the indigenous inhabitants in the Province of Colon and allocates well over $1 million annually to donations and community relations, which is a separate line item (Donations and community relations) on the income statement.

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[2]). **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.

Reserves

The most recent 43-101 compliant mineral reserve report for the Molejón project area as of the October 1, 2010 was completed in April 2011 by Behre Dolbear **and revised in May 2012**. 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 October 1, 2010 (the effective date of the Behre Dolbear resource estimate), approximately 90,016 ounces Au have been poured, **leaving about 535,525 ounces yet to be monetized**.

The April 2011 Behre Dolbear 43-101 Technical Report **planned for 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 81% recovery rate[3].

The Molejón deposit contains zones of both high-grade and low-grade gold mineralization. In 2005, a new 200-meter strike length of high-grade mineralization was encountered in the Central Zone during a follow-up trenching program, in which seven of the 26 showed at least 5.0 g/ton over 10 to 69 meters. The 2006 58-hole (5,000 meter) diamond drilling program at the Molejón gold deposit observed a high grade gold zone, namely core hole MO-06-01 32.5 g/t o 8.5 meters, which confirmed a nearby (five meters) historic 1995 core hole MO-95-244, which showed 20.7 g/ton over 12.5 meters. With the high-grade gold mineralization being more extensive than previously believed (see 3-D View of Molejón Pit below), in mid-2007, it was determined that low-grade material could be blended with high-grade tonnage to the mill feed to enhance the recovery of gold resources by the CIP process.

All of the above resource/reserve estimates utilized a **bottom cut-off grade of 0.50 g/t Au** since other mines in Central America historically have operated profitably using that resource estimate cutoff. However, with the price of gold rising well above the assumed price of $500 per ounce in prior feasibility reports and with the availability of multiple grades of ore at the Molejón project, not only has management begun blending ores for the CIP process, but also 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 Reports issued in 2011 and 2012 conclude that the Molejón deposit contains **917,491 ounces Au** (33.3 million tonnes graded at 0.86 g/t) in the measured and indicated categories **utilizing a cut-off grade of 0.20 g/t Au**. Management believes that resources with a cut-off grade of 0.18 g are economically recoverable through on/off pad leaching.

Molejón Project Resources[4]
(dated April 2011 as of October 1, 2010 production cut-off**)**

Cut-off Grade (g/t)	tonnes	Grade (g/t Au)	Contained ounces Au
≥ 10.0	121,000	15.13	58,957
≥ 5.0	568,000	8.46	154,373
≥ 2.0	2,904,000	4.08	381,238
≥ 1.0	6,689,000	2.56	549,813
≥ 0.5	14,574,000	1.55	725,822
≥ 0.2	33,311,000	0.86	917,491

[2] The gravel road was constructed in 2006, and later bridges spanning the San Juan and Coclesito rivers were built.
[3] Molejón NI 43-101 Technical Report, April 2011, page 124.
[4] Molejón NI 43-101 Technical Report, April 2011, page 108.

On May 9, 2012, Petaquilla Minerals **filed a revised technical report on the Molejón project** on SEDAR. Important modifications include **the addition of a proven and probable silver reserve of 1,008,693 ounces** and identification of 61.4 million tonnes of waste material as construction-grade aggregate. At some point in the future, management expects that NI 43-101-compliant technical reports will be completed on adjacent exploration targets, namely Brazo, Palmilla and Oro del Norte.

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

		GOLD		SILVER	
	Tonnes (000s)	Grade (g/t)	Contained (oz)	Grade (g/t)	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)

	GOLD			SILVER		
Category	Tonnes (000s)	Grade (g/t)	Contained (oz)	Tonnes (000s)	Grade (g/t)	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**

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 includes 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**[5]**.**

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. 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.

[5] 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.

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[6]. A fourth ball mill, two leach tanks and two CIP tanks have been procured, which should boost capacity by between 800 and 1,000 tpd. The fourth ball mill is planned to be operational in November 2012, while the two leach tanks, two CIP tanks and additional electrowinning capacity are expected to be online by the end of the third quarter of fiscal 2013.

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 2011 (Equivalents)	10,864	15,451	13,020	17,240	56,575
FY 2012	18,014	18,100	14,163	17,725	68,002
FY 2012 (Equivalents)	18,458	18,496	14,427	18,122	69,503

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 2011 (Equivalents)	12,390	13,320	14,064	14,843	54,617
FY 2012	17,418	15,959	12,701	15,546	61,624
FY 2012 (Equivalents)	17,987	16,297	13,040	15,546	62,870

During the first fiscal quarter of 2012, gold production sequentially increased 7.64% to 18,014 ounces poured from 16,735 ounces in the prior quarter. In the second fiscal quarter, gold production increased 0.5% sequentially from 18,014 to 18,100 ounces (6,033 ounces per month). However, during the third fiscal quarter, gold poured declined 21.8% sequentially from 18,100 to 14,163 ounces due to disruptions caused by a four-month delay in the installation of a new Metso Crusher 125 mobile crushing system. During the fourth fiscal quarter, gold poured increased to 17,725 ounces.

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 2011 (Equivalents)	$1,206	$1,328	$1,377	$1,472	$1,348
FY 2012	$1,508	$1,592	$1,520	$1,617	$1,640
FY 2012 (Equivalents)	$1,600	$1,717	$1,622	$1,617	$1,640

[6] 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 Cash cost per oz. Au sold[7]	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2010	-	-	$574	$601	$590
FY 2011	$740	$647	$610	$557	$634
FY 2011 (Equivalents)	$729	$640	$627	$525	$625
FY 2012	$554	$557	$633	$612	$574
FY 2012 (Equivalents)	$537	$546	$616	$612	$574

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[8], 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) [9]. 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. 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.

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[10]**.** Located in the Kingdom of Spain (Huelva Province, Andalusia Autonomous Community), Lomero-

[7] 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.
[8] Recovery rates for oxide material ranged between 80% and 98%, while fresh primary sulfide ore only achieved rates between 38% and 53%.
[9] Petaquilla Minerals announced Phase 2 results of the Column Leach Test Program on November 1, 2010.
[10] 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.

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 the other at Poyatos) and a six level underground mine[11] 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[12], 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

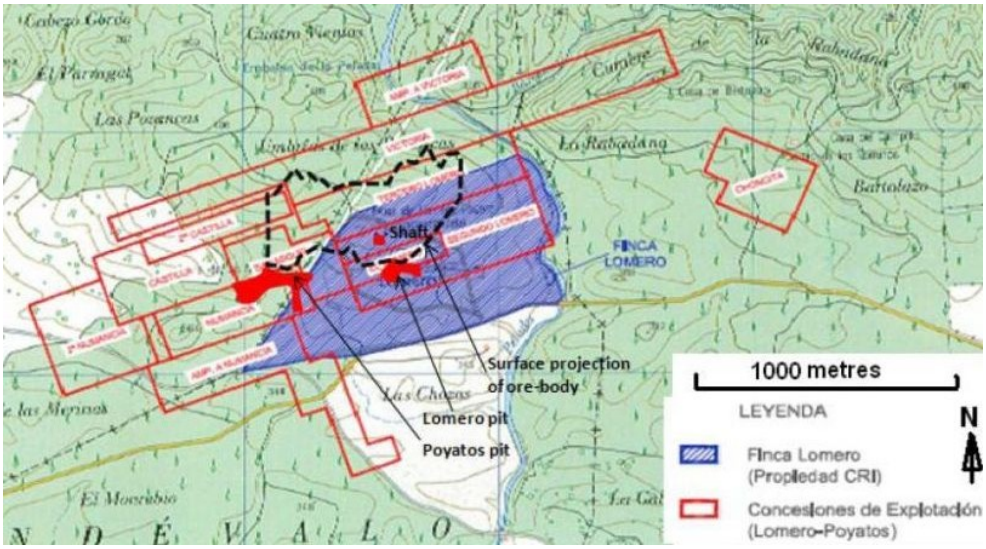
Lomero-Poyatos is a poly-metallic, massive-sulphide deposit, in which pyrite is the predominant sulphide. When mined for pyrite, sulfur mineralization greater than 43% sulfur was regarded as ore. However, the sulphide zones are significantly enriched in gold with two drill holes assaying with grades above 14 g/t[13]. 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)

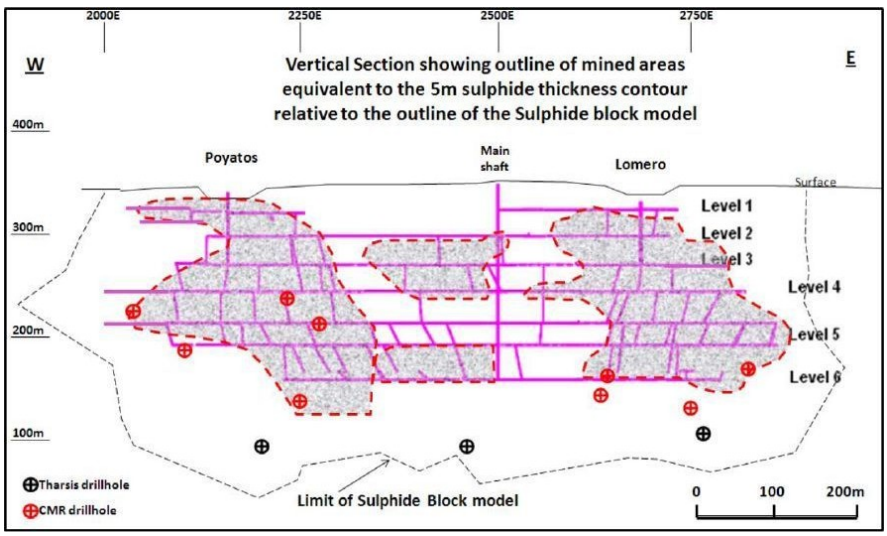
[11] The underground mine was begun in 1905.
[12] Indumetal, the smelting company that treated the roasted pyrite residue from Lomero-Poyatos, conducted some underground mapping and sampling in 1986 in order to assess the gold grades and delineate the gold reserves.
[13] During the drilling program of 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[14], Wardell Armstrong International (WAI) in 2005 and 2007[15] 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

[14] This upgraded Conceptual Mining Study was completed in 2002; SRK produced another updated report in September 2010.
[15] 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) [16]. 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[17]
(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.

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

PANAMA DEVELOPMENT AND INFRASTRUCTURE, LTD.

Panamanian Development and Infrastructure Ltd. (PDI) is a British Columbia corporation that is 47.78% owned by Petaquilla Minerals (PTQ). Originally incorporated as Petaquilla Infrastructure Ltd. in February 2008, PDI was renamed Panamanian Development and Infrastructure Ltd. in July 2010, just prior to completing an initial round of seed capital, which consisted of a partially subscribed $2.0 million private placement[18]. Since May 2009, the **management of Petaquilla Minerals has intended to realize value from the mining infrastructure business that was instrumental in bringing the Molejón mine to commercial production** and is expected to benefit significantly from the development of copper mines in the Cerro Petaquilla concessions. Management's plan involves contributing the infrastructure operating company known as **Panama Development of Infrastructure, S.A. (PDI Panama)** [19] to PDI in return for additional ownership of PDI. Thereafter, PTQ's total ownership of PDI is to be spun-out to the shareholders of PTQ on a 1 share of PDI for every 4 shares of PTQ owned on the record date for the distribution[20]. With the assets of PDI Panama, PDI will be poised to provide infrastructure-related services not only for mine development in north-central Panamá, but also for general construction projects for roads, bridges, buildings, mini-hydro plants and electricity transmission.

PDI Panama is the infrastructure operating company of Petaquilla Minerals that will give operational value to PDI. Having provided mining infrastructure services for the construction, commissioning and operation of the Molejón gold mine, PDI Panama is currently pursuing contracts in Panamá for 1) the construction of roads, housing projects, hospitals, schools and water treatment facilities, 2) power generation and transmission projects and 3) mining services, such as mine construction, earth movement, blasting, exploratory drilling, topography mapping, campsite services, aggregate mining, permitting and certification procedures, heavy construction equipment fleet management, laboratory services, environmental controls and security. Also, management hopes that PDI Panama will be able to secure contracts for the development, construction and operation of renewable energy projects in Panamá and the Central American region. The management of PDI Panama is focused on building a portfolio of infrastructure-related projects.

The Cobre Panama project, which is less than 4 kilometers from Molejón, **will require mine services that PDI Panama can provide**. Controlled by Inmet Mining Corporation with an 80% interest, the development of this copper mine is expected to invest over $6.2 billion into central Panamá. Large quantities of aggregate will be required for building foundations and road bases. The un-mineralized rock overlaying Molejón's gold mineralization is suitable for the aggregate needs of the Cobre Panama project. Preliminary agreements have been reached with PDI Panama regarding prices and the annual quantities. In addition, when the aggregate is excavated, management believes that an additional 100,000 contained ounces of gold at Molejón will become economically mineable.

Petaquilla Minerals is proceeding with the regulatory requirements for the spin-off. Audited financials statements for PDI have been prepared, and the assets and liabilities of PDI having been segregated into line items on Petaquilla's fiscal year-end balance sheet as assets and liabilities held for distribution to owners. Also, the Toronto Stock exchange has approved the plan of arrangement. A Proxy Information Circular, which will include the financials, is expected to be circulated in preparation for a Special Meeting of shareholders. The record date for the spin-off is expected to be the date of the release of the Information Circular.

[18] Petaquilla Minerals participated in the private placement, thereby attaining its 47.78% interest in PDI. Initially, the private placement was expected to raise CAD $2 million (2,000,000 shares at CAD $1.00).
[19] Panama Development of Infrastructure, S.A. (PDI Panama) is also known as Panama Desarrollo de Infraestructuras, S.A.
[20] The spin-out was approved at a special meeting of shareholders on February 25, 2010.

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 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.
5) 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).
6) 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.
7) 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.
8) With the issuance of more 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 estimate for the **Botija Abajo** deposit was released adding $13.0 million (or $0.05 per diluted share) to the NPV to our valuation model.
2) The **increase of gold and silver prices** added $0.13 to the price target.

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

Petaquilla Minerals Ltd.

Projects	Metal	Proven & Probable Reserve (oz)	Measured & Indicated Resource (oz)	Grade (g/t)	Inferred Resource (oz)	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	535,525		1.305	37,100	90%	600	1,763	4.0%	100%	498,998,776	377,115,125
	Ag	839,747		2.050		85%	15	34.25	4.0%	100%	11,871,670	8,971,939
(CIP/CIC)												
Molejón	Au		163,130	0.700		70%	625	1,763	4.0%	100%	74,817,943	53,643,612
(on/off leach)												
Molejón	Au		191,669	0.500		45%	650	1,763	4.0%	100%	9,211,612	6,604,621
(on/off leach)												
PDI Panama	N/A									47.48%	5,348,147	5,348,147
BALANCE SHEET ADJUSTMENTS												
Working capital											(41,775,106)	(41,775,106)
Capital leases											(801,750)	(801,750)
Convertible senior secured notes											(4,705,428)	(4,705,428)
Community support obligation											(5,681,936)	(5,681,936)
Deferred revenue											(26,750,484)	(26,750,484)
Asset retirement obligation											(11,062,579)	(11,062,579)
								Net Assets & Resources			509,470,866	360,906,161
								Fully Diluted Shares			273,822,716	273,822,716
					Management Inferred Resource (oz)				**Asset Value (Molejon)**		1.86	
									Discounted Asset Value (Molejón only)			**1.32**
PANAMA												
Oro Del Norte	Au			0.470	276,383	85%	800	1,763	4.0%	100%	43,414,242	7,936,547
Botija Abajo	Au	106,739	3,303	0.490		85%	800	1,763	4.0%	100%	69,141,589	10,111,806
Botija Abajo	Cu	48,718,000	1,507,000	0.440		85%	1.72	3.78	4.0%	100%	63,450,461	9,279,491
SPAIN												
Lomero-Poyatos	Au			3.080	829,502	75%	725	1,763	0.0%	100%	225,909,685	55,634,091
	Ag			88.740	17,320,000	75%	15	34.25	0.0%	100%	87,520,125	21,553,315
									Asset Value		2.84	
									Discounted Asset Value			**1.70**

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 E	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	18,250	18,600	19,000	21,000	76,850
Gold sold (ounces)	17,418	15,959	12,701	15,546	61,624	16,538	16,855	17,218	19,030	69,642
Avg. realized gold price	$1,508	$1,592	$1,520	$1,617	$1,520	$1,750	$1,800	$1,900	$1,900	$1,838
Revenue	**26,176,900**	**25,310,502**	**18,831,519**	**23,978,000**	**94,297,396**	**29,578,763**	**31,007,342**	**33,433,843**	**36,953,195**	**130,973,143**
Production costs	11,549,160	10,708,285	9,419,019	12,387,570	44,064,034	13,048,750	13,299,000	13,585,000	15,015,000	54,947,750
Depreciation and depletion	4,792,464	3,972,940	3,082,762	3,453,162	15,301,328	4,799,649	5,031,459	5,425,200	5,996,273	21,252,581
Gross operating profit	**9,835,276**	**10,629,277**	**6,329,738**	**8,137,268**	**34,932,034**	**11,730,365**	**12,676,883**	**14,423,643**	**15,941,921**	**54,772,812**
General and administrative	1,965,505	3,492,388	2,339,269	6,431,338	14,228,500	2,400,000	2,599,054	2,500,000	2,700,000	10,199,054
Donations and community relations	344,931	639,618	(62,755)	621,066	1,542,860	375,000	375,000	375,000	375,000	1,500,000
Exploration and development costs	1,371,658	2,824,101	3,477,251	2,230,655	9,903,665	2,500,000	2,750,000	2,900,000	2,400,000	10,550,000
Stock-based compensation	130,310	283,988	52,429	48,072	514,799	125,000	400,000	50,000	100,000	675,000
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**	**5,400,000**	**6,124,054**	**5,825,000**	**5,575,000**	**22,924,054**
Gain (loss) from operations	**6,022,872**	**3,389,182**	**523,544**	**(1,193,863)**	**8,742,210**	**6,330,365**	**6,552,829**	**8,598,643**	**10,366,921**	**31,848,758**
Finance (expense)	(160,918)	(151,103)	(499,338)	(1,363,103)	(2,174,462)	(1,400,000)	(1,400,000)	(1,400,000)	(1,400,000)	(5,600,000)
(Loss) on equity investments	(431,130)	0	0	(53,974)	(485,104)	0	0	0	0	0
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	0	0	0	0	0
Total other income (expense)	**(1,053,474)**	**5,507,870**	**3,983,012**	**7,909,130**	**13,677,424**	**(1,400,000)**	**(1,400,000)**	**(1,400,000)**	**(1,400,000)**	**(5,600,000)**
Income (loss) before minority interest and income taxes	**4,969,398**	**8,897,052**	**4,506,556**	**6,715,267**	**22,419,634**	**4,930,365**	**5,152,829**	**7,198,643**	**8,966,921**	**26,248,758**
Non-controlling interests	(219,878)	2,118,831	(70,774)	(34,745)	1,793,434	450,000	450,000	450,000	450,000	1,800,000
Shareholders income (loss) before income taxes	**5,189,276**	**6,778,221**	**4,577,330**	**6,750,012**	**20,626,200**	**4,480,365**	**4,702,829**	**6,748,643**	**8,516,921**	**28,048,758**
Other comprehensive income	0	0	(2,484,188)	(2,703,012)	(5,187,200)	0	0	0	0	0
Net comprehensive income (continuing operations)	**5,189,276**	**6,778,221**	**2,093,142**	**4,047,000**	**15,439,000**	**4,480,365**	**4,702,829**	**6,748,643**	**8,516,921**	**28,048,758**
Net income per common share (diluted) - continuing ops.	**0.03**	**0.03**	**0.02**	**0.03**	**0.10**	**0.02**	**0.02**	**0.03**	**0.04**	**0.12**
Net comprehensive income per share (diluted)	0.03	0.03	0.01	0.02	0.07	0.02	0.02	0.03	0.04	0.12
Weighted average common shares outstanding - diluted	178,684,859	221,658,390	215,065,874	210,833,000	206,560,782	209,500,000	210,000,000	212,000,000	215,000,000	211,625,000
Gross margin (net of amortization & depletion)	55.88%	57.69%	49.98%	48.34%	53.27%	55.88%	57.11%	59.37%	59.37%	58.05%

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

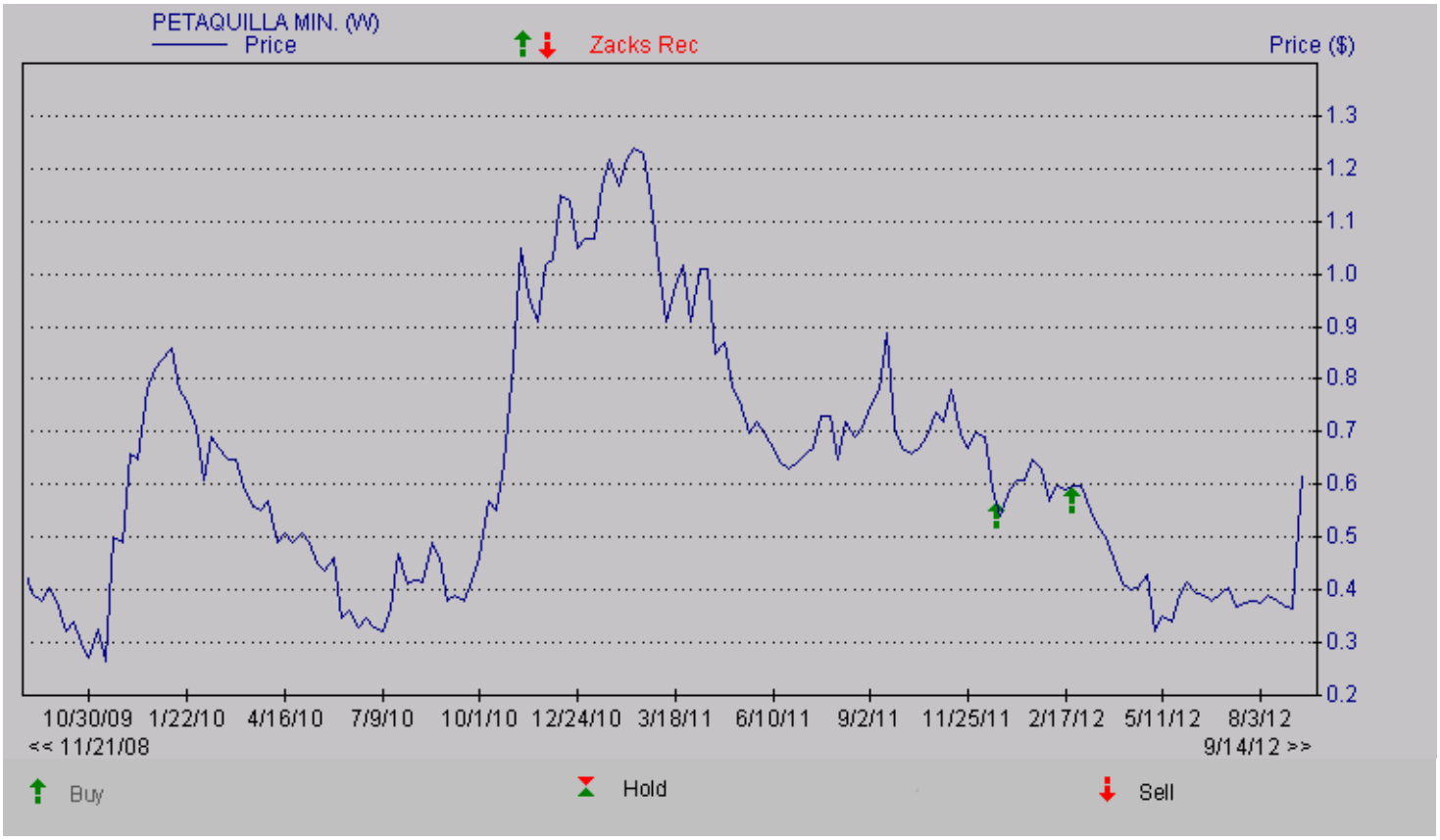
BALANCE SHEET

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	Canadian GAAP 2007 ending 4/30	Canadian GAAP 2008 ending 4/30	Canadian GAAP 2009 ending 5/31	Canadian GAAP 2010 ending 5/31	Canadian GAAP 2011 ending 5/31	IFRS 2010 ending 5/31	IFRS 2011 ending 5/31	IFRS 2012 ending 5/31
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
Short-term investments	-	-	-	-	-	200,000	-	200,000	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
Inventory and stockpiled ore	-	-	-	1,038,999	3,634,715	11,613,321	3,634,715	11,657,676	15,446,317
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**	**19,125,414**	**9,066,842**	**19,169,769**	**38,819,389**
Other Assets									
Restricted cash - reclamation obligations	892,242	1,188,026	670,175	707,480	566,708	255,091	566,708	-	2,300,000
Long term investments	-	1,807,000	2,408,443	-	-	2,400,000	-	2,400,000	-
Long term stockpiled ore	-	-	-	1,762,945	1,107,316	2,228,405	1,107,316	2,228,405	14,077,466
Advances to suppliers	-	-	-	-	816,461	3,509,817	816,461	-	-
Other assets	-	4,582,937	-	-	-	6,616,964	-	10,381,872	6,710,884
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
Mineral property, plant & equipment	-	-	-	-	-	-	78,700,875	94,553,369	93,173,045
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**
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
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
Current porton of bank loans		-	-	-	-	-	35,465	435,733	
Current other liabilities - Community support	-	-	-	-	-	-	5,184,816	1,424,290	1,396,856
Current portion of deferred revenue	-	-	-	-	-	9,246,437	0	9,246,437	14,216,977
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
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**
Long term debt	-	699,185	162,568	-	80,235	1,840,500	-	-	-
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
Share purchase warrants	-	-	-	-	-	-	5,030,904	11,064,020	499,826
Deferred revenue	-	-	4,003,423	3,123,394	-	33,390,472		33,390,472	26,750,484
Derivative obligation			-	-	-	-	-	-	217,000
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
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**
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
Treasury shares	(166,981)	(166,981)	(122,193)	(122,193)	(122,193)	(122,193)	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
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
Equity component of cv. sr. secured notes	-	-	-	495,121	495,121	42,817	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
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
Equity attributed to non-controlling interests			-	-	-	2,507,156		2,507,156	7,474,856
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**
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**
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

HISTORICAL ZACKS RECOMMENDATIONS



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