Zacks Small-Cap Research

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Petaquilla Minerals Ltd. (T.PTQ – TSE)

T.PTQ: Rating lowered to Neutral on loss of Lomero-Poyatos mining concessions

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	01/02/2014
Current Price (01/03/14)	$0.29
Six- Month Target Price	**$0.73**

OUTLOOK

Late last week, the Regional Ministry of Economy, Innovation, Science and Employment announced that the mining permits for the Lomero-Poyatos concessions had been revoked due to inactivity. The resulting adjustment to our NAV valuation model prompted us to lower our rating to Neutral. In addition, gold production continues to be less than expectations due to disruptions in mining operations from the reassignment of mining equipment towards deliveries of aggregate to the Cobre Panamá copper project. During the most recent quarter, revenues from aggregate operations increased to $7.98 million, which represented 38.7% of total revenues.

SUMMARY DATA

52-Week High	**$0.60**
52-Week Low	**$0.25**
One-Year Return (%)	**-38.3**
Beta	**1.97**
Average Daily Volume (shrs.)	**443,806**
Shares Outstanding (million)	**222.33**
Market Capitalization ($ mil.)	**$64.5**
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	**N/M**
P/E using 2014 Estimate	**N/M**
P/E using 2015 Estimate	**N/M**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Aug)	Q2 (Nov)	Q3 (Feb)	Q4 (May)	Year (May)
2012	26.2 A	25.3 A	18.8 A	24.0 A	94.3 A
2013	25.9 A	29.5 A	27.5 A	24.1 A	110.7 A
2014	20.6 A	21.6 E	23.9 E	28.5 E	94.5 E
2015	29.5 E	30.5 E	31.7 E	32.8 E	124.5 E

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

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

Zacks Projected EPS Growth Rate - Next 5 Years % **10.0**

Fiscal years ended May 31st prior to 2013.

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KEY POINTS

- Petaquilla Minerals is a junior gold production and exploration company with a producing mine in Panamá and numerous mineral exploration properties in Panamá and Portugal. The **Molejón gold project** in north-central **Panamá** achieved commercial production in January 2010 and **has poured 254,857 ounces of gold**. Approximately **473,315 ounces** have yet to be monetized from the proven and probable reserve delineated in the most recent 43-101 compliant mineral reserve report at Molejón. Within 20 kilometers, the company controls the **Palmilla gold deposit** (M&I resource of **509,000 ounces** Au) and the **Botija Abajo deposit** (proven and probable resource of **106,739 ounces** Au).
  - Petaquilla Minerals holds the mineral exploration and development rights to 842 square kilometers of concession lands that contain gold, copper and molybdenum deposits in Panamá. Oro del Norte and Brazo, continue to be advanced with exploration programs.
  - **NI 43-101 compliant estimates for the Botija Abajo and Palmilla deposits** were released in the early 2013 adding $34.5 million (or $0.12 per diluted share) to the NPV to our valuation model.
  - An **updated NI 43-101 compliant estimate** on the **Palmilla gold deposit** was announced on October 9, 2013. **The report expanded and upgraded the resources** from an estimated inferred resource of 502,800 gold equivalent ounces (using a cutoff grade of 0.30 g/t Au Eq.) to an estimated **measured & indicated resource of 841,000 gold equivalent ounces and an inferred resource of 269,000 gold equivalent ounces** (using a cutoff grade of 0.35 g/t Au Eq. Without even considering the significant upgrade of the resource, it can be stated that **the estimate increased 120%.** The updated estimate contributes $53.2 million (or $0.21 per diluted share) to the NPV to our valuation model.
  - Petaquilla successfully asserted its rights over claims in the area of the Cobre Panamá copper project being advanced by First Quantum Minerals. In consideration for land access, Petaquilla received (through PDI) a $75 million contract for aggregate procurement (which was subsequently increased to $100 million), $13 million for 10 years of land lease, $13.3 million waiver of royalties, etc., all of which total approximately $150 million.
  - **On/off leach pads** have been constructed at Molejón. During fiscal 2012, the on/off leach operation produced approximately 300 ounces. The start-up and construction of the operation continues, though no additional production was reported during fiscal 2013. Management expects this incremental leach operation to be commissioned during calendar 2014.
  - On January 2, 2014, the Regional Ministry of Economy, Innovation, Science and Employment announced that the **mining permits for the Lomero-Poyatos concessions were revoked** due to inactivity. Petaquilla Minerals had owned a 100% interest in Lomero-Poyatos through the acquisition of Iberian Resources.
  - During the fourth fiscal quarter, the status of the Forward Gold Purchase Agreement with Deutsche Bank required the declassification of PDI as held-for-distribution despite management's continued plans for a spin-out. Therefore, the company is pursuing a course to refinance and close the gold and silver contracts. Also, both events had impacts on the balance sheet and income statement.
  - Management's focus during fiscal 2014 lies in boosting gold production at Molejón gold project, though initial expectations of producing approximately 100,000 ounces appear out of reach. In addition, management is actively pursuing financing alternatives to fund developmental plans (including exploration at Brazo and Oro del Norte in Panamá and Jales-Gralheira in Portugal), re-finance short-term liabilities and terminate the Deutsche Bank forward gold and silver purchase agreements and convertible loan. Management may also pursue a judicial remedy to the loss of the mining rights to the Lomero-Poyatos concessions.
  - We reduce our rating on Petaquilla Minerals to Neutral and adjust our target to $0.73 due to several factors, including the loss of mining rights to Lomero-Poyatos, an increasing working capital deficiency and lower prices of gold and silver.

RECENT NEWS

Results for first fiscal quarter

On November 22, 2013, Petaquilla Minerals filed first fiscal quarter results for the period ending September 30, 2013. **Gold equivalent production declined 22.5% sequentially** from 12,191 ounces to 9,452 ounces despite an easy comparison. Mining operations continued to be disrupted from the reassignment of some mining and crushing equipment towards the efforts to make timely deliveries of aggregate to the Cobre Panamá copper project. The requirement for increased capacity is necessary since lower ore grades are being processed now. Additional equipment has been procured, and management expects the mining and process operations to be re-balanced during the course of the second fiscal quarter. In addition, **the average realized gold equivalent price declined 10.9% sequentially** to $1,312 per ounce. The company again drew upon inventoried bullion and sold 10,191 gold equivalent ounces; nevertheless, sequentially revenues from the sale of gold equivalent ounces declined 28.2%. Revenue from the aggregate business was $7.98 million and increased to comprise 38.7% of total revenues for the quarter. The company reported a loss of $2,105,435 ($0.01 per diluted share).

Lomero-Poyatos

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

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

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

Labor Protests

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

Deutsche Bank Liabilities

Though management is committed to physically delivering the required ounces of gold and silver to Deutsche Bank pursuant to Forward Gold Purchase Agreement and Forward Silver Purchase Agreement, Petaquilla Minerals has recently failed to meet the physical delivery requirements and has settled its obligations in cash. In October 2013, Petaquilla paid $1.7 million to Deutsche Bank to settle the September delivery requirements. As of September 30, 2013, the company was in negotiations with Deutsche Bank to reschedule the October delivery requirements.

Financing

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

During the first fiscal quarter, the company's working capital deficiency expanded 13.7% to $97,368,564. Since the decline in gold production is contributing to the company missing gold delivery requirements to Deutsche Bank that are required under its Forward Gold and Silver Purchase Agreements, an IAS requirement stipulates that the Forward Gold Purchase Agreement and Forward Silver Purchase Agreement with Deutsche Bank (both totaling $25,860,000) be classified as a current liability. Despite Petaquilla Minerals having belatedly satisfied the delivery requirements with cash payments, the company continues to be in arrears as of the end of the first fiscal quarter.

There are concerns that the company may possibly be under pressure from a shortage of working capital. In early September 2013, Petaquilla Minerals entered into a gold prepayment facility with Auramet for $2,500,000 (under which the company was obligated to deliver 2,128 ounces of gold on the following timetable: 152 ounces per week for 14 weeks between September 20th and December 20th).

Share Repurchase

During fiscal 2013, the company repurchased $257,652 worth of treasury shares. No shares have been repurchased thus far during fiscal 2014.

Miscellaneous

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

It was disclosed in the 2013 fiscal year-end report that the spin-out of Panamanian Development of Infrastructures, S.A. can only be executed upon the repayment of all the outstanding Deutsche Bank 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 continues to focus on expanding production capacity at the **Molejón** mine. Molejón is situated in one of the four zones of the Cerro Petaquilla Concession which operates under a unique set of rules and regulations known as **Ley Petaquilla No. 9**. Having successfully reached commercial production in January 2010, **Molejón poured gold 67,493 ounces during the fiscal 2013 year** from a carbon-in-pulp (CIP) leaching process and a carbon-in-column (CIC) gold adsorption stack.

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

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

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

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 2013, the Molejón gold property has produced 245,686 poured ounces of gold, of which 233,423 ounces have been sold** by the company.

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 proven and probable silver reserves 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),

[1] The gravel road was constructed in 2006, and later bridges spanning the San Juan and Coclesito rivers were built.

approximately 169,951 ounces Au have been poured, **leaving about 473,315 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].

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**

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**. 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.

NI 43-101 compliant estimates for the Botija Abajo deposit and the Palmilla project have also been completed (see below). 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]**.**

[2] Molejón NI 43-101 Technical Report, May 2012, page 108.
[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 following tables detail the metrics of the Molejón mine's gold production. Due to the addition of significant NI 43-101 compliant silver reserves, management is now reporting gold-equivalent production, sales, realized prices and cash costs.

Gold 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	17,674	11,912	**67,493**
FY 2014	9,171				

Gold Equivalents Poured

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	18,013	12,191	**69,181**
FY 2014 (Equivalents)	9,452				

Gold Equivalents Sold

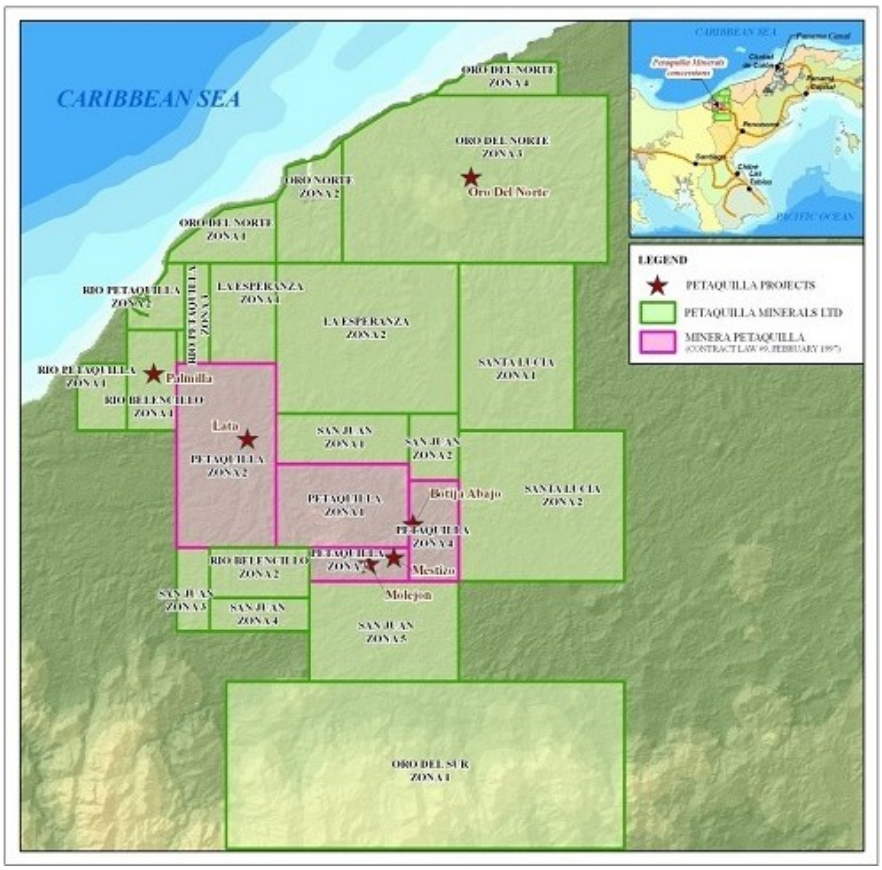
Molejón Gold sold (ounces)	1Q (Aug)	2Q (Nov)	3Q (Feb)	4Q (May)	Total (May)
FY 2011 (Equivalents)	12,390	13,320	14,064	14,843	**54,617**
FY 2012 (Equivalents)	17,987	16,297	13,040	15,546	**62,870**
FY 2013 (Equivalents)	17,597	17,905	14,598	14,196	**64,296**
FY 2014 (Equivalents)	10,191				

Average Realized Prices - Equivalents

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)	$1,595	$1,724	$1,647	$1,473	**$1,601**
FY 2014 (Equivalents)	$1,312				

Cash Cost - Equivalents

Molejón Cash cost per oz. Au sold[4]	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	$444	$637	$540	**$569**
FY 2014 (Equivalents)	$753				



Botija Abajo Gold Project (*Panamá*)

A NI 43-101 compliant estimate for the Botija Abajo deposit was released in September 2012 **adding $12.8 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. Ultimately, these reserves and resources will be processed through the facilities at Molejón.

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

[4] 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.

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

BOTIJA ABAJO						
	Gold			Copper		
Category	Tonnes 000s	Grade g/t	Contained oz	Tonnes 000s	Grade %	Contained 000s
Mineral Reserves						
Proven	4,752	0.52	79,448	1,82	0.44%	17,747
Probable	1,970	0.43	27,291	3,181	0.44%	30,972
Total	**6,722**	**0.49**	**106,739**	**5,001**	**0.44%**	**48,719**
Mineral Resources (inclusive of Mineral Reserves)						
Measured	4,454	0.57	81,906	1,705	0.49%	18,296
Indicated	1,846	0.47	28,136	2,981	0.49%	31,929
Total	**6,300**	**0.54**	**110,042**	**4,686**	**0.49%**	**50,225**

Palmilla Gold Project (*Panamá*)

On October 9, 2013, Petaquilla announced the completion of an updated NI 43-101 compliant technical report on its **Palmilla gold project**. **The report expanded and upgraded the resources** from an estimated inferred resource of 502,800 gold equivalent ounces (using a cutoff grade of 0.30 g/t Au Eq.) to an estimated **measured & indicated resource of 841,000 gold equivalent ounces and an inferred resource of 269,000 gold equivalent ounces** (using a cutoff grade of 0.35 g/t Au Eq.). The measured & indicated resource is composed of 509,000 ounces gold (27,020,000 tonnes grading 0.59 g/t Au), 755,800 ounces silver (27,020,000 tonnes grading at 0.87 g/t Ag) and 143,900,000 pounds of copper (27,020,000 tonnes grading 0.24% Cu). Below are the tables of both estimates for comparative purposes. Without even considering the significant upgrade of the resource, it can be stated that **the estimate increased 120%.** The updated estimate contributes $53.2 million (or $0.21 per diluted share) to the NPV to our valuation model.

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

Mineral Resources Within Whittle Shell
(As of October 9, 2013)

Resources Categ.	Kt	Au g/t	Cu %	Ag g/t	AuEq. g/t	Contained Au (oz.)	Contained Cu (Klbs.)	Contained Ag (oz.)	Contained AuEq. (oz.)
MEASURED	2,500	0.81	0.29	0.99	1.26	64,700	16,000	79,700	101,000
INDICATED	24,530	0.56	0.24	0.86	0.94	444,700	128,000	676,100	740,000
MEAS. + IND.	27,020	**0.59**	**0.24**	**0.87**	**0.97**	**509,400**	**143,900**	**755,800**	**841,000**
INFERRED	11,060	0.40	0.22	0.67	0.76	144,000	54,600	239,200	269,000

cutoff grade of 0.35 g/t AuEq.

COBRE PANAMA COPPER PROJECT

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

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

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

VALUATION

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

Our calculation of **share value of attributable reserves and resources** is based on the ascertained value of each property plus balance sheet adjustments for working capital, PPE (property, plant and equipment) and marketable securities. **The value of each individual property is determined by adjusting the value of current reserves/resources for the expected recovery rate, mining/processing costs and royalties, if any.** The reserves/resources are assigned a **confidence factor** that attempts to take into account the risks of each project, such as the locality of the deposits, the assurance level of the reserves/resources, various technical mining/production risks, etc. The current price of gold is utilized. The reserve/resource valuation methodology involves the following assumptions:

1) At Molejón, a 90% confidence factor is applied to proven and probable reserves with an average grade of 1.305 g/t since the production facility has been operating consistently since 2009. The grade of ore is quite high for an open pit mine.

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

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

1) The loss of the mining rights at Lomero-Poyatos decreased the price target by $0.14
2) The decline in the prices of gold and silver decreased the price target by $0.09.
3) The increased working capital deficiency and other balance sheet items reduced the target by $0.09.

Based on our calculation of share value of attributable resources (see table below), **our adjusted target for Petaquilla Minerals stock is $0.73**, of which $0.11 is attributable to copper resources.

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	473,315		1.305	37,100	90%	600	1,235	4.0%	100%	243,888,859	184,317,441
	Ag	742,196		2.050		85%	15.00	20.15	4.0%	100%	2,807,104	2,121,451
(CIP/CIC)												
Molejón	Au		163,130	0.700		70%	625	1,235	4.0%	100%	40,122,150	26,845,683
(on/off leach)												
Molejón	Au		191,669	0.500		45%	650	1,235	4.0%	100%	4,843,859	3,241,020
(on/off leach)												
Belencillo	Au			0.500	318,500	45%	650	1,235	4.0%	100%	32,196,528	21,655,678
(on/off leach)												
PDI Panama	N/A									47.48%	5,348,147	5,348,147
BALANCE SHEET ADJUSTMENTS												
Working capital											(97,368,564)	(97,368,564)
Long-term debt											(14,095,606)	(14,095,606)
Community support obligation											(3,804,857)	(3,804,857)
Asset retirement obligation											(13,042,897)	(13,042,897)
								Net Assets & Resources			200,894,724	115,217,497
								Fully Diluted Shares			261,119,304	261,119,304
					Management Inferred Resource (oz)				**Discounted Asset Value** (Molejón only)			**0.44**
PANAMA												
Oro Del Norte	Au			0.47	276,383	85%	800	1,235	4.0%	100%	34,336,718	6,277,088
Botija Abajo	Au	106,739	3,303	0.49		76%	800	1,235	4.0%	100%	27,939,752	7,440,717
Botija Abajo	Cu	48,718,000	1,507,000	44%		72%	2.17	3.35	5.0%	100%	30,191,032	8,040,262
Palmilla	Au		509,400	0.59	144,000	76%	800	1,235	4.0%	100%	145,332,818	30,963,204
Palmilla	Ag		755,800	0.87	239,200	76%	15.00	20.15	4.0%	100%	2,444,478	520,797
Palmilla	Cu		143,900,000	24%	54,600,000	72%	2.17	3.35	5.0%	100%	101,816,965	21,692,138
									Discounted Asset Value			**0.73**

PROJECTED INCOME STATEMENT

Petaquilla Minerals Ltd.

Consolidated Statements of Operations and Retained Earnings (US $)

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

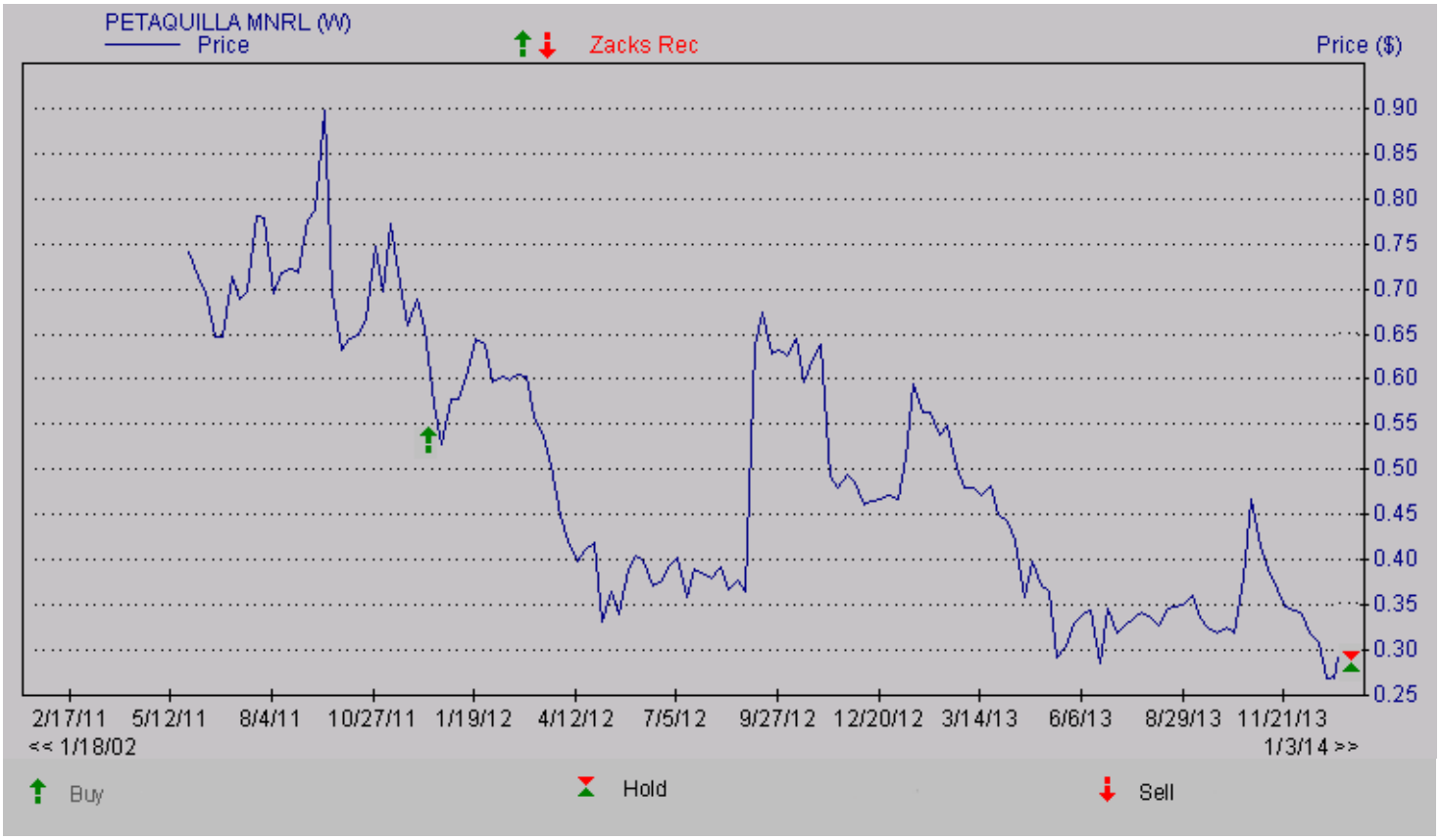
Years ending June 30 (and May 31 prior to 2013)	Year (June) 2013	2014 JAS 1Q	2014 OND 2Q E	2014 JFM 3Q E	2014 AMJ 4Q E	Year (June) 2014 E
Gold poured (ounces)	67,493	9,171	10,500	11,400	14,000	45,071
Gold eqivalent ounces poured	69,181	9,452	10,822	11,749	14,429	46,452
Gold eqivalent ounces sold	64,296	10,191	10,822	11,749	14,429	47,191
Avg. realized gold price	$1,601	$1,312	$1,225	$1,300	$1,350	$1,297
Revenue - gold eqivalents	95,924,053	12,646,470	13,256,608	15,274,086	19,479,097	60,656,261
Revenue - aggregates	6,082,073	7,980,580	8,299,803	8,631,795	8,977,067	33,889,246
Total revenues	**110,667,021**	**20,627,308**	**21,556,681**	**23,906,180**	**28,456,520**	**94,546,689**
Production costs	52,940,508	15,918,157	16,598,644	18,407,759	21,911,521	72,836,080
Depreciation and depletion	21,734,093	2,172,501	2,802,368	3,107,803	3,699,348	11,782,021
Gross operating profit	**35,992,420**	**2,536,650**	**2,155,668**	**2,390,618**	**2,845,652**	**9,928,588**
General and administrative	17,392,882	3,649,803	3,706,874	3,818,080	3,932,622	15,107,379
Donations and community relations	5,560,999	134,064	388,669	400,329	412,339	1,335,400
Exploration and development costs	11,115,413	1,717,589	2,000,000	2,060,000	2,121,800	7,899,389
Stock-based compensation	592,418	149,693	98,155	161,351	338,896	748,096
Debt issuance costs	-	-	-	-	-	-
Other operating expenses	0	0	0	0	0	0
Operating expenses	**34,661,712**	**5,651,149**	**6,193,698**	**6,439,760**	**6,805,657**	**25,090,263**
Gain (loss) from operations	**1,330,708**	**(3,114,499)**	**(4,038,030)**	**(4,049,142)**	**(3,960,005)**	**(15,161,675)**
Finance (expense)	(4,485,387)	(671,686)	(454,255)	(750,000)	(625,314)	(2,501,254)
(Loss) on equity investments	0	0	0	0	0	0
Inmet's waiver of 5% royalty on Molejon mine	13,348,341	-	-	-	-	-
Mark-to-market gain (loss) on share purchase warrants	-	-	-	-	-	-
Mark-to-market gain (loss) on share embedded derivatives	-	-	-	-	-	-
Mark-to-market gain (loss) on share conversion feature	-	-	-	-	-	-
Mark-to-market gain (loss) on senior & conv. secured notes	-	-	-	-	-	-
Non-operating income (expenses)	(14,795,353)	1,644,070	0	0	0	1,644,070
Total other income (expense)	**(5,932,399)**	**972,384**	**(454,255)**	**(750,000)**	**(625,314)**	**(857,184)**
Income (loss) before minority interest and income taxes	**(4,601,691)**	**(2,142,115)**	**(4,492,284)**	**(4,799,142)**	**(4,585,319)**	**(16,018,860)**
Non-controlling interests	(513,525)	(36,680)	(76,369)	(81,585)	(77,950)	(272,585)
Shareholders income (loss) before income taxes	**(4,088,166)**	**(2,105,435)**	**(4,415,915)**	**(4,717,556)**	**(4,507,368)**	**(15,746,275)**
Other comprehensive income	1,590,076	1,445,296	500,000	500,000	500,000	2,945,296
Net comprehensive income (continuing operations)	**(2,498,090)**	**(660,139)**	**(3,915,915)**	**(4,217,556)**	**(4,007,368)**	**(12,800,979)**
Net income per common share (diluted) - continuing ops.	**(0.02)**	**(0.01)**	**(0.02)**	**(0.02)**	**(0.02)**	**(0.06)**
Net comprehensive income per share (diluted)	(0.01)	(0.00)	(0.02)	(0.02)	(0.01)	(0.05)
Weighted average common shares outstanding - diluted	214,891,382	214,779,688	244,486,331	261,119,304	278,883,857	249,817,295
Gross margin (net of amortization & depletion)	52.16%	22.83%	23.00%	23.00%	23.00%	22.96%

BALANCE SHEET

Petaquilla Minerals Ltd.

Consolidated Balance Sheets (in $ US) (as reported prior to application of IFRS) (in Canadian $ prior to FY 2009, in US $ starting in FY 2009) For the years ending as noted	Canadian GAAP 2006 ending 1/31	 2007 ending 4/30	Canadian GAAP 2008 ending 4/30	 2009 ending 5/31	IFRS 2010 ending 5/31	IFRS 2011 ending 5/31	IFRS 2012 ending 5/31	IFRS 2013 ending 6/30	IFRS 1Q 2014 ending 9/30
ASSETS									
Cash and cash equivalents	9,171,318	665,290	12,850,137	3,575,168	4,625,649	5,712,792	1,975,660	1,855,544	725,918
Short-term investments	-	-	-	-	-	200,000	340,000	340,000	340,000
Accounts receivable	32,188	100,410	450,885	144,225	116,326	-	-	-	-
Prepaid expenses	36,650	452,718	310,255	591,847	690,152	-	-	-	-
Accounts receivable, prepaids, etc.		-	-	-	-	1,599,301	4,525,236	5,732,751	8,797,040
Inventory and stockpiled ore	-	-	-	1,038,999	3,634,715	11,657,676	15,446,317	27,349,785	28,868,732
Assets (PDI) held for distribution to owners	-	-	-	-	-	-	16,532,176	-	-
Current Assets	**9,240,156**	**1,218,418**	**13,611,277**	**5,350,239**	**9,066,842**	**19,169,769**	**38,819,389**	**35,278,080**	**38,731,690**
Other Assets									
Restricted cash - reclamation obligations	892,242	1,188,026	670,175	707,480	566,708	-	2,300,000	2,300,000	2,300,000
Long term investments	-	1,807,000	2,408,443	-	-	2,400,000	-	-	-
Inventories (stockpiled ore)	-	-	-	1,762,945	1,107,316	2,228,405	14,077,466	35,348,467	38,796,332
Advances to suppliers	-	-	-	-	816,461	-	-	-	-
Other assets	-	4,582,937	-	-	-	10,381,872	6,710,884	708,123	1,211,762
Property, plant and equipment (net)	285,005	5,343,147	16,779,149	12,879,658	-	-	-	-	-
Mineral properties	2,389,769	31,236,455	37,739,133	60,843,501	-	-	-	-	-
Exploration and evaluation assets (primarily Iberian)		-	-	-	-	-	31,170,407	32,947,253	34,307,287
Mineral property, plant & equipment	-	-	-	-	78,700,875	94,553,369	93,173,045	111,394,926	115,400,635
Total Assets	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**90,258,202**	**128,733,415**	**186,251,191**	**217,976,849**	**230,747,706**
LIABILITIES									
Accounts payable and accrued liabilities	551,096	4,951,297	8,493,460	8,746,892	17,586,683	30,318,558	44,211,407	61,640,691	77,473,736
Deferred services and materials	-	-	248,786	120,000	-	-	-	-	-
Current obligations under capital leases	-	-	2,174,903	5,054,987	4,136,032	1,468,561	-	-	-
Current porton of long-term debt	-	487,882	436,151	160,993	-	-	4,927,642	19,635,805	24,039,859
Current porton of bank loans		-	-	-	35,465	435,733			
Current other liabilities - Community support	-	-	-	-	5,184,816	1,424,290	1,396,856	6,560,375	6,581,731
Current portion of deferred revenue	-	-	-	-	0	9,246,437	14,216,977	800,000	2,144,928
Current portion of derivative obligation	-	-	-	-	-	-	-	32,250,000	25,860,000
Bank overdraft	-	-	2,100,000	-	-	-	-	-	-
Operating credit line facility	-	-	3,872,434	-	-	-	-	-	-
Senior secured notes	-	-	-	15,653,483	26,646,631	217,984	-	-	-
Convertible senior secured notes	-	-	-	-	45,094,084	276,983	-	-	-
Liabilities (PDI) held for distribution to owners	-	-	-	-	-	-	15,841,613	-	-
Current Liabilities	**551,096**	**5,439,179**	**17,325,734**	**29,736,355**	**98,683,711**	**43,388,546**	**80,594,495**	**120,886,871**	**136,100,254**
Long term debt	-	699,185	162,568	-	-	-	-	15,357,903	14,095,606
Bank loans		-	-	-	80,235	1,840,500	8,430	-	-
Accounts payable and accrued liabilities	-	-	-	-	-	1,866,667	-	-	-
Obligations under capital leases	-	-	3,991,743	-	440,229	3,850,475	801,750	-	-
Senior secured notes	-	-	26,785,359	13,754,019	-	2,906,453	-	-	-
Convertible senior secured notes	-	-	-	34,794,455	0	3,693,122	4,705,428	-	-
Other liabilities - Community support obligation		-	-	4,391,168	6,453,281	6,703,799	5,681,936	15,424,746	14,746,524
Share purchase warrants	-	-	-	-	5,030,904	11,064,020	499,826	749	-
Deferred revenue	-	-	4,003,423	3,123,394		33,390,472	26,750,484	-	-
Derivative obligation			-	-	-	-	217,000	-	-
Asset retirement obligation	-	4,400,000	4,333,216	4,664,720	4,816,121	9,630,851	11,062,579	12,997,029	13,042,897
Long-term liabilities	**0**	**5,099,185**	**39,276,309**	**60,727,756**	**16,820,770**	**74,946,359**	**49,727,433**	**43,780,427**	**41,885,027**
Share capital (no par value)	62,977,209	101,482,015	89,002,273	89,208,668	(25,246,279)	7,891,354	48,454,407	46,348,220	45,837,774
Treasury shares	(166,981)	(166,981)	(122,193)	(122,193)	N/A	N/A	N/A	N/A	N/A
Warrants	-	-	11,771,374	14,109,097	N/A	N/A	N/A	N/A	N/A
Shares subscribed	-	150,000	-	-	-	-	-	-	-
Additional paid-in capital	1,004,480	12,893,667	14,714,276	13,897,197	N/A	N/A	N/A	N/A	N/A
Equity component of cv. sr. secured notes	-	-	-	495,121	N/A	N/A	N/A	N/A	N/A
Accumulated comprehensive income	-	-	(2,084,526)	(6,733,242)	N/A	N/A	N/A	N/A	N/A
Retained earnings (deficit)	(51,558,632)	(79,521,082)	(98,675,070)	(119,774,936)	N/A	N/A	N/A	N/A	N/A
Equity attributed to non-controlling interests			-	-		2,507,156	7,474,856	6,961,331	6,924,651
SHAREHOLDERS' EQUITY	**12,256,076**	**34,837,619**	**14,606,134**	**(8,920,288)**	**(25,246,279)**	**10,398,510**	**55,929,263**	**53,309,551**	**52,762,425**
Total Liabilities and Equity	**12,807,172**	**45,375,983**	**71,208,177**	**81,543,823**	**90,258,202**	**128,733,415**	**186,251,191**	**217,976,849**	**230,747,706**
Common shares outstanding	89,876,951	89,876,951	95,958,641	96,040,121	125,281,951	176,429,501	221,863,781	222,330,161	222,330,161

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

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