

PETAQUILLA MINERALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(An Exploration Stage Company)

OCTOBER 31, 2004

(Unaudited – Prepared by Management)

PETAQUILLA MINERALS LTD.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"Dale McClanaghan"
President and Chief Executive Officer

"Kenneth W. Morgan"
Chief Financial Officer

December 13, 2004

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

	October 31, 2004	January 31, 2004
ASSETS		
Current		
Cash and cash equivalents	\$ 1,270,525	\$ 1,836,465
Receivables	57,236	88,392
Prepaid expenses	<u>11,519</u>	<u>9,233</u>
Total current assets	1,339,280	1,934,090
Equipment (Note 3)	33,977	42,705
Performance bond – restricted cash (Note 4)	<u>952,146</u>	<u>693,766</u>
	<u>\$ 2,325,403</u>	<u>\$ 2,670,561</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 96,189	\$ 83,662
Other accrued liabilities	<u>43,279</u>	<u>43,279</u>
Total current liabilities	<u>139,468</u>	<u>126,941</u>
Shareholders' equity		
Capital stock (Note 5)		
Authorized		
100,000,000 common shares without par value		
20,000,000 preferred shares without par value		
Issued and outstanding		
50,741,039 (January 31, 2004 – 48,829,542) common shares	51,189,275	50,849,326
Contributed surplus (Note 6)	821,343	327,822
Deficit	<u>(43,536,294)</u>	<u>(42,345,139)</u>
	8,474,324	8,832,009
Treasury stock, at cost		
Repurchased, not cancelled		
1,660,200 (January 31, 2004 – 1,660,200) common shares	<u>(6,288,389)</u>	<u>(6,288,389)</u>
	<u>2,201,410</u>	<u>2,543,620</u>
	<u>\$ 2,325,403</u>	<u>\$ 2,670,561</u>

Nature of operations and going concern (Note 1)

On behalf of the Board:

_____ Director _____ Director

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

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Expressed in Canadian Dollars)
PERIODS ENDED OCTOBER 31

	Three months ended October 31, 2004	Three months ended October 31, 2003	Nine months ended October 31, 2004	Nine months ended October 31, 2003
EXPENSES				
Accounting and legal	\$ 37,643	\$ 57,219	105,368	\$ 70,780
Consulting fees	13,055	8,913	45,257	8,913
Depreciation	1,219	3,436	3,058	10,198
Filing fees	4,494	25,341	23,329	39,338
Insurance	187	-	360	-
Interest and bank charges	200	245	937	601
Investor relations and shareholder information	9,192	10,794	57,432	24,421
Office administration	6,393	2,745	33,517	8,147
Rent	22,492	7,642	55,554	23,952
Resource property costs	-	27,485	52,406	36,869
Telecommunications	7,478	-	7,478	-
Travel	41,195	-	49,740	-
Wages and benefits	52,920	20,374	219,749	31,034
Total expenses	<u>(196,468)</u>	<u>(164,194)</u>	<u>(654,185)</u>	<u>(254,253)</u>
OTHER INCOME (EXPENSE)				
Foreign exchange (loss) gain	(91,272)	(51,610)	(187,210)	(136,776)
Gain on redemption of performance bond	-	-	208,944	-
Interest income and amortization of discount on bond	2,117	14,403	13,145	46,670
Stock-based compensation	(148,619)	(68,221)	(529,144)	(68,221)
Write-off of equipment	-	-	(42,705)	-
	<u>(237,774)</u>	<u>(105,428)</u>	<u>(536,970)</u>	<u>(158,327)</u>
Loss for the period	(434,242)	(269,622)	(1,191,155)	(412,580)
Deficit, beginning of period	<u>(43,102,052)</u>	<u>(41,676,907)</u>	<u>(42,345,139)</u>	<u>(41,533,949)</u>
Deficit, end of period	<u>\$ (43,536,294)</u>	<u>\$ (41,946,529)</u>	<u>(43,536,294)</u>	<u>\$ (41,946,529)</u>
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted average number of shares outstanding	49,034,752	34,513,835	48,491,362	34,513,835

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

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
PERIODS ENDED OCTOBER 31

	Three months ended October 31, 2004	Three months ended October 31, 2003	Nine months ended October 31, 2004	Nine months ended October 31, 2003
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (434,242)	\$ (269,622)	(1,191,155)	(412,580)
Items not affecting cash:				
Amortization of discount on bond included in interest income	-	(2,878)	-	(8,971)
Depreciation	1,219	3,437	3,058	10,198
Stock-based compensation	148,619	68,221	529,144	68,221
Write-down of equipment	-	-	42,705	-
Foreign exchange loss (gain) on performance bond	110,306	47,716	(19)	116,918
Changes in non-cash working capital items:				
Receivables	9,319	(18,546)	31,156	(22,167)
Prepaid expenses	933	319	(2,286)	6,220
Accounts payable and accrued liabilities	<u>14,710</u>	<u>(84,386)</u>	<u>12,527</u>	<u>(29,832)</u>
Net cash used in operating activities	<u>(149,136)</u>	<u>(255,739)</u>	<u>(574,870)</u>	<u>(271,993)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from issuance of capital stock	12,000	1,113,065	304,325	1,113,065
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of capital assets	(11,438)	-	(37,015)	-
Purchase of performance bond	-	-	(258,380)	-
Proceeds from reduction in performance bond	<u>-</u>	<u>(2,326)</u>	<u>-</u>	<u>36,766</u>
Net cash provided by investing activities	<u>(11,438)</u>	<u>(2,326)</u>	<u>(295,395)</u>	<u>36,766</u>
(Decrease) increase in cash and cash equivalents	(148,574)	855,000	(565,940)	877,838
Cash and cash equivalents, beginning of period	<u>1,419,099</u>	<u>244,862</u>	<u>1,836,465</u>	<u>222,024</u>
Cash and cash equivalents, end of period	<u>\$ 1,270,525</u>	<u>\$ 1,099,862</u>	<u>1,270,525</u>	<u>\$ 1,099,862</u>

Supplemental disclosure with respect to cash flows (Note 16)

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

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars, Unaudited)
OCTOBER 31, 2004

1. NATURE OF OPERATIONS AND GOING CONCERN

The Company was incorporated in the Province of British Columbia and is in the business of the acquisition, exploration, exploration management, development, and sale of resource properties and has not yet determined whether its properties contain ore reserves that are economically recoverable, except for the Petaquilla property, for which a feasibility study has been completed and as a result of continuing depressed copper prices, development of the Petaquilla property is considered to be uneconomic at this time. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

At October 31, 2004, the Company has working capital of \$1,199,812 (January 31, 2004 - \$1,807,149). The Company will have to raise additional funds to meet its planned corporate and administrative expenses for the coming year and to undertake further exploration and subsequent development of its mineral properties. Management is pursuing additional sources of financing and while it has been successful in the past there can be no assurance that it will be able to do so in the future. Accordingly, there is substantial doubt about the ability of the Company to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. These consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The interim consolidated financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality. These interim consolidated financial statements should be read in conjunction with the most recent annual consolidated financial statements. The significant accounting policies follow that of the most recently reported annual consolidated financial statements.

3. EQUIPMENT

In April 2004, the Company agreed with Madison Enterprises Corporation ("Madison"), a company formerly related by virtue of common directors, to transfer certain office equipment with a net book value of \$42,705 to Madison in exchange for Madison indemnifying the Company for lease costs of approximately \$62,000 for four years for its former premises.

4. PERFORMANCE BOND – RESTRICTED CASH

The Company is required to post a performance bond of USD \$780,000 to maintain its interest in the Petaquilla Property in Panama. As at January 31, 2004, the Company fulfilled this requirement by holding a Republic of Panama Sovereign Bond (the "Panama Bond") with a face value of USD \$750,000, which the Company had purchased at a discount, and additional securities of approximately USD \$30,000. In February 2004, the Panamanian Government redeemed the Panama Bond and the Company realized a gain of \$208,944. During the period ended July 31, 2004, the Company pledged cash of USD \$780,000 as security for a Letter of Credit with the Bank of Nova Scotia to satisfy the requirements of the performance bond.

PETAQUILLA MINERALS LTD.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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OCTOBER 31, 2004

5. CAPITAL STOCK

	Number of Shares	Amount	Contributed
Issued			
Balance, January 31, 2004	48,829,542	\$ 50,849,326	\$ 327,822
Exercise of stock options	1,795,497	310,949	(35,623)
Exercise of warrants	116,000	29,000	-
Stock-based compensation	-	-	529,144
Balance, October 31, 2004	50,741,039	\$ 51,189,275	\$ 821,343

6. STOCK OPTIONS

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2004	3,089,297	\$ 0.18
Granted	2,570,000	0.42
Exercised	(1,795,497)	0.15
Balance at October 31, 2004	3,863,800	\$ 0.35

As at October 31, 2004, the following stock options were outstanding and exercisable:

Exercise Price	Number of Shares Outstanding	Expiry Date	Number of Shares Exercisable
\$ 0.15	188,800	April 18, 2007	188,800
0.23	1,105,000	September 24, 2008	1,105,000
0.42	1,770,000	April 28, 2009	1,770,000
0.42	800,000	September 22, 2009	600,000
	3,863,800		3,663,800

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 OCTOBER 31, 2004

6. STOCK OPTIONS (cont'd...)

The Company granted 1,770,000 stock options to employees, directors and consultants during the period ended July 31, 2004 and 800,000 stock options to employees and consultants during the current period. The Company has adopted the fair value based method of accounting for all stock based compensation. Total stock-based compensation for the fair value of stock options granted to recognized during the period ended October 31, 2004 was \$529,144 which has been recorded in the consolidated statement of operations as stock-based compensation with corresponding contributed surplus recorded in shareholders' equity.

The fair value of stock options used to calculate compensation expense is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest	3.80%
Expected dividend yield	-
Expected stock price volatility	87%
Expected option life in years	5 years

Option pricing models require the input of highly subjective assumptions including expected stock price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

7. SHARE PURCHASE WARRANTS

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2004	7,799,994	\$ 0.25
Warrants exercised	<u>116,000</u>	0.25
Balance at October 31, 2004	<u>7,683,994</u>	\$

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. SHARE PURCHASE WARRANTS (cont'd...)

As at October 31, 2004, the following share purchase warrants were outstanding and exercisable as follows:

Number of Shares	Exercise Price	Expiry Date
4,416,666	\$ 0.25	September 24, 2005
<u>3,267,328</u>	\$ 0.25	November 18, 2005
<u>7,683,994</u>		

8. RELATED PARTY TRANSACTIONS

During the year to date:

- a) Included in wages is \$85,000 paid to a company controlled by the CEO and director for his services as CEO of the Company.
- b) Included in wages is \$68,760 paid to a company controlled by the CFO and director for his services as CFO of the Company.
- c) Included in rent is \$4,800 paid to a company related by virtue of common director
- d) The Company paid legal fees of \$46,426 to a law firm controlled by a former director.
- e) Included in accounts payable at October 31, 2004 is \$6,416 due to a company related by virtue of a common director.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.