

**PETAQUILLA MINERALS LTD.**  
**(formerly Adrian Resources Ltd.)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(An Exploration Stage Company)**

**JANUARY 31, 2005**

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of  
Petaquilla Minerals Ltd.  
(formerly Adrian Resources Ltd.)

We have audited the consolidated balance sheets of Petaquilla Minerals Ltd. (formerly Adrian Resources Ltd.) as at January 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years ended January 31, 2005, 2004 and 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2005 and 2004 and the results of its operations and its cash flows for the years ended January 31, 2005, 2004 and 2003 in accordance with Canadian generally accepted accounting principles.

**“DAVIDSON AND COMPANY”**

Vancouver, Canada

Chartered Accountants

April 26, 2005

### **COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – U.S. REPORTING DIFFERENCE**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the financial statements. Our report to shareholders dated April 26, 2005 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

**“DAVIDSON AND COMPANY”**

Vancouver, Canada

Chartered Accountants

April 26, 2005

**PETAQUILLA MINERALS LTD.**  
(formerly Adrian Resources Ltd.)  
(An Exploration Stage Company)  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian Dollars)  
AS AT JANUARY 31

	2005	2004
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 891,548	\$ 1,836,465
Receivables	71,263	88,392
Prepaid expenses	<u>10,783</u>	<u>9,233</u>
Total current assets	973,594	1,934,090
<b>Property and equipment</b> (Note 5)	49,825	42,705
<b>Performance bond – restricted cash</b> (Note 7)	<u>966,055</u>	<u>693,766</u>
	<u>\$ 1,989,474</u>	<u>\$ 2,670,561</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 51,973	\$ 83,662
Other accrued liabilities	<u>51,078</u>	<u>43,279</u>
Total current liabilities	<u>103,051</u>	<u>126,941</u>
<b>Shareholders' equity</b>		
Capital stock (Note 8)		
Authorized		
100,000,000 common shares without par value		
20,000,000 preferred shares without par value		
Issued and outstanding		
51,264,537 (2004 – 48,829,542) common shares	51,430,792	50,849,326
Contributed surplus (Note 8)	887,432	327,822
Deficit	<u>(44,143,412)</u>	<u>(42,345,139)</u>
	8,174,812	8,832,009
Treasury stock, at cost		
Repurchased, not cancelled		
1,660,200 (2003 – 1,660,200) common shares	<u>(6,288,389)</u>	<u>(6,288,389)</u>
	<u>1,886,423</u>	<u>2,543,620</u>
	<u>\$ 1,989,474</u>	<u>\$ 2,670,561</u>

**Nature of operations and going concern** (Note 1)

**Commitments** (Note 13)

**Subsequent events** (Note 17)

**On behalf of the Board:**

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

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

**PETAQUILLA MINERALS LTD.**  
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**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Expressed in Canadian Dollars)  
YEAR ENDED JANUARY 31

	2005	2004	2003
<b>EXPENSES</b>			
Accounting and legal	\$ 161,203	\$ 98,850	\$ 35,089
Consulting fees	141,158	40,834	-
Depreciation	7,660	13,635	18,312
Filing fees	33,679	68,923	20,661
Insurance	547	863	900
Investor relations and shareholder information	98,790	43,562	25,241
Office administration	80,626	33,947	2,866
Rent	88,939	31,645	33,645
Resource property costs	234,664	33,910	31,638
Stock-based compensation (Note 9)	716,876	242,469	48,290
Travel	83,398	12,566	-
Wages and benefits	<u>243,139</u>	<u>105,683</u>	<u>13,656</u>
Total expenses	(1,890,679)	(726,887)	(230,298)
<b>OTHER INCOME (EXPENSE)</b>			
Foreign exchange loss	(79,147)	(142,267)	(43,482)
Gain on redemption of performance bond (Note 7)	198,142	-	-
Interest income and amortization of discount on bond	18,266	57,964	71,363
Write-down of marketable securities	-	-	(11,685)
Write-down of property and equipment	<u>(44,855)</u>	<u>-</u>	<u>-</u>
<b>Loss for the year</b>	(1,798,273)	(811,190)	(214,102)
<b>Deficit, beginning of year</b>	<u>(42,345,139)</u>	<u>(41,533,949)</u>	<u>(41,319,847)</u>
<b>Deficit, end of year</b>	<u>\$ (44,143,412)</u>	<u>\$ (42,345,139)</u>	<u>\$ (41,533,949)</u>
<b>Basic and diluted loss per common share</b>	\$ (0.04)	\$ (0.02)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>	<u>50,370,747</u>	<u>36,153,757</u>	<u>31,680,343</u>

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

**PETAQUILLA MINERALS LTD.**  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
YEAR ENDED JANUARY 31

	2005	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the year	\$ (1,798,273)	\$ (811,190)	\$ (214,102)
Items not affecting cash:			
Amortization of discount on bond included in interest income	-	(11,864)	(13,501)
Depreciation	7,660	13,635	18,312
Gain on redemption of performance bond	(198,142)	-	-
Stock-based compensation	716,876	242,469	48,290
Write-down of marketable securities	-	-	11,685
Write-down of property and equipment	44,855	-	-
Foreign exchange loss on performance bond	69,005	110,914	34,709
Changes in non-cash working capital items:			
(Increase) decrease in receivables	17,129	(53,896)	(2,754)
(Increase) decrease in prepaid expenses	(1,550)	5,789	313
(Decrease) increase in accounts payable and accrued liabilities	(23,890)	(1,305)	60,003
Net cash used in operating activities	<u>(1,166,330)</u>	<u>(505,448)</u>	<u>(57,045)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from issuance of capital stock	424,200	2,043,947	-
Joint venture loan payments	<u>-</u>	<u>-</u>	<u>(69)</u>
Net cash provided by (used in) financing activities	<u>424,200</u>	<u>2,043,947</u>	<u>(69)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	(59,635)	-	-
Proceeds from redemption of performance bond	891,908	-	-
Purchase of performance bond	(1,035,060)	-	-
Proceeds from reduction in performance bond	<u>-</u>	<u>75,942</u>	<u>86,481</u>
Net cash provided by (used in) investing activities	<u>(202,787)</u>	<u>75,942</u>	<u>86,481</u>
<b>Change in cash and cash equivalents</b>	<b>(944,917)</b>	<b>1,614,441</b>	<b>29,367</b>
<b>Cash and cash equivalents, beginning of year</b>	<u>1,836,465</u>	<u>222,024</u>	<u>192,657</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 891,548</u>	<u>\$ 1,836,465</u>	<u>\$ 222,024</u>

Supplemental disclosure with respect to cash flows (Note 16)

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

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**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 and exploration of resource properties and has not yet determined whether its properties contain ore reserves that are economically recoverable. On October 12, 2004, the Company changed its name from Adrian Resources Ltd. to Petaquilla Minerals Ltd. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

At January 31, 2005, the Company has working capital of \$870,543 (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**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies adopted by the Company are as follows:

**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Petaquilla Minerals, S.A. (formerly Adrian Resources, S.A.) (a Panama corporation), Adrian Resources (BVI) Ltd. (a British Virgin Island corporation) and Georecursos Internacional, S.A. ("Georecursos") (a Panama corporation). The Company proportionately consolidates its 52% interest in a joint venture investment, Minera Petaquilla S.A. ("Minera Petaquilla") (a Panama corporation).

All significant inter-company transactions and balances have been eliminated upon consolidation.

**Use of estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**Cash and cash equivalents**

Cash and cash equivalents include cash and bank deposits maturing within 90 days from the original date of acquisition. To limit its credit risk exposure in excess of federally insured amounts, the Company places its deposits with financial institutions with high credit standing.

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Marketable securities**

Marketable securities are carried at the lower of cost and quoted market value on an individual investment basis.

**Property and equipment**

Equipment is recorded at cost less accumulated depreciation, which is provided on computer equipment, equipment, furniture and fixtures and office equipment on the declining balance basis at rates varying between 20% and 30% per annum. Leasehold improvements are depreciated over the term of the lease.

**Resource properties**

Acquisition costs of resource properties, together with direct exploration and development expenditures incurred thereon, are deferred until the property to which they relate is placed into production, sold or abandoned. The carrying values of resource properties are, where necessary, written down to the estimated recoverable amount based on undiscounted estimated future net cash flows. Costs relating to properties abandoned are written off when the decision to abandon is made.

The Company follows the cost reduction method of accounting for the receipt of property option and similar payments. Cash and other property payments received from the Company's exploration partners are credited to the respective property until capitalized costs are recovered; thereafter, such payments are included in income. Option payments are exercisable at the discretion of the optionee and are only recognized when received. Management fees earned for the management of properties are included in income.

On an annual basis, the Company reviews the carrying values of deferred resource property acquisition and exploration expenditures with a view to assessing whether there has been an impairment in value. In the event that management determines potential reserves to be insufficient to recover the carrying value of any property, the carrying value will be written down or written off, as appropriate.

During the year ended January 31, 2002, the Company wrote-off to operations its resource property costs. Accordingly, any resource property costs incurred thereafter are expensed to operations.

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, transfers or native land claims and title may be affected by undetected defects.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Asset retirement obligations**

The CICA recently issued a new section in the CICA Handbook, Section 3110, "Asset retirement obligations", which the Company adopted February 1, 2004. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. Adoption of this standard has not affected the Company's consolidated financial statements.

**Foreign currency translation**

Integrated foreign operations are translated using the temporal method. Under this method, monetary assets and liabilities are translated at the year-end exchange rate, non-monetary assets and liabilities are translated at rates prevailing at the respective transaction dates, and revenue and expenses are translated at rates approximating those in effect at the time of the transactions. Translation gains and losses are reflected in loss for the year.

Foreign currency denominated monetary accounts of the Company are translated at the year-end exchange rate. Exchange gains and losses on translation are recognized as a gain or loss in the year they arise.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive. At January 31, 2005, 2004 and 2003, the total number of potentially dilutive shares excluded from loss per share was 9,924,296, 10,889,291 and 2,398,297 respectively.

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year.

**Stock-based compensation**

Effective February 1, 2002, the Company adopted CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends the fair value-based methodology for measuring compensation costs. The section also permitted, and the Company adopted, the use of the intrinsic value-based method, which recognized compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of loss and loss per share as if the fair value method had been adopted. The granting of stock options to non-employees and direct awards of stock to employees and non-employees is accounted for using the fair value method of accounting.

Effective for the year ended January 31, 2004, the Company adopted prospectively the amended recommendations of the CICA with respect to stock-based compensation, whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock.

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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Income taxes**

Future income taxes are recorded using the asset and liability method under which future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

**3. MARKETABLE SECURITIES**

The Company holds shares of certain publicly traded companies with a book value of \$Nil (2004 - \$Nil) and a market value of \$37,419 (2004 - \$45,006).

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**4. INVESTMENT IN JOINT VENTURE**

The Company owns a 52% joint venture interest in Minera Petaquilla, which is proportionately consolidated in the financial statements. The Company's interest is summarized as follows:

	2005	2004
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 13,674	\$ 35,709
Due from shareholders	6,324	10,343
Receivables	6,826	7,329
Prepaid expenses	-	550
	<u>\$ 26,824</u>	<u>\$ 53,931</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 3,561	\$ 34,393
Other liabilities	47,517	43,279
	<u>(24,254)</u>	<u>(23,741)</u>
	<u>\$ 26,824</u>	<u>\$ 53,931</u>
<b>Cash flows provided by (used in):</b>		
Operating activities	\$ (125,278)	\$ (55,598)
Financing activities	104,108	83,680
Investing activities	-	-

The Company's share of Minera Petaquilla's income (loss) for the years ended January 31, 2005, 2004 and 2003 was \$(95,051), \$2,913 and \$(946), respectively.

**5. PROPERTY AND EQUIPMENT**

	2005			2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 12,530	\$ 2,202	\$ 10,328	\$ 35,639	\$ 19,069	\$ 16,570
Equipment	15,384	2,308	13,076	-	-	-
Furniture and fixtures	10,780	1,078	9,702	33,923	14,448	19,475
Leasehold improvements	7,781	778	7,003	-	-	-
Office equipment	<u>10,796</u>	<u>1,080</u>	<u>9,716</u>	<u>12,795</u>	<u>6,135</u>	<u>6,660</u>
	<u>\$ 57,271</u>	<u>\$ 7,446</u>	<u>\$ 49,825</u>	<u>\$ 82,357</u>	<u>\$ 39,652</u>	<u>\$ 42,705</u>

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**5. PROPERTY AND EQUIPMENT (cont'd...)**

During the current fiscal year, the Company wrote-off to operations certain property and equipment with a net book value of \$44,855.

During the previous fiscal year, the Company wrote-off certain fully depreciated equipment with an original cost of \$335,702.

**6. RESOURCE PROPERTIES**

**Petaquilla Property, Panama**

The Company, through its wholly-owned subsidiary Georecursos, owns 52% of Minera Petaquilla. Minnova (Panama) Inc. ("Minnova"), a wholly-owned subsidiary of Inmet Mining Corporation ("Inmet"), owns the remaining 48% of Minera Petaquilla, a company formed during 1997 to own the Petaquilla mineral concession in Panama. Pursuant to the contract law under which the Petaquilla concession was granted by the Government of the Republic of Panama, the period within which mine development is required to commence on the property expires May 2006.

Teck Cominco Limited ("Teck") has an option to acquire 50% of the Company's interest in Minera Petaquilla, which would result in Teck having a 26% interest in Minera Petaquilla. In order for Teck to acquire the 26% interest, it is required to:

- i) Fund 52% of the continuing exploration expenditures, as defined, of Minera Petaquilla, with Minnova to fund its 48% share, until such time as Teck either acquires its interest or its interest is terminated.
- ii) Fund 100% of and complete a final feasibility study, as defined, for the property and deliver such study by January 21, 1998 (completed).
- iii) Arrange project financing for Minera Petaquilla for completion of development of the Petaquilla property and, if necessary, fund 52% (Minnova to fund 48%) of any shortfall in the total project funding requirement in excess of arranged project financing.

Teck has deferred the decision to February 21, 2005 on whether to make a final commitment respecting development of the concession. Teck is committed to annually deliver an update to the feasibility study of the concession. The requirement to make a final commitment or give notice of unfavorable economic conditions within 90 days of delivery of the final feasibility study applies to all subsequent annual anniversaries. Failure to make such a commitment or deliver a notice shall result in the termination of Teck's right to acquire an interest in Minera Petaquilla.

In April 2005, the Company and Inmet agreed to waive Teck's obligation to deliver an updated feasibility study in 2005.

Upon Teck making a final commitment, Minnova is required to deliver a final commitment to participate in the development of the project or it will be required to dispose of its interest in Minera Petaquilla. Minnova is then required to either offer to sell its interest in the concession or accept an 8% net profit interest, as defined, in the project. The offer to sell its interest shall be made first to the Company and then to Teck at a price to be determined by Minnova. In the event that neither the Company nor Teck chooses to acquire Minnova's interest, Minnova shall be entitled to seek an independent purchaser of its interest on terms no more favorable than those offered to the Company and Teck.

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**6. RESOURCE PROPERTIES (cont'd...)**

**Petaquilla Property, Panama (cont'd...)**

Either the Company or Minnova (the Proposer) may at any time give notice to the other parties of its intention to proceed with development of the concession in accordance with the most recently delivered Teck feasibility study. Upon receipt of such notice, Teck has 50 days in which to make a final commitment to develop the project. The other party, the Company or Minnova (the Recipient), has 60 days from the receipt of such notice to commit to develop the project.

If the Recipient has not agreed to develop the project, the Proposer may, within 70 days of the proposal, elect to exercise the "Shotgun Offer," as defined, and either sell its interest or acquire the Recipient's interest in Minera Petaquilla, for cash, based on the value of Minera Petaquilla as determined in accordance with the provisions of the agreement. The Recipient has 15 days from receipt of the Shotgun Offer to agree either to sell its interest or to acquire the Proposer's interest as applicable, and in the event that the Recipient does not take action within the 15-day period, it will thereafter be deemed to have agreed to sell its interest in Minera Petaquilla.

If Minnova sells its interest, pursuant to the Shotgun Offer, the Company shall pay Minnova 48% of the value of Minera Petaquilla.

If the Company sells its interest, pursuant to the Shotgun Offer, it shall receive 29% of the value of Minera Petaquilla on condition that, in the event that Teck's interest in the concession is terminated, the Company shall receive an additional 23% of the value of Minera Petaquilla.

If Teck's interest in the concession is not terminated and the Company sells its interest, pursuant to the Shotgun Offer, the Company shall not be entitled to receive any further amount, in excess of the 29% of the value received on account of the sale of its interest in Minera Petaquilla.

Upon exercise of the Shotgun Offer, Teck has 130 days in which to deliver a final commitment for development of the concession or its interest shall be terminated.

Teck's interest in the concession shall terminate on the earlier of:

- i) Teck electing to terminate its interest provided it has delivered its final feasibility study, or
- ii) Teck's failure to deliver a final commitment as outlined above.

In the event that Teck's interest is terminated, Teck shall retain a net profit royalty interest in the project at a rate to be determined.

The Government of Panama passed legislation which significantly expands the size of the Panama Canal Watershed in general and, in particular, establishes an overlap of part of the Petaquilla concession. It is possible that future construction of dams within the watershed area could negatively affect the development of the Petaquilla property.

During the year ended January 31, 2002, the Company recorded a write-down of the property of \$32,628,433 as a result of depressed copper prices which made development of the Petaquilla property uneconomic.

In December 2004, the Company, Teck and Inmet completed a non-binding letter of intent whereby the parties agreed in principle to work together to jointly propose to the Government of Panama a potential phased development of the Petaquilla property with the first phase being the development of the Molejon gold deposit. The objective is to obtain

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**6. RESOURCE PROPERTIES (cont'd...)**

**Petaquilla Property, Panama (cont'd...)**

approval of a conditional multi-phase mine development that will increase the production decision period on the copper phase by two years. The Molejon deposit will be transferred to the Company when the mine development plan on the Petaquilla concession is secured from the Government of Panama.

**7. PERFORMANCE BOND – RESTRICTED CASH**

The Company is required to post a performance bond of US\$780,000 to maintain its interest in the Petaquilla property. 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 US\$750,000, which the Company had purchased earlier at a discount of US\$630,000, and an additional one-year time deposit of US\$31,175. The discount on the Panama Bond was being amortized to income over the original term of the bond. The Panama Bond was also returning a portion of its principal to the Company over the term of the loan. During the current fiscal year, the Panama Bond was redeemed early resulting in a gain of \$198,142. The Company subsequently pledged a guaranteed investment certificate in the amount of \$1,035,060 (US\$780,000) as security for a letter of credit with the Bank of Nova Scotia to satisfy the requirements of the performance bond.

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**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
Issued			
Balance as at January 31, 2002	33,340,543	\$ 48,842,442	\$ -
Stock-based compensation	-	-	48,290
Balance as at January 31, 2003	33,340,543	48,842,442	48,290
Non-brokered private placement, net of finders' fees (a)	8,333,333	1,125,000	-
Non-brokered private placement, net of finders' fees (b)	6,666,666	900,000	-
Exercise of stock options	489,000	87,850	(14,500)
Finder's fee warrants	-	-	51,563
Stock-based compensation	-	-	242,469
Share issuance costs	-	(105,966)	-
Balance as at January 31, 2004	48,829,542	50,849,326	327,822
Exercise of stock options	2,185,497	476,209	(114,383)
Exercise of warrants	249,498	105,257	(42,883)
Stock-based compensation	-	-	716,876
Balance as at January 31, 2005	51,264,537	\$ 51,430,792	\$ 887,432

- a) In September 2003, the Company completed a non-brokered private placement and issued 8,333,333 units at a price of \$0.15 per unit, for gross proceeds of \$1,250,000. Each unit consists of one common share and one-half of one non-transferable two-year share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.25 per share until September 24, 2005. The Company paid finders' fees of \$125,000 and issued 300,000 finder's fee warrants, with a value of \$51,563, entitling the holder to purchase one additional common share at a price of \$0.25 per share until September 24, 2005.
- b) In November 2003, the Company completed a non-brokered private placement and issued 6,666,666 units at a price of \$0.15 per unit, for gross proceeds of \$1,000,000. Each unit consists of one common share and one-half of one non-transferable two-year share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.25 per share until November 18, 2005. The Company paid finders' fees of \$100,000.
- c) The shareholders of the Company have adopted a shareholder rights plan (the "Plan"), creating the potential for substantial dilution of an acquirer's position except with respect to a "permitted bid". The rights issuable to shareholders under the Plan entitle the existing shareholders, other than the acquiring person, to purchase an additional share at one-half of the current market price, upon the occurrence of certain triggering events. The main such event is the acquisition of 20% or more of the issued common shares of the Company by an individual or several persons acting in concert in a transaction not approved by the board of directors to purchase common shares of the Company. The Plan has a ten-year term and expires on April 28, 2005.

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**9. STOCK OPTIONS**

The Company has a stock option plan which authorizes the board of directors to grant incentive stock options to directors, officers and employees whereby the maximum number of shares reserved for issuance under the Company's plan is 7,436,158 common shares. The aggregate number of common shares reserved for issuance to any person may not exceed 5% of the number of outstanding common shares. The exercise price of the options will be determined by the fair market value of the shares at the closing price on the date prior to date of the grant.

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2002	3,545,338	\$ 0.34
Granted	2,398,297	0.15
Expired	-	-
Forfeited	<u>(3,545,338)</u>	0.34
Balance at January 31, 2003	2,398,297	0.15
Granted	1,180,000	0.23
Exercised	(489,000)	0.15
Expired	-	-
Forfeited	<u>-</u>	-
Balance at January 31, 2004	3,089,297	0.18
Granted	2,770,000	0.43
Exercised	(2,185,497)	0.17
Expired	-	-
Forfeited	<u>(1,300,000)</u>	0.41
Balance at January 31, 2005	2,373,800	\$ 0.36
Number of stock options exercisable	<u>2,020,466</u>	

The weighted average fair value of stock options granted during the year ended January 31, 2005 was \$0.43 (2004 - \$0.21; 2003 - \$0.09) per option.

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**9. STOCK OPTIONS** (cont'd...)

As at January 31, 2005, the following stock options were outstanding as follows:

Number of Shares	Exercise Price	Expiry Date
148,800	\$ 0.15	April 18, 2007
655,000	\$ 0.23	September 24, 2008
920,000	\$ 0.42	April 28, 2009
450,000	\$ 0.42	September 22, 2009
200,000	\$ 0.50	January 10, 2010

Total stock options granted during the year ended January 31, 2005 are 2,770,000 (2004 – 1,180,000; 2003 – 2,398,297). Total stock-based compensation for the fair value of stock options granted during the current year was \$716,876 (2004 - \$242,469; 2003 – \$48,290) which has been recorded in the consolidated statement of operations as stock-based compensation with corresponding contributed surplus recorded in shareholders' equity.

Included in stock options granted during the year ended January 31, 2003 are 1,848,797 granted to employees and directors. Prior to February 1, 2003, the Company had elected to measure compensation costs using the intrinsic value-based method for employee and director stock options. Under this method, no compensation expense was recognized when the stock options were granted. Had compensation costs prior to February 1, 2003 been determined based on the fair value of the options granted using the Black-Scholes option-pricing model, additional compensation expense would have been recorded as follows:

	Year Ended January 31, 2003
Loss for the year as reported	\$ (214,102)
Additional compensation expense	<u>(162,473)</u>
Pro-forma loss	<u>(376,575)</u>
Pro-forma basic and diluted loss per share	\$ (0.01)

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**9. STOCK OPTIONS (cont'd...)**

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

	Year Ended January 31, 2005	Year Ended January 31, 2004	Year Ended January 31, 2003
Risk-free interest	3.79%	3.86%	5.00%
Expected dividend yield	-	-	-
Expected stock price volatility	87%	140%	85%
Expected option life in years	5 years	5 years	5 years

**10. SHARE PURCHASE WARRANTS**

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance at January 31, 2002	1,388,888	\$ 0.19
Issued	-	-
Expired	(1,388,888)	0.19
Balance at January 31, 2003	-	-
Issued	7,799,994	0.25
Expired	-	-
Balance at January 31, 2004	7,799,994	0.25
Issued	-	-
Exercised	249,498	0.25
Expired	-	-
Balance at January 31, 2005	7,550,496	\$ 0.25

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**10. SHARE PURCHASE WARRANTS (cont'd...)**

As at January 31, 2005, 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
3,133,830	\$ 0.25	November 18, 2005

Included in the warrants issued during the year ended January 31, 2004 are finder's fee warrants entitling the purchase of up to 300,000 shares of the Company at a price of \$0.25 per share until September 24, 2005. Total stock-based compensation for the fair value of these warrants was \$51,563 which has been recorded as share issue costs with corresponding entry in contributed surplus. These warrants were valued using the Black-Scholes option-pricing model using a risk-free interest rate of 3%, an expected life of 2 years, an annualized volatility of 140%, and a dividend rate of 0%.

**11. RELATED PARTY TRANSACTIONS**

During the year ended January 31, 2005:

- a) The Company paid consulting fees of \$96,780 (2004 - \$34,833; 2003 - \$Nil) to companies controlled by directors.
- b) The Company paid wages of \$207,068 (2004 - \$44,272; 2003 - \$Nil) to a director and former directors.
- c) The Company paid rent expense of \$17,816 (2004 - \$11,215; 2003 - \$33,645) to a company controlled by a director and to a company related by virtue of former common directors.
- d) The Company paid legal fees of \$21,433 (2004 - \$108,037; 2003 - \$Nil) to a law firm controlled by a former director, of which \$Nil (2004 - \$47,569; 2003 - \$Nil) was recorded as share issue costs.
- e) Included in accounts payable at January 31, 2005 is \$Nil (2004 - \$10,212) due to a law firm controlled by a former director.
- f) Included in accounts payable at January 31, 2005 is \$36,458 (2004 - \$7,862) due to directors, a former director, and to companies related by virtue of common directors.

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.

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**12. INCOME TAXES**

A reconciliation of income taxes of statutory rates with the reported taxes is as follows:

	2005	2004	2003
Statutory tax rate	35.6%	37.6%	39.6%
Loss for the year	\$ (1,798,273)	\$ (811,190)	\$ (214,102)
Expected income tax recovery	\$ 640,185	\$ 305,007	\$ 84,784
Permanent and other differences	(307,836)	(91,172)	(35,815)
Differences in foreign tax rates	(4,558)	(12,305)	(4,419)
Losses for which an income tax benefit has not been recognized	(327,791)	(201,530)	(44,550)
	\$ -	\$ -	\$ -

The significant components of the Company's future income tax assets are as follows:

	2005	2004
Future income tax assets		
Non-capital and other loss carry-forwards	\$ 1,069,362	\$ 983,235
Equipment and exploration properties	247,218	224,647
Investments	2,587,307	2,587,307
Share issuance costs	4,852	9,703
Total future income tax assets	3,908,739	3,804,892
Valuation allowance	(3,908,739)	(3,804,892)
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$3,200,000 available for deduction against future years' taxable income in Canada. These losses, if unutilized, will expire beginning in 2006. Subject to certain restrictions, the Company also has approximately \$211,000 of resource expenditures available to reduce taxable income of future years in Canada plus resource related deductions available to reduce future taxable income in Panama. The future tax benefits which may arise as a result of these non-capital losses and resource expenditures have not been recognized in these consolidated financial statements and have been offset by a valuation allowance.

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**13. COMMITMENTS**

During the year ended January 31, 2005, the Company entered into a five year lease for premises at an estimated annual cost of \$63,176 per year commencing June 2004.

**14. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, marketable securities, receivables, performance bond, accounts payable and other accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company is subject to financial risk arising from fluctuations in foreign currency exchange rates. The Company does not use any derivative instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

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**15. SEGMENT INFORMATION**

The Company has one operating segment being the exploration of resource properties. Details of geographic information are as follows:

<b>2005</b>	Canada	Panama	Total
Interest income	\$ 17,956	\$ 310	\$ 18,266
Property and equipment	\$ 30,782	\$ 19,043	\$ 49,825
<b>2004</b>	Canada	Panama	Total
Interest income	\$ 12,373	\$ 45,591	\$ 57,964
Property and equipment	\$ 42,705	\$ -	\$ 42,705
<b>2003</b>	Canada	Panama	Total
Interest income	\$ 687	\$ 70,676	\$ 71,363
Property and equipment	\$ 56,340	\$ -	\$ 56,340

**16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2005	2004	2003
Non-cash financing activities			
Finder's fee warrants	\$ -	\$ 51,563	\$ -
Share issue costs	-	(51,563)	-

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**17. SUBSEQUENT EVENTS**

Subsequent to January 31, 2005:

- a) The Company sold 500,000 of its shares held in treasury at a price of \$0.65 per share for proceeds of \$325,000. These shares were previously issued and reacquired by the Company some years ago pursuant to an issuer bid and were included in treasury stock.
- b) The Company received proceeds of \$45,536 and issued 241,466 shares for the exercise of stock options and warrants subsequent to the year end.

**18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP"). Material variations in the accounting principles, practices and methods used in preparing these financial statements from principles, practices and methods accepted in the United States ("U.S. GAAP") are described and quantified below.

**Loss for the year**

	2005	2004	2003
Loss for the year following Canadian and U.S. GAAP	\$ (1,798,273)	\$ (811,190)	\$ (214,102)
Holding gains (losses) on investments (b)	<u>(7,587)</u>	<u>45,006</u>	<u>-</u>
<b>Comprehensive loss following U.S. GAAP</b>	<b>\$ (1,805,860)</b>	<b>\$ (766,184)</b>	<b>\$ (214,102)</b>
Basic and diluted loss per share following Canadian and U.S. GAAP	\$ (0.04)	\$ (0.02)	\$ (0.01)

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**18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

	2005	2004
<b>Current assets</b>		
Current assets following Canadian GAAP	\$ 973,594	\$ 1,934,090
Cumulative adjustments:		
Holding gains on investments (b)	<u>37,419</u>	<u>45,006</u>
Current assets following U.S. GAAP	<u>\$ 1,011,013</u>	<u>\$ 1,979,096</u>

	2005	2004	2003
<b>Shareholders' equity</b>			
Shareholders' equity following Canadian GAAP	\$ 1,886,423	\$ 2,543,620	\$ 1,068,394
Cumulative adjustments:			
Holding gains on investments (b)	<u>37,419</u>	<u>45,006</u>	<u>-</u>
Shareholders' equity following U.S. GAAP	<u>\$ 1,923,842</u>	<u>\$ 2,588,626</u>	<u>\$ 1,068,394</u>

There were no material differences between Canadian and U.S. GAAP in the statement of cash flows.

a) Resource properties and deferred costs

Resource property costs and related exploration expenditures are accounted for in accordance with Canadian GAAP as disclosed in Note 2. For U.S. GAAP purposes, the Company expenses, as incurred, the exploration costs relating to unproven mineral properties. When proven and probable reserves are determined for a property and a feasibility study is prepared, then subsequent exploration and development costs of the property would be capitalized. The capitalized costs of such properties is measured periodically for recoverability of carrying values.

b) Marketable securities

Under Canadian GAAP, the marketable securities held by the Company are recorded at the lower of cost and net realizable value. Under U.S. GAAP, these investments are classified as "available-for-sale" securities and recorded at market value. The accumulated difference between cost and market value is recorded as part of comprehensive income.

**18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

c) Stock-based compensation

Under U.S. GAAP, Statement of Financial Accounting Standards No. 123 "Accounting for Stock-based Compensation" ("SFAS 123") requires companies to establish a fair market value based method of accounting for stock-based compensation plans. The Company has elected for the year ended January 31, 2004 to account for stock-based compensation using SFAS 123 on a prospective basis. Accordingly, compensation cost for stock options is measured at the fair value of options granted.

For the year ended January 31, 2003, the Company elected to account for stock-based compensation using Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Accordingly, compensation cost for stock options was measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the option price. Since stock options are granted at exercise prices that are at or above the quoted market value of the Company's common shares at the date of grant, there was no compensation cost to be recognized by the Company.

Under Canadian GAAP, new accounting and disclosure standards were introduced beginning with the fiscal year ended January 31, 2003 (Note 2). Accordingly, there is no difference between Canadian GAAP and U.S. GAAP on the accounting for stock-based compensation for the years ended January 31, 2005, 2004 and 2003.

d) Asset retirement obligations

Under United States GAAP, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" requires companies to record the fair value of the liability for closure and removal costs associated with the legal obligations upon retirement or removal of any tangible long-lived assets. Under this standard, the initial recognition of the liability is capitalized as part of the asset cost and depreciated over its estimated useful life. The Company has determined that there are no asset retirement obligations as at January 31, 2004.

Under Canadian GAAP, the Company was not required to record asset retirement obligations as at January 31, 2004.

e) Recent accounting pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46") (revised in December 17, 2003). The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after December 15, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after March 15, 2004.

**18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

e) Recent accounting pronouncements (cont'd...)

In December 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29" ("SFAS 153") which amends Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

In December 2004, FASB issued Statement of Financial Accounting Standards No. 123R, "Share Based Payment" ("SFAS 123R"). SFAS 123R supersedes APB 25 and its related implementation guidance by requiring entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions) and revises SFAS 123 as follows:

- i. Public entities are required to measure liabilities incurred to employees in share-based payment transactions at fair value and nonpublic entities may elect to measure their liabilities to employees incurred in share-based payment transactions at their intrinsic value whereas under SFAS 123, all share-based payment liabilities were measured at their intrinsic value.
- ii. Nonpublic entities are required to calculate fair value using an appropriate industry sector index for the expected volatility of its share price if it is not practicable to estimate the expected volatility of the entity's share price.
- iii. Entities are required to estimate the number of instruments for which the requisite service is expected to be rendered as opposed to accounting for forfeitures as they occur.
- iv. Incremental compensation cost for a modification of the terms or conditions of an award is measured by comparing the fair value of the modified award with the fair value of the award immediately before the modification whereas SFAS 123 required that the effects of a modification be measured as the difference between the fair value of the modified award at the date it is granted and the award's value immediately before the modification determined based on the shorter of (1) its remaining initially estimated expected life or (2) the expected life of the modified award.

SFAS 123R also clarifies and expands guidance in several areas, including measuring fair value, classifying an award as equity or as a liability and attributing compensation cost to reporting periods. SFAS 123R does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued in EITF 96-18. SFAS 123R also does not address the accounting for employee share ownership plans which are subject to Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans". Public entities (other than those filing as small business issuers) will be required to apply SFAS 123R as of the first annual reporting period that begins after June 15, 2005. Public entities that file as small business issuers will be required to apply SFAS 123R in the first annual reporting period that begins after December 15, 2005. For non-public entities, SFAS 123R must be applied as of the beginning of the first annual reporting period beginning after December 15, 2005.

The adoption of these new pronouncements is not expected to have a material effect on the Company's consolidated financial position or results of operations

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**18. DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (cont'd...)**

e) Recent accounting pronouncements (cont'd...)

*Canadian Standards*

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which will be effective for annual and interim periods beginning on or after November 1, 2004. This guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. Management is assessing the impact, if any, of the adoption of this guideline on the Company's consolidated financial statements.