

PETAQUILLA MINERALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(An Exploration Stage Company)

Nine Months Ended October 31, 2005

(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.

"Michael Levy"
President

"Kenneth W. Morgan"
Chief Financial Officer

December 7, 2005

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

	October 31, 2005	January 31, 2005 (Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 1,233,666	\$ 891,548
Receivables	68,806	71,263
Prepaid expenses	<u>44,988</u>	<u>10,783</u>
Total current assets	1,347,460	973,594
Property and equipment (Note 4)	175,395	49,825
Performance bond – restricted cash (Note 5)	<u>920,478</u>	<u>966,055</u>
	<u>\$ 2,443,333</u>	<u>\$ 1,989,474</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 78,869	\$ 51,973
Other accrued liabilities	<u>51,078</u>	<u>51,078</u>
Total current liabilities	<u>129,947</u>	<u>103,051</u>
Shareholders' equity		
Capital stock (Note 7)		
Authorized		
100,000,000 common shares without par value		
20,000,000 preferred shares without par value		
Issued and outstanding		
58,848,406 (January 31, 2005 – 51,264,537) common shares	54,716,932	51,430,792
Contributed surplus (Note 7)	666,928	887,432
Deficit	<u>(52,903,493)</u>	<u>(44,143,412)</u>
	2,480,367	8,174,812
Treasury stock, at cost (Note 10)		
Repurchased, not cancelled		
44,200 (January 31, 2005 – 1,660,200) common shares	<u>(166,981)</u>	<u>(6,288,389)</u>
	<u>2,313,386</u>	<u>1,886,423</u>
	<u>\$ 2,443,333</u>	<u>\$ 1,989,474</u>

Nature of operations and going concern (Note 1)

On behalf of the Board:

“Michael Levy”

Director

“Kenneth W. Morgan”

Director

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

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

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
EXPENSES				
Accounting and legal	\$ 13,543	\$ 37,643	\$ 154,741	\$ 105,368
Consulting fees	160,872	13,055	220,541	45,257
Depreciation	12,753	1,219	27,026	3,058
Filing fees	1,944	4,494	10,137	23,329
Insurance	394	187	943	360
Investor relations and shareholder information	77,494	9,192	214,067	57,432
Office administration	48,821	14,071	154,954	41,932
Rent	20,819	22,492	65,502	55,554
Resource property costs	486,029	-	1,396,056	52,406
Stock-based compensation (Note 8)	283,587	148,619	1,155,002	529,144
Travel	114,936	41,195	209,167	49,740
Wages and benefits	<u>154,325</u>	<u>52,920</u>	<u>274,502</u>	<u>219,749</u>
Total expenses	<u>(1,375,517)</u>	<u>(345,087)</u>	<u>(3,882,638)</u>	<u>(1,183,329)</u>
OTHER INCOME (EXPENSE)				
Foreign exchange (loss)	(38,888)	(91,272)	(54,022)	(176,408)
Write-down of property and equipment	-	-	-	(42,705)
Gain on redemption of performance bond	-	-	-	198,142
Interest income and amortization of discount on bond	<u>8,719</u>	<u>2,117</u>	<u>24,041</u>	<u>13,145</u>
	<u>(30,169)</u>	<u>(89,155)</u>	<u>(29,981)</u>	<u>(7,826)</u>
Loss for the period	(1,405,686)	(434,242)	(3,912,619)	(1,191,155)
Deficit, beginning of period	(48,224,360)	(43,102,052)	(44,143,412)	(42,345,139)
Loss on sale of treasury stock (Note 10)	<u>(3,273,447)</u>	<u>-</u>	<u>(4,847,462)</u>	<u>-</u>
Deficit, end of period	<u>\$ (52,903,493)</u>	<u>\$ (43,536,294)</u>	<u>\$ (52,903,493)</u>	<u>\$ (43,536,294)</u>
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)	\$ (0.07)	\$ (0.02)
Weighted average number of shares outstanding	56,208,918	49,034,752	52,503,089	48,491,362

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

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

	Three months ended October 31, 2005	Three months ended October 31, 2004	Nine months ended October 31, 2005	Nine months ended October 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (1,405,686)	\$ (434,242)	\$ (3,912,619)	\$ (1,191,155)
Items not affecting cash:				
Depreciation	12,753	1,219	27,026	3,058
Stock-based compensation	283,587	148,619	1,155,002	529,144
Foreign exchange loss (gain) on performance bond	41,333	110,306	45,844	(115,247)
Write-down of property and equipment	-	-	-	42,705
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(23,532)	9,319	2,457	31,156
(Increase) decrease in prepaid expenses	(786)	933	(34,205)	(2,286)
(Decrease) increase in accounts payable and accrued liabilities	<u>27,467</u>	<u>14,710</u>	<u>26,896</u>	<u>12,527</u>
Net cash used in operating activities	<u>(1,064,864)</u>	<u>(149,136)</u>	<u>(2,689,599)</u>	<u>(690,098)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from sale of treasury stock	953,961	-	1,273,946	-
Net proceeds from issuance of capital stock	<u>1,280,798</u>	<u>12,000</u>	<u>1,910,635</u>	<u>304,325</u>
Net cash provided by financing activities	<u>2,234,759</u>	<u>12,000</u>	<u>3,184,581</u>	<u>304,325</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property and equipment	(52,421)	(11,438)	(152,864)	(37,015)
Purchase of performance bond	-	-	-	(1,035,060)
Proceeds from redemption of performance bond	<u>-</u>	<u>-</u>	<u>-</u>	<u>891,908</u>
Net cash used in investing activities	<u>(52,421)</u>	<u>(11,438)</u>	<u>(152,864)</u>	<u>(180,167)</u>
Change in cash and cash equivalents	1,117,474	(148,574)	342,118	(565,940)
Cash and cash equivalents, beginning of period	<u>116,192</u>	<u>1,419,099</u>	<u>891,548</u>	<u>1,836,465</u>
Cash and cash equivalents, end of period	<u>\$ 1,233,666</u>	<u>\$ 1,270,525</u>	<u>\$ 1,233,666</u>	<u>\$ 1,270,525</u>

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

PETAQUILLA MINERALS LTD.
(formerly Adrian Resources Ltd.)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

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 October 31, 2005, the Company has working capital of \$1,217,513 (January 31, 2005 - \$870,543). 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 interim 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. MARKETABLE SECURITIES

The Company holds shares of certain publicly traded companies with a book value of \$Nil (January 31, 2005 - \$Nil) and a market value of \$55,691 (January 31, 2005 - \$37,419).

PETAQUILLA MINERALS LTD.
(formerly Adrian Resources Ltd.)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

4. PROPERTY AND EQUIPMENT

	October 31, 2005			January 31, 2005		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Computer equipment	\$ 114,103	\$ 15,840	\$ 98,263	\$ 12,530	\$ 2,202	\$ 10,328
Equipment	47,462	8,676	38,786	15,384	2,308	13,076
Furniture and fixtures	12,420	2,652	9,768	10,780	1,078	9,702
Leasehold improvements	8,951	2,380	6,571	7,781	778	7,003
Office equipment	13,789	2,757	11,032	10,796	1,080	9,716
Vehicles	<u>12,362</u>	<u>1,387</u>	<u>10,975</u>	<u>10,796</u>	<u>1,080</u>	<u>9,716</u>
	\$ 209,087	\$ 33,692	\$ 175,395	\$ 57,271	\$ 7,446	\$ 49,825

During the year ended January 31, 2005, the Company wrote-off to operations certain property and equipment with a net book value of \$44,855.

5. 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 year ended January 31, 2005, 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.

PETAQUILLA MINERALS LTD.
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(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

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 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.

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.

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.

PETAQUILLA MINERALS LTD.
(formerly Adrian Resources Ltd.)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

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

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

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

PETAQUILLA MINERALS LTD.
(formerly Adrian Resources Ltd.)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

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.

In April 2005, the Company and Inmet waived Teck's annual obligation, under the Petaquilla Shareholders Agreement to update and deliver the final bankable feasibility study to the Company in 2005. The Company chose to waive Teck's obligation due to our ongoing work on the proposed phased development plan. However, should delivery of an updated study become appropriate, the Company will request Teck to deliver an updated version of the final bankable feasibility study.

In June 2005, the Company entered into the Molejon Gold Project Agreement (the "Agreement"), which formalizes the Letter of Intent announced in December 2004.

According to the Agreement, Teck and Inmet have agreed to transfer their interests in the Molejon gold deposit and 100% of any other gold deposits occurring on the partners' joint venture lands to PTQ, subject to the Government of Panama accepting a multi-phase mine development plan on terms acceptable to Teck, Inmet and the Company.

In addition, the partners have agreed to conduct a review of strategic alternatives in order to potentially advance the development of the jointly owned Minera Petaquilla S.A. copper project.

During the period ended October 31, 2005, the Government of Panama approved the multi-phase mine development plan (the "Plan"). The first phase of the Plan is the development of the Molejon Gold Deposit by the Company commencing in 2006. The development of the world-class Petaquilla copper deposit is included in subsequent phases of the Plan, and will be the responsibility of Minera Petaquilla S.A., the joint venture company owned by the Company, Teck and Inmet.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Issued			
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
Exercise of stock options	881,400	399,566	(164,548)
Exercise of warrants	6,702,469	2,886,574	(1,210,958)
Stock-based compensation	-	-	1,155,002
Balance as at October 31, 2005	58,848,406	\$ 54,716,932	\$ 666,928

PETAQUILLA MINERALS LTD.
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(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

8. 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, 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
Granted	5,173,000	0.50
Exercised	(881,400)	0.27
Expired	-	-
Forfeited	<u>(450,000)</u>	0.42
Balance at October 31, 2005	6,215,400	\$ 0.48
Number of stock options exercisable	<u>2,925,167</u>	

PETAQUILLA MINERALS LTD.
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(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

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

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

Number of Shares	Exercise Price	Expiry Date
142,400	\$ 0.23	September 24, 2008
620,000	\$ 0.42	April 28, 2009
110,000 *	\$ 0.42	December 10, 2005
200,000	\$ 0.50	January 10, 2010
1,095,000	\$ 0.50	April 21, 2010
2,800,000	\$ 0.50	July 11, 2010
463,000	\$ 0.385	August 23, 2010
150,000	\$ 0.50	September 13, 2010
250,000	\$ 0.48	September 21, 2010
385,000	\$ 0.62	October 5, 2010

*Subsequent to period end, these options were exercised.

Total stock options granted during the period ended October 31, 2005 are 5,173,000. Total stock-based compensation for the fair value of stock options granted during the current period was \$1,155,002 which has been recorded in the interim 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:

	Period Ended October 31, 2005
Risk-free interest	3.31%
Expected dividend yield	-
Expected stock price volatility	69%
Expected option life in years	2 years

PETAQUILLA MINERALS LTD.
(formerly Adrian Resources Ltd.)
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

9. 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
Issued	-	-
Exercised	249,498	0.25
Expired	-	-
Balance at January 31, 2005	7,550,496	0.25
Issued	-	-
Exercised	6,702,469	0.25
Expired	-	-
Balance at October 31, 2005	848,027	\$ 0.25

As at October 31, 2005, the following share purchase warrants were outstanding and exercisable as follows:

Number of Shares	Exercise Price	Expiry Date
848,027*	\$ 0.25	November 18, 2005

*Subsequent to period end, these warrants were exercised.

PETAQUILLA MINERALS LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
OCTOBER 31, 2005

10. TREASURY STOCK

During the period ended October 31, 2005, the Company sold 1,616,000 of its shares held in treasury at an average price of \$0.79 per share for net proceeds of \$1,273,946. These shares were previously issued and reacquired at a cost of \$3.79 per share by the Company some years ago pursuant to an issuer bid. The loss of \$4,847,462 resulting from the sale of these shares and related broker fees has been charged to deficit in the current period.

11. RELATED PARTY TRANSACTIONS

During the period ended October 31, 2005:

- a. The Company paid consulting fees of \$82,509 (2004: \$68,760) to companies controlled by directors.
- b. The Company paid wages of \$125,975 (2004: \$85,000) to directors.
- c. Included in accounts payable at October 31, 2005 is \$2,548 (2004: \$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.

12. SUBSEQUENT EVENT

Subsequent to period end, the Company arranged a private placement financing at \$0.95 per Unit for gross proceeds of \$10,000,000, subject to regulatory approval. Each Unit consists of one common share and one-half of one non-transferable common share purchase warrant. One common share purchase warrant entitles the holder to purchase one share of common stock of the Company at a price of \$1.20 per share, if exercised in the first year following the closing, and at a price of \$1.44 per share if exercised in the second year following the closing. The warrant will terminate within 20 days unless exercised in the event the Company's closing stock price meets or exceeds \$2.00 per share for 10 consecutive trading days. The common shares purchased and the common shares purchased resulting from the exercise of the warrants are subject to a four-month plus one day hold period from the distribution date. The proceeds of the private placement are used for drilling and feasibility work on the Company's Molejon Gold Project in Panama and for working capital.