

Consolidated Financial Statements  
(Expressed in Canadian dollars)



Years ended December 31, 2010 and 2009

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Panoro Minerals Ltd. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgments based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls through its Audit Committee, which is comprised primarily of non-management directors. The Audit Committee reviews the results of the audit and the annual consolidated financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements have been audited by KPMG LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

*"Luquman Shaheen" (signed)*

---

Luquman Shaheen  
President  
Vancouver, British Columbia

*"David W. Huber" (signed)*

---

David W. Huber  
Chief Financial Officer  
Vancouver, British Columbia



**KPMG LLP**  
**Chartered Accountants**  
PO Box 10426 777 Dunsmuir Street  
Vancouver BC V7Y 1K3  
Canada

Telephone (604) 691-3000  
Fax (604) 691-3031  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Panoro Minerals Ltd.

We have audited the accompanying consolidated financial statements of Panoro Minerals Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations and deficit, comprehensive loss, accumulated other comprehensive income (loss) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinions.



*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Panoro Minerals Ltd. as at December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**KPMG LLP (signed)**

Chartered Accountants

March 31, 2011  
Vancouver, Canada

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Balance Sheets  
(Expressed in Canadian dollars)

December 31, 2010 and 2009

	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,060,487	\$ 595,793
Short-term investment	3,526,376	-
Marketable securities (note 4)	21,000	72,300
Accounts and advances receivable	263,856	5,023
Prepaid expenses	40,672	11,893
	4,912,391	685,009
Mineral interests (note 5)	33,493,420	31,870,004
Equipment (note 6)	110,620	117,764
	\$ 38,516,431	\$ 32,672,777

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 829,147	\$ 645,674
Future income tax liability (note 8)	4,867,739	4,447,740
Shareholders' equity:		
Capital stock (note 7)	37,658,738	31,584,526
Contributed surplus (note 7(d))	5,065,809	3,985,451
Accumulated other comprehensive gain (loss)	16,000	(321,675)
Deficit	(9,921,002)	(7,668,939)
	32,819,545	27,579,363
	\$ 38,516,431	\$ 32,672,777

Nature of operations and going concern (note 1)  
Contingency (note 5)  
Commitments (note 10)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Luquman Shaheen" (signed) Director  
Luquman Shaheen

"William J. Boden" (signed) Director  
William J. Boden

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Statements of Operations and Deficit  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Expenses:		
Amortization	\$ 18,981	\$ 20,449
Audit	57,698	67,224
Consulting	5,329	44,248
Investor relations	91,794	10,404
Legal	67,406	57,360
Office and miscellaneous	61,842	49,779
Regulatory fees	48,166	29,391
Rent	62,137	62,508
Salaries and fees	639,634	391,971
Stock-based compensation	702,828	312,329
Telephone	37,567	33,704
Transfer agent	10,878	4,923
Travel	85,948	42,517
	<u>1,890,208</u>	<u>1,126,807</u>
Interest income	(7,113)	(2,907)
Foreign exchange gain	(99,279)	(278,156)
Loss on disposition of marketable securities	274,304	220,520
Loss before income tax	2,058,120	1,066,264
Future income tax recovery (note 8)	193,943	(213,432)
Loss for the year	2,252,063	852,832
Deficit, beginning of year	7,668,939	6,816,107
Deficit, end of year	<u>\$ 9,921,002</u>	<u>\$ 7,668,939</u>
Basic loss per share	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Fully diluted loss per share	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Weighted average number of common shares outstanding	<u>92,937,328</u>	<u>84,647,922</u>

See accompanying notes to consolidated financial statements.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## Consolidated Statement of Comprehensive Loss

	2010	2009
Net loss for the year	\$ 2,252,063	\$ 852,832
Unrealized loss (gain) on marketable securities	(63,371)	54,522
Reclassification on realization of loss on disposition of marketable securities	(274,304)	(220,520)
<b>Comprehensive loss for the year</b>	<b>\$ 1,971,422</b>	<b>\$ 686,834</b>

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Balance, beginning of year	\$ (321,675)	\$ (487,673)
Unrealized gain (loss) on marketable securities	63,371	(54,522)
Reclassification on realization of loss on disposition of marketable securities	274,304	220,520
<b>Balance, end of year</b>	<b>\$ 16,000</b>	<b>\$ (321,675)</b>

See accompanying notes to consolidated financial statements.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used for):		
Operations:		
Loss for the year	\$ (2,252,063)	\$ (852,832)
Items not involving the use of cash:		
Amortization	18,981	20,449
Stock-based compensation	702,828	312,329
Future income tax recovery	193,943	(213,432)
Unrealized foreign exchange loss (gain)	(111,315)	(289,191)
Loss on disposition of marketable securities	274,304	220,520
	(1,173,322)	(802,157)
Changes in non-cash operating working capital:		
Accounts and advances receivable	(196,513)	184,589
Prepaid expenses	(28,779)	25,404
Accounts payable and accrued liabilities	38,750	(688,348)
	(1,359,864)	(1,280,512)
Financing:		
Proceeds from exercise of options	33,000	-
Proceeds from exercise of warrants	1,650	-
Cash proceeds from issue of shares	6,187,378	453,793
	6,222,028	453,793
Investments:		
Additions to short-term investment	(3,526,376)	-
Proceeds on option of mineral property (note 5)	1,069,600	-
Proceeds on sale of marketable securities	114,671	49,858
Mineral interest exploration and development expenditures	(1,965,563)	(1,159,668)
Purchase of equipment	(89,802)	(1,576)
	(4,397,470)	(1,111,386)
Increase (decrease) in cash and cash equivalents	464,694	(1,938,105)
Cash and cash equivalents, beginning of year	595,793	2,533,898
Cash and cash equivalents, end of year	\$ 1,060,487	\$ 595,793
Supplemental cash flow information:		
Interest paid	\$ -	\$ -
Income taxes paid	-	-
Non-cash investing and financing activities:		
Amortization capitalized to mineral property	15,623	32,302
Accounts payable from Strait Gold applied to mineral property expenditures on Alicia property	-	5,000
Accrual for mineral concession fees recorded in mineral interests	557,780	418,057
Stock based compensation capitalized to mineral interests	229,714	58,250
Future income tax additions capitalized to mineral interests	337,371	79,141
Agents warrants issued in private placement	166,163	60,296
Share subscription receivable for common shares	-	100,000
Equipment reclassified to receivable due to sale of equipment in the Antilla agreement (see note 5)	63,320	-

See accompanying notes to consolidated financial statements.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 1. Nature of operations and going concern:

The Company is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties.

The Company's investment in its mineral interests comprises a significant portion of the Company's assets. Recovery of the carrying value of the investment in these assets and the Company's ability to continue as a going concern is dependent upon the existence of economically recoverable reserves, establishing legal ownership of the resource properties, the ability of the Company to obtain necessary financing to complete the exploration and development, and the attainment of future profitable production or the disposition of these assets for proceeds in excess of their carrying values.

At December 31, 2010, the Company has \$1,060,487 in cash and cash equivalents (2009 - \$595,793) and working capital of \$4,083,244 (2009 - \$39,335). Management believes that the Company has sufficient capital to fund operations, keep all of their mineral properties in good standing, and complete part of their planned exploration activities in 2011. Completion of all exploration activities will require the exercise of warrants, options, or an additional financing. While the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future.

## 2. Significant accounting policies:

### (a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned integrated subsidiaries, Panoro Cayman Ltd., Minera Panoro (Peru) S.A.C, Panoro Apurimac, (formerly Cordillera de las Minas "CDLM"), and Cordillera Copper Ltd. All significant intercompany transactions and balances have been eliminated.

### (b) Mineral interests:

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 2. Significant accounting policies (continued):

### (b) Mineral interests (continued):

The amounts shown for acquisition costs and deferred exploration expenditures will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

### (c) Equipment:

Equipment is recorded at cost and is amortized using the declining-balance method at an annual rate of 20% for office equipment and 30% for computer equipment, mining equipment and vehicles. Leasehold improvements are amortized over the period of the lease. Additions during the year are amortized at one-half the annual rates.

### (d) Loss per share:

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company follows the treasury stock method of calculating diluted loss per share, however, diluted loss per share is anti-dilutive when considering the effects of the exercise of outstanding options and warrants.

### (e) Foreign currency translation:

The Company's functional currency is considered to be the Canadian dollar. The Company's subsidiaries are integrated foreign operations which are translated into Canadian dollars using the temporal method. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; revenues and expenses and exploration and development expenditures, at the average rate of exchange for each quarter. Losses arising from the translation of foreign currency are included in the determination of net loss for the period.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 2. Significant accounting policies (continued):

(f) Stock-based compensation:

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this standard, stock-based payments are recorded as an expense over the vesting period or when the awards or rights are granted, with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

(g) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially enacted. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of environmental obligations, impairment of mineral claims and deferred exploration expenditures, determination of the fair value of net assets on acquisition of subsidiary, determination of the variables used in the calculation of stock-based compensation, valuation of future income tax assets, accrued liabilities, and rates for amortization. While management believes the estimates to be reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(i) Cash and cash equivalents and short-term investments:

Cash and cash equivalents consist of cash and short-term deposits with original maturities of ninety days or less from the date of acquisition, and are readily convertible into known amounts of cash. Short-term deposits with original maturities greater than 90 days that are not readily convertible into known amounts of cash are classified as short-term investments.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 2. Significant accounting policies (continued):

(j) Value added taxes recoverable:

The Company incurs value added tax ("VAT") in Peru. The Company has entered into an agreement with the Ministry of Energy and Mines to recover such amounts which relate to approved properties. VAT paid related to non-approved mineral property expenditures are only recoverable when future sales revenues are earned from the related mineral properties by offsetting the VAT otherwise payable at that time. As the VAT payments incurred at non-approved properties are uncertain of collection, they have been included in mineral property exploration expenditures. VAT expenditures relating to approved mineral properties and not yet recovered are recorded as receivables to the extent that they are receivable under the agreement.

(k) Asset retirement obligations:

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to operations in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Management has determined that there is no material ARO liability as at December 31, 2010 and 2009.

(l) Financial instruments:

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- (i) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net income (loss).
- (ii) Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income (loss) until the asset is removed from the balance sheet or an impairment loss is recognized from an other than temporary decline in value.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 2. Significant accounting policies (continued):

### (l) Financial instruments (continued):

(iii) Held-for-trading financial instruments are measured at fair value. All gains and losses are included in net income (loss) in the period in which they arise.

(iv) All derivative financial instruments are classified as held-for-trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net income (loss) in the period they arise.

The Company has classified its financial instruments as follows:

Cash and cash equivalents and short-term investments were classified as held-for-trading and accordingly carried at their fair value. Accounts and advances receivable were classified as loans and receivables and are recorded at their amortized cost.

Marketable securities are classified as available-for-sale securities. Such securities are measured at fair market value in the consolidated financial statements with unrealized gains or losses recorded in comprehensive income (loss). At the time securities are sold or otherwise disposed of, gains or losses are included in net income (loss).

Accounts payable and accrued liabilities were classified as other financial liabilities and are currently carried at their amortized cost.

In addition, the Company must disclose the fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted in active markets for identical assets or liabilities);
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. This additional disclosure has been provided in note 4.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 2. Significant accounting policies (continued):

### (m) Comprehensive income:

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. Gains and losses that would otherwise be recorded as part of net income (loss) are presented in other "comprehensive income" until it is considered appropriate to recognize into net income (loss). The Company reports a consolidated statement of comprehensive loss and includes the account "accumulated other comprehensive loss" in the shareholders' equity section of the consolidated balance sheet.

## 3. Future accounting standards:

### (a) International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the Company will transition from current Canadian GAAP reporting and commence reporting under IFRS no later than in the first quarter of 2011, with restatement of comparative information presented. The Company has identified mineral property, and future income tax liability, as areas where the adoption of IFRS may have a material effect on the Company's financial reporting. In addition, the Company is currently assessing the elections available under IFRS to determine the effect of each election to the Company. The Company expects to report under IFRS in its first quarter ending March 31, 2011.

## 4. Financial instruments and capital management:

### *Fair value of financial instruments:*

The carrying values of cash and cash equivalents, short-term investments, accounts and advances receivable, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these instruments.

At December 31, 2010, the Company held marketable securities with a cost of \$5,000 (December 31, 2009 - \$393,975) and a fair value of \$21,000 (December 31, 2009 - \$72,300). The difference between fair value and cost of \$16,000 at December 31, 2010 has been included in the statement of accumulated other comprehensive loss.

Cash and cash equivalents and marketable securities are reflected on the balance sheet at fair value and both items are valued using Level 1 inputs as described in note 2(l).

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 4. Financial instruments and capital management (continued):

### *Credit risk:*

The Company manages its credit risk through its counterparty ratings and credit limits. The Company is mainly exposed to credit risk on its bank accounts and short-term investments. Bank accounts and short-term investments are primarily with Canadian Schedule 1 banks and Banco de Credito in Peru. The Company has accounts and advances receivable primarily related to VAT receivable from the Peruvian government. The total cash and cash equivalents, short-term investments and account and advances receivable represent the maximum credit exposure.

### *Liquidity risk:*

The Company manages its liquidity risk by ensuring that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash and cash equivalents are primarily invested in bank accounts, bankers acceptances, and GIC's, which are available on demand, with the exception of a GIC for \$22,000 which is to be maintained as security for the corporate credit card. The Company's cash is not invested in any asset backed commercial paper. Contractual commitments that the Company is obligated to pay in future years are disclosed in note 10 and accounts payable and accrued liabilities require payment within one year.

### *Market risk:*

The significant market risks to which the Company is exposed are foreign currency risk, interest rate risk and equity price risk.

### *Foreign currency risk:*

The Company maintains its financial instruments in Canadian dollars. The Company is exposed to foreign currency fluctuations to the extent mineral interests, exploration expenditures and operating expenses incurred by the Company are not denominated in Canadian dollars. The Company does not use derivatives or other instruments to manage the foreign currency risk. The Company's operations in Peru make it subject to foreign currency fluctuations and such fluctuations may materially affect the Company's financial position and results. The Company's operating results and cash flows are affected to varying degrees by changes in the Canadian Dollar exchange rate vis-a-vis the Peruvian Nuevo Sol, and the US Dollar. The Company purchases foreign currencies as the need arises in order to fund its exploration activities. Corporate expenditures are mainly incurred in Canadian and US dollars.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 4. Financial instruments and capital management (continued):

As at December 31, 2010, the Company's significant exposures to foreign currency risk, based on balance sheet carrying values, were to the Peruvian Nuevo Sol and the US Dollar, as follows:

	PEN	\$US
Cash	\$ 63,605	\$ 241,136
Accounts and advances receivable	-	149,967
Accounts payable and accrued liabilities	-	715,531
	\$ 63,605	\$ 1,106,634

The following sensitivity analysis assumes all other variables remain constant and are based on the above net exposures. A 10% appreciation or depreciation of the Peruvian Nuevo Sol vis-a-vis the Canadian Dollar would result in a \$2,252 decrease or increase, respectively, in net income and shareholders' equity. A 10% appreciation or depreciation of the US Dollar vis-a-vis the Canadian Dollar would result in a \$112,549 decrease or increase respectively, in net income and shareholders' equity.

### *Interest rate risk:*

The Company's cash and cash equivalents and short-term investments earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to changes in short-term rates.

### *Capital management:*

The Company's objective when managing capital is to safeguard the Company's ability to continue as going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustment to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders. The Company is not subject to externally imposed capital requirements.

## 5. Mineral interests:

The investment in and expenditures on mineral interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 5. Mineral interests (continued):

Although the Company has taken steps to verify the title to mineral 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 or transfers and title may be affected by undetected defects.

### *Panoro Apurimac S.A., Peru:*

On June 7, 2007, the Company completed the acquisition of 100% of the issued and outstanding shares of Panoro Apurimac (formerly Cordillera de las Minas S.A.), a Peruvian corporation, from CVRD International S.A. and El Tesoro CDLM owns a 100% interest in 13 properties located in the Andahuaylas – Yauri Belt of Peru south of Cuzco.

### *Panoro Apurimac S.A., Peru (continued):*

Antilla and Cotabambas are two of the Panoro Apurimac properties that are in an advanced exploration stage. The remaining 11 properties are Kusiorcco, Cochasyhuas, Checca, Alicia, Promesa, Pistoro Norte, Sancapampa, Humamantata, Pataypampa, Anyo, and Morosayhuas and are all in various stages of exploration.

The Company has focused on advancing Antilla, Cotabambas and Kusiorcco and will further the other properties as resources become available.

### *Antilla Property, Peru:*

The Antilla project is in an advanced exploration stage. On April 8, 2010, the Company entered into a joint venture agreement (JV) with Chancadora Centauro SAC (Centauro) for the development of the Antilla copper molybdenum project in Peru. Under the terms of the agreement, Centauro committed to making cash payments of US\$8 million and spending US\$17 million over a 30 month period. Payments were scheduled as follows.

- US\$1 million on signing, pursuant to the terms outlined below (received);
- US\$0.1 million for equipment at the Antilla project - not received;
- US\$4 million 90 days after reaching a community agreement with Antilla - July 17, 2010 - not received;
- US\$3 million by March 17, 2012; and
- US\$17 million to be applied towards the completion of bankable feasibility studies on the project and could include Panoro's share of such costs within 30 months of the contract signing date.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 5. Mineral interests (continued):

*Antilla Property, Peru (continued):*

Centauro received the following:

- A right to match any offer by a third party on Panoro's 100% owned Cotabambas project and a US\$1,000,000 (CAD\$1,064,600) credit towards any such offer accepted by Centauro, provided they maintain an interest in Antilla.
- Equipment at the Antilla project including trucks, tents, computers, and a generator.

On July 17, 2010, the scheduled second cash payment from Centauro due under the Antilla agreement was not received. The Company subsequently provided Centauro with the required notifications relating to the lack of receipt of payment and the fact that this constituted a breach of the agreement.

After receiving independent legal opinions from prominent Peruvian law firms, on September 16, 2010, the Company notified Centauro that the agreement was terminated due to their breach of the JV agreement. In addition, Centauro's right of first refusal for the Cotabambas Project was also terminated as this right was only in force as long as the Antilla agreement was in place. As required by Peruvian law, the Company registered the termination of the agreement with the Public Registry and then transferred all of the mineral concessions related to the Antilla Project back to the Company's subsidiary in Peru. The termination of the Antilla agreement and the transfer of all the concessions was completed and registered on September 30, 2010. The termination of the Cotabambas option was registered with the Public Registry on October 13, 2010.

Subsequent to the termination of the agreement, Centauro informed the Company that it would seek arbitration, as provided for in the contract with the Arbitration Center of the Lima Chamber of Commerce disputing the termination of the agreement. Both sides have submitted claims to the Arbitration Committee. The arbitration process is advancing and is expected to take a number of months to complete. Management is confident that the agreement has been legally terminated.

*Cotabambas Property, Peru:*

Cotabambas is an advanced exploration project consisting of a cluster of copper gold porphyry systems. Work in 2009 focused on advancing the community relations dialogue and completion of the Semi-detailed Environmental Impact Assessment ("EIA") required by the Ministry of Energy and Mines ("MEM") for the exploration permit

USD\$1,000,000 (CAD\$1,064,600) was received from Centauro for the right to match any offer by a third party on Cotabamba and has been recorded as a recovery to the property. The right has ended with the termination of the Antilla Property Agreement.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

---

## 5. Mineral interests (continued):

### *Cochasayhuas and Checca Properties, Peru*

On March 17, 2008 the Company granted Consorcio Minero Horizonte (“CMH”), a privately owned gold mining company of Peru, an option to earn a 50% interest in two of their projects. In June 2008, after assessing the permitting issues at both properties, CMH elected only to proceed with the Cochasayhuas Project. On March 6, 2009, CMH decided not to proceed with the joint venture on either property after Panoro did not accept proposed changes to the joint venture agreement and the properties were returned to Panoro.

### *El Rosal Property, Peru:*

The Company has a 100% interest in 12 mineral concessions located in the Province of Chiclayo, Department of Lambayeque, Peru. The 2008 exploration program at El Rosal commenced on January 26, 2008 and was completed on April 30, 2008.

### *Alicia Property, Peru:*

On September 25, 2009, the Company entered into an agreement with Strait Gold Corporation whereby Strait Gold may earn up to 100% in the Company’s early stage Alicia copper-gold property in Southern Peru, subject to a 2% net smelter return royalty.

In order to earn 55% of the Alicia project, Strait Gold will have to perform the following

- Issue 100,000 shares of Strait Gold to Panoro on signing; – completed
- Obtain an authorization-to-explore agreement with the local community before March 25, 2011 – completed February 10, 2011.
- Spend at least US\$150,000 on the Alicia property within the first year after obtaining an agreement - completed;
- Issue 200,000 common shares of Strait Gold one year after obtaining the community agreement – received February 16, 2011;
- Spend at least US\$500,000 within the second year after obtaining the community agreement; and
- Issue 300,000 common shares of Strait Gold two years after obtaining the community agreement.

In order to earn the remaining 45% of the Alicia project, Strait Gold will be required to spend an additional US\$600,000 in the third year after obtaining the community agreement and issue an additional 400,000 Strait Gold common shares. The net smelter royalty can be reduced from 2% to 1% for a payment of US\$2,300,000 which is payable by Strait Gold within six months of obtaining 100% ownership.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 5. Mineral interests (continued):

### *Surigao Project, Philippines:*

The Company formerly had an interest in the Surigao project belonging to Mindoro Resources Ltd. ("Mindoro"). As part of the sale agreement, in the event that the nickel laterite prospect, located on the Agata project should proceed to production and upon shipment of an aggregate one million wet tonnes of nickel laterite, Mindoro will pay the Company an additional \$500,000 cash, plus an additional \$500,000 cash on the first anniversary of the shipment. The likelihood of the nickel laterite prospect coming into production is unknown at this time. Accordingly, any proceeds to be received by the Company will be included in operations when received.

Expenditures made on mineral interests by the Company during the period are as follows:

	El Rosal	Antilla	Cotabambas	Other	Total
Acquisition costs:					
Balance, December 31, 2009 \$	-	\$ 8,856,256	\$ 7,444,990	\$ 4,554,754	\$ 20,856,000
Recoveries	-	-	(1,064,600)	(5,000)	(1,069,600)
Additions	-	-	-	-	-
Balance, December 31, 2010	-	8,856,256	6,380,390	4,549,754	19,786,400
Deferred exploration expenditures in 2010:					
Amortization	-	5,013	10,610	-	15,623
Assay	1,097	214	9,737	-	11,048
Camp, materials and exploration support	759	42,844	244,702	-	288,305
Community relations	1,951	31,349	141,377	8,951	183,628
Contract labour	70	3,369	14,119	-	17,558
Drilling	-	-	183,736	-	183,736
Equipment rental	-	-	3,383	-	3,383
Exploration office costs	1,166	17,384	53,397	42	71,989
Geology	6,188	64,728	229,981	24,700	325,597
Geophysics	-	-	32,679	-	32,679
Legal	-	96,702	8,722	2,340	107,764
Mineral concession fees	82,690	37,798	221,971	213,288	555,747
Project management	522	83,363	33,430	1,479	118,794
Recording fees, taxes	-	107,327	732	363	108,422
Reports, drafting and maps	1,658	4,263	6,256	-	12,177
Stock-based compensation	-	143,572	86,142	-	229,714
Travel and accommodation	22	27,514	81,979	1,431	110,946
Increase in future income tax liabilities	47,097	175,386	104,350	10,538	337,371
Recovery of taxes paid	-	(21,465)	-	-	(21,465)
	143,220	819,361	1,467,303	263,132	2,693,016
Balance, December 31, 2009	4,644,969	4,959,355	752,618	657,062	11,014,004
Balance, December 31, 2010	4,788,189	5,778,716	2,219,921	920,194	13,707,020
Total	\$ 4,788,189	\$ 14,634,972	\$ 8,600,311	\$ 5,469,948	\$ 33,493,420

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 5. Mineral interests (continued):

	El Rosal	Antilla	Cotabambas	Other	Total
Acquisition costs:					
Balance, December 31, 2008 \$	-	\$ 8,856,256	\$ 7,444,990	\$ 4,554,754	\$ 20,856,000
Additions	-	-	-	-	-
Balance, December 31, 2009	-	8,856,256	7,444,990	4,554,754	20,856,000
Deferred exploration expenditures in 2009:					
Amortization	-	32,302	-	-	32,302
Assay	862	65,018	-	160	66,040
Camp, materials and exploration support	465	150,225	19,267	407	170,364
Community relations	198	103,250	17,279	10,091	130,818
Contract labour	-	119,272	1,324	-	120,596
Drilling	-	37,965	-	-	37,965
Equipment rental	-	728	-	-	728
Exploration office costs	990	54,514	3,178	381	59,063
Geology	-	212,247	1,849	4,383	218,479
Geophysics	6,858	70,884	260	13,343	91,345
Legal	-	616	9,050	2,591	12,257
Mineral concession fees	44,527	24,500	203,271	170,237	442,535
Project management	16,982	93,954	-	15,453	126,389
Recording fees, taxes	-	4,730	-	7,011	11,741
Reports, drafting and maps	1,431	-	-	-	1,431
Stock-based compensation	5,220	37,451	6,255	9,324	58,250
Travel and accommodation	311	62,647	13,446	9,377	85,781
Increase in future income tax liabilities	9,271	69,870	-	-	79,141
	87,115	1,140,173	275,179	242,758	1,745,225
Balance, December 31, 2008	4,557,854	3,829,182	477,439	414,304	9,268,779
Balance, December 31, 2009	4,644,969	4,959,355	752,618	657,062	11,014,004
Total	\$ 4,644,969	\$ 13,815,611	\$ 8,197,608	\$ 5,211,816	\$ 31,870,004

## 6. Equipment:

2010	Cost	Accumulated amortization	Net book value
Computers and office furnishings	\$ 25,883	\$ 15,606	\$ 10,277
Equipment	92,512	61,015	31,497
Vehicles	70,255	10,538	59,717
Leasehold improvements	13,657	4,528	9,129
	\$ 202,307	\$ 91,687	\$ 110,620

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 6. Equipment (continued):

2009	Cost	Accumulated amortization	Net book value
Computers and office furnishings	\$ 25,351	\$ 13,087	\$ 12,264
Equipment	139,640	72,781	66,859
Vehicles	69,984	40,399	29,585
Leasehold improvements	13,584	4,528	9,056
	\$ 248,559	\$ 130,795	\$ 117,764

## 7. Capital stock:

Authorized – unlimited common shares without par value

Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2008	84,639,390	\$ 31,191,029
Private placement, net of issue costs	3,114,000	553,793
Agents warrants issued on private placement	-	(60,296)
Less: Share subscription receivable	-	(100,000)
Balance, December 31, 2009	87,753,390	31,584,526
Share subscription received	-	100,000
Proceeds on exercise of options	150,000	33,000
Transfer from contributed surplus on exercise of options	-	17,283
Proceeds on exercise of agents warrants	8,250	1,650
Transfer from contributed surplus on exercise of finders warrants	-	1,064
Private placement, net of cash issue costs	25,805,000	6,087,378
Fair value of agents warrants issued on private placement	-	(166,163)
Balance, December 31, 2010	113,716,640	\$ 37,658,738

In September and October of 2010, the Company completed a non-brokered private placement for net proceeds of \$6,087,378. A total of 25,805,000 units were issued at \$0.25 per unit. Each unit was comprised of one common share and one half of a share purchase warrant. Each full warrant entitles the holder to purchase one share of the Company at a price of \$0.35 for 18 months after the date of the closing. Finders fees of \$297,233 and other share issue fees of \$66,639 and 1,188,933 warrants were paid to agents involved with the placement. The agents warrants can be exercised at \$0.35 for one common share of the Company for 18 months after the date of the closing. The placement was closed in three tranches on September 30, 2010, October 15, 2010, and October 29, 2010.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 7. Capital stock (continued):

The value of the agents warrants issued on the private placement was \$166,163 based on the fair value using the Black-Scholes model with the following assumptions; risk free rate of 1.36%, expected dividend yield of 0%, volatility of 110% and an expected life of 1.5 years.

On December 30, 2009, the Company closed a non-brokered private placement. The net proceeds from the private placement were \$553,793 on issuance of 3,114,000 units at \$0.20 per unit. Each unit was comprised of one common share and one share purchase warrant. Each warrant is exercisable for \$0.30 for 18 months. A cash commission equal to 8% was paid to the agents in addition to 249,120 agents warrants to purchase units under the same terms as the financing. The value of the agents warrants issued on the private placement was \$60,296 based on the fair value of proceeds received using the Black-Scholes model with the following assumptions; risk free rate of 2.9%, expected dividend yield of 0%, volatility of 148% and an expected life of 1.5 years. All of the warrants expiring June 30, 2011 carry a forced conversion feature whereby if the stock price trades over \$0.45 for ten consecutive days, the Company can give notice to warrant holders that the warrants must be exercised within 30 days.

### (a) Stock options outstanding:

Stock options to purchase common shares have been granted to directors and employees at exercise prices determined by reference to the market value on the date of the grant. The number of shares available for options to be granted under the Company's stock option plan is 12,000,000 as approved at the 2008 Annual General Meeting. Options granted under the plan vest immediately or over a period of time at the discretion of the board of directors.

A summary of the status of the Company's stock options as at December 31, 2010 and changes are as follows:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2008	6,050,000	\$ 0.42
Granted	1,050,000	0.16
Expired	(1,150,000)	0.46
Outstanding at December 31, 2009	5,950,000	0.37
Granted	3,500,000	0.29
Exercised	(150,000)	0.22
Expired	(1,725,000)	0.25
Outstanding at December 31, 2010	7,575,000	\$ 0.36

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 7. Capital stock (continued):

### (a) Stock options outstanding (continued):

The following summarizes information about stock options outstanding and exercisable at December 31, 2010:

Year of expiry	Options outstanding at December 31, 2010		Options exercisable
	Number of options	Weighted average exercise price	Number of shares
2011	675,000	\$ 0.34	675,000
2012	1,800,000	0.56	1,800,000
2013	850,000	0.46	850,000
2014	1,000,000	0.16	1,000,000
2015	3,250,000	0.30	3,250,000
	7,575,000	\$ 0.37	7,575,000

The weighted average life of exercisable options outstanding is 2.9 years as of December 31, 2010 (2009 - 2.2 years).

### (b) Stock-based compensation:

During the year ended December 31, 2010, the Company granted 3,500,000 stock options (2009 - 1,050,000) to directors, officers, contractors and consultants of the Company with a weighted average exercise price of \$0.29 (2009 - \$0.16) per share, which can be exercised for a period of up to two or five years.

Stock-based compensation expense was \$932,542 in the year ended December 31, 2010 (2009 - \$370,579), of which \$229,714 (2009 - \$58,250) was capitalized to mineral properties.

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

	2010	2009
Risk-free interest rate	1.68% - 2.74%	1.75% - 1.79%
Expected dividend yield	0.0%	0.0%
Expected stock price volatility	99% - 135%	109% - 112%
Expected option life in years	2.0 - 4.2	4.2

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 7. Capital stock (continued):

### (c) Share purchase warrants:

At December 31, 2010, the Company had outstanding warrants to purchase an aggregate 17,695,423 common shares as follows:

Expiry date		Exercise price	Outstanding at December 31, 2009	Issued	Exercised	Expired	Outstanding at December 31, 2010
June 30, 2011	Warrants	0.30	3,114,000	-	-	-	3,114,000
June 30, 2011	Agents warrants <sup>(1)</sup>	0.20	249,120	-	(8,250)	-	240,870
June 30, 2011	Agents warrants	0.30	249,120	-	-	-	249,120
March 31, 2012	Warrants	0.35	-	2,689,810	-	-	2,689,810
April 15, 2012	Warrants	0.35	-	2,811,148	-	-	2,811,148
April 29, 2012	Warrants	0.35	-	7,401,542	-	-	7,401,542
April 15, 2012	Agents warrants	0.35	-	216,810	-	-	216,810
April 29, 2012	Agents warrants	0.35	-	972,123	-	-	972,123
<b>Total</b>			<b>3,612,240</b>	<b>14,091,433</b>	<b>(8,250)</b>	<b>-</b>	<b>17,695,423</b>

<sup>(1)</sup> Each \$0.20 agents warrants can be exercised for one common share and one new share purchase warrant, each share purchase warrant can be exercised for \$0.30 in return for one common share. The \$0.20 warrant must be exercised before the \$0.30.

All of the warrants expiring June 30, 2011 carry a forced conversion feature whereby if the stock price trades over \$0.45 for ten consecutive days, the Company can give notice to warrant holders that the warrants must be exercised within 30 days.

### (d) Contributed surplus:

Contributed surplus is comprised of the following:

	2010	2009
Balance at the beginning of the year	\$ 3,985,451	\$ 3,554,576
Fair value of stock-based compensation	932,542	370,579
Fair value of options exercised	(17,283)	-
Fair value of warrants exercised	(1,064)	-
Fair value of agent warrants issued on financing	166,163	60,296
	<b>\$ 5,065,809</b>	<b>\$ 3,985,451</b>

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 8. Income taxes:

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate of 28.5% (2009 - 30.00%) to pretax loss from continuing operations as a result of the following:

	2010	2009
Computed expected tax expense (recovery)	\$ (618,204)	\$ (319,879)
Permanent and other differences	273,595	63,096
Tax rate variation	4,480	(4,205)
Unrecognized tax losses	534,072	47,556
Future income tax recovery	\$ 193,943	\$ (213,432)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2010 and 2009 are disclosed below:

	2010	2009
Future tax assets:		
Tax losses and other future deductions	\$ 2,394,605	\$ 1,938,873
Equipment	9,764	8,086
Marketable securities	(2,400)	48,251
	2,401,968	1,995,210
Valuation allowance	(2,401,968)	(1,995,210)
	-	-
Future tax liabilities:		
Mineral interests	(4,561,737)	(4,645,155)
Unrealized foreign exchange	(306,002)	197,415
	\$ (4,867,739)	\$ (4,447,740)

Future income tax assets and liabilities are recognized for temporary differences between the carrying amount of balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The valuation allowance reflects the Company's determination that future tax assets are not more likely than not to be utilized at this time.

At December 31, 2010, the Company has non-capital loss carry forwards for Canadian federal income tax purposes of approximately \$5,292,000 (2009 - \$5,181,790) that are available to reduce future federal income, if any, through 2029.

# PANORO MINERALS LTD.

An Exploration Stage Company

Consolidated Notes to Financial Statements  
(Expressed in Canadian dollars)

Years ended December 31, 2010 and 2009

## 9. Related party transactions:

The Company entered into the following transactions with related parties and/or the companies of related parties. All services provided are considered to be in the normal course of business and the transactions have been recorded at the exchange amount.

	2010	2009
Management fees paid to companies controlled by directors/officers	\$ 487,085	\$ 227,666
Fees paid to companies controlled by directors/officers for equipment and exploration supplies	17,826	-
	\$ 504,911	\$ 227,666

## 10. Commitments:

The Company has the following commitments relating to the leases of its offices in Canada and Peru:

	2011	2012	2013	2014	2015
Office leases	\$ 85,004	\$ 60,344	\$ 60,344	\$ 770	\$ -

## 11. Segmented disclosure:

The Company has one operating segment, mineral exploration. All of the Company's mineral properties are located in Peru and are disclosed in note 5. Property and equipment are distributed geographically as follows.

Equipment	2010	2009
Peru	\$ 86,846	\$ 88,491
Canada	23,774	29,273
	\$ 110,620	\$ 117,764