PANORO MINERALS LTD.

PANORO MINERALS LTD.
An Exploration Stage Company

Consolidated Financial Statements
June 30, 2010 and 2009

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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.

"Luquman Shaheen" (signed)	*"Michael Kerfoot" (signed)*
………………………………………	………………………………………
Luquman Shaheen	Michael Kerfoot
President	Chief Financial Officer
Vancouver, British Columbia	Vancouver, British Columbia

PANORO MINERALS LTD.
An Exploration Stage Company
Consolidated Balance Sheets
Unaudited – Prepared by Management
(in Canadian dollars)

	June 30, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	$ 232,928	$ 595,793
Marketable securities (note 4)	91,836	72,300
Accounts and advances receivable	105,922	5,023
Prepaid expenses	3,606	11,893
	434,292	685,009
Mineral Interests (note 5)	31,369,056	31,870,004
Equipment (note 6)	117,423	117,764
	$ 31,920,771	$ 32,672,777
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 274,753	$ 645,674
Future Income Tax Liability	4,633,247	4,447,740
Shareholders' Equity		
Capital Stock (note 7)	31,686,243	31,584,526
Contributed Surplus (note 7(d))	4,754,662	3,985,451
Accumulated Other Comprehensive Loss	(209,861)	(321,675)
Deficit	(9,218,273)	(7,668,939)
	27,012,771	27,579,363
	$ 31,920,771	$ 32,672,777

Nature of Operations and Going Concern (note 1)
Commitments (note 9)
Subsequent Event (note 11)

Approved by 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

Unaudited – Prepared by Management

(in Canadian dollars)

	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Expenses				
Audit	$ 15,601	$ 23,660	$ 27,020	$ 37,147
Consulting	16,125	-	16,125	-
Investor relations	23,716	5,358	42,718	7,153
Legal	19,964	13,976	32,104	22,488
Office and miscellaneous	11,339	12,891	36,867	34,746
Regulatory fees	20,380	5,788	35,509	19,701
Rent	16,774	14,214	30,352	31,889
Salaries and fees	168,828	100,587	288,850	241,571
Telephone	6,907	8,743	14,834	17,812
Transfer agent	3,065	2,006	4,498	3,014
Travel	22,590	8,833	39,448	21,823
Stock-based compensation	643,804	164,596	652,128	296,457
Amortization	4,594	5,096	8,643	10,384
	973,687	365,748	1,229,097	744,185
Interest income	(338)	37	(341)	(4,162)
Foreign exchange loss (gain)	(62,791)	(8,542)	(139,609)	(17,656)
Loss on disposition of marketable securities	-	-	62,522	-
Net Loss for the period before tax	910,558	357,243	1,151,669	722,367
Current tax expense	140,000	-	140,000	-
Future income tax expense (recovery)	(28,436)	(89,658)	(71,373)	(89,658)
Net Loss for the period	**1,022,122**	**267,585**	**1,220,296**	**632,709**
Deficit, beginning of the period	7,867,113	7,181,231	7,668,939	6,816,107
Deficit, end of the period	$ **8,889,235**	$ **7,448,816**	$ **8,889,235**	$ **7,448,816**
Basic and diluted Loss per share	0.01	0.00	$ 0.01	$ 0.01
Weighted average number of common shares outstanding	87,795,057	84,639,390	87,774,223	84,639,390

PANORO MINERALS LTD.
An Exploration Stage Company
Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss
Unaudited – Prepared by Management
(in Canadian dollars)

Consolidated Statements of Comprehensive Loss (Gain)		**For the Three Months Ended June 30,**				**For the Six Months Ended June 30,**		
		2010		**2009**		**2010**		**2009**
Net loss for the period	$	910,558	$	267,585	$	1,220,296	$	632,709
Unrealized loss (gain) on marketable securities		28,150		16,095		(97,162)		26,825
Comprehensive loss for the period	$	**938,708**	**$**	**283,680**	$	**1,123,134**	$	**659,534**

Consolidated Statements of Accumulated Other Comprehensive Loss		**For the Three Months Ended June 30,**				**For the Six Months Ended June 30,**		
		2010		**2009**		**2010**		**2009**
Balance, Beginning of the period		(181,711)		(498,403)	$	(321,675)	$	(487,673)
Unrealized gain (loss) on marketable securities		(42,802)		(16,095)		34,640		(26,825)
Reclassification on disposition of marketable securities		-		-		62,522		-
Balance, End of period	$	**(224,513)**	$	**(514,498)**	$	**(224,513)**	$	**(514,498)**

PANORO MINERALS LTD.
An Exploration Stage Company
Consolidated Statements of Cash Flows
Unaudited – Prepared by Management
(in Canadian dollars)

	For the Three Months Ended June 30, 2010	For the Three Months Ended June 30, 2009	For the Six Months Ended June 30, 2010	For the Six Months Ended June 30, 2009
Cash Provided By (Used in):				
Operations:				
Net loss (gain) for the period	$ (1,022,121)	$ (267,585)	$ (1,220,296)	$ (632,709)
Items not involving cash:				
Amortization	4,594	5,096	8,643	10,384
Stock-based compensation	643,804	164,596	652,128	296,457
Future income tax expense (credit)	(28,436)	(89,658)	(71,373)	(89,658)
Unrealized foreign exchange loss (gain)	(101,170)	-	(165,400)	-
Loss on disposition of marketable securities	-	-	62,522	-
Cash flow before working capital changes	(503,329)	(187,551)	(733,776)	(415,526)
Net changes in operating balances				
Accounts and advances receivable	(20,527)	11,282	(22,971)	3,942
Prepaid expenses	12,678	1,440	8,287	26,276
Accounts payable and accrued liabilities	(279,339)	(427,098)	(375,921)	(785,088)
	(790,517)	(601,927)	(1,124,381)	(1,170,396)
Investing:				
Proceeds on option of mineral property	1,049,088	-	1,049,088	-
Proceeds on sale of marketable securities	-	-	29,652	-
Mineral interest exploration and development expenditures	(201,242)	(316,023)	(343,857)	(654,380)
Purchase of equipment	(81,368)	1,950	(81,368)	(12,388)
	766,478	(314,073)	653,515	(666,768)
Financing:				
Cash proceeds from exercise of options	8,000	-	8,000	-
Cash proceeds from issue of shares	-	-	100,000	-
	8,000	-	108,000	-
Increase (Decrease) in cash and cash equivalents	(16,039)	(916,000)	(362,865)	(1,837,164)
Cash and cash equivalents, beginning of the period	248,967	1,612,734	595,793	2,533,898
Cash and Cash Equivalents, End of the period	**$ 232,928**	**$ 696,734**	**$ 232,928**	**$ 696,734**

Supplemental cash flow information

Cash paid for interest and income taxes was $nil in 2010 (2009 - $nil).

Amortization of $5,268 (2009 - $8,987) was capitalized to the Antilla property.

Accounts payable included $5,000 that related to a deposit received from Strait Gold which was applied to mineral expenditures on the Alicia property.

Cash and cash equivalents includes term deposits of $22,000 (2009 - $509,970)

Capital assets decreased by $62,413 and Mineral interest decreased by $15,512 on the sale of equipment at Antilla all of which is included in receivables.

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 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 June 30, 2010 the Company has $232,928 in cash and accounts payable of $274,753. If further funds are not obtained in order to meet obligations, planned exploration, and general and administrative costs then the Company may not be able to continue as a going concern. However, the Company is anticipating the payment of $US 4 million dollars as part of a joint venture agreement on their Antilla property.

2. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and accordingly do not include all disclosures required for annual financial statements.

These unaudited interim financial statements follow the same significant accounting policies and methods of application as the Company's consolidated financial statements for the year ended December 31, 2009 ("Annual Financial Statements"). These interim financial statements should be read in conjunction with the Annual Financial Statements.

Certain of the period's figures have been reclassified to conform to the current period's presentation.

3. NEW ACCOUNTING STANDARDS

(a) Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted the new Canadian Institute of Chartered Accountants (CICA) guidelines of Section 3064, *Goodwill and Intangible Assets,* which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Adoption of this standard had no effect on the consolidated financial statements.

(b) Financial instrument disclosure;

Handbook Section 3862, Financial Instruments – Disclosures establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing 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.

3. NEW ACCOUNTING STANDARDS (Continued)

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.

(c) 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 quantify the effects of the application of IFRS on the January 1, 2010 balance sheet during the third quarter of 2010.

4. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

Fair value of financial instruments
The carrying values of cash and cash equivalents, 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 June 30, 2010, the Company held marketable securities with a cost of $301,801 (December 31, 2009- $393,975) and a fair value of $91,940 (December 31, 2009 - $72,300). The difference between fair value and cost of $209,861 at June 30, 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 ranked using a level 1 hierarchy as described in note 3 (b).

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. Bank accounts are primarily with Canadian Schedule 1 banks and Banco de Credito in Peru. The Company has minimal accounts and advances receivable in 2009 and the 2008 amount primarily relates to VAT receivable from the Peruvian government with payment received from the Peruvian government in 2009. The total cash and cash equivalents 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 is primarily invested in business bank accounts and bankers acceptances which are available on demand. 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 risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and equity price risk.

4. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (Continued)

Foreign currency risk
The Company maintains its accounts 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 methods 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.

Interest rate risk
The Company's bank accounts 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.

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.

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.

Antilla and Cotabambas are two of the CDLM properties that are in an advanced exploration stage. The remaining 11 properties are Kusiorcco, Cochasayhuas, 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 the resources become available.

5. MINERAL INTERESTS (Continued)

Antilla Property, Peru

The Antilla project (7,400 hectares) is in an advanced exploration stage. A NI 43-101 compliant resource estimate was published on August 4, 2009.

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

- $US 1 million on signing, pursuant to the terms outlined below (received)
- $US 4 million 90 days after signing a community agreement with Antilla - July 17, 2010 – not received
- $US 3 million by March 17, 2012
- $US 17 million will be invested towards the completion of bankable feasibility studies on the project and will include Panoro's share of such costs

Centauro receives 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 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.

Initially 100% of the Antilla property will be transferred to Centauro and Panoro will retain a 2% Net Smelter Royalty (NSR), however, under the terms of the agreement, Panoro has the sole option to convert the NSR into a 30% ownership of the Antilla project. In the event that Centauro sells the Antilla project before Panoro has exercised their option, the NSR increases to 6% and Panoro receives an additional $US 1 million. Management intends to convert the NSR to a 30% holding once the $US 17 million investment and feasibility studies are complete.

In the event that Centauro chooses not to continue with the investment, the property will be returned to Panoro.

Panoro will recognize the sale of the Antilla property once Centauro has fulfilled their commitments. The sale of equipment at Antilla was recorded during the quarter and a receivable has been recognized for $77,925. Included in the receivable is $15,512 that relates to equipment that was included in mineral interests.

Cotabambas Property, Peru

Cotabambas (9,900 hectares) 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 (EIAsd) required by the Ministry of Energy and Mines (MEM) for the exploration permit

$US 1 million was received from Centauro for the right to match any offer by a third party on Cotabamba and has been included as a credit to the property.

El Rosal Property, Peru

The Company has a 100% interest in 12 mineral concessions totaling 8,200 hectares 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;
- Spend at least US $150,000 on the Alicia property within the first year after obtaining an agreement;
- Issue 200,000 common shares of Strait Gold one year after obtaining the community agreement;
- 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 need 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 $2.3 million which is payable by Strait Gold within six months of obtaining 100% ownership.

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.

(in Canadian dollars)

5. MINERAL INTERESTS (Continued)

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
Additions	-	-	-	-	-
Balance, June 30, 2010	-	8,856,256	7,444,990	4,554,754	20,856,000
Deferred exploration expenditures in 2010					
Amortization	-	5,215	5,438	-	10,653
Assay	743	223	-	-	966
Camp, materials and exploration support	118	32,659	16,459	-	49,236
Community relations	-	24,675	21,779	5,931	52,385
Contract labour	-	3,506	62	-	3,568
Exploration office costs	308	17,448	28,827	49	46,632
Geological consulting and contracting	5,419	16,339	9,812	2,456	34,026
Geophysical and other consulting	-	-	13,618	663	14,281
Legal	-	30,449	366		30,815
Mineral concession fees	-	-	-	608	608
Project management	522	60,298	27,738	4,946	93,504
Recording fees, taxes	-	711	-	-	711
Reports, drafting and maps	3,418	105	2,697	-	6,220
Stock-based compensation	-	68,730	42,070	-	110,800
Travel and accommodation	-	17,090	19,983	1,207	38,280
Increase in future income tax liabilities	3,800	54,360	33,319	-	91,479
Sale of equipment in mineral interests	-	(15,512)	-	-	(15,512)
Consideration for property options	-	-	(1,064,600)	(5,000)	(1,069,600)
	14,328	316,296	(842,432)	10,860	(500,948)
Balance, December 31, 2009	4,644,969	4,959,355	752,618	657,062	11,014,004
Balance, June 30, 2010	4,659,297	5,275,651	(89,814)	667,922	10,513,056
Total	$ 4,659,297	$ 14,131,907	$ 7,355,176	$ 5,222,676	$ 31,369,056

(in Canadian dollars)

6. EQUIPMENT

	June 30, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	$	$	$	$	$	$
Computers and office furnishings	25,830	14,318	11,512	25,351	13,700	11,651
Equipment	86,044	53,810	32,234	139,640	81,486	58,153
Vehicles	70,259	5,592	64,667	69,984	40,399	29,586
Leasehold Improvements	13,538	4,528	9,010	13584	4528	9,056
Total	195,671	78,248	117,423	248,559	140,113	108,446

7. CAPITAL STOCK

Authorized - Unlimited common shares without par value

	Number of Shares		Amount
Balance -December 31, 2009	87,753,390	$	31,584,526
Share subscription received relating to prior year	-		100,000
Balance - March 31, 2010	87,753,390	$	31,684,526
Proceeds on exercise of options	50,000		8,000.00
Transfer from contributed surplus on exercise of options	-		6,283.00
Balance - June 30, 2010	87,803,390		31,698,809

The Company closed a non-brokered private placement on December 30, 2009. The net proceeds from the private placement were $553,793 on issuance of 3,114,000 units at $0.20 per unit. Each unit is 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.

(in Canadian dollars)

7. CAPITAL STOCK (Continued)

(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 June 30, 2010 and changes are as follows:

	Number of Options	**Weighted Average Exercise Price**
Outstanding at December 31, 2009	5,950,000	$ 0.37
Granted	250,000	0.20
Expired	(800,000)	0.25
Outstanding at March 31, 2010	5,400,000	0.38
Granted	3,150,000	0.30
Exercised	(50,000)	0.16
Outstanding at June 30, 2010	8,500,000	0.35

The following summarizes information about stock options outstanding and exercisable at June 30, 2010:

Options Outstanding at June 30, 2010			**Options Exercisable**
Year of Expiry	Number of Options	Weighted Average Exercise Price	Number of Shares
2010	875,000	$0.25	875,000
2011	825,000	0.33	825,000
2012	1,800,000	0.62	1,800,000
2013	850,000	0.46	850,000
2014	1,000,000	0.16	1,000,000
2015	3,150,000	0.30	3,150,000
	8,500,000	$0.35	8,500,000

The weighted average life of exercisable options outstanding is 3.1 years as of June 30, 2010.

(in Canadian dollars)

7. CAPITAL STOCK (Continued)

(b) **Stock-Based Compensation**

During the quarter ended June 30, 2010, the Company granted 3,150,000 stock options (2009 – 950,000) to officers, employees and directors of the Company with a weighted average exercise price of $0.30 (2009 - $0.16) per share, which can be exercised for a period of up to five years. The options vest immediately.

Stock-based compensation expense was $762,928 in the period ended June 30, 2010 (2009 - $296,457), of which $110,800 (2009 - $nil) 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	119 - 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.

(c) **Share Purchase Warrants**

At June 30, 2010, the Company had outstanding warrants to purchase an aggregate 3,363,120 common shares as follows:

Expiry date		Exercise Price	Outstanding at December 31, 2009	Issued	Exercised	Expired	Outstanding at June 30, 2010
30-Jun-11	Warrants	0.30	3,114,000		-	-	3,114,000
30-Jun-11	Agents Warrants(2)	0.20	249,120		-	-	249,120
Total			3,363,120	-	-	-	3,363,120

(1) Each $0.20 agents warrant 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.

All of the warrants expiring June 30, 2011 carry a forced conversion feature where by 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.

(in Canadian dollars)

7. CAPITAL STOCK (Continued)

(d) **Contributed Surplus**

Contributed surplus is comprised of the following:

		June 30 2010		December 31 2009
Balance at the beginning of the year	$	3,985,451	$	3,554,576
Fair value of stock-based compensation		762,928		370,579
Fair value of stock options exercised		(6,283)		-
Agents warrants issued on financing		-		60,296
Balance at the end of the year	$	4,742,096	$	3,985,451

8. 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.

		June 30 2010		June 30 2009
Management fees paid to companies controlled by directors/officers	$	197,694	$	95,819
	$	**197,694**	**$**	**95,819**

9. COMMITMENTS

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

		2010		2011		2012		2013		2014
Office leases	$	23,330	$	17,714	$	770	$	770	$	-

10. 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	$	90,137	$	88,491
Canada		27,286		29,273
	$	117,423	$	117,764

11. SUBSEQUENT EVENTS

The Company's JV partner at its Antilla Project, Chancadora Centauro SAC (Centauro) completed the infill drilling program at the Antilla Project in the first half of July and removed its two drilling rigs

On July 19, 2010 the Company notified Centauro that it had not received the $US 4 million payment due on July 16, 2010.

Subsequently, on July 21, 2010, Centauro received notice from OSINERGMIN, the Peruvian authority responsible for the auditing of permit compliance, to suspend work pending clarification of the legal status of the Indigenous Community of Antilla's surface rights title to a portion of the mineral concessions at the Antilla Project.