



PANORO MINERALS LTD.
An Exploration Stage Company

Consolidated Financial Statements
September 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)

.....
Luquman Shaheen
President
Vancouver, British Columbia

"Michael Kerfoot" (signed)

.....
Michael Kerfoot
Chief Financial Officer
Vancouver, British Columbia

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

	September 30, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,204,976	\$ 595,793
Marketable securities (note 4)	9,000	72,300
Accounts and advances receivable	229,564	5,023
Prepaid expenses	34,537	11,893
	1,478,077	685,009
Mineral Interests (note 5)	31,647,821	31,870,004
Equipment (note 6)	108,613	117,764
	\$ 33,234,511	\$ 32,672,777
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 312,983	\$ 645,674
Future Income Tax Liability	4,448,909	4,447,740
Shareholders' Equity		
Capital Stock (note 7)	33,071,184	31,584,526
Contributed Surplus (note 7(d))	4,759,300	3,985,451
Accumulated Other Comprehensive Loss	4,000	(321,675)
Deficit	(9,361,865)	(7,668,939)
	28,472,619	27,579,363
	\$ 33,234,511	\$ 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 September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Expenses				
Audit	\$ 8,807	\$ 18,187	\$ 35,827	\$ 55,334
Consulting	0	18,812	16,125	18,812
Investor relations	12,950	2,140	55,668	9,293
Legal	18,709	14,409	50,813	36,897
Office and miscellaneous	5,811	6,373	42,678	41,119
Regulatory fees	8,388	5,121	43,897	24,822
Rent	15,712	15,624	46,064	47,513
Salaries and fees	129,620	52,625	418,470	294,196
Telephone	8,996	6,307	23,830	24,119
Transfer agent	1,164	1,180	5,662	4,194
Travel	8,105	5,488	47,553	27,311
Stock-based compensation	28,204	45,222	680,332	341,679
Amortization	4,335	4,787	12,978	15,171
	250,802	196,275	1,479,898	940,460
Interest income	(259)	(16)	(600)	(4,178)
Foreign exchange loss (gain)	51,750	23,744	(87,859)	6,088
Loss on disposition of marketable securities	211,782		274,304	
Net Loss for the period before tax	514,075	220,003	1,665,743	942,370
Current tax expense	(140,000)		-	(394,105)
Future income tax expense (recovery)	(81,570)	(304,447)	(152,943)	
Net Loss for the period	292,505	(84,444)	1,512,800	548,265
Deficit, beginning of the period	8,889,234	7,448,816	7,668,939	6,816,107
Deficit, end of the period	\$ 9,181,739	\$ 7,364,372	\$ 9,181,739	\$ 7,364,372
Basic and diluted Loss per share	0.00	0.00	\$ 0.02	\$ 0.01
Weighted average number of common shares outstanding	87,856,651	84,639,390	87,802,657	84,639,390

PANORO MINERALS LTD.

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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 September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Net loss for the period	\$ 514,075	\$ (84,444)	\$ 1,512,800	\$ 548,265
Unrealized loss (gain) on marketable securities	(2,079)	16,095	(51,371)	42,920
Reversal of previously recognized loss	(211,782)	-	(274,304)	
Comprehensive loss for the period	\$ 300,214	\$ (68,349)	\$ 1,187,125	\$ 591,185

Consolidated Statements of Accumulated Other Comprehensive Loss	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance, Beginning of the period	(209,861)	(514,498)	\$ (321,675)	\$ (487,673)
Unrealized gain (loss) on marketable securities	2,079	(16,095)	51,371	(42,920)
Reclassification on disposition of marketable securities	211,782	-	274,304	-
Balance, End of period	\$ 4,000	\$ (530,593)	\$ 4,000	\$ (530,593)

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Cash Provided By (Used in):				
Operations:				
Net loss (gain) for the period	\$ (292,504)	\$ 84,444	\$ (1,512,800)	\$ (548,265)
Items not involving cash:				
Amortization	4,335	4,787	12,978	15,171
Stock-based compensation	28,204	45,222	680,332	341,679
Future income tax expense (credit)	(81,570)	(304,447)	(152,943)	(394,105)
Unrealized foreign exchange loss (gain)	74,456	-	(90,944)	-
Loss on disposition of marketable securities	211,782	-	274,304	-
Cash flow before working capital changes	(55,297)	(169,994)	(789,073)	(585,520)
Net changes in operating balances				
Accounts and advances receivable	(118,872)	15,231	(141,843)	19,173
Prepaid expenses	(30,931)	(1,454)	(22,644)	24,822
Accounts payable and accrued liabilities	38,230	17,231	(337,691)	(767,857)
	(166,870)	(138,986)	(1,291,251)	(1,309,382)
Investing:				
Proceeds on option of mineral property	15,512	-	1,064,600	-
Proceeds on sale of marketable securities	85,019	-	114,671	-
Mineral interest exploration and development expenditures	(321,593)	(206,773)	(665,450)	(873,541)
Purchase of equipment	(1,294)	(3,918)	(82,662)	(3,918)
	(222,356)	(210,691)	431,159	(877,459)
Financing:				
Cash proceeds from exercise of options	25,000	-	33,000	-
Cash proceeds from issue of shares	1,336,275	-	1,436,275	-
	1,361,275	-	1,469,275	-
Increase (Decrease) in cash and cash equivalents	972,048	(349,677)	609,183	(2,186,841)
Cash and cash equivalents, beginning of the period	232,928	696,734	595,793	2,533,898
Cash and Cash Equivalents, End of the period	\$ 1,204,976	\$ 347,057	\$ 1,204,976	\$ 347,057

Supplemental cash flow information

Amortization of \$13,512 (2009 - \$25,523) was capitalized to the mineral 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 \$Nil (2009 - \$Nil)

Capital assets decreased by \$65,323 and Mineral interests decreased by \$15,512 on the sale of equipment at Antilla all of which is included in receivables.

Mineral properties include \$110,800 in stock based compensation (\$2009 - \$nil)

Future income tax additions capitalized to mineral property were \$63,167 (2009 - \$45,236)

PANORO MINERALS LTD.

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Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(in Canadian dollars)

1. NATURE OF OPERATIONS

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 September 30, 2010 the Company has \$1,204,976 in cash and accounts payable of \$312,983..

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.

PANORO MINERALS LTD.

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Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(in Canadian dollars)

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.

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 September 30, 2010, the Company held marketable securities with a cost of \$5,000 (December 31, 2009- \$393,975) and a fair value of \$9,000 (December 31, 2009 - \$72,300). The difference between fair value and cost of \$4,000 at September 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 accounts and advances receivable primarily related to VAT receivable from the Peruvian government. 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.

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Unaudited – Prepared by management

(in Canadian dollars)

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, 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 the resources become available.

PANORO MINERALS LTD.

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Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(in Canadian dollars)

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 committed to making cash payments of \$US 8 million and spending \$US 17 million over a 30 month period. Payments are scheduled as follows.

PANORO MINERALS LTD.

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Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(in Canadian dollars)

- \$US 1 million on signing, pursuant to the terms outlined below (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
- \$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.

The second payment of \$US 4 million had not been received by September 30, 2010. The termination of the Antilla agreement and transfer of all concessions was completed and registered on September 30, 2010. The company provided Centauro with the required notifications of the lack of payment and has been consulting legal counsel on the best means to resolve the issue and regain access to the property.

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.

EI 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 EI Rosal commenced on January 26, 2008 and was completed on April 30, 2008.

PANORO MINERALS LTD.

An Exploration Stage Company

Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(in Canadian dollars)

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, 2010.
- 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.

PANORO MINERALS LTD.

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Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(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, September 30, 2010	-	8,856,256	7,444,990	4,554,754	20,856,000
Deferred exploration expenditures in 2010					
Amortization	-	5,270	8,242	-	13,512
Assay	745	225	-	-	970
Camp, materials and exploration support	119	38,594	79,310	-	118,023
Community relations	-	26,593	64,878	9,409	100,880
Contract labour	-	3,542	557	-	4,099
Exploration office costs	308	17,641	41,302	49	59,300
Geological consulting and contracting	8,288	23,962	81,516	2,485	116,251
Geophysical and other consulting	-	-	33,527	670	34,197
Legal	-	49,647	370	-	50,017
Mineral concession fees	-	-	-	608	608
Project management	522	73,364	43,406	5,696	122,988
Recording fees, taxes	-	719	-	-	719
Reports, drafting and maps	1,658	680	2,697	-	5,035
Stock-based compensation	-	68,730	42,070	-	110,800
Travel and accommodation	-	18,422	42,495	1,446	62,363
Increase in future income tax liabilities	5,282	32,618	25,267	-	63,167
Sale of equipment in mineral interests	-	(15,512)	-	-	(15,512)
Consideration for property options	-	-	(1,064,600)	(5,000)	(1,069,600)
	16,922	344,495	(598,963)	15,363	(222,183)
Balance, December 31, 2009	4,644,969	4,959,355	752,618	657,062	11,014,004
Balance, September 30, 2010	4,661,891	5,303,850	153,655	672,425	10,791,821
Total	\$ 4,661,891	\$ 14,160,106	\$ 7,598,645	\$ 5,227,179	\$ 31,647,821

PANORO MINERALS LTD.

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Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(in Canadian dollars)

6. EQUIPMENT

	September 30, 2010			December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Computers and office furnishings	25,876	14,953	10,923	25,351	13,087	12,264
Equipment	81,578	55,356	26,222	139,640	72,781	66,859
Vehicles	70,259	7,904	62,355	69,984	40,399	29,586
Leasehold Improvements	13,641	4,528	9,113	13,584	4,528	9,056
Total	191,354	82,741	108,613	248,559	130,795	117,764

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
Transfer from contributed surplus on exercise of options	-	6,283
Balance - June 30, 2010	87,803,390	31,698,809
Proceeds on exercise of options	100,000	25,000
Transfer from contributed surplus on exercise of options	-	11,000
Private placement, net of issue costs	5,379,620	1,336,375
Balance -September 30, 2010	93,283,010	\$ 33,071,184

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.

The Company closed the first tranche of a non-brokered private placement on September 30, 2010. The net proceeds of the first tranche were \$1,336,275 on issuance of 5,379,620 units at \$0.25 per unit. Each unit is comprised of one common share and one half share purchase warrant. Each full warrant is exercisable for \$0.35 for 18 months.

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Notes to the Consolidated Financial Statements

Unaudited – Prepared by management

(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 September 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
Granted	100,000	0.25
Exercised	(100,000)	0.25
Expired	(925,000)	0.25
Outstanding at September 30, 2010	7,575,000	0.35

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

Options Outstanding at September 30, 2010			Options Exercisable
Year of Expiry	Number of Options	Weighted Average Exercise Price	Number of Shares
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	3,250,000	0.30	3,250,000
	7,725,000	\$0.35	7,725,000

The weighted average life of exercisable options outstanding is 3.2 years as of September 30, 2010.

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7. CAPITAL STOCK (Continued)

(b) Stock-Based Compensation

During the quarter ended September 30, 2010, the Company granted 100,000 stock options (2009 – nil) to an employee of the Company with a weighted average exercise price of \$0.25 (2009 - \$nil) per share, which can be exercised for a period of up to five years.

Stock-based compensation expense was \$791,132 in the period ended September 30, 2010 (2009 - \$341,679), 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 September 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 September 30, 2010
30-Jun-11 Warrants	0.30	3,114,000	-	-	-	3,114,000
30-Jun-11 Agents Warrants ⁽¹⁾	0.20	249,120	-	-	-	249,120
31-Mar-12 Warrants	0.35	2,689,810	-	-	-	2,689,810
Total		6,052,930	-	-	-	6,052,930

⁽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.

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7. CAPITAL STOCK (Continued)

(d) Contributed Surplus

Contributed surplus is comprised of the following:

	September 30 2010	December 31 2009
Balance at the beginning of the year	\$ 3,985,451	\$ 3,554,576
Fair value of stock-based compensation	791,132	370,579
Fair value of stock options exercised	(17,283)	-
Agents warrants issued on financing	-	60,296
Balance at the end of the year	\$ 4,759,300	\$ 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 for the nine months ended September 30, 2010.

	September 30 2010	September 30 2009
Management fees paid to companies controlled by directors/officers	\$ 284,116	\$ 125,418
	\$ 284,116	\$ 125,418

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	\$ 11,665	\$ 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	\$ 84,839	\$ 88,491
Canada	23,774	29,273
	\$ 108,613	\$ 117,764

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11. SUBSEQUENT EVENTS

On October 15, 2010 the Company closed the second tranche of its private placement by issuing 5,622,296 units for gross proceeds of \$1,405,574. On October 30, the Company closed the third and final tranche by issuing 14,803,084 units for gross proceeds of \$3,700,771.

The private placement as a whole resulted in gross proceeds of \$6,451,250 and the issuing of 25,805,000 units. Each unit includes 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 respective closing. Finder's fees of \$297,233 and 1,188,933 warrants were paid to agents involved with the placement.