

Consolidated Condensed Interim Financial Statements  
(Expressed in Canadian dollars)



June 30, 2011 and 2010

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Panoro Minerals Ltd. ("the Company") are the responsibility of the Company's management. The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) 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 that 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)*

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Luquman Shaheen  
President  
Vancouver, British Columbia

*"David W. Huber" (signed)*

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David W. Huber  
Chief Financial Officer  
Vancouver, British Columbia

# PANORO MINERALS LTD

An Exploration Stage Company

Condensed Consolidated Interim Balance Sheets  
Unaudited – Prepared by Management  
(Expressed in Canadian dollars)

	June 30 2011	December 31 2010
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 4,928,715	1,060,487
Short-term investment	-	3,526,376
Marketable securities	33,000	21,000
Share Subscriptions Receivable (note 4)	5,840,978	-
Accounts and advances receivable	262,061	263,856
Prepaid expenses	15,990	40,672
	11,080,744	4,912,391
Mineral interests (note 3)	30,874,465	28,904,641
Equipment	146,075	110,618
<b>Total Assets</b>	<b>\$ 42,101,284</b>	<b>\$ 33,927,651</b>
<b>Liabilities and Shareholders' Equity</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 757,704	829,147
Shareholders' equity:		
Capital stock (note 4)	46,272,424	37,658,738
Contributed surplus	5,518,824	5,065,809
Accumulated other comprehensive gain	28,000	16,000
Deficit	(10,475,667)	(9,642,043)
	41,343,580	33,098,504
<b>Total Liabilities &amp; Capital</b>	<b>\$ 42,101,284</b>	<b>33,927,651</b>

Nature of operations (note 1)  
Commitments (note 7)

See accompanying notes to condensed consolidated interim 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

Condensed Consolidated Interim Statement of Operations  
 Unaudited – Prepared by Management  
 (Expressed in Canadian dollars)

	For the three months		For the six months	
	ended June 30		ended June 30	
	2011	2010	2011	2010
<b>Expenses:</b>				
Amortization	\$ 4,324	\$ 4,594	\$ 8,041	8,643
Audit	44,190	15,601	55,690	27,020
Consulting	4,940	16,125	12,500	16,125
Investor relations	42,587	23,716	67,914	42,718
Legal	4,325	19,964	14,136	32,104
Office and miscellaneous	38,238	11,339	55,435	36,867
Regulatory fees	5,870	20,380	23,510	35,509
Rent	31,613	16,774	57,079	30,352
Salaries and fees	183,315	168,828	374,910	288,850
Stock-based compensation	31,155	643,804	40,527	652,128
Telephone	13,262	6,907	26,713	14,834
Transfer agent	5,175	3,065	7,619	4,498
Travel	57,176	22,590	74,399	39,448
<b>Total Expenses</b>	<b>\$ 466,170</b>	<b>\$ 973,687</b>	<b>\$ 818,473</b>	<b>\$ 1,229,096</b>
Interest income	(8,526)	(338)	(18,967)	(341)
Foreign exchange loss/(gain)	(19,168)	36,616	34,118	24,028
Loss on disposition of marketable securities	-	-	-	62,522
Current income tax expense	-	140,000	-	140,000
<b>Loss for the Period</b>	<b>\$ 438,476</b>	<b>\$ 1,149,965</b>	<b>\$ 833,624</b>	<b>\$ 1,455,305</b>
Unrealized gain on marketable securities	(18,000)	28,150	(12,000)	(97,162)
<b>Comprehensive loss for the period</b>	<b>\$ 420,476</b>	<b>\$ 1,178,115</b>	<b>\$ 821,624</b>	<b>\$ 1,358,143</b>
Loss per share, basic and fully diluted	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Weighted average number of common shares outstanding	117,342,765	87,795,057	116,450,197	87,774,223

See accompanying notes to condensed consolidated interim financial statements.

# PANORO MINERALS LTD.

An Exploration Stage Company

Condensed Consolidated Interim Statements of Cash Flows  
Unaudited – Prepared by Management  
(Expressed in Canadian dollars)

For the six months ended June 30, 2011 and 2010

	2011	2010
Cash provided by (used for):		
Operations:		
Loss for the period	\$ (833,624)	\$ (1,480,707)
Items not involving the use of cash:		
Amortization	18,698	8,643
Stock-based compensation	40,527	652,128
Unrealized foreign exchange loss (gain)	-	(165,400)
Loss on disposition of marketable securities	-	251,560
	(774,399)	(733,776)
Changes in non-cash operating working capital:		
Accounts and advances receivable	1,795	(22,971)
Prepaid expenses	24,682	8,287
Accounts payable and accrued liabilities	(71,443)	(375,921)
	(819,365)	(1,124,381)
Financing:		
Proceeds from exercise of options	679,500	8,000
Proceeds from exercise of warrants	1,360,928	-
Cash proceeds from issue of shares	1,144,768	100,000
	3,185,195	108,000
Investments:		
Proceeds from short-term investment	3,526,376	1,049,088
Proceeds on sale of marketable securities	-	29,652
Mineral interest exploration and development expenditures	(1,969,823)	(343,857)
Purchase of equipment	(54,155)	(81,368)
Total	1,502,398	653,515
Increase (decrease) in cash and cash equivalents	3,868,228	(362,865)
Cash and cash equivalents, beginning of period	1,060,487	595,793
Cash and cash equivalents, end of period	\$ 4,928,715	\$ 232,928

# PANORO MINERALS LTD.

An Exploration Stage Company

Condensed Consolidated Interim Statements of Changes in Equity  
 Unaudited – Prepared by Management  
 (Expressed in Canadian dollars)

For the six months ended June 30, 2011

Description	Capital Stock	Contributed Surplus	Accumulated Comprehensive Income	Deficit	Total
Beginning Balance	\$37,658,737	\$5,065,809	\$16,000	(\$9,642,043)	\$33,098,504
Net Income	-	-	-	(833,624)	(833,624)
Unrealized Gain on Marketable Securities	-	-	12,000	-	12,000
Issuance of Capital Stock	6,101,655	884,091	-	-	6,985,746
Issuance of Stock Options	-	40,527	-	-	40,527
Issuance of Agent's Warrants	(74,710)	74,710	-	-	-
Exercise of Stock Options	1,193,772	(514,272)	-	-	679,500
Exercise of Warrants	1,392,969	(32,041)	-	-	1,360,928
Ending Balance	\$46,272,424	\$5,518,824	\$28,000	(\$10,475,667)	\$41,343,580

Comparatives for the six months ended June 30, 2010

Description	Capital Stock	Contributed Surplus	Accumulated Comprehensive Income	Deficit	Total
Beginning Balance	\$31,584,526	\$3,985,451	(\$321,675)	(\$7,472,607)	\$27,775,695
Net Income	-	-	-	(1,455,305)	(1,455,305)
Unrealized Gain on Marketable Securities	-	-	49,292	-	49,292
Issuance of Capital Stock	100,000	-	-	-	100,000
Issuance of Stock Options	-	762,928	-	-	762,928
Reclassification on disposition of Securities	-	-	62,522	-	62,522
Exercise of Stock Options	1,717	6,283	-	-	8,000
Ending Balance	\$31,686,243	\$4,754,662	(\$209,861)	(\$8,927,912)	\$27,303,130

# PANORO MINERALS LTD.

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Notes to the Condensed Consolidated Interim Financial Statements  
Unaudited – Prepared by Management  
(Expressed in Canadian dollars)

For the three months ended June 30, 2011 and 2010

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## 1. Nature of operations:

Panoro Minerals Ltd. 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.

Panoro Minerals Ltd. is a publicly listed Company incorporated in Canada with limited liability under the legislation of the Province of British Columbia.

The Company's registered office is located at 1610 – 700 West Pender Street, Vancouver, BC V6C 1G8 Canada.

## 2. Basis of preparation and adoption of IFRS:

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate international financial reporting standard and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in this 2011 interim condensed consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). The accounting policies followed in these interim financial statements are the same as those applied in the company's interim financial statements for the period ended March 31, 2011. The company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

The accounting policies applied in these condensed interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as issued and outstanding as of August 12, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

# PANORO MINERALS LTD.

An Exploration Stage Company

Notes to the Condensed Consolidated Interim Financial Statements  
Unaudited – Prepared by Management  
(Expressed in Canadian dollars)

For the three months ended June 30, 2011 and 2010

## 2. Basis of Preparation and adoption of IFRS (*continued*):

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2010 annual financial statements and in consideration of the IFRS transition disclosures included in note 9 of these financial statements which were prepared in accordance with IFRS applicable to interim financial statements. Comprehensive income for the comparative period has been reconciled on note 8.

## 3. Mineral interests:

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

	Antilla (i)	Cotabambas (ii)	El Rosal	Other	Total
Balance, December 31, 2010	\$12,528,466	\$7,452,393	\$4,128,100	\$4,795,683	\$28,904,642
Deferred exploration expenditures in 2011:					
Amortization	-	11,174	-	-	11,174
Assay	24,259	99,521	-	-	123,780
Camp, materials and exploration support	5,077	41,560	353	45	47,035
Community relations	20,214	63,350	-	-	85,564
Contract labor	557	74,071	-	-	74,628
Drilling	-	534,015	-	-	534,015
Environmental	-	156,520	-	-	156,520
Geology	11,147	161,272	-	3,687	176,106
Geophysics	-	25,131	-	12,331	37,462
Legal	123,228	924	-	1,003	125,155
Mineral concession fees	20,831	126,388	40,800	108,217	296,236
Project management	36,036	164,062	-	13,048	213,146
Travel and accommodation	20,405	68,270	-	327	89,002
	261,754	1,528,258	41,153	138,658	1,969,823
Balance, June 30, 2011	\$12,790,220	\$8,980,651	\$4,169,253	\$4,934,341	\$30,874,465

The investment in and expenditures on mineral interests comprises 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.

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Unaudited – Prepared by Management  
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For the three months ended June 30, 2011 and 2010

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### 3. *Mineral interests (continued):*

*Panoro Apurimac S.A., Perú:*

On June 7, 2007, the Company completed the acquisition of 100% of 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 100% of 13 properties located in the Andahuaylas – Yauri Belt of Peru south of Cuzco.

Antilla and Cotabambas are two of Panoro Apurimac's 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 of which all are in various stages of exploration.

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

*(i) 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.

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.

# PANORO MINERALS LTD.

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Notes to the Condensed Consolidated Interim Financial Statements  
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For the three months ended June 30, 2011 and 2010

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### 3. *Mineral interests (continued):*

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.

#### *(ii) Cotabambas Property, Peru:*

Cotabambas is an advanced exploration project consisting of a cluster of copper gold porphyry systems. Work in 2011 has focused on drilling and sampling to further develop the mineral property.

US\$1,000,000 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.

#### *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.

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Notes to the Condensed Consolidated Interim Financial Statements  
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For the three months ended June 30, 2011 and 2010

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### **3. Mineral interests (continued):**

#### *Alicia Property, Peru:*

On September 25, 2009, the Company entered into an agreement with Strait Gold Corporation (Strait Gold) 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 the Company 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 to the Company 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 to the Company 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.

#### *Surigao Project, Philippines:*

The Company previously 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 would pay the Company \$500,000 cash, plus 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 Condensed Consolidated Interim Financial Statements  
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For the three months ended June 30, 2011 and 2010

## 4. Capital stock:

Authorized – unlimited common shares without par value

Issued and outstanding:

	Number of shares	Amount
Balance, December 31, 2010	113,716,640	\$ 37,658,737
Share subscription received	16,441,724	6,101,655
Proceeds on exercise of options	2,400,000	679,500
Transfer from contributed surplus on exercise of options	-	514,272
Proceeds on exercise of Agents warrants	-	(74,710)
Exercise of Warrants	4,468,470	1,392,969
Balance, June 30, 2011	137,026,834	\$ 46,272,423

On June 30 2011, the Company completed the first tranche of a non-brokered private placement for net proceeds of \$6,914,470. A total of 16,441,724 units were issued at \$0.45 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 the price of \$0.60 for 18 months after the date of closing. Finder's fees of \$311,501 and other share issue fees of \$86,790 and 498,151 warrants were paid to agents involved with the placement.

The agent's warrants can be exercised at \$0.45 for one common share of the Company for 18 months after the date of closing. The value of the agents warrants issued on the private placement was \$70,710 based on the fair value of proceeds received using the Black-Scholes model with the following assumptions; risk free rate of 1.2%, expected dividend yield of 0%, volatility of 89% and an expected life of 1.2 years.

### (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 10% of the Company's Capital Stock as approved at the 2011 Annual General Meeting. Options granted under the plan vest immediately or over a period of time at the discretion of the board of directors. There were no stock options granted during the 3 month period April 1 to June 30, 2011

# PANORO MINERALS LTD.

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Notes to the Condensed Consolidated Interim Financial Statements  
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For the three months ended June 30, 2011 and 2010

## 4. Capital stock (*continued*):

A summary of the status of the Company's stock options as at June 30, 2011 and changes are as follows:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2010	7,575,000	0.35
Granted	100,000	0.52
Exercised	(2,400,000)	0.28
Expired	(300,000)	0.26
Outstanding at June 30, 2011	4,975,000	\$ 0.41

The following summarizes information about stock options outstanding and exercisable at June 30, 2011:

Year of expiry	Options outstanding at June 30, 2011		Options exercisable
	Number of options	Weighted average exercise price	Number of shares
2012	1,425,000	0.63	1,425,000
2013	750,000	0.46	750,000
2014	500,000	0.17	500,000
2015	2,200,000	0.30	2,200,000
2016	100,000	0.52	100,000
	4,975,000	\$ 0.41	4,975,000

The weighted average life of exercisable options outstanding is 2.3 years as of June 30, 2011 (2010 – 3.1 years).

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## 4. Capital stock (continued):

(b) Share purchase warrants:

At June 30, 2011, the Company had outstanding warrants to purchase an aggregate 21,920,966 common shares as follows:

Expiry date		Exercise price	Outstanding at December 31, 2010	Issued	Exercised	Expired	Outstanding at June 30, 2011
June 30, 2011	Warrants	0.30	3,114,000	-	(3,089,000)	(25,000)	-
June 30, 2011	Agents warrants	0.20	240,870	-	(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	-	(602,106)	-	2,209,042
April 29, 2012	Warrants	0.35	7,401,542	-	(212,000)	-	7,189,542
April 15, 2012	Agents warrants	0.35	216,810	-	(73,700)	-	143,110
April 29, 2012	Agents warrants	0.35	972,123	-	(1,674)	-	970,449
Dec 31, 2012	Warrants	0.60	-	8,220,862	-	-	8,220,862
Dec 31, 2012	Warrants	0.45	-	498,151	-	-	498,151
Total			17,695,423	8,719,013	(4,468,470)	(25,000)	21,920,966

## 5. Compensation of key management:

The remuneration of directors and other members of key management personnel included:

For the six months ended June 30:	2011	2010
Salaries, consulting fees and director's fees	\$256,248	\$248,403
Short-term employee benefits	3,802	3,681
Stock based compensation	40,527	762,928
Total compensation of key management	\$300,578	\$1,015,012

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## 6. 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.

	2011	2010
Fees paid to companies controlled by directors/officers for equipment and exploration supplies	\$21,347	\$666

The above costs were capitalized to the mineral properties.

## 7. Commitments:

The following is a summary of the Company's contractual obligations and commitments as at June 30, 2011:

	2011	2012	2013	2014	2015	2016	Total
Office Lease Lima US\$	28,366	56,733	56,733	56,733	56,733	56,733	312,029
Office Lease Van CDN\$	23,238	64,475	64,475	64,475	64,475	64,475	354,615

The Company has two office leases, one in Lima Peru that is payable in United States Dollars, and the other for the head office in Vancouver, BC which is payable in Canadian Dollars.

## 8. Reconciliation of comprehensive income for three months ended June 30, 2010

	Three months ended June 30, 2010	Six months ended June 30, 2010
Comprehensive income - Previous Canadian GAAP	\$ 938,708	\$ 1,123,134
Future income tax recovery <sup>1</sup>	28,436	71,373
Foreign exchange gain/loss <sup>2</sup>	(229,631)	(165,401)
	737,513	1,029,106
Other adjustments <sup>2</sup>	440,602	329,038
<b>Comprehensive income IFRS</b>	<b>\$ 1,178,115</b>	<b>\$ 1,358,144</b>

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## 8. Reconciliation of comprehensive income for six months ended June 30, 2010 (*continued*):

### Notes to the Reconciliations

- 1) Note 1 - Under Canadian GAAP, the Company recorded deferred tax liabilities on share based payments capitalized in mineral interests, because the stock based payments are not deductible for tax purposes. IAS 12 exempts the Company from recognizing deferred tax liability arising from the initial recognition of an asset or liability in a transaction which is not a business acquisition that affects neither accounting profit nor tax profit. Capitalization of stock based payments falls under this exemption. The Company accordingly reversed the effect of all deferred tax liabilities from mineral interests under IFRS
- 2) Note 2 – Under Canadian GAAP, the Company recorded a foreign exchange gain or loss on deferred tax liabilities based on payments capitalized in mineral interests that were made in currencies other than the functional currency, as the tax basis of these payments fluctuate with the exchange rate difference. IAS 12 exempts the Company from recognizing deferred tax liability arising from the initial recognition of an asset or liability in a transaction which is not a business acquisition that affects neither accounting profit nor tax profit. The Company accordingly reversed the effect of all deferred tax liabilities from mineral interests under IFRS.
- 3) As part of the Company's transition to IFRS, the Company identified errors in the recognition of income statement items and typographical errors relating to 2010. Management does not believe these errors are material to the Company's 2010 financial statements and recognized this as part of the IFRS reconciliation.

## 9. Transition to IFRS:

In preparing its opening IFRS statement of financial position, comparative information for the six months ended June 30, 2010 and financial statements for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

# PANORO MINERALS LTD.

An Exploration Stage Company

Notes to the Condensed Consolidated Interim Financial Statements  
Unaudited – Prepared by Management  
(Expressed in Canadian dollars)

For the three months ended June 30, 2011 and 2010

	January 1, 2011			June 30, 2010			January 1, 2010		
	Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS	Cdn GAAP	Adj	IFRS
<b>Assets</b>									
Current assets									
Cash and cash equivalents	\$1,060,487		\$1,060,487	\$232,928		\$232,928	\$595,793		\$595,793
Short-term investment	3,526,376		3,526,376	0		0	0		0
Marketable securities	21,000		21,000	91,836		91,836	72,300		72,300
Accounts and advances receivable	263,856		263,856	105,922		105,922	5,023		5,023
Prepaid expenses	40,672		40,672	3,606		3,606	11,893		11,893
	4,912,391		4,912,391	434,292		434,292	685,009		685,009
Non-current assets									
Mineral interests	33,493,420	(4,588,779)	28,904,641	31,369,056	(4,342,887)	27,026,169	31,870,004	(4,251,408)	27,618,596
Equipment	110,620		110,620	117,423		117,423	117,764		117,764
<b>Total Assets</b>	<b>\$38,516,431</b>	<b>(\$4,588,779)</b>	<b>\$33,927,652</b>	<b>\$31,920,771</b>	<b>(\$4,342,887)</b>	<b>\$27,577,884</b>	<b>\$32,672,777</b>	<b>(\$4,251,408)</b>	<b>\$28,421,369</b>
<b>Liabilities</b>									
Current liabilities									
Accounts payable and accrued liabilities	829,147		829,147	274,753		274,753	645,674		645,674
	829,147		829,147	274,753		274,753	645,674		645,674
Non-current liabilities									
Future income tax liability	4,867,739	(4,867,739)	0	4,633,247	(4,633,247)	0	4,447,740	(4,447,740)	0
<b>Total liabilities</b>	<b>5,696,886</b>	<b>(4,867,739)</b>	<b>829,147</b>	<b>4,908,000</b>	<b>(4,633,247)</b>	<b>274,753</b>	<b>5,093,414</b>	<b>(4,447,740)</b>	<b>645,674</b>
<b>Shareholders' equity</b>									
Capital stock	37,658,738		37,658,738	31,686,243		31,686,243	31,584,526		31,584,526
Contributed surplus	5,065,809		5,065,809	4,754,662		4,754,662	3,985,451		3,985,451
Accumulated other comprehensive gain (loss)	16,000		16,000	(209,861)		(209,861)	(321,675)		(321,675)
Deficit	(9,921,002)	278,960	(9,642,042)	(9,218,273)	290,360	(8,927,913)	(7,668,939)	196,332	(7,472,607)
<b>Total shareholders' equity</b>	<b>32,819,545</b>	<b>278,960</b>	<b>33,098,505</b>	<b>27,012,771</b>	<b>290,360</b>	<b>27,303,131</b>	<b>27,579,363</b>	<b>196,332</b>	<b>27,775,695</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$38,516,431</b>	<b>(\$4,588,779)</b>	<b>\$33,927,652</b>	<b>\$31,920,771</b>	<b>(\$4,342,887)</b>	<b>\$27,577,884</b>	<b>\$32,672,777</b>	<b>(\$4,251,408)</b>	<b>\$28,421,369</b>

# PANORO MINERALS LTD.

An Exploration Stage Company

Notes to the Condensed Consolidated Interim Financial Statements  
Unaudited – Prepared by Management  
(Expressed in Canadian dollars)

For the three months ended June 30, 2011 and 2010

## 9. Transition to IFRS (continued):

	Year ended December 31, 2010			Six months ended June 30, 2010		
	CND GAAP	Transition Adjustments	IFRS	CND GAAP	Transition Adjustments	IFRS
<b>Expenses</b>						
Amortization	\$18,981		\$18,981	\$8,643		\$8,643
Audit	57,698		57,698	27,020		27,020
Consulting	5,329		5,329	16,125		16,125
Investor Relations	91,794		91,794	42,718		42,718
Legal	67,406		67,406	32,104		32,104
Office and miscellaneous	61,842		61,842	36,867		36,867
Regulatory fees	48,166		48,166	35,509		35,509
Rent	62,137		62,137	30,352		30,352
Salaries and fees	639,634		639,634	288,850		288,850
Stock-based compensation	702,828		702,828	652,128		652,128
Telephone	37,567		37,567	14,834		14,834
Transfer Agent	10,878		10,878	4,499		4,499
Travel	85,948		85,948	39,448		39,448
<b>G &amp; A Expenses</b>	<b>1,890,208</b>		<b>1,890,208</b>	<b>1,229,097</b>		<b>1,229,097</b>
<b>Other items:</b>						
Interest Income	(7,113)		(7,113)	(341)		(341)
Foreign exchange loss (gain)	(99,279)	(308,730)	(408,009)	(139,609)	(165,401)	(305,010)
Loss on disposition of marketable securities	274,304		274,304	62,522		62,522
Net loss for the period before tax	2,058,120	(308,730)	1,749,390	1,151,669	(165,401)	986,268
Future income tax recovery	193,943		193,943	68,627	71,373	140,000
Net loss	2,252,063	(308,730)	1,943,333	1,220,296	(94,028)	1,126,268
Unrealized loss (gain) on marketable securities	(63,371)		(63,371)	(97,162)		(97,162)
Reclassification on realization of loss on disposition of marketable securities	(274,304)		(274,304)	0		0
Comprehensive loss before other items	1,914,388	(308,730)	1,605,658	1,123,134	(94,028)	1,029,106
Other items	57,034	(57,034)		329,038	329,038	
<b>Comprehensive loss</b>	<b>\$1,971,422</b>	<b>(\$365,764)</b>	<b>\$1,605,658</b>	<b>\$1,123,134</b>	<b>\$235,010</b>	<b>\$1,358,144</b>

# PANORO MINERALS LTD.

An Exploration Stage Company

Notes to the Condensed Consolidated Interim Financial Statements  
Unaudited – Prepared by Management  
(Expressed in Canadian dollars)

For the three months ended June 30, 2011 and 2010

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## 9. Transition to IFRS (continued):

The guidance for the first time adoption of IFRS are set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemption:

- *Share-based payments* – IFRS 1 permits the Company to apply IFRS 2 Share-based payments only to awards granted on or after the transition date. The Company is also required to apply IFRS 2 to equity instruments that were granted after November 7, 2002 that vest after the date of transition to IFRS. Each tranche of an award with different vesting dates is considered a separate grant for the calculation of fair value, and the resulting fair value is amortized over the estimated lives of the respective tranches. Forfeiture estimates are recognized in the period they are estimated, and are revised for actual forfeitures in subsequent periods. The Company has elected this exemption under IFR

### Statement of Cash flows

The effects of transition from Canadian GAAP to IFRS on the cash flow are not material therefore a reconciliation of cash flows has not been presented.

### Initial recognition exemption

Under Canadian GAAP, using a simultaneous equation the Company, recognized a deferred income tax liability on temporary differences arising on the initial recognition of the mineral property interest (where the fair value of the asset acquired exceeded its tax basis) in a transaction which was not a business combination and affected neither accounting profit or loss nor taxable profit or loss. IFRS does not permit the recognition of deferred taxes on such transactions.

As of the Transition Date and December 31, 2010, the Company has derecognized the impacts of all deferred tax liabilities which had previously been recognized on the initial acquisition of the investment through transactions deemed not to be business combinations and affecting neither accounting profit or loss nor taxable profit or loss.

## 10. Subsequent Events:

On July 6, 2011, the Company completed the second tranche of a non-brokered private placement for net proceeds of \$380,968. A total of 784,400 units were issued at \$0.45 per unit. Each unit is 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 the price of \$0.60 for 18 months after the date of closing. Other share issue fees of \$5,500 were paid to agents involved with the placement.