

Consolidated Financial Statements of

SCORPIO MINING CORPORATION

Six-month period ended

June 30, 2008

These consolidated financial statements have not been reviewed by

the Company's external auditors

Scorpio Mining Corporation

Consolidated balance sheets
(Unaudited)

	June 30, 2008	December 31, 2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	18,269,864	17,563,300
Taxes and other accounts receivable	4,360,966	3,791,540
Inventories (Note 3)	5,566,988	3,961,836
	28,197,818	25,316,676
Property, plant and equipment (Note 4)	33,809,456	16,903,377
Non-producing mining properties (Note 5)	2,568,191	2,528,191
Deferred exploration and development expenditures (Note 5)	56,876,810	48,434,461
	121,452,275	93,182,705
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,295,191	4,024,914
Current portion of obligations under capital lease (Note 6)	133,409	76,438
	4,428,600	4,101,352
Obligations under capital lease (Note 6)	-	6,644
Long-term debt (Note 7)	18,085,182	-
Asset retirement obligations	1,118,889	874,265
	23,632,671	4,982,261
Non-controlling interest	118,893	134,113
Shareholders' equity		
Share capital	103,263,721	89,643,919
Contributed surplus	17,971,483	19,841,367
Convertible debentures-equity component	1,884,848	-
Deficit	(25,419,341)	(21,418,955)
	97,700,711	88,066,331
	121,452,275	93,182,705

Continuing operations (Note 1)
Contingencies (Note 12)
Subsequent event (Note 14)

See accompanying notes to the consolidated financial statements

Scorpio Mining Corporation

Consolidated statements of operations
(Unaudited)

	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007
	\$	\$	\$	\$
Interest income	79,497	169,574	190,354	451,586
Expenses				
Stock-based compensation	124,122	1,210,186	3,523,062	3,603,399
General and administrative	363,648	798,945	387,308	743,383
Investors relations	227,120	390,267	64,318	247,326
Professional fees	150,350	317,329	41,733	100,109
Transfer agent and listing fees	24,323	52,838	4,626	40,819
Travel expenses	28,434	50,204	42,755	89,895
Rent	6,667	26,797	13,170	30,750
Amortization	8,965	17,930	9,644	18,974
Loss on disposal of property, plant and equipment	9,663	9,663	-	983
Gain on dilution of a subsidiary	-	-	(7,536)	(7,536)
Accretion of asset retirement obligations	18,938	36,837	2,616	5,232
Business development	3,478	66,609	-	230,702
Foreign exchange loss (gain)	(297,712)	(187,974)	366,079	409,279
Interest and financing (Note 9)	1,353,615	1,355,155	4,940	7,397
	2,021,611	4,144,786	4,452,715	5,520,712
Loss before income taxes and non-controlling interest	(1,942,114)	(3,975,212)	(4,262,361)	(5,069,126)
Income taxes				
Current	-	42,159	-	-
Future	-	-	1,080,942	1,080,942
	-	42,159	1,080,942	1,080,942
Loss before non-controlling interest	(1,942,114)	(4,017,371)	(5,343,303)	(6,150,068)
Non-controlling interest	(5,219)	(16,985)	-	-
Net loss and comprehensive loss for the period	(1,936,895)	(4,000,386)	(5,343,303)	(6,150,068)
Basic and diluted net loss per share	(0.02)	(0.04)	(0.06)	(0.07)
Weighted-average number of common shares-basic and diluted	110,749,846	107,845,561	87,667,283	87,280,977

See accompanying notes to the consolidated financial statements

Scorpio Mining Corporation

Consolidated statement of shareholders' equity
(Unaudited)

	Common shares		Contributed surplus	Equity component of convertible debentures	Accumulated other comprehensive income ("AOCI")	Deficit	Total deficit and AOCI	Total shareholders' equity
	Shares	Amount						
		\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2007	104,719,859	89,643,919	19,841,367	-	-	(21,418,955)	(21,418,955)	88,066,331
Net loss for the period	-	-	-	-	-	(2,063,491)	(2,063,491)	(2,063,491)
Share issue costs	-	(1,554)	-	-	-	-	-	(1,554)
Stock-based compensation	-	-	1,217,443	-	-	-	-	1,217,443
Exercise of stock options	5,000	8,650	(4,200)	-	-	-	-	4,450
Exercise of warrants	889,300	1,636,312	(391,292)	-	-	-	-	1,245,020
Balance at March 31, 2008	105,614,159	91,287,327	20,663,318	-	-	(23,482,446)	(23,482,446)	88,468,199
Net loss for the period	-	-	-	-	-	(1,936,895)	-	(1,936,895)
Issue of convertible debentures	-	-	-	1,998,212	-	-	-	1,998,212
Convertible debentures issue costs	-	-	-	(113,364)	-	-	-	(113,364)
Stock-based compensation	-	-	172,085	-	-	-	-	172,085
Exercise of warrants	6,402,842	11,781,229	(2,817,250)	-	-	-	-	8,963,979
Exercise of broker compensation options	106,068	195,165	(46,670)	-	-	-	-	148,495
Balance at June 30, 2008	112,123,069	103,263,721	17,971,483	1,884,848	-	(25,419,341)	-	97,700,711

See accompanying notes to the consolidated financial statements

Scorpio Mining Corporation

Consolidated statements of cash flows
(Unaudited)

	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(1,936,895)	(4,000,386)	(5,343,303)	(6,150,068)
Items not involving cash:				
Amortization and accretion	111,297	138,161	12,260	24,206
Non-controlling interest	(5,219)	(16,985)	-	-
Future income taxes	-	-	1,080,942	1,080,942
Stock-based compensation	124,122	1,210,186	3,523,062	3,603,399
Loss on disposal of property, plant and equipment	9,663	9,663	-	983
Gain on dilution of a subsidiary	-	-	(7,536)	(7,536)
	(1,697,032)	(2,659,361)	(734,575)	(1,448,074)
Change in non-cash working capital items				
Taxes and other accounts receivable	595,327	(355,913)	(679,406)	(1,404,440)
Inventories	(887,849)	(1,608,632)	(1,051,195)	(1,063,572)
Accounts payable and accrued liabilities	1,842,625	1,933,282	(666,935)	(654,485)
	(146,929)	(2,690,624)	(3,132,111)	(4,570,571)
Financing activities				
Short-term loan	10,000,000	10,000,000	-	-
Repayment of short-term loan	(10,000,000)	(10,000,000)	(23,639)	(23,639)
Issue of convertible debentures	20,000,000	20,000,000	-	-
Issue of share capital	9,112,474	10,361,944	274,147	1,073,020
Repayment of obligations under capital lease	(104,512)	(127,513)	(30,064)	(40,554)
Share issue costs	-	(121,961)	-	-
Convertible debentures issue costs-equity portion	(113,364)	(113,364)	-	-
Funds received by Scorpio Gold as share subscriptions	-	-	105,000	642,500
	28,894,598	29,999,106	325,444	1,651,327
Investing activities				
Deferred exploration and development expenditures	(3,913,620)	(7,843,799)	(3,860,605)	(9,722,438)
Addition to property, plant and equipment	(11,016,206)	(18,814,041)	(1,384,353)	(1,679,713)
Addition to non-producing mining properties	(60,000)	(60,000)	(60,000)	(60,000)
Proceeds from option agreement	20,000	20,000	-	-
Proceeds from sale of property, plant and equipment	2,965	2,965	36,500	37,150
Subscription cash decrease as a result of de-consolidation of Scorpio Gold Corporation	-	-	(638,976)	(638,976)
	(14,966,861)	(26,694,875)	(5,907,434)	(12,063,977)
Effect of exchange rate changes on cash and cash equivalents				
	121,114	92,957	101,197	92,024
Increase (decrease) in cash and cash equivalents	13,901,922	706,564	(8,612,904)	(14,891,197)
Cash and cash equivalents, beginning of period	4,367,942	17,563,300	22,295,906	28,574,199
Cash and cash equivalents, end of period	18,269,864	18,269,864	13,683,002	13,683,002
Cash and cash equivalents are comprised of:				
Cash in bank	8,603,349	8,603,349	2,286,570	2,286,570
Short-term investments	9,666,515	9,666,515	11,396,432	11,396,432
	18,269,864	18,269,864	13,683,002	13,683,002

Supplementary cash flow information (Note 11)

See accompanying notes to the consolidated financial statements

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

1. Description of business and continuing operations

The Company was incorporated under the Canada Business Corporations Act on May 12, 1998 and conducts exploration and development on mining properties in Mexico and Canada. On July 29, 2008 the Company started shipping lead concentrate from its Nuestra Señora mine.

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to the presentation of interim financial information. These financial statements do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the most recent annual financial statements of the Company for the year ended December 31, 2007 (the "Annual Financial Statements"). These consolidated financial statements follow the same accounting policies and methods of their application as the Annual Financial Statements with the exception of the changes in accounting policies stated in note 2 to the financial statements for the three-month period ended March 31, 2008.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception. The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations. If the Company were unable to continue as a going concern then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

As at June 30, 2008, the Company had cash and cash equivalents of \$18,269,864, which the Company believes will be sufficient to meet its expenditures until the mining operation at Nuestra Señora generates positive cash flows.

2. Financial instruments

(a) Financial Risk Factors

As at June 30, 2008, the Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is attributable to cash equivalents and taxes and other accounts receivable. The Company invests its cash equivalents in deposits with well capitalized financial institutions with strong credit ratings. Management believes that it is unlikely that any counterparty will fail to meet its obligation to the Company.

(ii) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company's current policy to manage liquidity risk related to cash and cash equivalents is to invest excess cash in highly liquid investments with maturity of 90 days or less. As at June 30, 2008, the Company has cash and cash equivalents of \$18,269,864 to settle current liabilities of \$4,428,600. The Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms except the obligations under capital lease for an amount of \$133,409 that will be paid by instalments until April 2009 and convertible debentures in the principal amount of \$20,000,000 which mature in May 2011.

(iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and price risk.

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

(a) Financial Risk Factors (Continued)

(iii) Market risk (Continued)

(a) Interest rate risk

As at June 30, 2008, the Company has \$9,666,515 in short-term investments. Management believes the interest rate risk is insignificant since the short-term investments have a maturity of 90 days or less.

The Company is also party to obligations under capital lease, bearing interest at variable rates with a balance of \$133,409 as at June 30, 2008. Management believes that a fluctuation of 1% in the interest rate over a twelve month period is "reasonably possible" but the impact on the interest on obligations under capital lease reported in these unaudited consolidated statements of operations would be insignificant. The Company's convertible debentures carry a fixed interest rate of 7% per annum and accordingly are not subject to interest rate risk.

(b) Currency risk

The Company is exposed to currency risk on fluctuations related to cash and cash equivalents, taxes and other account receivables, accounts payable and obligations under capital lease that are denominated in US Dollars (US) and Mexican Pesos (MXN).

The Company does not use derivatives to manage its exposure to currency risk.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period : a +/- 10% fluctuation in US currency rates would affect earnings (loss) by approximately \$1,035,000 and a +/- 18% fluctuation in MXN currency rates would affect earnings (loss) by approximately \$123,000.

(c) Price Risk

The price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments in the market.

The Company does not use derivatives to manage its exposure to price risk.

(b) Fair values

The carrying amount of cash and cash equivalents, taxes and other accounts receivable and accounts payable approximate their fair value due to their short term nature. The carrying amount of obligations under capital lease approximates its fair value since its interest rate is LIBOR based and accordingly fluctuates with market. Management estimates that carrying amount of long-term debt approximates its fair value since effective rate applicable to this financial instrument has not changed since its original issuance.

3. Inventories

	June 30, 2008	December 31, 2007
	\$	\$
Mine supplies	1,910,307	1,538,388
Ore stockpile	3,656,681	2,423,448
	5,566,988	3,961,836

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

4. Property, plant and equipment

	June 30, 2008			December 31, 2007		
	Cost	Accumulated amortization	Net value	Cost	Accumulated amortization	Net value
	\$	\$	\$	\$	\$	\$
Land	1,233,078	-	1,233,078	1,136,157	-	1,136,157
Surface facilities	777,011	314,858	462,153	666,802	256,392	410,410
Plant and equipment	32,706,252	1,293,587	31,412,665	5,105,942	1,072,067	4,033,875
Furniture and office equipment	890,928	189,368	701,560	603,470	153,932	449,538
Construction in progress	-	-	-	10,873,397	-	10,873,397
	35,607,269	1,797,813	33,809,456	18,385,768	1,482,391	16,903,377

Included in property, plant and equipment is the Company's Nuestra Señora processing mill facility and other equipment that is not yet subject to depreciation having a cost of \$25,989,213. Depreciation of the mill facility will commence once commercial production is reached and depreciation of other equipment will start once it is put into use.

Included in plant and equipment are equipment under capital lease having a cost of \$431,740 and accumulated amortization of \$44,014.

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

5. Non-producing mining properties and deferred exploration and development expenditures

	June 30, 2008				December 31, 2007
	Nuestra Señora	Cochrane Hill	Caribou	Total	Total
	\$	\$	\$	\$	\$
Non-producing mining properties					
Balance, beginning of period	1,886,419	245,186	396,586	2,528,191	2,267,618
Acquisitions	-	-	60,000	60,000	128,500
Proceeds from option agreement	-	(20,000)	-	(20,000)	-
Acquisition of non-producing mining property cost of Scorpio Gold	-	-	-	-	220,141
Write-off	-	-	-	-	(68,500)
Asset retirement obligations	-	-	-	-	41,031
Reduction on transfer of properties to Scorpio Gold	-	-	-	-	(60,599)
Balance, end of period	1,886,419	225,186	456,586	2,568,191	2,528,191
Deferred exploration and development expenditures					
Balance, beginning of period	48,212,093	-	222,368	48,434,461	31,397,483
Drilling and exploration	2,467,724	-	-	2,467,724	4,792,949
Mine development	3,115,055	-	-	3,115,055	5,266,017
Site administration	1,559,912	-	631	1,560,543	2,441,033
Electric power line	526,834	-	-	526,834	2,177,402
Roads	165,584	-	-	165,584	1,604,826
Depreciation of property, plant and equipment	288,553	-	4,998	293,551	537,894
Stock-based compensation	179,343	-	-	179,343	369,803
Transportation and travel	109,818	-	198	110,016	269,372
Depreciation of equipment under capital lease	14,324	-	-	14,324	29,690
Proceeds from option agreement	-	-	-	-	(10,000)
Field supplies and other	-	-	8,064	8,064	167,318
Permitting	-	-	1,311	1,311	37,320
Incurring during the period	8,427,147	-	15,202	8,442,349	17,683,624
Reduction on transfer of properties to Scorpio Gold	-	-	-	-	(646,646)
Balance, end of period	56,639,240	-	237,570	56,876,810	48,434,461

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

6. Obligations under capital lease

The future minimum lease payments required for equipment under capital lease agreements are as follows:

	US\$	CA\$
2008	85,495	87,086
2009	47,966	48,857
Total minimum lease payments	133,461	135,943
Amount representing interest at rates varying from 1% to 2.5% over LIBOR	2,494	2,534
	130,967	133,409
Less: Current portion	130,967	133,409
Long-term portion	-	-

7. Long term debt

On May 5, 2008, the Company closed a private placement financing to issue convertible debentures in the aggregate principal amount of \$20,000,000. The debentures were issued at par, have a maturity date of May 5, 2011, and bear interest at a rate of 7% per year, payable semi-annually in arrears. The debentures will be convertible at any time prior to maturity at the option of the holders into common shares of the Company at a conversion price of \$1.55 per common share and will not be redeemable by the Company. In consideration for its services, the underwriter received a fee of \$750,000.

In connection with this financing, the Company received a \$10,000,000 short-term bridge loan from an institutional investor. The bridge loan was unsecured, repayable on demand, and accrued interest at a rate of 7% per annum, compounded daily. In accordance with the terms of the bridge loan, upon the closing of the convertible debentures, the principal amount of the bridge loan was repaid through the issuance to the bridge loan lender of \$10,000,000 principal amount of the debentures as part of the aggregate \$20,000,000 principal amount of debenture issued, and accrued interest on the bridge loan was paid in cash.

Generally accepted accounting principles for compound financial instruments require the Company to allocate the proceeds received from the convertible debentures between; (i) the estimated fair value of the holder's option to convert the debentures into common shares and (ii) the estimated fair value of the future cash outflows related to the debentures. At issuance, the Company estimated the fair value of the conversion option by deducting the present value of the future cash outflows of the convertible debentures, calculated using a risk-adjusted discount rate of 11%, from the face value of the principal of the convertible debentures. The residual value allocated to the conversion option is added to the face value of the convertible debentures over the life of the debentures by a charge to earnings, using the effective interest rate method.

The financial liability component of the convertible debentures at June 30, 2008 is as follows:

	\$
Principal amount of convertible debentures	20,000,000
Deduct: Residual value allocated to the conversion option	(1,998,212)
Financial liability component at issuance (present value of future cash outflows)	18,001,788
Add: Accretion of the residual value allocated to the conversion option	83,394
Long-term balance of financial liability component	18,085,182

The principal amount of the convertible debentures plus accrued interest to June 30, 2008 amounted to \$20,214,794.

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

8. Share capital

a) Authorized

Authorized share capital consists of an unlimited number of common shares.

b) Warrants

	Number	Weighted average exercise price \$
Balance, beginning of period	20,412,293	1.49
Exercised	(889,300)	1.40
Balance, March 31, 2008	19,522,993	1.49
Issued upon exercise of compensation options	53,034	1.40
Exercised	(6,402,842)	1.40
Expired	(9,244,435)	1.40
Balance, June 30, 2008	3,928,750	1.85

As at June 30, 2008, the Company has warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price \$	Expiry date
3,928,750	1.85	November 1, 2010

c) Broker compensation options

- (i) Pursuant to a brokered private placement that closed November 1, 2007, 1,100,050 compensation options were granted as partial compensation to the agents. Each option can be exercised to acquire a common share at \$1.49 until November 1, 2010. None of these broker compensation options has been exercised so far.
- (ii) During the three-month period ended June 30, 2008, 106,068 compensation options issued in 2006 and maturing in April and May 2008 were exercised at \$1.40 each resulting in the issuance of 106,068 common shares and 53,034 warrants. The remaining 2,005,898 compensation options expired unexercised.

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

8. Share capital (Continued)

d) Stock option plan

A summary of changes in the Company's outstanding stock options is presented below :

	Number	Weighted average exercise price
		\$
Outstanding, beginning of period	6,607,500	1.44
Granted	1,990,000	1.18
Exercised	(5,000)	0.89
Outstanding, March 31, 2008	8,592,500	1.38
Granted	254,856	1.37
Outstanding, June 30, 2008	8,847,356	1.38
		Six-month period ended June 30, 2008
		\$
Weighted average fair value at grant date		0.60

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2008:

Exercise price	Weighted average remaining contractual life (in years)	Outstanding	Exercisable
\$			
0.47 to 0.66	1.42	1,735,000	1,735,000
0.88 to 0.95	3.11	332,500	332,500
1.05 to 1.39	4.32	2,584,856	2,584,856
1.42 to 1.77	3.70	85,000	85,000
1.88 to 1.91	3.24	4,110,000	4,095,000
		8,847,356	8,832,356

The weighted average exercise price of outstanding and exercisable stock options is \$1.38.

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

8. Share capital (Continued)

e) Stock-based compensation

The Company records options granted using a fair value based method of accounting. The Company uses the Black-Scholes Model to estimate fair value using the following weighted-average assumptions:

	Six-month period ended June 30, 2008
Expected dividend yield	0%
Expected stock price volatility	62%
Risk free interest rate	3.85%
Expected life	4 years
Total stock-based compensation	\$1,389,529

9. Interest and financing

	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007
	\$	\$	\$	\$
Interest on obligations under capital lease	1,515	2,711	3,817	6,274
Interest on short-term loans	32,624	32,968	1,123	1,123
Interest on long-term debt	214,794	214,794	-	-
Accretion of debt component of convertible debentures	83,394	83,394	-	-
Financing fees	1,021,288	1,021,288	-	-
	<u>1,353,615</u>	<u>1,355,155</u>	<u>4,940</u>	<u>7,397</u>

10. Segmented information

(a) Industry information

The Company operates in one reportable operation segment, being the acquisition, exploration and development of resource properties.

(b) Geographic information

Interest income in the three-month period ended June 30, 2008 was earned in Canada. The Company's non-current assets by geographic location are as follows:

	June 30, 2008	December 31, 2007
	\$	\$
Canada	1,675,041	1,581,159
Mexico	91,579,416	66,284,870
	<u>93,254,457</u>	<u>67,866,029</u>

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

11. Supplementary cash flow information

(a) *Supplementary information regarding non-cash investing and financing transactions*

	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007
	\$	\$	\$	\$
Depreciation of property, plant and equipment capitalized in deferred exploration and development expenditures	154,196	307,875	139,199	274,344
Stock-based compensation included in deferred exploration and development expenditures	47,964	179,343	238,302	251,087
Deferred exploration and development expenditures included in accounts payable	1,167,470	1,167,470	367,189	367,189
Addition of property, plant and equipment included in accounts payable	767,648	767,648	-	-
Addition of equipment under a capital lease	-	167,918	-	-
Transfer of contributed surplus to share capital on exercise of:				
Stock options	-	4,200	280,338	694,355
Warrants	2,817,250	3,208,542	3,411	107,812
Compensation options	46,670	46,670	509	3,633

(b) *Supplementary information*

	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007
	\$	\$	\$	\$
Interest paid	34,117	35,313	4,940	7,397
Income taxes paid	3,886	42,159	-	-

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

12. Contingencies

(a) Environmental contingencies

The Company's exploration activities are subject to various federal, provincial and state laws and regulations in Canada and Mexico which govern the protection of the environment. These laws and regulations are continually changing and becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are in material compliance with all applicable laws and regulations. The Company expects to incur expenditures in the future to comply with such laws and regulations.

(b) Legal matters

In 2005, the Company initiated a claim against a former employee of its Mexican mining operations for recovery of unauthorized disbursements which benefited the employee in the amount of approximately \$74,000 (781,308 pesos) during the period from January 2004 to February 28, 2005.

The Company has also identified additional expenditures in the amount of approximately \$410,000 which were incurred in the period from December 2004 to January 31, 2005 and were charged to the Company's Mexican subsidiary by a company controlled by the former employee and a third party. The Company believes that certain of these expenditures were not properly authorized and also directly benefited the former employee. Amounts recovered from the former employee, if any, will be recorded in the period they are received.

The Company is also party to certain other claims incurred in the normal course of business, none of which management believes will have a material impact on the results of operations or financial position of the Company.

13. Related party transactions

The Company incurred the following charges with directors, officers and private companies controlled or under significant influence by them:

	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007
General and administrative	\$ 22,000	\$ 42,000	\$ 53,243	\$ 111,898
Deferred exploration and development expenditures	106,215	114,433	19,800	70,283
Business development	-	-	-	56,250

As at June 30, 2008 an amount of \$26,000 resulting from transactions with related parties is included in accounts payable and accrued liabilities.

The above transactions occurred within the normal course of business and are measured at the exchange amount, which is the amount of considerations established and agreed to by the related parties.

14. Subsequent event

On July 29, 2008, Scorpio Gold Corporation, ("Scorpio Gold") a 93.5% owned subsidiary of Scorpio Mining Corporation signed a Letter of Intent ("LOI") with Cincoro Capital Corp. ("Cincoro"), a capital pool company listed on the TSX Venture Exchange, ("the Exchange") whereby Cincoro has agreed to purchase (the "Acquisition") all of the issued and outstanding common shares of Scorpio Gold or otherwise complete a business combination with Cincoro. The Acquisition, if completed, will constitute Cincoro's "qualifying transaction" under the policies of the Exchange. Completion of the transaction with Cincoro, which will change its name to Scorpio Gold Corporation, will see Scorpio Mining become the controlling shareholder in Cincoro.

Scorpio Mining Corporation

Notes to the consolidated financial statements (unaudited)
Six-month period ended June 30, 2008

14. Subsequent event (Continued)

Pursuant to the LOI, Cincoro has agreed prior to the completion of the qualifying transaction, subject to shareholder and regulatory acceptance, to consolidate its currently issued 7,100,000 common shares on a 3 to 1 basis (three pre-consolidated shares for each one post-consolidated share). Subject to the execution of a definitive agreement and regulatory acceptance to the Acquisition, Cincoro will acquire all of the issued and outstanding common shares of Scorpio Gold in exchange for the issuance of common shares of Cincoro on the basis of one post-consolidated common share of Cincoro for each one Scorpio Gold common share outstanding. Upon completion of the Acquisition, Scorpio Gold will become a wholly-owned subsidiary of Cincoro. The signing of a definitive agreement will be preceded by a 25 day due diligence period. As a condition of the Acquisition, Cincoro is required to complete, following the completion of the share consolidation and concurrently with the closing of the Acquisition, a non-brokered private placement to raise a minimum of \$1,500,000 and up to a maximum of \$2,000,000.

The Transaction is expected to close in October 2008 and is subject to customary conditions, including definitive documentation, receipt of all requisite regulatory approvals, including the approval of the Exchange and the Toronto Stock Exchange and approval by the shareholders of Scorpio Gold.

15. Capital management

Capital is defined as Shareholders' Equity, excluding Accumulated other comprehensive income, and Long-term debt, including obligations under capital lease and current portion. The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern and to maximize the value for its shareholders.

The Company manages its capital structure and determines its capital requirements in light of the changing economic conditions and the risk characteristics of its assets. To reach its objectives the Company may have to maintain or adjust its capital structure by issuing new share capital or issue new debt.

During the second quarter of 2008, the Company adjusted its capital structure by issuing convertible debentures for \$20 million to complete the financing of the Nuestra Señora mine in Mexico.

At this stage of its development it is the policy of the Company to preserve cash to fund its operations and not to pay dividend. The Company is not subject to any externally imposed capital requirements.

	June 30, 2008	December 31, 2007
Long-term debt	18,218,591	83,082
Shareholders' Equity	97,700,711	88,066,331
Capital	115,919,302	88,149,413

16. Comparative figures

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

SCORPIO MINING CORPORATION

Management Discussion and Analysis of Financial Results – Quarter ended June 30, 2008

INTRODUCTION

The following Management Discussion and Analysis (MD&A) is for the three and six-month periods ended June 30, 2008 and are provided as of August 5, 2008. This MD&A is to be read in conjunction with the interim unaudited consolidated financial statements of Scorpio Mining Corporation (the “Company” or “Scorpio”) for the period ended June 30, 2008 and 2007 and the audited consolidated financial statements and MD&A for the year ended December 31, 2007. These documents are available on the Company’s website (www.scorpiomining.com) and filed on Sedar (www.sedar.com). All dollar amounts are in Canadian dollars unless otherwise indicated. This MD&A was prepared by management and has not been reviewed by the Company’s external auditors.

Scorpio is incorporated under the Canada Business Corporations Act. The Company is a reporting issuer in British Columbia, Alberta, Ontario and Quebec. Scorpio Mining Corporation is listed on the Toronto Stock Exchange under the trading symbol SPM. The Company is involved in the acquisition, exploration and development of mineral resource properties in Mexico and Canada.

Mineral Properties

Scorpio’s primary business focus is the 100% owned Nuestra Señora property, a silver-lead-zinc-copper project, located in Sinaloa State, Mexico. The Company’s interests in the Cochrane Hill and Caribou properties located in Nova Scotia and the Lac Arseneault property located in Quebec, all gold projects, were transferred to its 93 % owned subsidiary Scorpio Gold Corporation (“Scorpio Gold”) in August 2007. See “Indirect Interests in Other Mineral Properties” below in this document for further details.

The Company’s President, Mr. D. Roger Scammell, PGeo, is the Company’s qualified person under NI 43-101, and has reviewed the following technical disclosure.

Nuestra Señora Property

The Nuestra Señora Project, located east of the town of Cosalá in the State of Sinaloa, Mexico, is the main focus of Scorpio’s current exploration, development and mine production activities. The Nuestra Señora property comprises four mineral exploitation claims encompassing 1,281 hectares and six mineral exploration claims encompassing 14,174 hectares.

The Company’s indirectly-held wholly-owned Mexican mining subsidiary, Minera Cosalá SA de CV (“Minera Cosalá”), holds 100% ownership of the Nuestra Señora mineral rights, with no underlying royalties or property payments.

Nuestra Señora Deposit

During and subsequent to the quarter ended June 30, 2008, Scorpio continued to focus its exploration, development and production activities on the Nuestra Señora silver-zinc-lead-copper deposit.

Diamond Drilling

Underground drilling during the quarter ended June 30, 2008 totalled 11,693 metres and was principally dedicated to defining the areas scheduled for room-and-pillar mining from the Main Zone. Drilling was limited to levels 8 to 12 where access has been completed, or will be completed shortly.

The Company currently has three underground diamond drill rigs performing in-fill delineation drilling for areas of exploitation as well as conducting exploration drilling. Exploration is currently being completed towards the Main Offset target and also at depth below the 12th Level along the Main and Hoag zones. Results are promising to date and it is expected that results from this exploration drilling will add to the overall mineral resource base.

February 2008 Mineral Resource Estimate

A new mineral resource estimate for the Nuestra Senora deposit was completed by the Company and audited by independent geological and engineering consultants Watts, Griffis, and McOuat Limited ("WGM") of Toronto, Canada as of February, 2008. The new estimate was undertaken in order to support an internal mineral reserve estimate and mine plan currently being prepared for the first two years of mining, and to establish the next priority areas for definition drilling.

The mineral resource estimate was prepared using data available up to February 24, 2008 and based on expected mining methods and projected costs over the next two years. Conservative measures include increasing the cut-off grade to \$100 from \$80/tonne utilized in the 2007 mineral resource estimate and allowing for significantly more mining dilution in areas where low cost, long-hole mining will be undertaken. In addition, this estimate utilized only the Company's drill hole data, omitting all of the historic Asarco data to ensure sample integrity and reliability. A conservative approach in estimating mineral resources from the upper levels of the mine was also undertaken where historic Asarco stopes have not yet been surveyed to satisfaction.

Table 1. Estimated Mineral Resources - February 2008

Category	Tonnes (metric)	Silver (g/t)	Gold (g/t)	Zinc (%)	Lead (%)	Copper (%)
Measured	2,689,369	126	0.12	2.69	1.33	0.36
Indicated	1,522,232	137	0.16	2.72	1.25	0.36
Measured + Indicated	4,211,601	130	0.13	2.70	1.29	0.36
Inferred Resources	867,799	168	0.22	3.06	1.39	0.27

Estimation Methodology

The mining and economic parameters applied to the February 2008 mineral resource estimate include the following:

- Metal values used were US\$16.50 per oz. for silver, US\$880 per oz. for gold, US\$1.00 per lb. for zinc, US\$1.15 for lead, US\$3.25 for copper.
- All calculations were made using Vulcan software and verified with GEMS software.
- Capping grade factors were applied and a US\$100 per tonne cut-off grade was used.
- A block model with cell sizes of 2 x 2 x 5 metres was interpolated using the inverse of the square of the distance using samples in the research ellipsoids. Blocks with composite assay values within a range of 10 metres were classified as "Measured"; those with the closest composite within 10 and 20 metres were classified as "Indicated" and blocks with samples within 20 to 30 metres were classified as "Inferred".
- A specific gravity was also interpolated for each block based on measurements taken on drill core for that area. The average specific gravity for the total mineral resource is 2.99 tonnes per cubic metre.

- All known underground excavation openings were subtracted from the gross estimated mineral resource.
- All historic Asarco drill data was removed from the estimation to ensure sample integrity and reliability.
- Following the calculation of the basic mineral resource estimate, an engineering review was completed in order to assess and demonstrate that the estimated mineral resource has a reasonable prospect of becoming economically viable. This included typical mining and internal dilution factors totalling 10% below Level 8 and 15% above Level 8 due to old workings.
- Only 50% of the Main zone mineral resources were included above Level 8 in order to account for historic, un-surveyed Asarco stopes and potential problems with mining around those stopes. All Santo Domingo zone mineralization was removed from the estimated mineral resource due to its proximity to surface. A more detailed study is required to establish economic viability of this mineralization.

The February 2008 resource estimate represents a significant increase in mineral resources in the measured and indicated categories from the April 2007 estimate and reflects the success of the Company's aggressive definition and exploration drilling program completed in 2007.

The resource estimate was completed by Scorpio's technical team and audited by WGM qualified person, Kurt Breede, P.Eng. A technical report supporting the resource estimate entitled "A Technical Review and Audit of the Nuestra Señora Property, Sinaloa State, Mexico for Scorpio Mining Corporation", is dated June 27, 2008 and was filed on Sedar on July 9, 2008. Mineral resources are not reserves and do not have demonstrated economic viability.

Underground Development & Production Mining

During the quarter ended June 30, 2008, underground development at the Nuestra Señora deposit advanced 775.1 metres. The main access ramp did not advance as the focus was to develop the existing levels to prepare the Main and Santa Teresa zones and lower portion of the Hoag zone for production. As of July 31, 2008, underground development totals 7,818 metres of development including cross cuts and access points and the current 1,604.6 metres of four metre by five metre main access ramp. The Nuestra Señora main access ramp is now connected to the 8th, 9th, 10th and 11th levels. There are 61 metres remaining before the ramp reaches Level 12.

A new access ramp, which will connect the Candelaria mine with the main access ramp of the Nuestra Señora mine is 60% complete, with 140 metres remaining before the breakthrough into the Candelaria mine. Once finished, this access ramp will permit mining of the higher-grade Candelaria mineralization and facilitate additional development and exploration.

The Alimak ventilation raise from the 6th level of the Nuestra Señora mine to the adjacent Candelaria mine has been completed and installation of the vent fan system is expected to be completed by September 2008 pending modification of the electrical power supply system.

Underground grade control, mapping and sampling protocols have been established and current efforts are focused on compiling geological and engineering information for each proposed mining stope block in order to establish a comprehensive mining approach and sequence.

The initial full-scale mining is continuing from the lower-grade Hoag zone where primary and secondary blocks have been outlined. The first long-hole production blast in Block 10-15 of the Hoag zone was completed on April 18, 2008, and since then the entire block has been blasted and mined. It is located between levels 10 and 10.5, with all of the ore now extracted and stockpiled at the mill site.

A second stope from the Hoag zone, Block 10-13, is ready for blasting which is scheduled to commence in early August.

In addition to the Hoag zone, mine development and stope preparation is ongoing in the Main NW and Santa Teresa Extension zones, where long-hole and room-and-pillar mining methods will be used.

Mill Site Facility

Construction of the Nuestra Señora processing mill facility commenced in August 2007 and was completed in April 2008. Initial processing and mill commissioning for the first two months May-June 2008 was conducted at a throughput of 300-400 tonnes per day. The purpose of this preliminary production was to determine reagent consumption and optimize the recovery of metals.

With the expectation that throughput will eventually increase, the Company applied for and was granted a permit for future increases in mineral processing to 2,000 tonnes per day.

On April 10, 2008, the mill facility was officially connected to Mexico's main power grid and a kilowatt meter was installed at the entrance to the property. Power is currently distributed between the crushing plant and the mill. Construction of a line from the mill facility to supply power to the mine is delayed due to permitting. In the meantime an additional generator is being installed to ensure the mine will have an adequate supply of electricity. It is also the Company's intention to provide the local communities of Los Braceros, La Seca and the University of Sinaloa's research facility with electrical power, which is part of the Company's overall mandate to assist in the development of the local communities.

On April 12, 2008, the mill facility was connected to the water supply line, which is capable of delivering sufficient fresh water for all the plant's requirements, although the intention is to recycle 80% of the water used in the processing of the concentrates. This supply line will also provide the University of Sinaloa's research facility with fresh water, also in keeping with the Company's intent to support local education in research and development.

In June 2008, the Company's Mexican subsidiary, Minera Cosala SA de CV, entered into an Agency Agreement with Ocean Partners U.S.A. Inc. ("Ocean"), for the marketing worldwide of its production concentrates from the Nuestra Señora mine. Finalizing of initial arrangements for the offtake and smelting of lead and zinc concentrates from Nuestra Señora has now been completed with Ocean's assistance.

The mill is currently operating at slightly more than half capacity due to commissioning issues with the jaw crusher. The equipment has been sent out for repair and in the interim a portable crusher is being rented to provide the mill feed. On several days, in July 2008, the mill processed more than 1,000 tonnes per day. The overall throughput is being maintained at 600-700 tonnes per day but is anticipated to increase to the scheduled 1,000 tonnes per day in the current quarter.

On July 29th, the Company made the first shipments of lead concentrate to the Peñoles smelting facility in Mexico consisting of two concentrate trucks each carrying 35 tonnes. The grade of the concentrate obtained satisfies an acceptable payment grade for smelting.

Between June 30th and August 5th the mill facility improved not only the concentrate grade but recovery of all payable metals. For the month of July, the Company produced an average of 8.20 tonnes of lead concentrate per day with an average grade of 54.51% lead and containing 2,225 grams per tonne silver.

Lead concentrate shipments will be made on a regular basis at the initial rate of one truck every 3 to 4 days with shipments increasing as the mill ramp up continues. Peñoles accepts shipments until the 28th of each month at which time the monthly account is closed and the payment for the concentrates follows 15 days later.

Currently the Company also has 300 tonnes of zinc concentrate ready to be shipped by truck to its port loading facility in Manzanillo, México for transport to Asian smelters. The Company has contracted 5,000 tonnes of storage at the warehouse.

It is expected that in August, the Company will begin shipment of zinc concentrate. For the month of July, the mill produced an average of 15.6 tonnes of zinc concentrate per day with an average grade of 48.14% zinc and containing 268 grams per tonne silver payable.

Regular zinc concentrate shipments will be made at the initial rate of one truck per every second day and will continue to increase as the mill ramp up continues. An advance payment will be made 15 days after the accumulation of a lot of 1,000 tonnes at the warehouse.

The Company has put in place various procedures to control its revenues. Each concentrate shipment is weighted, sampled and sealed prior to departure from the mill site. When trucks reach the smelting facility or warehouse in Manzanillo, in the case of lead and zinc concentrates respectively, they are inspected and sampled by the purchaser. If a variance between those various measurements is greater than a predefined threshold then an independent laboratory will provide analysis that will be used as final results.

Tailings Pond and Dam Construction

The initial phase of the tailings dam is fully operational and will accommodate tailings produced by the mill for the first year. Contouring of the pond area for the second phase, which will have sufficient capacity for years two through five has been completed.

Housing Construction

Construction work on the permanent facility camp is complete and the camp will house 62 persons in 24 houses. This facility is built on 14 hectares of land that the Company purchased and is well situated on both sides of the Cosalá by-pass road built by the Company. The site has electrical power and is connected to the municipality's water supply and sewage system.

The Company also plans to build an office on the site and relocate its entire support staff from the current office in Cosalá to the new facility.

Indirect Interests in Other Mineral Properties

Scorpio's interests in the Cochrane Hill and Caribou properties located in Nova Scotia and the Lac Arseneault property located in Quebec were transferred to Scorpio Gold in consideration for the issuance of an aggregate of 26,830,763 common shares of Scorpio Gold on August 9, 2007 as part of a planned reorganization of Scorpio's assets. As a result of this transaction, Scorpio became the majority shareholder of Scorpio Gold, holding approximately 93% of the issued and outstanding Scorpio Gold shares.

Caribou Property

The Caribou gold property is located 80 km northeast of Halifax and 10 km south of the rural community of Upper Musquodoboit, in Halifax County, Nova Scotia. Scorpio Gold has an option to acquire a 100% interest in the property that comprises 16 contiguous mineral claims covering approximately 256 hectares.

Scorpio originally entered into an option agreement dated April 25, 2005 with John Logan Enterprises Ltd. ("Logan") to acquire a 100% interest in the claims that represent the Caribou property, a former gold producer.

There are no underlying royalties or obligations except as outlined in the option agreement and those to the Nova Scotia government as defined in the provincial mining laws. The exploration claims were staked by John Logan Ltd. in 1980. On August 9, 2007, Scorpio transferred all its Gold Assets including the Caribou Gold property to Scorpio Gold. The underlying agreement allows for the transfer of the option rights under that agreement and as such Scorpio Gold has assumed and continues to carry out the option terms.

Under the option agreement, an initial non-refundable cash payment of \$10,000 was made and thereafter Scorpio Gold can acquire a 100% interest in the property by making a payment of \$65,000 and fulfilling a work commitment of \$100,000 in the first year, and making payments of \$60,000 in each of the next three years with a work commitment of \$500,000 per year. During 2007, the property owner has agreed to delay the commencement of work commitments from April 2007 to April 2008. Outstanding work commitments remain at \$500,000 per year for an aggregate total of \$1,500,000 over three years, with all work to be completed by April 2011. To date \$608,367 of the required exploration work commitments have been fulfilled and \$255,000 of acquisition payments have been made. Upon exercise of the option, the property will remain subject to a 2.5% net smelter return ("NSR") royalty in favour of the vendor. Scorpio Gold retains the right to purchase 1% of the NSR royalty for \$1,000,000. Upon exercise of the option, Scorpio Gold must also make an advance royalty payment of \$250,000 which will be credited against future NSR royalty payments.

Cochrane Hill Property

The Cochrane Hill property is 100% owned by Scorpio Gold, subject to an option agreement with Atlantic Gold NL ("ATV") discussed below. It consists of 53 contiguous mineral claims covering approximately 848 hectares of land in Guysborough County, Nova Scotia and encompassing one portal adit and three shallow shafts from former mining operations.

The claim group is located approximately 35 km south of the town of Antigonish, and is accessible via Nova Scotia Hwy #7, which passes within 300 metres of the Cochrane Hill mine site.

Ninety percent (90%) of the property is located on Crown land, while ten (10%) percent (west of Hwy #7) is privately held.

Prior to any mining activity, a mining permit and a surveyed surface lease are required. The Cochrane Hill former mine site is located on Crown land east of Hwy #7 and the Crows Nest deposit is located on privately held land to the west of Hwy #7. Permits to conduct exploration work on Crown land are available from the Nova Scotia Department of Natural Resources. Permission from the private land owner will be required prior to working the private lands.

In June 2007, the Company entered into an Option and Joint Venture Agreement, ("JV") (subsequently assigned to Scorpio Gold) with Atlantic Gold NL ("ATV"), whereby ATV has the right to acquire a 60% interest in the Cochrane Hill property by making staged cash payments totalling \$100,000 and performing scheduled work programs totalling \$4.75 million dollars over a four year period. At the time ATV exercises its option and acquires a 60% interest, Scorpio Gold may thereafter elect to participate pro-rata in funding joint venture work programs or alternatively receive a 20% carried interest in the project and have no further responsibility to fund expenditures up to commercial production. The joint venture will be responsible for the 3% NSR royalty payable to the original property owner and responsible for keeping the claims in good standing.

Lac Arseneault Property

The Lac Arseneault property is located in Bonaventure County, 36 km north of the town of Paspebiac on the south coast of the Gaspé Peninsula, Quebec. The property consists of 30 contiguous unpatented claims covering approximately 480 hectares. Scorpio Gold holds a 100% interest in the property, subject to a 2% NSR royalty.

Exploration activities are subject to various federal and provincial laws and regulations in Canada, which govern the protection of the environment. These laws and regulations are continually changing and becoming more stringent. Scorpio conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

Scorpio expects to incur expenditures in the future to comply with such laws and regulations.

RESULTS OF OPERATIONS

Scorpio reported a net loss of \$1,936,895 (\$0.02 per share) for the three-month period ended June 30, 2008, compared to a net loss of \$5,343,303 (\$0.06 per share) for the three-month period ended June 30, 2007. Net loss for the first six months of 2008 was \$4,000,386 (\$0.04 per share) compared to \$6,150,068 (\$0.07 per share) for the first six months of 2007. The major differences between the 2007 and 2008 results are explained below.

The Company had no operating revenue in either of these periods because the Company is still in the exploration and development stage. Revenue consisted solely of interest income in the amounts of \$169,574 for the six-month period ended June 30, 2008, and \$451,586 for the six-month period ended June 30, 2007. This decrease is explained by a lower average cash-on-hand balance and lower interest rates in 2008 compared to 2007.

Stock-based compensation which is non-cash in nature, decreased from \$3,523,062 for the three-month period ended June 30, 2007, to \$124,122 for the three-month period ended June 30, 2008. 254,856 stock options were granted for the three-month period ended June 30, 2008 as compared to 3,405,000 options granted for the same period in 2007.

Investors' relations expense increased from \$64,318 for the three-month period ended June 2007 to \$227,120 for the same period in 2008. This increase was largely caused by the cost of the Nuestra Señora mine and mill inauguration in Mexico in May 2008.

Professional fees increased from \$41,733 for the three-month period ended June 30, 2007 to \$150,350 for the three-month period ended June 30, 2008, mostly due to legal costs relating to a \$10,000,000 bridge loan and a \$20,000,000 convertible debenture financing.

The Company recorded a foreign exchange gain of \$297,712 during the second quarter of 2008 compared to a loss of \$366,079 during the second quarter of 2007. This increase was mostly caused by a steady appreciation of the Mexican Peso during 2008 which impacted favourably the Company's Peso denominated net working capital in Mexico upon consolidation.

Interest and financing expense increased during the three-month period ended June 30, 2008 to \$1,353,615 from \$4,940 during the same period in 2007. This significant increase was caused by the issue on May 5, 2008 of \$20,000,000 of convertible debentures and is mainly comprised of \$1,021,288 of financing fees and \$214,794 of accrued interest on the debentures.

Income Taxes

Income tax expense was nil for the three-month period ended June 30, 2008 compared to \$1,080,942 for the same period in 2007. The tax provision for the second quarter of 2007 was recorded due to certain expenditures which were determined to be non-deductible for Mexican tax purposes on filing.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2008, the Company had \$18,269,864 in cash and cash equivalents compared to \$17,563,300 as of December 31, 2007.

Working capital was \$23,769,218 as of June 30, 2008 compared to \$21,215,324 as of December 31, 2007.

In order to meet its funding requirements for its Mexican and Canadian operations during 2008, the Company closed on May 5, 2008 a bought-deal private placement whereby it issued convertible debentures for gross proceeds of \$20 million. These convertible debentures bear interest at 7% payable semi-annually in arrears and have a maturity of 3 years. Debentures are convertible by the holder at a price of \$1.55 per share and are not redeemable by the Company.

In connection with this financing, the Company received a \$10,000,000 short-term bridge loan from an institutional investor. The bridge loan was unsecured, repayable on demand, and accrued interest at a rate of 7% per annum, compounded daily. Upon the closing of the convertible debenture financing, the principal amount of the bridge loan was repaid through the issuance to the bridge loan lender of \$10,000,000 principal amount of the convertible debentures and accrued interest was paid in cash.

In addition, stock options, warrants and broker compensation options were exercised during the second quarter of 2008 providing the Company with additional proceeds of \$9.1 million. The Company believes it has sufficient financial resources to meet its required expenditures until the operation at Nuestra Señora generates positive cash flows.

Property, Plant and Equipment

For the six-month period ended June 30, 2008, property, plant and equipment acquisitions amounted to \$17,294,877 of which \$15,584,007 is related to construction of the processing mill at the Nuestra Señora project in Mexico. Acquisitions for the same period of 2007 amounted to \$1,719,987 and included, amongst others, the purchase of mining equipment as well as land preparation and refurbishing of mill parts.

Non-Producing Mining Properties and Deferred Exploration and Development Expenditures

Total deferred exploration and development expenditures were \$56,876,810 as of June 30, 2008, compared to \$48,434,461 as of December 31, 2007.

The exploration and development expenditures incurred during the six-month period ended June 30, 2008 totalled \$8,442,349, compared to \$10,221,837 during the same period in 2007. The capitalised expenditures on the Nuestra Señora property, including \$302,877 of depreciation and \$179,343 of stock-based compensation comprised almost all these expenditures, totalling \$8,427,147 for the first six months of 2008.

The capitalized expenditure on the Nuestra Señora property, including \$274,344 of depreciation and \$254,087 of stock-based compensation totalled \$10,205,919 for the first six months of 2007. Deferred exploration and development expenditures were higher in 2007 due to expenditures related to the electrical power line and the by-pass road.

Liabilities

Current liabilities, consisting mostly of accounts payable were \$4,428,600 as of June 30, 2008 compared to \$4,101,352 as of December 31, 2007.

Long-term debt

As at June 30, 2008, long-term debt consisting of the balance of the liability component of the convertible debentures is \$18,085,182. At issuance, on May 5, 2005, the Company received gross proceeds of \$20 million. Under generally accepted accounting principles, the Company had to allocate those proceeds to both the conversion option and to the liability component of the debentures. In order to do so, the Company calculated the present value of future cash outflows related to the debentures using a discount rate of 11% which represents, in the views of the Company, the best estimate of the interest rate that a debenture without conversion options would have borne at the issuance date.

Using this calculation, the initial liability component was established at \$18,001,788 and the residual value of \$1,998,212 was attributed to the conversion option and recorded in shareholder's equity. During the three-month period, the liability component increased by \$83,394 representing accretion of the deemed discount on issue.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected quarterly financial information for each of the last eight quarters:

Quarter Ending	Interest Income \$	Net Loss \$	Loss per share \$
June 30, 2008	79,497	(1,936,895)	(0.02)
March 31, 2008	90,077	(2,063,491)	(0.02)
December 31, 2007	142,134	(259,837)	(0.00)
September 30, 2007	88,214	(880,490)	(0.01)
June 30, 2007	190,354	(5,343,303)	(0.06)
March 31, 2007	261,232	(806,765)	(0.01)
December 31, 2006	291,939	(718,146)	(0.02)
September 30, 2006	401,325	(12,480)	(0.00)

Shareholders' Equity

There was an increase of \$9,634,380 in shareholders' equity in the six-month period ended June 30, 2008 to \$97,700,711 from \$88,066,331 as of December 31, 2007.

Share capital increased from \$89,643,919 as of December 31, 2007 to \$103,263,721 as of June 30, 2008. Broker compensation options and warrants exercised during the six-month period accounted for amounts of \$195,165 and \$13,417,541, respectively.

During the second quarter, an amount of \$1,998,212 was recorded as the equity component of the \$20,000,000 principal amount of convertible debentures as discussed above. During the same period, \$113,364 of issue costs related to the equity component of the convertible debentures were also recorded.

Contributed surplus decreased by \$1,869,884 during the six-month period ended June 30, 2008 mainly as a result of exercise of warrants.

CASH FLOW

Cash flow used in operating activities was \$146,929 and \$2,690,624 for the three and six-month periods ended June 30, 2008, respectively compared to \$3,132,111 and \$4,570,571 for the same periods of 2007. This variation is mostly caused by net change in working capital in Mexico which was partially offset by an increase in interest and financing expense paid during the second quarter of 2008 resulting from the convertible debenture financing

Cash flow from financing activities was \$28,894,598 and \$29,999,106 for the three and six-month periods ended June 30, 2008 compared to \$325,444 and \$1,651,327 for the same periods of 2007 in which there was no significant financing completed. On May 5, 2008, the Company received gross proceeds of \$20 million from the issue of the convertible debentures. Issues of share capital following exercise of options, warrants and compensation options during the three and six-month periods ended June 30, 2008 totalled \$9,112,474 and \$10,361,944, respectively, compared to \$274,147 and \$1,073,020, respectively for the same periods of 2007.

Cash flow used in investing activities was \$14,966,861 and \$26,694,875 for the three and six-month periods ended June 30, 2008 as compared with \$5,907,434 and \$12,063,995 for the same periods of 2007 principally due to the intensive mill construction activities in 2008 at the Nuestra Señora project.

CONTINGENCIES

The Company is party to certain claims incurred in the normal course of business, none of which management believes will have a material impact on the results of operations or financial position of the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements as at June 30, 2008.

TRANSACTIONS WITH RELATED PARTIES

In the normal course of operations, the Company enters into various transactions with related parties which have been measured at exchange value and are recognized in the consolidated financial statement.

During the three-month period ended June 30, 2008, the Company incurred an aggregate amount of \$22,000 for director's fees and \$86,215 for mining and technical services with Servicios MRGP, S.A. de C.V., a company 50% owned by Mr. Peter Hawley and Mr. Roger Scammell, two directors of the Company. The Company further incurred during the second quarter of 2008 an amount of \$20,000 for consultant's fees to Neil Seldon and Associates, a company of which Neil Seldon, , is the president for consulting services related to smelter and offtake contracts. Neil Seldon is also a director of the Company. As at June 30, 2008, an amount of \$26,000 related to those transactions is included in accounts payable and accrued liabilities.

PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates potential property and project acquisitions and, in some cases, makes proposals to acquire such properties. These proposals, which are usually subject to Board, regulatory and sometimes, shareholder approvals, may involve future cash payments, share issuances and property work commitments. As of this date, the Company has a number of possible transactions that it is pursuing. Management is uncertain whether any of these proposals will ultimately be completed.

On July 28, 2008, Scorpio Gold Corporation (“Scorpio Gold”), a 93% owned subsidiary of the Company signed a letter of intent (“LOI”) under which it contemplates a business combination transaction with Cincoro Capital Corp., (“Cincoro”) a Capital Pool Company on the TSX Venture Exchange (“TSX-V”). The objective of this transaction is to combine the two companies and ultimately have Scorpio Gold listed on the TSX-V.

Prior to the completion of the transaction, Cincoro will complete a share consolidation on a 3 to 1 basis (three pre-consolidated shares for each post-consolidated share) and a name change, expected to be “Scorpio Gold Corporation”.

Under the terms of the LOI, Cincoro will acquire all of the issued and outstanding common shares of Scorpio Gold in exchange for the issuance of common shares of Cincoro on the basis of one post consolidated common share of Cincoro for each one Scorpio Gold common share outstanding. There are currently 28,855,764 Scorpio Gold common shares issued and outstanding and 1,400,000 additional Scorpio Gold common shares will be issued to Scorpio Mining Corporation in consideration for the repayment of a bridge loan in the amount of \$700,000. This will result in Cincoro issuing an aggregate of 30,255,764 post consolidated common shares to acquire Scorpio Gold. Upon completion of the transaction, Scorpio Gold will become a wholly-owned subsidiary of Cincoro.

There are currently 7,100,000 Cincoro common shares issued and outstanding, as well as 200,000 common share purchase warrants and 600,000 stock options of Cincoro outstanding. Upon completion of the share consolidation and the business combination and including those securities issued in the transactions discussed below, there are expected to be 36,107,277 post-consolidated Cincoro common shares issued and outstanding, together with approximately 1,115,150 post-consolidated common share purchase warrants and 3,225,000 post consolidated stock options of Cincoro outstanding.

As a condition of the transaction, Cincoro is required to complete, following the completion of the share consolidation and concurrently with the closing of the business combination a non-brokered private placement (the “Private Placement”) to raise a minimum of \$1,500,000 and up to a maximum of \$2,000,000. It is expected that 50% of the Private Placement will be conducted by the issuance of units (each a “Unit”) at a purchase price of \$0.55 per Unit. Each Unit will consist of one post consolidated Cincoro Share and one half of one post consolidated common share purchase warrant of Cincoro. Each whole warrant will entitle the holder to acquire one post consolidated Cincoro Share at a purchase price of \$0.75 per share at any time during the period of 18 months from the closing of the Private Placement. It is anticipated that the balance of 50% of the Private Placement will be conducted by the issuance of post consolidated Cincoro Shares issued on a flow-through share basis under the Income Tax Act (Canada) at a purchase price of \$0.60 per flow-through share.

The proceeds of the Private Placement will be used to fund the costs associated with completing the transaction, the proposed work programs on the Caribou property and for general working capital purposes.

Following these various transactions, it is anticipated that Scorpio Mining will own approximately 84% of Scorpio Gold assuming the private placement is fully subscribed and Scorpio Mining does not participate.

CRITICAL ACCOUNTING ESTIMATES

The preparation of its consolidated financial statements requires the Company to use estimates and assumptions that affect the reported amounts of assets and liabilities as well as revenues and expenses.

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with Canadian GAAP. Our significant accounting policies are contained in Note 2 to the consolidated financial statements for the year ended December 31, 2007.

Certain of these policies involve critical accounting estimates because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

A discussion of the critical accounting estimates and assumptions that management has made and how they affect the amounts reported in the consolidated financial statements is included in the Company's Management Discussion and Analysis for the year ended December 31, 2007. We consider these estimates to be an important part of understanding our consolidated financial statements.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company currently does not own, hold or have any material interest in, or liability associated with, any derivative instruments.

Financial Condition and Liquidity

The primary factors that will affect the future financial condition of the Company include the continued ability to raise equity or debt financing and the level of exploration and development expenditures required to meet commitments or commercial production. As a mineral exploration and development company with no current production or revenue from mining operations, the Company's cash flows consist of cash outflows for administrative expenses, salaries, property acquisition and evaluation, exploration, development, and expenditures for depreciable equipment such as mobile equipment and computers required for office and field operations.

Financing activities, such as share issuances, result in cash inflows to the Company. Since its inception, the Company has relied on capital markets (and in particular, equity markets) to fund its exploration and development activities. Following the recent issue of convertible debentures and exercise of warrants, the Company believes it has sufficient financial resources to meet its commitments and capital requirements to bring its Nuestra Señora project into commercial production and maintain operations until the project generates positive cash flow.

Industry, Economic and Environmental Risk Factors Affecting Performance

As a mineral exploration and development company, Scorpio's performance is affected by a number of industry and economic factors and exposure to certain environmental risks, and other regulatory requirements. These have been detailed in the Company's December 31, 2007 annual MD&A and its Annual Information Form.

OTHER MD&A REQUIREMENTS

Controls and Procedures Certification

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have designed the Company's disclosure controls and procedures in order to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would have been known to them, and by others, within those entities.

Management have also designed internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. There has been no change in the design of the Company's internal control over financial reporting during the quarter ended June 30, 2008, that would materially affect, or is reasonably likely to materially affect, the company's internal control over financial reporting.

Recent accounting pronouncements

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and section 3450, Research and Development Costs. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This Section is effective in the first quarter of 2009, and the Company is currently evaluating the impact of the adoption of this new section on its consolidated financial statements.

Convergence with International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada and the expected convergence with International Financial Reporting Standards ("IFRS") by the end of 2011.

On February 13, 2008 the Canadian Accounting Standards Board confirmed 2011 as the official changeover date for publicly listed Canadian companies to start using International Financial Reporting Standards (IFRS). The transition will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

Outlook

Scorpio intends to continue to explore and develop its mineral properties, mainly the Nuestra Señora Project in Mexico. The shipments of lead concentrate to the Peñoles smelter in Torreon, Mexico will continue on a regular basis. Zinc concentrate produced to date is being readied for shipment and storage at the port of Mazanillo until there are 1,000 tonnes, the quantity required for the Company to be allowed to request a provisional payment. The Company anticipates that commercial production from the Nuestra Señora mine will commence in the third quarter.

The Company continues to seek new projects that would increase its asset base as well as enhance value for its shareholders.

Disclosure of Outstanding Securities as at August 5, 2008

Outstanding common shares	112,123,069
Broker compensation options	1,100,050
Share purchase warrants	3,928,750
Stock Options	8,847,356
Convertible debentures	<u>12,903,225*</u>
Fully diluted	<u>138,827,450</u>

*Common shares resulting from full conversion of \$20,000,000 of convertible debentures at \$1.55 conversion price

Forward Looking Statements

This discussion includes certain statements that may be deemed “forward-looking statements”. All statements in this discussion, other than statements of historical facts, that address future exploration drilling, exploration and development activities, production activities and events or developments that the Company expects, are forward looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing, and general economic, market or business conditions and other factors discussed under “Risk Factors” in the Company’s Annual Information Form dated March 26, 2008 available at www.sedar.com under the Company’s name.