

CONSOLIDATED FINANCIAL STATEMENTS
SCORPIO MINING CORPORATION
THIRD QUARTER ENDED
SEPTEMBER 30, 2006

THESE CONSOLIDATED FINANCIAL STATEMENTS HAVE NOT BEEN REVIEWED

BY

THE COMPANY'S EXTERNAL AUDITORS

SCORPIO MINING CORPORATION

(A development stage company)

Consolidated Balance Sheets

	September 30, 2006 (unaudited)	December 31, 2005 (audited)
CURRENT ASSETS		
Cash and cash equivalents	\$34,606,201	\$2,474,840
Accounts receivable	1,212,293	389,318
Inventory	709,132	549,735
	<u>36,527,626</u>	<u>3,413,893</u>
RECLAMATION BONDS	50,000	50,000
FIXED ASSETS (Note 2)	4,593,426	2,623,072
NON-PRODUCING MINING PROPERTIES (Note 3)	2,392,619	2,332,619
DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURES (Note 3)	27,836,689	20,346,904
	<u>\$71,400,360</u>	<u>\$28,766,488</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$2,143,521	\$362,927
ASSET RETIREMENT OBLIGATIONS	150,807	143,472
FUTURE INCOME TAXES	324,870	473,000
	<u>2,619,198</u>	<u>979,399</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 4)	67,354,380	34,259,302
Contributed surplus (Note 5)	14,837,196	6,052,451
Deficit	(13,410,414)	(12,524,664)
	<u>68,781,162</u>	<u>27,787,089</u>
	<u>\$71,400,360</u>	<u>\$28,766,488</u>

CONTINGENCIES (Note 8)

See accompanying notes to the Consolidated Financial Statements

APPROVED BY THE DIRECTORS

Director

Director

SCORPIO MINING CORPORATION

(A development stage company)

Consolidated Statements of Operations and Deficit
(Unaudited)

	Three month period ended September 30, 2006	Nine month period ended September 30, 2006	Three month period ended September 30, 2005	Nine month period ended September 30, 2005
REVENUES				
Interest income	<u>\$401,325</u>	<u>\$660,257</u>	<u>\$ (30,634)</u>	<u>\$48,939</u>
EXPENSES				
General and administrative	159,452	643,583	168,177	529,943
Amortization	1,936	5,859	1,994	13,405
Accretion of asset retirement obligations	2,446	7,336	1,466	4,399
Foreign exchange loss (gain)	20,329	21,234	40,470	(43,093)
Professional fees	49,530	165,626	22,175	134,401
Rent	8,720	25,930	17,692	123,061
Stock-based compensation	185,666	475,035	363,350	773,152
Transfer agent and listing fees	43,181	61,197	14,967	36,133
Investors relations	60,269	152,631	56,696	216,132
Travel expenses	72,601	135,706	55,011	107,343
	<u>604,150</u>	<u>1,694,137</u>	<u>741,998</u>	<u>(1,894,876)</u>
LOSS BEFORE INCOME TAXES	(202,825)	(1,033,880)	(772,632)	(1,845,937)
FUTURE INCOME TAXES	<u>(190,345)</u>	<u>(148,130)</u>	<u>-</u>	<u>-</u>
NET LOSS FOR THE PERIOD	(12,480)	(885,750)	(772,632)	(1,845,937)
DEFICIT AT BEGINNING OF PERIOD	(13,397,934)	(12,524,664)	(10,347,641)	(9,274,336)
DEFICIT AT END OF PERIOD	<u>\$(13,410,414)</u>	<u>\$(13,410,414)</u>	<u>\$(11,120,273)</u>	<u>\$(11,120,273)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$(0.00)</u>	<u>\$(0.01)</u>	<u>\$(0.02)</u>	<u>\$(0.05)</u>
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES – BASIC AND DILUTED	<u>71,514,355</u>	<u>66,010,088</u>	<u>39,952,313</u>	<u>39,657,925</u>

See accompanying notes to the Consolidated Financial Statements

SCORPIO MINING CORPORATION

(A development stage company)

Consolidated Statements of Cash Flows
(Unaudited)

	Three month period ended September 30 2006	Nine month period ended September 30 2006	Three month period ended September 30 2005	Nine month period ended September 30 2005
OPERATING ACTIVITIES				
Net loss for the period	\$(12,480)	\$(885,750)	\$(772,632)	\$(1,845,937)
Items not involving cash:				
Amortization	1,936	5,859	1,994	13,405
Accretion of asset retirement obligations	2,446	7,336	1,466	4,399
Future income taxes	(190,345)	(148,130)	-	-
Stock-based compensation	185,666	475,035	363,350	773,152
	<u>(12,777)</u>	<u>(545,650)</u>	<u>(405,822)</u>	<u>(1,054,981)</u>
Change in non-cash working capital items	<u>(789,311)</u>	<u>(1,132,232)</u>	<u>423,249</u>	<u>131,106</u>
	<u>(802,088)</u>	<u>(1,677,882)</u>	<u>17,427</u>	<u>(923,875)</u>
FINANCING ACTIVITIES				
Issue of capital stock and warrants	3,708,624	44,992,820		
Share issue costs	(150,363)	(3,588,032)	2,355,000	2,370,000
	<u>3,558,261</u>	<u>41,404,788</u>	<u>2,355,000</u>	<u>2,370,000</u>
INVESTING ACTIVITIES				
Acquisition of fixed assets	(427,168)	(612,078)	(166,795)	(2,442,579)
Acquisition of non-producing mining properties	-	(60,000)	-	(65,000)
Deferred exploration and development expenditures	(3,183,030)	(6,923,467)	(2,345,415)	(7,171,092)
	<u>(3,610,198)</u>	<u>(7,595,545)</u>	<u>(2,512,210)</u>	<u>(9,678,671)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(854,025)	32,131,361	(139,783)	(8,232,546)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	35,460,226	2,747,840	4,475,174	12,567,937
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$34,606,201</u>	<u>\$34,606,201</u>	<u>\$4,335,391</u>	<u>\$4,335,391</u>
CASH AND CASH EQUIVALENTS ARE COMPRISED OF:				
Cash	\$2,127,155	\$2,127,155	\$2,392,391	\$2,392,391
Short-term investments	32,479,046	32,479,046	1,943,000	1,943,000
	<u>\$34,606,201</u>	<u>\$34,606,201</u>	<u>\$4,335,391</u>	<u>\$4,335,391</u>

See accompanying notes to the Consolidated Financial Statements

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)
Nine month period ended September 30, 2006

The Company was incorporated under the Canada Business Corporations Act on May 12, 1998 and conducts exploration on mining properties in Canada and Mexico. These unaudited interim consolidated financial statements of Scorpio Mining Corporation (the "Company") have been prepared in accordance with accounting principles generally accepted in Canada for 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, 2005 (the "Annual Financial Statements"). The financial statements follow the same accounting policies and methods of their application as the Annual Financial Statements.

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management who take responsibility for them in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the period.

2. FIXED ASSETS

	September 30, 2006 (unaudited)			December 31, 2005 (audited)		
	Cost	Accumulated Amortization	Net book value	Cost	Accumulated Amortization	Net book value
Land	\$125,425	\$ -	\$125,425	\$ -	\$ -	\$ -
Surface facilities	474,058	114,017	360,041	258,550	79,037	179,513
Plant and equipment	4,585,190	644,639	3,940,551	2,798,840	457,417	2,341,423
Furniture and office equipment	243,661	76,252	167,409	159,596	57,460	102,136
	<u>\$5,428,334</u>	<u>\$834,908</u>	<u>\$4,593,426</u>	<u>\$3,216,986</u>	<u>\$593,914</u>	<u>\$2,623,072</u>

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)
 Nine month period ended September 30, 2006

3. NON-PRODUCING MINING PROPERTIES AND DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURES

	September 30, 2006 (unaudited)				December 31, 2005 (audited)	
	Nuestra Senora	Lac Arsenault/ Weir	Cochrane Hill	Caribou Gold	Total	Total
Non-producing mining properties						
Balance, beginning of period	\$1,845,388	\$130,001	\$282,230	\$75,000	\$2,332,619	\$2,098,927
Acquisition during the period	-	-	-	60,000	60,000	205,000
Disposition during the period	-	-	-	-	-	(15,000)
Asset retirement obligations	-	-	-	-	-	43,692
Balance, end of period	<u>\$1,845,388</u>	<u>\$130,001</u>	<u>\$282,230</u>	<u>\$135,000</u>	<u>\$2,392,619</u>	<u>\$2,332,619</u>
Deferred Exploration and Development Expenditures						
Balance, beginning of period	\$19,585,063	\$242,622	\$490,669	\$28,550	\$20,346,904	\$10,529,741
Property maintenance	262,347	-	-	-	262,347	743,898
Mine development	3,572,456	-	-	-	3,572,456	4,402,708
Site administration	1,012,443	-	-	-	1,012,443	1,129,780
Field supplies	345,016	-	-	-	345,016	4,738
Exploration work	1,771,392	-	12,350	85,287	1,869,029	3,116,387
Transportation and travel	179,374	-	1,152	12,831	193,357	149,356
Depreciation	235,137	-	-	-	235,137	328,573
Government subsidy	-	-	-	-	-	(58,277)
Incurred during the period	<u>7,378,165</u>	<u>-</u>	<u>13,502</u>	<u>98,118</u>	<u>7,489,785</u>	<u>9,817,163</u>
Balance, end of period	<u>\$26,963,228</u>	<u>\$242,622</u>	<u>\$504,171</u>	<u>\$126,668</u>	<u>\$27,836,689</u>	<u>\$20,346,904</u>

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)
Nine month period ended September 30, 2006

4. CAPITAL STOCK

(a) Authorized share capital consists of an unlimited number of common shares, without par value

	September 30, 2006 (unaudited)		December 31, 2005 (audited)	
	Number	Amount	Number	Amount
Issued and paid				
Balance, beginning of period	44,658,291	\$34,259,302	39,458,291	\$32,572,024
Issued during the period				
For private placement (i)	35,363,300	40,667,795	5,000,000	1,568,500
Fair value of warrants issued upon closing of the private placement	-	(7,779,926)	-	-
For exercise of stock options	432,500	372,993	50,000	28,778
For exercise of warrants	5,500,000	4,821,500	150,000	90,000
Share issue cost	-	(4,987,284)	-	-
Balance, end of period	<u>85,954,091</u>	<u>\$67,354,380</u>	<u>44,658,291</u>	<u>\$34,259,302</u>

(i) During the period ended June 30, 2006, the Company closed a brokered private placement and issued a total of 35,363,300 units for gross proceeds of \$40,667,795 in two tranches. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share of the Company at a price of \$1.40 per share. The first tranche closed on April 24, 2006 whereby 31,623,300 units were issued including warrants expiring on April 24, 2008. The second tranche closed May 3, 2006 whereby 3,740,000 units were issued including warrants expiring on May 3, 2008. The Company paid a cash commission of \$3,197,828.06 to the agent and certain finders. The Company also issued a total of 2,120,047 compensation options to the agent and certain finders, each compensation option entitles the holder to purchase a compensation unit at a price of \$1.40 for a period of 24 months from the completion of the placement. Each compensation unit consists of one common share and one-half of one common share purchase warrant. Each such whole warrant entitles the holder to acquire one common share of the Company at a price of \$1.40 per share for a period of 24 months.

(b) Warrants

The Company estimated the fair value of the 17,681,650 warrants issued in the private placement described above at \$7,779,926 using the Black-Scholes model. This amount has been recorded as contributed surplus in the balance sheet.

The Black-Scholes model assumptions used for the calculation of the fair value of the warrants were as follows:

Expected dividend yield	Nil %
Expected stock price volatility	77 %
Risk free interest rate	4.18%
Expected life	2 years

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)
Nine month period ended September 30, 2006

4. CAPITAL STOCK (continued)

(b) Warrants (continued)

	September 30, 2006 (unaudited)		December 31, 2005 (audited)	
	Number	Exercise price	Number	Exercise price
Balance, beginning of period	5,500,000	\$0.75	11,580,609	\$1.46
Issued	17,681,650	1.40	5,500,000	0.75
Exercised	(5,500,000)	(0.75)	(150,000)	(0.60)
Cancelled / expired	-	-	(11,430,609)	(1.47)
Balance, end of period	<u>17,681,650</u>	<u>\$1.40</u>	<u>5,500,000</u>	<u>\$0.75</u>

As at September 30, 2006, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Number of warrants	Exercise price	Expiry date
15,811,650	\$1.40	April 24, 2008
1,870,000	1.40	May 3, 2008
<u>17,681,650</u>		

(c) Broker Compensation options

Under the May 3, 2006 brokered private placement, 2,120,407 compensation options were granted as partial compensation to the agent and certain finders. Each option can be exercised to acquire a compensation unit at \$1.40 per unit. Compensation options expire April and May 2008. Each compensation unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$1.40 each. These warrants expire April and May 2008. Total compensation unit cost was valued at \$1,399,232 and this fair value was estimated using the Black-Scholes model using no expected dividend yield, an average expected volatility of 77%, a risk-free interest rate of 4.18% and an expected life of 2 years.

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)
 Nine month period ended September 30, 2006

4. CAPITAL STOCK (continued)

(d) Stock options

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

	September 30, 2006 (unaudited)		December 31, 2005 (audited)	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of period	4,825,000	\$0.80	2,500,000	\$1.27
Granted	505,000	0.96	2,825,000	0.48
Exercised	(432,500)	(0.46)	(50,000)	(0.30)
Cancelled / expired	-	-	(450,000)	(1.41)
Balance, end of period	<u>4,897,500</u>	<u>\$0.85</u>	<u>4,825,000</u>	<u>\$0.80</u>

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2006:

Exercise Price	Weighted average remaining contractual life (in years)	Outstanding	Exercisable
\$0.47	3.63	2,217,500	1,586,250
0.61	3.63	200,000	150,000
0.66	2.12	675,000	675,000
0.88	4.86	200,000	50,000
0.89	4.71	75,000	18,750
0.95	4.92	100,000	25,000
1.05	3.73	225,000	150,000
1.14	3.17	400,000	400,000
1.42	4.61	30,000	7,500
1.91	2.64	775,000	775,000
		<u>4,897,500</u>	<u>3,837,500</u>

The Company uses the Black-Scholes Model to estimate fair value using the following weighted-average assumptions for the nine-month period ending September 30th:

	2006	2005
Risk free interest rate	4.19%	3.22%
Expected stock price volatility	85%	97%
Expected dividend yield	Nil%	Nil%
Expected option life in years	5 years	5 years

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)

Nine month period ended September 30, 2006

5. CONTRIBUTED SURPLUS

	September 30, 2006 (unaudited)	December 31, 2005 (audited)
Balance, beginning of period	\$6,052,451	\$4,067,890
Fair value of stock options granted	475,035	1,301,839
Fair value of broker compensation options (Note 4 c)	1,399,232	63,300
Fair value of warrants issued upon closing of the private placement (Note 4 b)	7,779,926	633,200
Transfer to share capital upon exercise of stock options	(172,968)	(13,778)
Transfer to share capital upon exercise of warrants	(696,480)	-
Balance, end of period	<u>\$14,837,196</u>	<u>\$6,052,451</u>

6. CASH FLOW INFORMATION

	Three month period ended September 30, 2006	Nine month period ended September 30, 2006	Three month Period ended September 30, 2005	Nine month Period ended September 30, 2005
Amortization of fixed assets capitalized in deferred exploration and development expenditures	\$84,370	\$235,137	\$211,538	\$350,476
Acquisitions of fixed assets financed by accounts payable	1,599,271	1,599,271	-	-
Deferred exploration and development expenditures financed by accounts payable	331,180	331,180	-	-
Fair value of warrants issued as share issue cost	-	1,399,232	55,000	55,000
Fair value of warrants issued upon closing of the private placement	-	7,779,926	550,000	550,000
Transfer to share capital upon exercise of stock options	-	172,968	-	-
Transfer to share capital upon exercise of warrants	622,703	696,480	-	-

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)

Nine month period ended September 30, 2006

7. SEGMENTED INFORMATION

(a) Industry information

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

(b) Geographic information

Interest income in the periods ending September 30, 2006 and 2005 was earned in Canada. The Company's non-current assets by geographic location are as follows:

	September 30, 2006 (unaudited)	September 30, 2005 (unaudited)
Canada	\$2,659,944	\$2,254,604
Mexico	<u>32,212,790</u>	<u>15,413,494</u>
	<u>\$34,872,734</u>	<u>\$17,668,098</u>

SCORPIO MINING CORPORATION

(A development stage company)

Notes to the Consolidated Financial Statements (unaudited)
Nine month period ended September 30, 2006

8. 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 materially in 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 \$90,000 (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 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. The former employee has denied the claims and has filed a proceeding with the Mexican Labour Board claiming additional benefits owing of approximately \$230,000 (2,000,000 pesos) from the Company. The Company believes it has substantial defences to the counterclaim and is unlikely to incur any further loss in connection with these actions. Amounts recovered from the former employee, if any, will be recorded in the period they are received.

SCORPIO MINING CORPORATION
Management Discussion and Analysis of Financial Results - Quarter ended September 30, 2006

INTRODUCTION

The following Management Discussion and Analysis (MD&A) is for the three month period ended September 30, 2006 and is provided as of October 27, 2006. This MD&A is to be read in conjunction with the interim consolidated financial statements of Scorpio Mining Corporation (the "Company" or "Scorpio") for the period ended September 30, 2006 and 2005 and the audited consolidated financial statements and MD&A for the year ended December 31, 2005. 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 Canada and Mexico.

TSX LISTING

Scorpio Mining Corporation completed the listing of its common shares on the Toronto Stock Exchange (TSX) on October 18, 2006 under the trading symbol, SPM. The TSX listing is another milestone for Scorpio's development as an emerging exploration and mining company.

RESULTS OF OPERATIONS

Scorpio reported a net loss of \$12,480 or nil per share for the three month period ended September 30, 2006, compared to \$772,632 (\$0.02 per share) for the same period in 2005. The change in net loss is related to interest revenue, which rose from (\$30,634) in third quarter 2005 to \$401,325 for the same period of 2006 due to higher cash balances, a reduction in expenses such as stock-based compensation from \$363,350 in the prior period to \$185,666, and an improvement in future income taxes from nil in 2005 to a recovery of \$190,345 in third quarter of 2006. The Company is still at the exploration and development stage and had no operating revenue in either of these periods. The increase in the interest revenue is directly related to the equity financing of \$40,667,795 completed during the second quarter.

For the nine month period ended September 30, 2006, the net loss is \$885,750 compared to \$1,845,937 in the corresponding period of 2005. The difference is a function of interest revenue, which rose from \$48,939 to \$660,257 due to the cash obtained from the equity financing, and a reduction in stock-based compensation expense from \$773,152 in the prior year period to \$475,035 for the nine month period ended September 30, 2006.

Balance Sheet

Current assets

As of September 30, 2006, the Company had \$34,606,201 in cash and cash equivalents compared to \$2,474,840 as of December 31, 2005. The increase in cash is related to the equity financing completed in the second quarter of 2006 as well as the exercise of warrants and stock options. Gross and net proceeds from the issuance of 35,363,300 units in the equity financing were \$40,667,795 and \$37,846,259 respectively. For the nine month period ended September 30, 2006, a total of \$200,025 was also received from the exercise of 432,500 stock options and \$4,125,000 from the exercise of 5,500,000 warrants.

Working capital was \$34,384,105 as of September 30, 2006 compared to \$3,050,966 as of December 31, 2005.

SCORPIO MINING CORPORATION
Management Discussion and Analysis of Financial Results - Quarter ended September 30, 2006

Fixed Assets

Acquisition of fixed assets amounted to \$2,026,439 including \$1,599,271 added to the accounts payable for the three month period and \$2,211,349 including \$1,599,271 added to the accounts payable for the nine month period ended September 30, 2006 compared to \$166,795 and \$2,442,579 for the corresponding periods in 2005.

Acquisitions during the third quarter of 2006 included the purchase of processing mill equipment and two scooptrams for a total of \$1,574,000. For the nine month period, additional purchases included the \$125,000 acquisition of a 118-hectare parcel of land intended as the location for the mill and tailings containment, located some three kilometres northwest of the Nuestra Senora mine site. During the corresponding three month and nine month periods in 2005, all acquisition of fixed assets were for machinery and equipment at the Nuestra Senora mine site.

Mining Properties and Deferred Exploration and Development Expenditures

The deferred exploration and development expenditures were \$27,836,689 as of September 30, 2006 compared to \$20,346,904 as of December 31, 2005.

The exploration and development expenditures incurred during the three and the nine month periods ended September 30, 2006 totalled \$3,598,581 and \$7,489,785, respectively, including \$331,180 in the accounts payables compared to \$2,345,415 and \$7,171,092 during the same periods in 2005. The capitalised expenditures on the Nuestra Senora property, including \$235,137 of depreciation, totalled \$7,378,165 for the first nine months of 2006.

The exploration and development work at Nuestra Senora is summarize as follow:

	Three month period ended Sept. 30, 2006	Nine month period ended Sept. 30, 2006	Three month period ended Sept. 30, 2005	Nine month period ended Sept. 30, 2005
Diamond Drilling	Metres	Metres	Metres	Metres
Underground	3,949	9,198	6,554	9,307
Surface	765	3,819	0	9,679
Total	<u>4,714</u>	<u>13,017</u>	<u>6,554</u>	<u>18,986</u>
Underground Development	Metres	Metres	Metres	Metres
Ramp	86	1,262	229	716
Other development	136	1,346	98	275
	<u>222</u>	<u>2,608</u>	<u>327</u>	<u>991</u>

SCORPIO MINING CORPORATION
Management Discussion and Analysis of Financial Results - Quarter ended September 30, 2006

Liabilities

Total liabilities were \$2,619,198 as of September 30, 2006 compared to \$979,399 as of December 31, 2005. The difference is primarily due to an increase of \$1,780,594 in current liabilities related to the purchase of two scooptrams and a reduction of \$148,130 in future income taxes.

Shareholders' Equity

There were significant changes in shareholders' equity in the period from a total of \$27,787,089 as of December 31, 2005 to \$68,781,162 as of September 30, 2006.

Capital stock increased from \$34,259,302 as of December 31, 2005 to \$67,354,380 as of September 30, 2006. The increase is mainly from the equity financing of \$40,667,795 (gross proceeds) less the issue costs of \$3,588,032. The fair value of compensation warrants issued to the agent was \$1,399,232 and the fair value of the warrants issued to investors in the private placement was \$7,779,926. Stock options and warrants exercised during the period also account for values of \$372,993 and \$4,821,500 respectively.

Cash flow

Cash flow from financing activities was \$3,558,261 and \$41,404,788 for the three and nine month periods ended September 30, 2006 compared to \$2,355,000 and \$2,370,000 for the same periods in 2005. The difference is directly attributable to the issuance of capital stock related to the exercise of warrants and options during the three month period ended September 30, 2006 and the private placement done in the second quarter.

Cash flow used in investing activities was \$3,610,198 for the three month period ended September 30, 2006 compared to \$2,512,210 for the same period of 2005. For the nine month period the cash used in investing activities was \$7,595,545 in 2006 compared to \$9,678,671 in 2005.

As at September 30, 2006, the Company had \$34,606,201 in cash and cash equivalents compared to \$4,335,391 as at September 30, 2005

Financial Condition and Liquidity

During the third quarter, the balance of the Company's \$0.75-priced warrants due to expire September 22, 2006 were exercised for total cash proceeds of \$3,708,623 and 4,944,830 common shares were issued. During the second quarter of 2006, Scorpio completed with Research Capital Corporation (the "Agent") a brokered private placement of 35,363,300 units of the Company at a price of \$1.15 per unit. Each unit consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to acquire, at any time within twenty-four months from the closing of the offering, one common share of the Company at a price of \$1.40 per share. The offering was oversubscribed and the Agent's over-allotment option exercised in full. As announced on May 4, 2006, an aggregate of 35,363,300 common shares and 17,681,650 common share purchase warrants were issued to investors in the private placement for total gross proceeds of \$40,667,795 and net proceeds of \$37,846,529.

Proceeds from the private placement will be used to finance further development and exploration of the Company's principal asset, the Nuestra Señora silver deposit in Sinaloa State, Mexico, and for general working capital purposes.

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During the nine month period ended September 30, 2006, 5,500,000 shares were issued through the exercise of warrants for proceeds of \$4,125,000 and 432,500 shares were issued through the exercise of stock options for proceeds of \$200,025.

The primary factors that will affect the future financial condition of the Company include the continued ability to raise equity capital and the level of exploration and development expenditures required to meet commitments. 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, and expects to continue to rely on these markets in 2006 and thereafter until one or more of its projects are in production.

Industry, Economic and Environmental Risk Factors

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, 2005 annual MD&A.

Management

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company.

The Company has four mineral properties in its portfolio: Nuestra Señora in Sinaloa State, Mexico, Cochrane Hill and Caribou in Nova Scotia and Lac Arseneault in Gaspe, Quebec.

Nuestra Señora Property

The Nuestra Señora Project, east of the town of Cosala in the State of Sinaloa, Mexico, is the main focus of Scorpio's exploration and development plans. The property comprises three recorded mineral exploitation claims encompassing 140 hectares and six exploration claims encompassing 14,174 hectares. Applications have been made for one additional exploration claim, the size of which will be determined at the time of approval. Scorpio Mining's wholly owned Mexican mining subsidiary, Minera Cosala SA de CV ("Minera Cosala"), holds 100% ownership of the Nuestra Señora mineral rights with no underlying royalties or interest payments.

Nuestra Señora Deposit

During and subsequent to the quarter ended September 30, 2006, Scorpio has continued to focus its exploration, development and resource definition efforts on the Nuestra Señora deposit, which during ASARCO's historical operating tenure, was the largest producing deposit on the property.

During the quarter, Scorpio drilled 34 underground holes totalling 3,949 metres and 4 surface holes totalling 765 metres. The decline ramp and other underground development advanced 86 metres and 136 metres, respectively. As of the date of this report, a total of 1,280 metres of ramp advance and 1,424 metres of exploration crosscuts, drifts, drill bays and other excavations have been completed within the Nuestra Señora deposit. Underground drilling now totals 22,582 metres in 160 holes with 66 surface drill holes totalling 13,241 metres for a grand total of 35,823 metres.

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Detailed channel chip sampling of the 8th and 9th levels is complete and sampling will commence on the 10th Level once the existing drifts have been widened to accommodate the trackless equipment. The mapping and sampling of the 9th Level correlates well with that of Levels 7 and 8 above.

Definition drilling from the 8th Level continues to define the extension of mineralization not tested by previous operator, ASARCO. The mineralized zone extends to the north and south outside and away from the developed area and remains open on strike.

Underground drilling of the Hoag Zone discovered in June 2006 adjacent to the known Nuestra Señora deposit, has been highly successful, with all 49 holes reported to date intersecting mineralization. Deeper exploration drilling on the Hoag Zone has resulted in another new discovery as announced on October 23, 2006. Currently designated the Sept. 9 Zone, it also lies in close proximity to the Nuestra Señora deposit and underground workings.

The current understanding of the Hoag and Sept 9 zones and their relation to other deposits in the area is that a series of stacked thrust faults provided the main conduit for mineralizing fluids. Subsequent deformation along the thrust faults created dilational zones, which provided wider structural traps for the emplacement of mineralization. Within the Nuestra Señora deposit, reactivation along the thrust faults also allowed for multiple episodes of mineralization, which could account for higher silver grades within that deposit. Analyses of drill core from the upper levels of the Hoag Zone indicate that only one mineralizing event took place, but that the structure is opening at depth. Deeper drilling of the Hoag zone is showing that metal grades are beginning to increase at depth, and the style of mineralization is becoming more similar to that within the adjacent Nuestra Señora deposit.

The drill intersections and assay results to date demonstrate strong upside potential for the project. The Hoag and Sept 9 zones do not outcrop at surface but are situated between the Nuestra Señora deposit and the Santo Domingo and Santa Teresa deposits, all of which have surface expressions. Management believes there is excellent potential to find other such "blind" (unexposed) mineralized bodies within the immediate area.

The Nuestra Señora decline ramp is now connected to the 8th, 9th and 10th Levels and has advanced to below the elevation of the 10th Level. Ramp development has been temporarily halted to allow for driving of two cross-cuts to connect it with the Hoag Zone. In addition, four exploration drifts will be driven off the 9th and 10th Level cross-cuts which will allow for close-spaced drilling of the Nuestra Señora mineralization.

As the development advances, exploration drilling will continue. The goal of the current program is to:

- Continue to explore and evaluate the newly discovered Hoag and Sept 9 zones located between the Nuestra Señora and Santo Domingo mines. This will include driving cross-cuts at regular intervals through the mineralization.
- Define and upgrade the Nuestra Señora resource categories between the 9th and 10th levels as well as below the 10th by drilling from the exploration drifts on Levels 9 and 10.

Surface drilling of the Santo Domingo and Santa Teresa areas has been temporarily suspended due to the heavy rains that are expected to continue until late October. Meanwhile, the drill rig will be moved to the proposed tailings pond area to commence a program of condemnation drilling once it is accessible.

The Company recently purchased additional processing mill components from the decommissioning of the San Manuel polymetallic mine located in Sonora State, Mexico. In addition, Scorpio has been

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mobilizing mill components purchased in 2004 from the San Martin mill facility, from its staging site in Tucson, Arizona to a refurbishment yard in Mazatlan, Mexico. Once refurbished, the various components will be transported to the mill site located near the Nuestra Senora mine. The access road to the mill site has been completed and will be extended to the tailings impoundment area to allow access for the drilling equipment. Planning for the electrical power line is also in progress.

An estimated \$3.6 million will be required to complete the expanded drill program and continue the development of the cross-cuts and exploration drifts to the end of 2006. Achieving these goals will provide sufficient information to proceed with an independent pre-feasibility study and mill design. The Company has sufficient funds to complete these programs and, subject to positive results, is well-positioned to give the go ahead for mill construction and detailed production planning.

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 has an option to acquire a 100% interest in the property that comprises 16 contiguous mineral claims covering approximately 256 hectares.

Under the terms of the option agreement, Scorpio has two remaining payments of \$60,000 each due April 25, 2007 and 2008, totalling \$120,000. A lump sum payment of \$250,000 is also due upon exercise of the option, which will be an advance against the net smelter return royalties. The vendor retains a 2.5% net smelter return royalty, of which 1%, may be purchased at a cost of \$1,000,000 and the remaining 1.5 % is subject to a right of first refusal in favour of the Company. Outstanding work requirements under the terms of the agreement include \$500,000 each year totalling \$1.5 million due April 25, 2007, 2008 and 2009.

Compilation of all of the available underground and drill-hole data on the property has been completed by independent Qualified Person, Guy Mac Gillivray, PGeo, and a NI 43-101 compliant resource estimate for the Caribou deposit is nearing completion. Planning and budgeting for an exploration work program on the property will be based on the recommendations provided in Mr. Mac Gillivray's report.

Cochrane Hill Property

The Cochrane Hill property consists of 65 contiguous claims encompassing 1,192 hectares of land in Guysborough County, Nova Scotia. Fifty-three claims encompassing 848 hectares are held under an option agreement, whereby Scorpio earned a 100% in the claims on November 1, 2005 by making a final cash payment to the property vendor. The claims are subject to a 3% net smelter return royalty, 2% of which may be purchased by Scorpio at a cost of \$500,000 for the first 1% and \$1 million for the second 1%. The remaining 12 claims encompassing 344 hectares were acquired by staking and are 100% owned by Scorpio.

No work was performed on the property during the quarter. The Company is currently contemplating a 2007 exploration program that would include dewatering, bulk sampling and surface and underground drilling of the Cochrane Hill gold deposit.

Lac Arseneault Property

The Lac Arseneault property consists of 30 contiguous claims encompassing 480 hectares, and is located in Bonaventure County on the Gaspé Peninsula of Quebec. Scorpio can vest a 100% interest in the property, subject to a 2% net smelter return royalty, by issuing the balance of 50,000 treasury shares to the underlying property owner.

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No work was performed on the property during the quarter.

SUMMARY OF QUARTERLY RESULTS

All amounts are in Canadian dollars and the financial statements are prepared in accordance with Canadian GAAP.

The following table sets forth selected quarterly financial information for each of the last eight (8) quarters:

Quarter Ending	Revenue* \$	Net Loss \$	Net Loss per share \$
September 30, 2006	401,325	(12,480)	(0.00)
June 30, 2006	246,592	(452,721)	(0.01)
March 31, 2006	12,340	(420,549)	(0.01)
December 31, 2005	109,766	(1,104,151)	(0.02)
September 30, 2005	(30,664)	(772,632)	(0.02)
June 30, 2005	33,729	(770,352)	(0.02)
March 31, 2005	45,874	(302,953)	(0.01)
December 31, 2004	90,023	(1,536,940) **	(0.03)

* Primarily interest income

** As described in Note 15 to the Audited Financial Statements, the Company determined in 2005 that capitalized exploration costs in the amount of \$300,240, which were incurred in December 2004, were not properly authorized or described in the Company's accounts and should have been recorded as an expense. The loss for the quarter ended December 31, 2004 has been restated to reflect the correction of this error resulting in an increase in the loss for the quarter of \$300,240.

LIQUIDITY

In management's view, given the nature of the Company's activities, the most meaningful and material financial information concerning the Company relates to its current liquidity and capital resources. See "Financial Condition and Liquidity" above. The Company does not currently own or have an interest in any producing mineral properties and does not derive any revenues from operations. The Company's activities have been funded through equity financing and the Company expects that it will continue to be able to utilize this source of financing until it develops cash flow from operations. There can be no assurance, however, that the Company will be able to do so. If such funds are not available or other sources of finance cannot be obtained, the Company will be forced to curtail its activities to a level for which funding is available or can be obtained.

CONTINGENCIES

There was no change in the contingencies during the quarter ended September 30, 2006.

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 \$90,000 during the period from November 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

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benefited the former employee. The former employee has denied the claims and has filed a proceeding with the Mexican Labour Board claiming additional benefits owing of approximately \$230,000 from the Company. The Company believes it has substantial defences to the counterclaim and is unlikely to incur any further loss in connection with these actions. Amounts recovered from the former employee, if any, will be recorded in the period they are received.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements as at September 30, 2006.

PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates property acquisition transactions 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 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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in compliance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclose of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

Critical estimates include determination of the net recoverable amount of mining properties and deferred exploration expenses for the purposes of considering whether there has been any indication of impairment. Estimates were also used in determining the useful life of capital assets and their corresponding depreciation amount, the recorded amount of stock compensation expense, income taxes and the estimate of future site reclamation cost.

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. The Company has accounts receivable and accounts payable.

OTHER MD&A REQUIREMENTS

2006 Outlook

Scorpio will continue exploration and development of its exploration properties, primarily on the Nuestra Senora project where more than \$10 million will be spent during 2006 to increase and upgrade mineral resources and continue underground development.

Disclosure of Outstanding Share Data

The Company is authorized to issue an unlimited number of common shares. As of October 27, 2006, the Company has 85,954,091 shares issued and outstanding and 111,763,851 fully diluted. The following is a list of outstanding warrants and options:

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Warrants Outstanding

Warrants to acquire 15,811,650 shares at \$1.40 per share expiring April 24, 2008

Warrants to acquire 1,870,000 shares at \$1.40 per share expiring May 3, 2008

Broker Compensation Options

2,120,407 Compensation Options to purchase Compensation Units as follows:

2,065,898 compensation units at a price of \$1.40 per Compensation Unit until April 24, 2008. Each Compensation Unit consists of one common share and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to purchase one common share at a price of \$1.40 per Warrant expiring April 24, 2008 and 54,509 compensation units at a price of \$1.40 per Compensation Unit until May 3, 2008. Each Compensation Unit consists of one common share and one-half of one common share purchase warrant (the "Warrant"). Each whole Warrant entitles the holder to purchase one common share at a price of \$1.40 per Warrant expiring May 3, 2008

Stock Options Outstanding

Stock Options to acquire 2,217,500 shares at \$0.47 per share expiring May 17, 2010

Stock Options to acquire 200,000 shares at \$0.61 per share expiring May 17, 2010

Stock Options to acquire 675,000 shares at \$0.66 per share expiring November 11, 2008

Stock Options to acquire 100,000 shares at \$0.88 per share expiring July 10, 2011

Stock Options to acquire 100,000 shares at \$0.88 per share expiring September 10, 2011

Stock Options to acquire 75,000 shares at \$0.89 per share expiring June 15, 2011

Stock Options to acquire 100,000 shares at \$0.95 per share expiring August 30, 2011

Stock Options to acquire 125,000 shares at \$1.05 per share expiring November 1, 2009

Stock Options to acquire 100,000 shares at \$1.05 per share expiring April 12, 2011

Stock Options to acquire 400,000 shares at \$1.14 per share expiring November 30, 2009

Stock Options to acquire 30,000 shares at \$1.42 per share expiring May 09, 2011

Stock Options to acquire 775,000 shares at \$1.91 per share expiring May 20, 2009

If all of these warrants, broker compensation options and stock options were exercised, the Company would receive proceeds of \$24,754,310 and \$4,452,854 and \$4,162,575 respectively. There were no shares subject to escrow or pooling arrangements as of September 30, 2006.

BY ORDER OF THE BOARD

"Peter J. Hawley"

PETER J. HAWLEY
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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 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

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statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration success, continued availability of capital and financing, and general economic, market or business conditions.