

**CONSOLIDATED FINANCIAL STATEMENTS**  
**SCORPIO MINING CORPORATION**  
**THREE-MONTH PERIOD ENDED**  
**MARCH 31, 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 (Unaudited)

	In Canadian dollars	
	March 31, 2006 (unaudited) \$	December 31, 2005 (audited) \$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	967,569	2,474,840
Accounts receivable	311,004	389,318
Inventory	549,735	549,735
	<u>1,828,308</u>	<u>3,413,893</u>
RECLAMATION BONDS DEPOSIT	50,000	50,000
MACHINERY AND EQUIPMENT (Note 2)	2,550,571	2,623,072
NON-PRODUCING MINING PROPERTIES (Note 3)	2,332,619	2,332,619
DEFERRED EXPLORATION EXPENDITURES (Note 3)	21,860,058	20,346,904
	<u>28,621,556</u>	<u>28,766,488</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	272,312	362,927
ASSET RETIREMENT OBLIGATIONS	145,917	143,472
FUTURE INCOME TAXES	473,000	473,000
	<u>891,229</u>	<u>979,399</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 4 a)	34,613,589	34,259,302
Contributed surplus (Note 4 c)	6,061,951	6,052,451
Deficit	(12,945,213)	(12,524,664)
	<u>27,730,327</u>	<u>27,787,089</u>
	<u>28,621,556</u>	<u>28,766,488</u>

## COMMITMENTS AND CONTINGENCIES (Note 7 and 8)

See accompanying notes to the Consolidated Financial Statements

**SCORPIO MINING CORPORATION**

(A development stage company)

**Consolidated Statements of Operations and Deficit**  
(Unaudited)

	In Canadian dollars	
	Three Month Period ended	
	March 31	March 31
	2006	2005
	\$	\$
<b>REVENUE</b>		
Interest income	12,340	45,874
<b>EXPENSES</b>		
Management and administration	175,321	189,331
Amortization	1,010	5,495
Accretion of asset retirement obligation	2,445	1,466
Foreign exchange (gain)	(1,316)	(35,809)
Interest and bank charges	879	967
Legal fees	44,731	30,517
Professional services	34,564	37,284
Rent	8,540	100,594
Stock-based compensation	121,987	-
Transfer agent, stock exchange fees	7,322	15,942
Travel expenses	37,406	3,040
	<u>432,889</u>	<u>348,827</u>
<b>NET LOSS FOR THE PERIOD</b>	(420,549)	(302,953)
<b>DEFICIT AT BEGINNING OF PERIOD</b>	(12,524,664)	(9,274,336)
<b>DEFICIT AT END OF PERIOD</b>	<u>(12,945,213)</u>	<u>(9,577,289)</u>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<u>(0.01)</u>	<u>(0.01)</u>
<b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES – BASIC</b>	<u>44,921,564</u>	<u>39,490,513</u>
<b>DILUTED</b>	<u>43,972,234</u>	<u>39,565,513</u>

See accompanying notes to the Consolidated Financial Statements

# SCORPIO MINING CORPORATION

(A development stage company)

## Consolidated Statements of Cash Flows (Unaudited)

	In Canadian dollars	
	Three Month Period ended	
	March 31	March 31
	2006	2005
	\$	\$
<b>CASH FLOW USED IN OPERATION</b>		
Net loss for the period	(420,549)	(302,953)
Items not involving cash:		
Amortization	1,010	5,495
Accretion of asset retirement obligation	2,445	1,466
Stock based compensation	121,987	-
Foreign exchange loss	-	-
	<u>(295,107)</u>	<u>(295,992)</u>
Change in non-cash working capital		
Accounts receivable	78,314	(134,427)
Prepaid expenses	-	(58,484)
Accounts payable and accrued liabilities	(90,615)	(249,532)
	<u>(307,408)</u>	<u>(738,435)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of capital stock, net of issue costs and related accounts receivable	241,800	15,000
Government assistance	-	58,414
	<u>241,800</u>	<u>73,414</u>
<b>CASH FLOW USED IN INVESTMENTS</b>		
Purchase of fixed assets	(1,560)	(850,606)
Non-producing mining properties expenditures	-	-
Deferred exploration expenditures	(1,440,103)	(2,454,871)
	<u>(1,441,663)</u>	<u>(3,305,477)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,507,271)	(3,970,498)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>2,474,840</u>	<u>12,567,937</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u><u>967,569</u></u>	<u><u>8,597,439</u></u>
<b>CASH AND CASH EQUIVALENTS ARE COMPRISED OF:</b>		
Cash in bank	86,269	447,439
Short-term investments	881,300	8,150,000
	<u>967,569</u>	<u>8,597,439</u>

See accompanying notes to the Consolidated Financial Statements

# SCORPIO MINING CORPORATION

(A development stage company)

Note to the Consolidated Financial Statements (unaudited)  
Three-month period ended March 31, 2006

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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 takes responsibility for them in accordance with Canadian generally accepted accounting principles. There were no changes in accounting policies during the period.

## 2. FIXED ASSETS

	March 31, 2006 (unaudited)			December 31, 2005 (audited)		
	Cost	Accumulated Amortization	Net value	Cost	Accumulated Amortization	Net value
	\$	\$	\$	\$	\$	\$
Surface facilities	258,550	87,890	170,660	258,550	79,037	179,513
Plant and equipment	2,787,538	513,200	2,274,338	2,787,538	453,468	2,333,031
Mobile equipment	12,341	4,363	7,978	12,341	3,949	8,392
Furniture and office equipment	146,684	59,306	87,378	146,684	54,773	91,389
Software	13,433	3,216	10,217	13,433	2,687	10,747
	<u>3,218,546</u>	<u>667,975</u>	<u>2,550,571</u>	<u>3,218,546</u>	<u>593,914</u>	<u>2,623,072</u>

# SCORPIO MINING CORPORATION

(A development stage company)

Note to the Consolidated Financial Statements (unaudited)  
Three-month period ended March 31, 2006

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

	March 31, 2006 (unaudited)				December 31, 2005 (audited)	
	Nuestra Senora Property (a)	Lac Arsenault / Weir	Cochrane Hill	Caribou Gold Mine	Total	Total
	\$	\$	\$	\$	\$	\$
<b>Mineral Properties</b>						
Balance, Beginning of year	1,845,388	130,001	282,230	75,000	2,332,619	2,098,927
Acquisition this year	-	-	-	-	-	205,000
Disposition during the year	-	-	-	-	-	(15,000)
Asset Retirement Obligations	-	-	-	-	-	43,692
	<u>1,845,388</u>	<u>130,001</u>	<u>282,230</u>	<u>75,000</u>	<u>2,332,619</u>	<u>2,332,619</u>
<b>Deferred Exploration Expenditures</b>						
Property maintenance	196,051	-	-	-	196,051	743,898
Mine development	628,657	-	-	-	628,657	3,456,153
Site administration	278,151	-	-	-	278,151	1,129,780
Field supplies	69,849	-	-	874	70,723	4,738
Prospecting, Drilling and exploration	136,809	-	210	-	136,809	3,116,387
Salaries and Contractors	62,319	-	-	22,680	84,999	946,555
Transportation and travel	44,001	-	-	503	44,504	149,356
Depreciation	73,051	-	-	-	73,051	328,573
Government subsidy	-	-	-	-	-	(58,277)
Incurred during the period	<u>1,488,888</u>	<u>-</u>	<u>210</u>	<u>24,057</u>	<u>1,513,155</u>	<u>9,817,163</u>
Balance beginning of period	<u>19,585,062</u>	<u>242,622</u>	<u>490,669</u>	<u>28,550</u>	<u>20,346,903</u>	<u>10,529,741</u>
Total deferred exploration expenditures	<u>21,073,950</u>	<u>242,622</u>	<u>490,879</u>	<u>52,607</u>	<u>21,860,058</u>	<u>20,346,904</u>

# SCORPIO MINING CORPORATION

(A development stage company)

Note to the Consolidated Financial Statements (unaudited)  
Three-month period ended March 31, 2006

## 4. CAPITAL STOCK

Authorized: unlimited number of common shares, no par value.

	March 31, 2006 (unaudited)		December 31, 2005 (audited)	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Issued and paid				
Balance, beginning of period	44,658,291	34,259,302	39,458,291	32,572,024
Issued during the year (a)				
For cash				
- on private placement			5,000,000	1,568,500
- on exercise of stock options	285,000	233,687	50,000	28,778
- on exercise of warrants	160,800	120,600	150,000	90,000
Share issuance expenses			-	-
Balance, end of period	<u>45,104,091</u>	<u>34,613,589</u>	<u>44,658,291</u>	<u>34,259,302</u>

- (a) During the year ended December 31, 2005, the Company completed a private placement and issued 5,000,000 units for proceeds of \$2,500,000. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one additional common share (5,000,000 in total) at an exercise price of \$0.75 per share until September 22, 2006. The Agent has been paid a commission of 8% (\$200,000) from the gross proceeds of the offering and 10% (500,000) Agent's Warrants. Each Agent's Warrant is exercisable to acquire one common share at an exercise price of \$0.75 per share until September 22, 2006.

- (a) Stock option plan

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

	March 31, 2006 (unaudited)		December 31, 2005 (audited)	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Beginning of period	4,825,000	0.80	2,500,000	1.27
Granted	-	-	2,825,000	0.48
Exercised	(285,000)	(0.43)	(50,000)	(0.30)
Cancelled / expired	-	-	(450,000)	(1.41)
End of period	<u>4,540,000</u>	<u>0.83</u>	<u>4,825,000</u>	<u>0.80</u>

# SCORPIO MINING CORPORATION

(A development stage company)

Note to the Consolidated Financial Statements (unaudited)  
Three-month period ended March 31, 2006

## 5. CAPITAL STOCK (continued)

### (b) Contributed Surplus

Contributed surplus consists of the following:

	March 31, 2006 (unaudited)	December 31, 2005 (audited)
	\$	\$
Opening Balance	6,052,451	4,067,890
Fair value of stock options issued	121,987	1,301,839
Warrants issued to agents	-	63,300
Warrants issued upon closing of the private placement (d)	-	633,200
Transfer to share capital upon exercise of stock options	(112,487)	(13,778)
Closing Balance	<u>6,061,951</u>	<u>6,052,451</u>

### (c) Warrants

The Company estimated the fair value of 5,000,000 warrants issued (in the year 2005) with the private placement using the Black Scholes model at \$550,000 recorded as warrants in the balance sheet. The estimated fair value of the 500,000 Agent's warrants was \$55,000 and was recorded as warrants in the balance sheet and in the share issuance expenses.

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

Expected dividend yield	Nil %
Expected stock price volatility	75 %
Risk free interest rate	3.22%
Expected life of the warrants	1 year

	March 31, 2006 (unaudited)		December 31, 2005 (audited)	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Outstanding at beginning of period	5,500,000	0.75	11,580,609	1.46
Grant	-	-	5,500,000	0.75
Exercised	(160,800)	0.75	(150,000)	(0.60)
Cancelled / expired	-	-	(11,430,609)	(1.47)
Outstanding at end of period	<u>5,339,200</u>	<u>0.75</u>	<u>5,500,000</u>	<u>0.75</u>

As at March 31, 2006, the Company has 5,339,200 share purchase warrants outstanding entitling the holders to acquire common shares at \$0.75. The expiring date of the warrants is September 22, 2006.

# SCORPIO MINING CORPORATION

(A development stage company)

Note to the Consolidated Financial Statements (unaudited)  
Three-month period ended March 31, 2006

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## 6. 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 period ended March 31, 2006 and 2005 was earned in Canada. The Company's non-current assets by geographic location are as follows:

	March 31, 2006	March 31, 2005
	\$	\$
Canada	1,318,567	2,179,757
Mexico	<u>24,034,028</u>	<u>15,806,091</u>
	<u>25,352,595</u>	<u>17,985,848</u>

## 7. COMMITMENTS

The Company has, in the normal course of its business, entered into various long-term contracts which include commitments for future payments under contracts for the rental of office premises and other arrangements as follows:

2007	78 500
2008	80 100
2009	80 100
Thereafter to 2012	66 800
	<u>\$ 305 500</u>

Subsequent to December 31, 2005, the Company has subleased the above rental property.

The Company signed a letter of intent with a company that is going to act as a sponsor in the Company's intend application for the senior stock exchange listing. As part of the agreement, the Company must issue warrants to acquire 50,000 shares of the Company, exercisable for a two-year period at the market price at the date of listing.

# SCORPIO MINING CORPORATION

(A development stage company)

Note to the Consolidated Financial Statements (unaudited)  
Three-month period ended March 31, 2006

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## 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 March 31, 2006**

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#### **INTRODUCTION**

The following Management Discussion and Analysis (MD&A) is for the three-month period ended March 31, 2006 and subsequent to the period ended up to May 15, 2006. This MD&A is to be read in conjunction with the interim consolidated financial statements for the period ended March 31, 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](http://www.scorpiomining.com)) and filed on Sedar ([www.sedar.com](http://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 auditor.

Scorpio Mining Corporation (the "Company" or "Scorpio") is incorporated under the Canada Business Corporations Act. The Company is a reporting issuer under the Reporting Jurisdictions of British Columbia, Alberta and Quebec. Scorpio Mining Corporation is registered as a Tier 1 Issuer on the TSX Venture Exchange under the trading symbol of SPM. The Company is involved in the acquisition, exploration and development of mineral resource properties in Canada and Mexico.

Scorpio's current focus is the exploration and development of the Nuestra Senora Project, Cosala Mining District, Sinaloa, Mexico. During the quarter ended March 31, 2006, the Company presented a new resource estimate on the Nuestra Senora deposit. The Company is continuing its underground development, diamond drilling and channel sampling of the underground workings in preparation for an initial scoping study and follow-up feasibility study.

#### **RESULTS OF OPERATIONS**

Scorpio reported a net loss of \$420,549 (\$0.01 per share) for the three-month period ended March 31, 2006, compared to \$302,953 (\$0.01 per share) for the same period in 2005. The Company is still at the exploration and development stage and had no operating revenue in either of these periods. The total expenses for these comparative periods are \$432,889 for the three months ended March 31, 2006 and \$348,827 for the same period in 2005. The difference is mainly due to the stock based compensation, which is \$121,987 in 2006 compared to nil in the first quarter of 2005. Management and administration expenses for the period are \$175,321 compared to \$189,331 for the first three months of 2005. The significant decrease in rent from \$100,594 for the first 3 months of 2005 to \$8,540 for the first quarter of 2006 is due to the costs incurred in the first quarter of 2005 to sublease a separate rental space to a third party. Gains on foreign exchange rate decreased from \$35,809 in the first three months of 2005 to \$1,316 for the same period of 2006. Travel expenses increased from \$3,040 in the first quarter 2005 to \$37,406 in 2006 due to the increased investor relation activities in Mexico.

Expenditures charged directly to development of the Nuestra Senora project during the quarter ended March 31, 2006 totalled \$1.5 million as compared to \$2.5 million during the same quarter in 2005. Higher expenditures in 2005 were related to an overlap of exploration and development work at both the Candelaria and Nuestra Senora deposits. Work at the Candelaria was completed during the 2005 quarter, and all exploration was subsequently directed to the Nuestra Senora deposit. Purchase of machinery and equipment accounts for \$1,560 in first quarter of 2006 compared to \$850,606 in the three-month period ended March 31, 2005.

Exploration expenditures on the Company's Caribou property amounted to \$24,057 in the first three months of 2006 compared to \$12,448 for the same period last year.

## **SCORPIO MINING CORPORATION**

### **Management Discussion and Analysis of Financial Results - Quarter Ended March 31, 2006**

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#### **Financial Condition and Liquidity**

As of March 31, 2006 the Company had working capital of \$1,555,996 compared to \$3,050,966 as of December 31, 2005. Cash and cash equivalents were \$967,569 as of March 31, 2006 compared to \$8,597,439 as of March 31, 2005.

During the quarter, Scorpio engaged Research Capital Corporation (the "Agent") in connection with a private placement of approximately \$15,000,000 of units of the Company at a price of \$1.00 per unit. On April 12, 2006, the Company announced an increase in the private placement to 30,000,000 of units of the Company at a price of \$1.15 per unit. The Agent was granted the option to increase the offering size by up to 10,000,000 of additional units on the same terms as the offering. Each unit consists 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 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.

The securities issued under the offering are subject to a four-month hold period under applicable Canadian securities laws. 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.

During the quarter, 160,800 shares were issued through the exercise of Warrants for proceeds of \$120,600 (no shares were issued through the exercise of warrants during the quarter ended March 31, 2005) and 285,000 shares were issued through the exercise of Stock Options for an amount of \$122,250 (50,000 shares were issued for proceeds of \$15,000 during the quarter ended March 31, 2005).

The primary factors that can affect the future financial condition of the Company include the continued ability to raise equity capital and the level of exploration 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 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 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 material properties in its portfolio: Nuestra Senora in Sinaloa State, Mexico, Cochrane Hill and Caribou in Nova Scotia and Lac Arseneault in Gaspé, Quebec.

## SCORPIO MINING CORPORATION

### Management Discussion and Analysis of Financial Results - Quarter Ended March 31, 2006

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#### Nuestra Señora Property

The Nuestra Señora Project, east of the town of Cosala in Sinaloa, Mexico, is the main focus of Scorpio's exploration and development plans. The property comprises three recorded mining 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 depend upon the amount of land granted 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 March 31, 2006, Scorpio has continued to focus its exploration, development and resource definition on the Nuestra Señora deposit, which during ASARCO's tenure, was the largest producing deposit on the property.

On February 22, 2006, the Company released an updated resource estimate on the Nuestra Señora deposit of Indicated Resources of 1,128,000 tonnes grading 202.56 g/t Silver, 3.47% Zinc, 0.91% Copper, 1.44% lead and 0.236 g/t gold in addition to an Inferred Resources of 978,000 tonnes grading 229.47 g/t silver, 4.07% zinc, 0.92% copper, 2.72% lead and 0.347 g/t gold (Table 1). The resource estimate was prepared by Scorpio's independent Qualified Person, Guy Mac Gillivray, PGeo, and verified by independent consultants, Chlumsky, Armbrust and Meyer (CAM) of Lakewood, Colorado (Reference: Sedar filing April 18, 2006).

The resource presented in Table 1 was calculated using metal prices of US\$7.50 /oz silver, US\$0.57 /lb zinc, US\$1.40 /lb copper, US\$0.40 /lb lead and US\$460 /oz gold, which are considered to be quite conservative relative to current market conditions and represent a 15% increase as those utilized in the November 2005 resource estimate. The Company cautions that mineral resources are not reserves and do not have demonstrated economic viability.

**TABLE 1. Nuestra Señora Resource Estimate**

Category	Cut-off Grade US\$	Volume M <sup>3</sup>	Tonnes	Ag g/t	Zn %	Cu %	Pb %	Au g/t
Indicated	>=\$110/tonne	150,000	553,000	271.08	4.73	1.30	2.12	0.332
Total Indicated	>=\$70/tonne	327,000	1,128,000	202.56	3.47	0.91	1.44	0.236
Inferred	>=\$110/tonne	146,000	543,000	298.67	5.60	1.31	3.98	0.473
Total Inferred	>=\$70/tonne	279,000	978,000	229.47	4.07	0.92	2.72	0.347

\* Using Metal Prices: US\$7.50 /oz silver, US\$0.57 /lb zinc, US\$1.40 /lb copper, US\$0.40 /lb lead, US\$460 /oz gold

As of May 15 2006, 970 metres of ramp advance and 968 metres of exploration crosscuts, drifts and drill bays have been excavated within the Nuestra Señora deposit. Underground drilling now totals 14,362 metres in 89 holes.

The Nuestra Señora decline ramp is now connected to the 8<sup>th</sup> Level and has advanced to the elevation of the 9<sup>th</sup> Level. It is proposed to continue the development from its current position to the 10<sup>th</sup> Level, establish additional exploration drifts and drill bays and to drive a cross-cut to connect with the 9<sup>th</sup>

## **SCORPIO MINING CORPORATION**

### **Management Discussion and Analysis of Financial Results - Quarter Ended March 31, 2006**

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Level. Detailed mapping and channel sampling of the recently de-watered 7<sup>th</sup> and 8<sup>th</sup> levels continues to return high-grade results from the remaining pillars and development drifts. It is anticipated that this sampling, as well as in-fill and step-out drilling, will continue to add to and upgrade the current resource base.

The current planned exploration and development program includes:

- 9,000 metres of surface and underground exploration in the adjacent areas on the north side of the Hoag Fault and under the Santo Domingo and Santa Teresa areas;
- In-fill drilling and close-spaced channel sampling on the 7<sup>th</sup> to 10<sup>th</sup> Levels to increase the confidence level and hence upgrade the resource categories;
- Purchase of the land on which to locate the mill and tailings and initiate the permitting;
- Conduct a Scoping Study.

The work program is budgeted at approximately \$4.2 million and estimated to require five to six months to complete. Achieving these goals will provide sufficient information to proceed with a 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 Agreement, Scorpio has 2 remaining payments of \$60,000 each due April 25, 2007 and 2008, totalling \$180,000. A lump sum payment of \$250,000 is due upon exercising 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%, and first right of refusal on the additional 1.5%, may be purchased at the cost of \$1,000,000. 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 is being undertaken by independent Qualified Person, Guy Mac Gillivray, PGeo. The work will enable validation and classification of the historical resource estimate and modelling of underground workings relative to potential resource blocks. Planning for a work program on the property will be based on the outcome of this initial compilation.

#### **Cochrane Hill Property**

The Cochrane Hill property consists of 53 contiguous claims covering approximately 848 hectares of land in Guysborough County, Nova Scotia. Under the terms of an option agreement, Scorpio earned 100% of the Cochrane Hill property on November 1, 2005 by making a final cash payment to the property vendor. The option is 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 Company did not perform any work at Cochrane Hill during the quarter. A follow-up program to the 2004 exploration conducted and reported on by independent Qualified Person, Guy Mac Gillivray, PGeo is under consideration.

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**Lac Arseneault Property**

The Lac Arseneault property is located on the Gaspé Peninsula of Quebec. Scorpio can vest a 100% interest in the property, subject to a 2% Net Smelter Royalty, by issuing the balance of 50,000 treasury shares to the underlying property owner.

Scorpio entered into an option agreement with Appalaches Resources Inc. on the Lac Arseneault Property in August 2005. Under the terms of the agreement, Appalaches Resources can earn a 51% interest in the property over a four-year period by making total cash payments of \$110,000, issuance of 800,000 shares and \$1,000,000 in exploration expenditures. Appalaches Resources is the project operator.

No work was performed on the property during the quarter. Appalaches Resources is planning a follow-up program for the 2006 field season that will further evaluate the Baker vein system, as well as numerous other mineralized areas identified on the property from previous exploration campaigns.

**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:

<b>Quarter Ending</b>	<b>Revenue*</b>	<b>Net (Loss)</b>	<b>Net Loss per share</b>
<b>March 31, 2006</b>	12,340	(420,549)	(0.01)
<b>December 31, 2005</b>	109,766	(1,104,151)	(0.02)
<b>September 30, 2005</b>	(30,664)	(772,632)	(0.02)
<b>June 30, 2005</b>	33,729	(770,352)	(0.02)
<b>March 31, 2005</b>	45,874	(302,953)	(0.01)
<b>December 31, 2004</b>	90,023	(1,536,940) **	(0.03)
<b>September 30, 2004</b>	85,093	(758,360)	(0.02)
<b>June 30, 2004</b>	90,989	(3,083,945)	(0.09)

\* Interest and other 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. 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.

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#### CAPITAL RESOURCES

As at March 31, 2006, the Company had \$967,569 in cash and cash equivalents compared to \$8,597,439 as at March 31, 2005. Net use of funds for operations during the first quarter 2006 totalled \$307,408, compared to \$738,435 in 2005. Cash received from financing activities totalled \$241,800 in 2006 (\$73,414 for first quarter of 2005). Cash used in investments during the first quarter 2006 was \$1,441,663 (\$3,305,477 for the same period in 2005). There was \$1,440,103 invested in deferred exploration in the Nuestra Senora property during the first quarter 2006 compared to \$2,454,871 in 2005. There was also \$850,606 invested in fixed assets on Nuestra Senora property in the first quarter of 2005, compared to \$1,560 in the first quarter of 2006.

#### CONTINGENCIES

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 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 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.

#### OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements as at March 31, 2006.

#### COMMITMENTS

The Company has, in the normal course of its business, entered into various long-term contracts that include commitments for future payments under contracts for the rental of office premises and other arrangements as follows:

2007	78,500
2008	80,100
2009	80,100
Thereafter to 2012	66,800
	<hr/>
	\$ 305,500

The Company has subleased the above rental office premises.

Scorpio signed a letter of intent with a company that is going to act as a sponsor in the Company's application for the TSX listing. As part of the agreement, the Company must issue warrants to acquire 50,000 shares of the Company, exercisable for a two-year period at the market price at the date of listing.

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The Company entered into various long-term agreements in its normal course of business. Future payments that may be required under these agreements are as follows:

	<b>2007</b>	<b>2008</b>	<b>2009</b>		<b>Total</b>
Caribou Property Option Payments	60,000	60,000	-	-	<b>120,000</b>
Caribou Property Work Requirement	500,000	500,000	500,000	-	<b>1,500,000</b>
<b>Total</b>	<b>560,000</b>	<b>560,000</b>	<b>500,000</b>		<b>1,620,000</b>

### **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 confirmation with the 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.

### **OTHER MD&A REQUIREMENTS**

#### **2006 Outlook**

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

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**Disclosure of Outstanding Share Data**

The Company is authorized to issue an unlimited number of common shares. As of May 15, 2006, the Company has 80,796,891 shares issued and outstanding and 108,178,241 fully diluted. The following is a list of outstanding warrants and options:

**Warrants Outstanding**

Warrants to issue 5,082,200 shares at \$0.75 per share until September 22, 2006

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

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

**Stock Options Outstanding**

Stock Options to issue 675,000 shares at \$0.66 per share until November 12, 2008

Stock Options to issue 775,000 shares at \$1.91 per share until May 21, 2009

Stock Options to issue 125,000 shares at \$1.05 per share until November 2, 2009

Stock Options to issue 400,000 shares at \$1.14 per share until December 1, 2009

Stock Options to issue 200,000 shares at \$0.61 per share until May 18, 2010

Stock Options to issue 2,292,500 shares at \$0.47 per share until May 18, 2010

Stock Options to issue 100,000 shares at \$1.05 per share until April 13, 2011

If all of these warrants and options were exercised, the Company would receive proceeds of \$28,565,960 and \$3,912,975 respectively. There were no shares subject to Escrow or Pooling Agreements at March 31, 2006.

BY ORDER OF THE BOARD

“Peter J. Hawley”

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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 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.*